THE UK SPRING BUDGET. THE DEMISE OF NEO-LIBERALISM. Funding innovation while bearing down on the nation.

This budget is called the 'springboard budget' allegedly enabled by Brexit. Taking a leaf from the Biden Administration, the Chancellor has taken what little money he has available, and used it to shape industrial policy, particularly in cutting edge industries where he believes Britain has an advantage. In addition the budget streamlines the pathways to innovation.

This budget has three main aspects, two present and one missing. The first is to turn Britain into, *Europe's Most Dynamic Enterprise Economy,* no, that was not a misquote. The second to bear down on the unemployed and force them back to work by reducing thresholds and increasing penalties. When it comes to the poor, the sick and the vulnerable, it's more a case of despise then enterprise. Finally, the omission, nothing said about any extra money to end the strikes. This omission is not accidental, the cost of funding the enterprise ambitions together with defence, requires preserving low pay for public sector workers.

The scandal of energy prices in the UK.

The reason the Chancellor had some wriggle room in the budget was higher than expected personal taxes (thanks to inflation) and lower expenditure on energy support. According to the Office for Budget Responsibility there is an extra £24.7 billion available compared to its November forecast. "*This is down £24.7 billion (14 per cent) relative to our November forecast, which reflects a mix of largely economy-related upward revisions to receipts (£14.8 billion) and* ***largely energy-price-related downward revisions to public spending (£9.9 billion)."*** (My emphasis) This £24.7 billion is not new money, simply a change in expectations as to the size of the fiscal deficit, now projected to be only £152 billion. In fact in terms of borrowing, borrowing is now expected to reach $241 billion in 2023/4 compared to an expected £232.5 billion (despite falling inflation) and compared to £169 billion currently. Some money tree, what!

Readers of this site will recall that I posed the energy price cap as a question. Was it a ceiling for customers or was it a floor for the profits of the energy providers? The reason for this question had to do with the trend in gas prices and therefore energy prices. If the trend was upwards then it would protect customers and if the trend was downwards it would protect the top line of energy suppliers and extend the time in which they could gouge more profits.

It was clear by the time I posed this question late last year that the actual trend in gas, oil and electricity prices was downwards. This was obscured by vivid headlines which screamed about the shortages of gas in particular, and therefore how prices would shoot up, no doubt fuelled by the energy producers themselves. These scare stories worked, convincing consumers to accept a hike in the cost ceiling per household of £2,500 and even to be grateful to the government for imposing this ceiling.

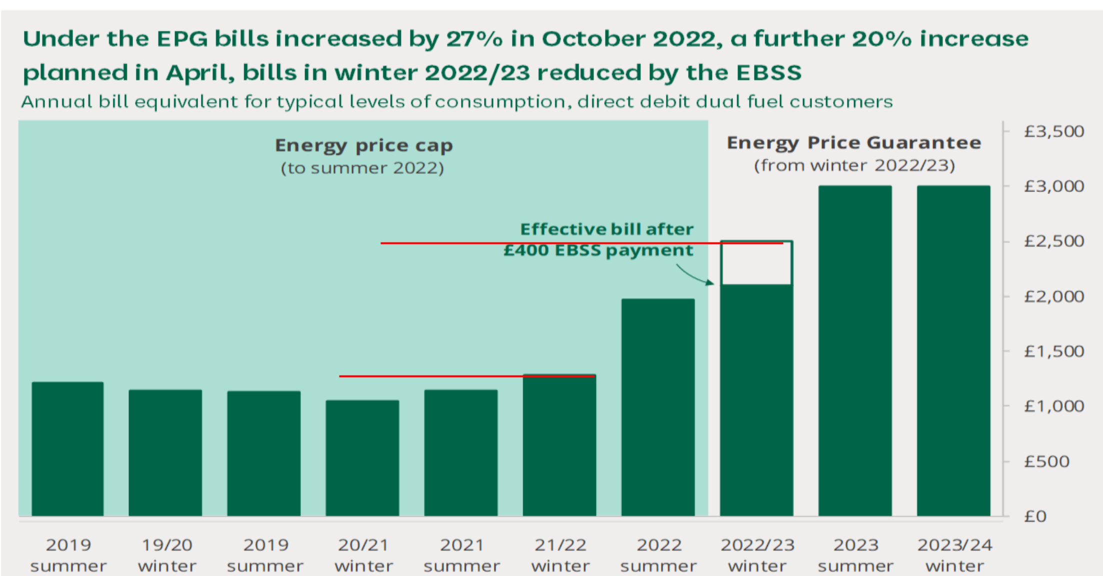
Except of course that gas and electricity prices are falling back to the levels pre- the war in the Ukraine. Below I provide household bills. The first table represents a longer term picture while the second table represents the current situation, with one amendment, the cap will now not be rising to £3,000 but will remain at £2500 up to June. The most important observation has to do with the increase in household bills up 90% over the year.

Table 1.

Year	Average gas bill	Average electricity bill	Total bills
2010	£578	£503	£1,081
2011	£629	£526	£1,155
2012	£703	£546	£1,249
2013	£731	£569	£1,300
2014	£741	£575	£1,316
2015	£697	£562	£1,259
2016	£616	£555	£1,171
2017	£584	£581	£1,165
2018	£593	£641	£1,234
2019	£610	£698	£1,308
2020	£581	£705	£1,286
2021	£564	£769	£1,333

(Source: [Finder])

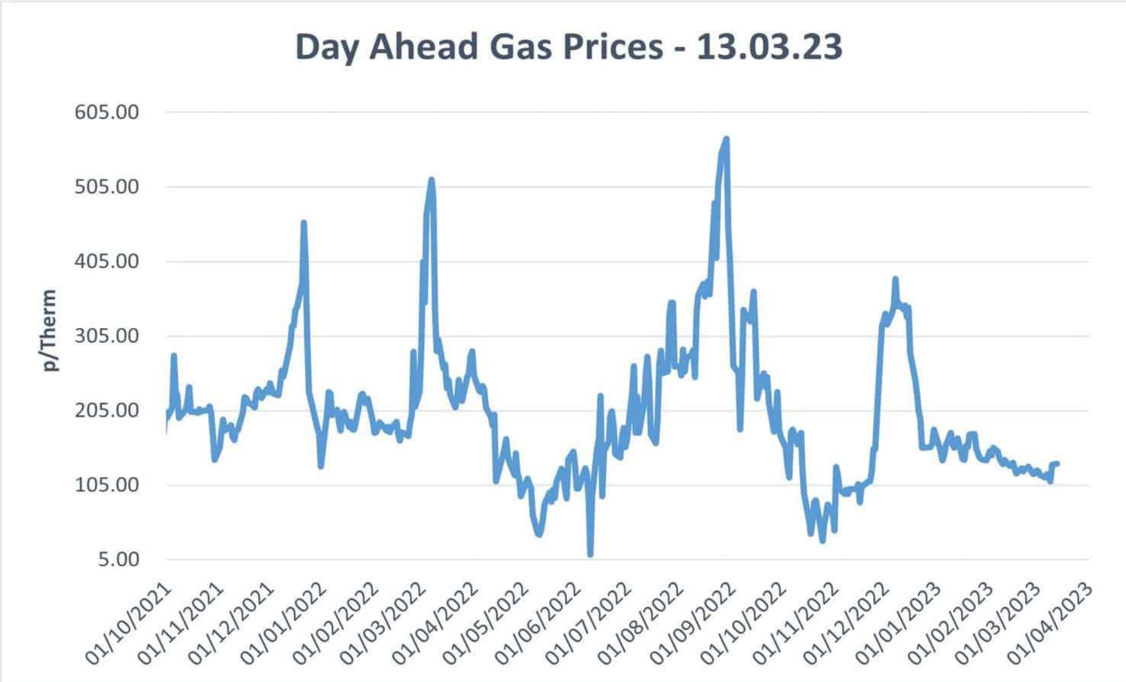
Table 2.



[House of Commons Library]

Note the red lines. Over the year prices went up 90% from around £1300 to £2500. Now examine the three graphs below covering gas and electricity prices over the past year.

Graph 1.



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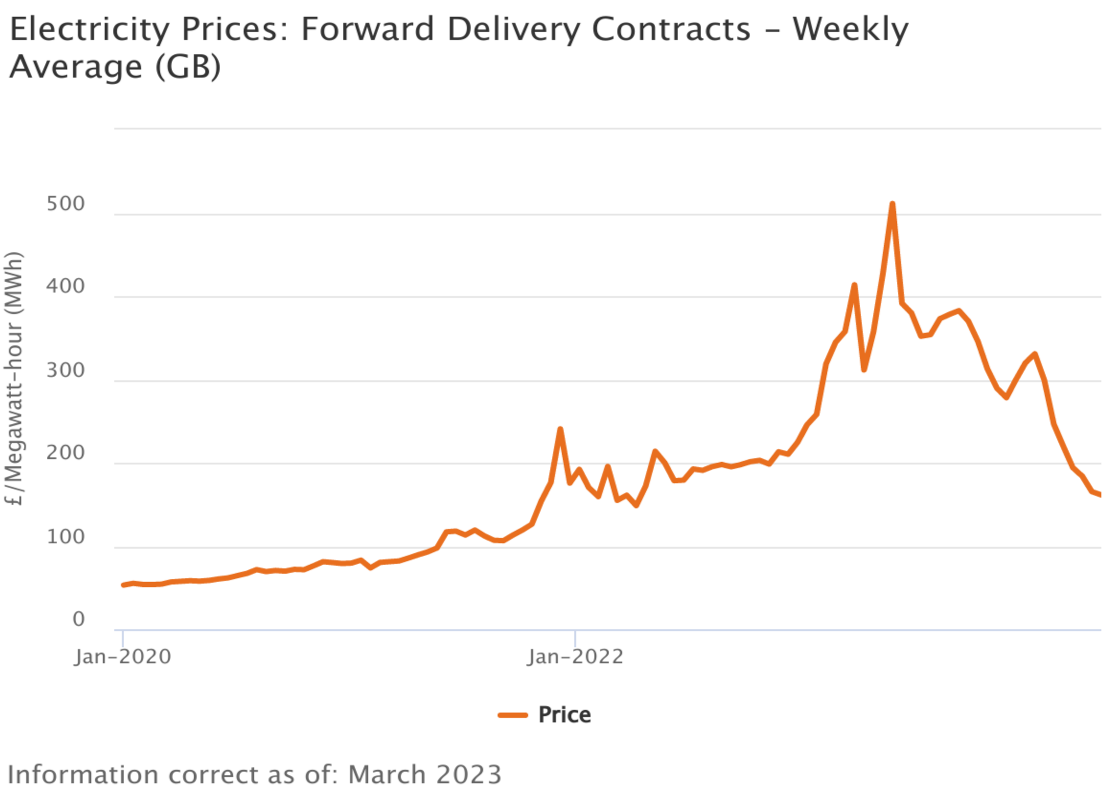
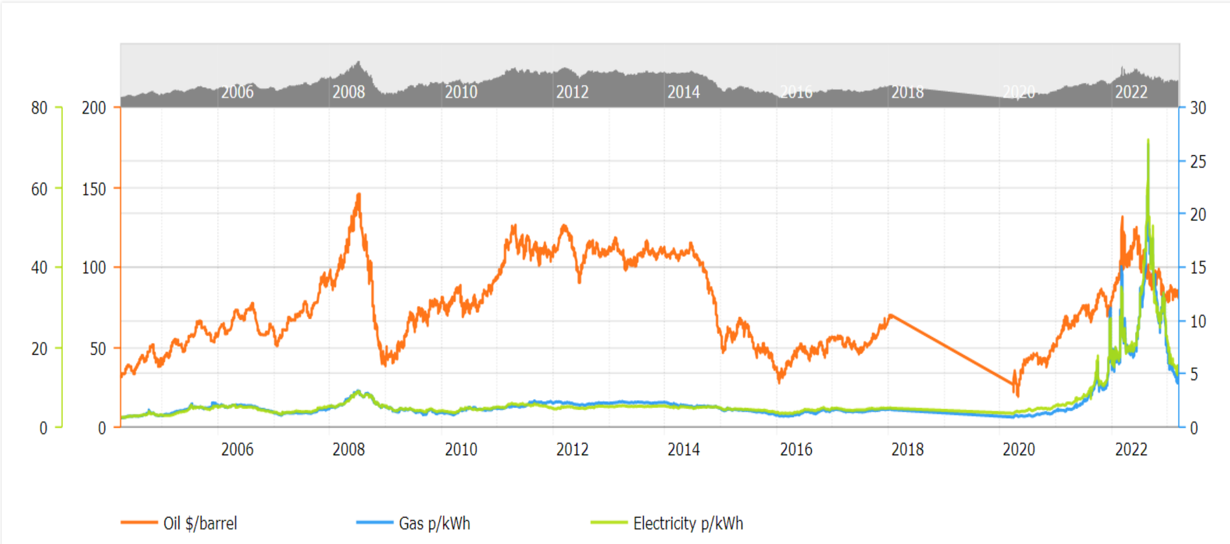


(Source of above two graphs. [Ofgem)]

Graph 3.



[Clifford Talbot Partnership]

The reason the government saved on its support is that it is barred by law from buying derivatives. It can only buy or pay for gas and electricity at spot rates, or market rates, not future rates. Thus as gas and electricity prices fall it pays less, and in fact they would fall faster was the government not subsidising the price in the first place. In January, according to the ONS, the govt spent only £1.9 billion on energy support. It is unlikely that it will spend anything over February and March given the collapse in energy prices. But we will still have to pay prices based on £2500 until June.

Let us examine the current state of the energy market bearing in mind that on Tuesday gas prices plunged by 8% following the rout in energy prices globally due to the escalating bank crisis. Notwithstanding today's fall, gas and electricity prices in nominal terms were at or below levels last year. However, as Table 2 shows, household prices remain elevated.

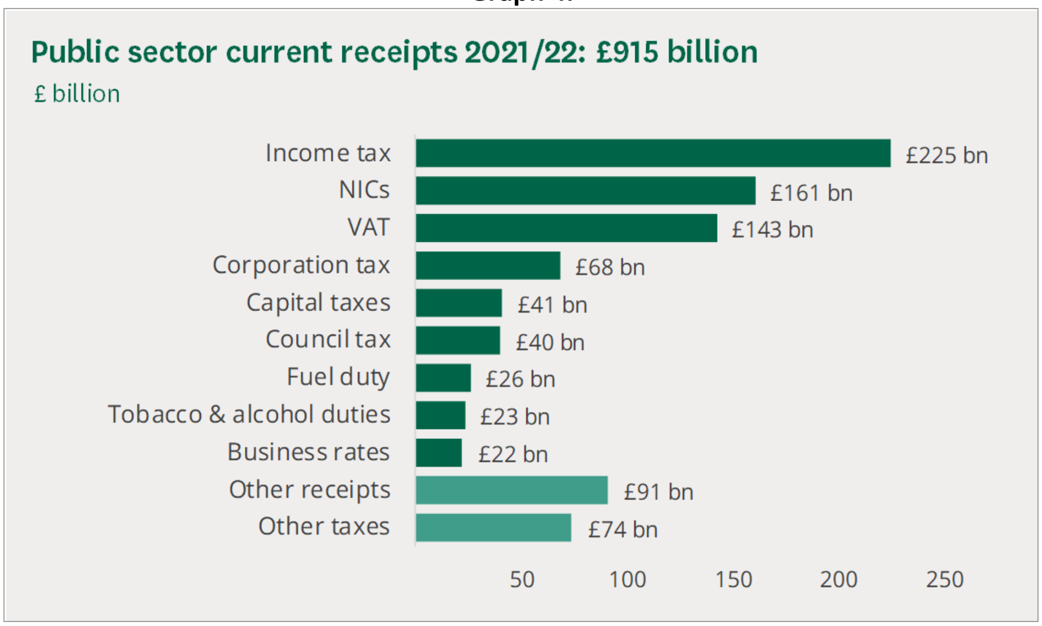
So who gains from the difference? The energy companies yet again. Their defence, oh well we are locked into future contracts which were higher than spot prices now. Who owns these futures? Traders, speculators, hedge funds and the banks. Who cares if it is energy companies or hedge funds who are making the profit, we are still being ripped off.

On page 16 of its report the OBR forecasts the price of a therm of gas will cost £1.50 in 2023 instead of the £3.40 it guesstimated in its November forecast. Now it forecasts the following: *"However, from the third quarter of 2023, prices fall to well below the EPG's £3,000 cap meaning households directly benefit from lower gas and electricity bills, the average costs of which fall to £2,200 by the end of 2024 (right panel of Chart 2.1)."* But Tuesday's price per therm from *This is Money* website, is under £1.24 already and due to fall further. And as the website asks: *why are household prices not falling yet*? My answer. The whole OFGEM system is rigged against the consumer, when its mandate is to protect the consumer and foster competition between providers. Scandalous, but then what does one expect from privatisation.

Workers' crushed standards of living.

The OBR recognises that standards of living will fall by more than any time since records began nearly seventy years ago. *Real household disposable income (RHDI) per person – a measure of real living* *standards – is expected to fall by a cumulative 5.7 per cent over the two financial years 2022-23 and 2023-24. While this is 1.4 percentage points less than forecast in November, it would still be the largest two-year fall since records began in 1956-57."* But surely this is an understatement when we take into account the rise in taxation given the freezing of thresholds in a period of intense inflation as well as the sharp rise in council taxes which will make this tax the 5th biggest tax, given that the vast majority of councils are set to raise their rates by 5% "*In 2022-23 we estimate that council tax will raise £42.0 billion (net of any discounts and reduction schemes). That represents 4.6 per cent of total receipts and is equivalent to around £1,500 per household and 1.7 per cent of National Income. This will rise to £44.2 billion in 2023/4"*

Graph 4.



But pay and taxes are not the only variables determining standards of living, services are a vital variable as well. By excluding this variable the OBR is underestimating falling standards of living. In the tables below I have cut and pasted January's receipts and expenditures from the ONS's latest report on public finances.

Table 3.

Table 2: Central government current receipts
Central government receipts compared with the same month a year earlier, UK, January 2023

	January (£ billion)		Change on a year ago	
	2022	2023	£ billion	%
Value Added Tax	15.0	15.6	0.6	3.8
Pay As You Earn Income Tax	17.1	18.9	1.8	10.6
Self-Assessed Income Tax	16.4	21.9	5.5	33.3
Compulsory social contributions	14.4	14.8	0.4	2.6

Source: ONS data — Office for National Statistics – Public sector finances

Table 4.

Table 3: Central government expenditure
Central government expenditure compared with the same month a year earlier, UK, January 2023

		January (£ billion)		Change on a year ago	
		2022	**2023**	**£ billion**	**%**
Interest payments [1]	Excluded from expenditure on workers	6.3	6.7	0.4	6.1
National Insurance Fund Benefits		9.5	10.1	0.6	6.3
Social Assistance		9.5	10.5	1.0	10.6
Procurement [2] [3]		17.2	16.3	-0.9	-5.3
Pay	Excluded from expenditure on workers	14.1	14.7	0.6	4.1
Transfers to Local Government [4]		10.9	9.2	-1.7	-15.6
Other Expenditure		2.2	5.9	3.7	168.2
Total Current Expenditure		73.2	85.2	12.0	16.4
Expenditure on workers		**49.3**	**52.0**	**2.7**	**5.5**

Source: ONS data — Office for National Statistics – Public sector finances

We will examine a number of facets here. First the issue of standards of living. We note that spending on workers as per Table 4 amounts to 5.5%, or 4.6% less than the January CPI of 10.1%. In other words on a monthly bases this loss of 4.6% equals £2.4 billion and on an annual basis to around £29 billion, to which must be added another £1.1 billion cut in council spending (on top of the loss of £1.7 billion from government) making +£30 billion or around 1.4% of GDP based on the previous year's inflation.

However, it could be said that the comparison is confounded by the fact that the Government spent anywhere between £2.0 billion and £2.3 billion on Covid in January 2022. *The vaccination drive has cost £8.3bn in the two years since the pandemic struck, the NAO said – the first time this figure has been disclosed. Of that, £4.6bn went to the taskforce, which it spent mostly in vaccines, and the other £3.7bn on the rollout." "The total estimated lifetime cost has fallen from £8.3 billion in September 2021 to £4.4 billion for this update."* But offsetting this, the ONS calculates that the government spent up to £1.9 billion on energy support this January. (Energy support began in February 2022) So there is not much in it. But it does explain why *Procurement* fell while *Other Expenditures* rose.

Let us put all of this in context. In 2019, before Covid distortions, wages as a share of GDP was 49%. Therefore the loss in services and support amounts to a real time cut in workers' standards of living of 2.8% over the year. Inflation it appears is good for the capitalists and their government and a disaster for workers. Thus the fall this year in living standards for workers would be the difference between inflation and pay plus 2.8% equal to **5.2%** (median pay increased by 6.7% while inflation rose by 10.1%) This 5.2% fall in one year compares to the OBR figure of 5.7% over two years.

I have excluded the effect of the rise in council taxes as well as the freezing of tax thresholds to keep the analysis simple. However, both bear down on the standards of living of workers, so the figure of 5.2% should be seen as the minimum fall not the maximum fall in standards of living.

This real cut in service provision and benefits allowed the government to cut its net borrowing by £7.7 billion in cash terms as can be seen below in Table 5. This is what is important, actual grinding outcomes experienced by impoverished workers not the grandstanding in Parliament every time a Chancellor delivers a budget.

Table 5.

Table 4: Public sector net borrowing

Public sector net borrowing by sub-sector in the financial year-to-January 2023 compared with the same period a year earlier, UK

	Financial year-to-date (£ billion) Footnote2		**Change on a year ago**	
	2021/22	**2022/23**	**£ billion**	**%**
Central Government	128.3	118.4	-9.9	-7.7

To focus on another aspect of pay, we need to return to Table 3. Pay As You Earn (PAYE) or personal tax went up by 10.6% but National Insurance Contributions were only up by 2.6%. Even taking into account the reduction of 1.25% in the rates on the 6th of November last year (lower rate of 13.25% down to 12% and upper rate from 3.25% to 2.0%), the paltry increase of 2.6% seems inexplicable except if the rise in wages was concentrated on those earning over £50,000 p.a., who while paying the lower rate of NIC, also pay a higher rate of tax. The feeble increase in the total government wage bill, including highly paid civil servants of just 2.7% (4.1% less increase in employment of 2.4%) suggests as much.

Finally to the state of the economy. A rise in Value Added Tax (VAT) of 3.8% compares to the RPI of 13.4% would suggest an economy deep in recession because Retail Sales as a share of Gross Output, which is the only way to measure its share of the economy, was 11.7% compared to 6.2% when using GDP. Thus this would have a negative 1.2% effect on the economy rather than the negative 0.65% using GDP. The difference between an economy just growing and an economy in recession.

The attack on the vulnerable.

While the pledge for more child support and extending entitlement to nursery provision was welcome, its intention was not. As far as the Chancellor is concerned, there is a more or less permanent shortage of workers, or what is the same thing, since Brexit and Covid the reserve army of labour has been depleted not in numbers but in terms of their capacity to work. Thus while the childcare provisions will effect tens of thousands of families, the attack on claimants can effect up to 2.2 million unemployed workers. This is what the Rowntree Foundation had to say: *"There are big problems with the Work Capability Assessment.*

It labels people, it doesn't unlock support to access employment, and it's not trusted by disabled people. So there are good reasons for change and we welcome proposals for universal support if it is designed in conjunction with those who will use it." "But there are very concerning aspects in the plans set out today. Addressing these issues must not go hand in hand with an increase in sanctions, which we know are counter-productive, harmful to people's finances and health, and drive people into destitution."

Hunt wants to streamline procedures making it easier to get results. It does not matter if it is medicine pipelines, Intellectual Property arrangements or driving people to work, its all the same to him. Of one thing we can be sure, his plans for benefit reform will not be an act of kindness. In fact if he really wanted to restore employment all he had to do was to increase pay, strengthen job security and improve housing thereby reducing ill-health, burn out and anxiety. Instead he will continue to force down pay, undermine job security, foster landlordism and drive those unfit to work as a result, back to work.

Neo-liberalism fades.

This budget was an interventionist budget. It was designed to shape industrial policy and seed fund strategic areas of the economy, even if it favoured larger companies at the expense of smaller ones in terms of its allocation of R&D funding. In this it follows in the footsteps of the Biden Administration's two Acts, the *CHIP Act* and *Build Back Better Act* which seeks to restore a local chip industry, foster mass electric car manufacturing including batteries, and speed up the greening of energy production. For this reason most of the £24.7 billion was spent on these ambitions leaving little available to meet wage claims.

I will not get involved in forecasting as to where the economy will be in a year's time, nor engage with the OBR's projections. Conditions are too unpredictable especially the weather. I will just say that Hunt's proposal to leapfrog European economies is delusional particularly when the City of London, the crown jewel of the economy so to speak, is splintering.

Conclusion.

Watching Hunt at the dispatch box was comical. He sounded like a proud homeowner describing how he was going to renovate and extend the house ignoring the rain pouring through the ramshackle roof. The UK economy is in deep trouble. In addition the global banking system is fragile to failing. At the same time the whole international value chain is being uprooted at huge cost.

He would have been better advised to keep his Pounds dry and ready to cover growing emergencies rather than flashing his wallet.

Brian Green, 16th March 2023.