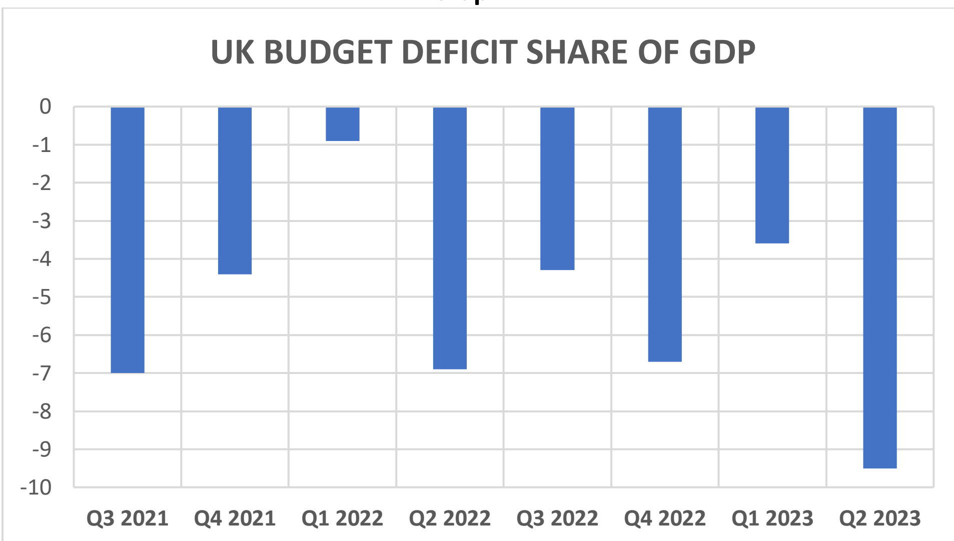
THE UK AUTUMN STATEMENT 2023. DESPERATE TORIES, UNAFFORDABLE TAX CUTS.

Spring is in the air despite it being mid-winter. The speculation following this opportunistic and headline grabbing Autumn Statement by the British Chancellor is that a spring election is possible. The Tories would be wise to hold an election before British voters overheat in summer 2024.

Despite the Office for Budget Responsibility providing an improved outlook for the public finances, the actual state of these finances remains acute. The deficit for Q2 was above the average for the G7.

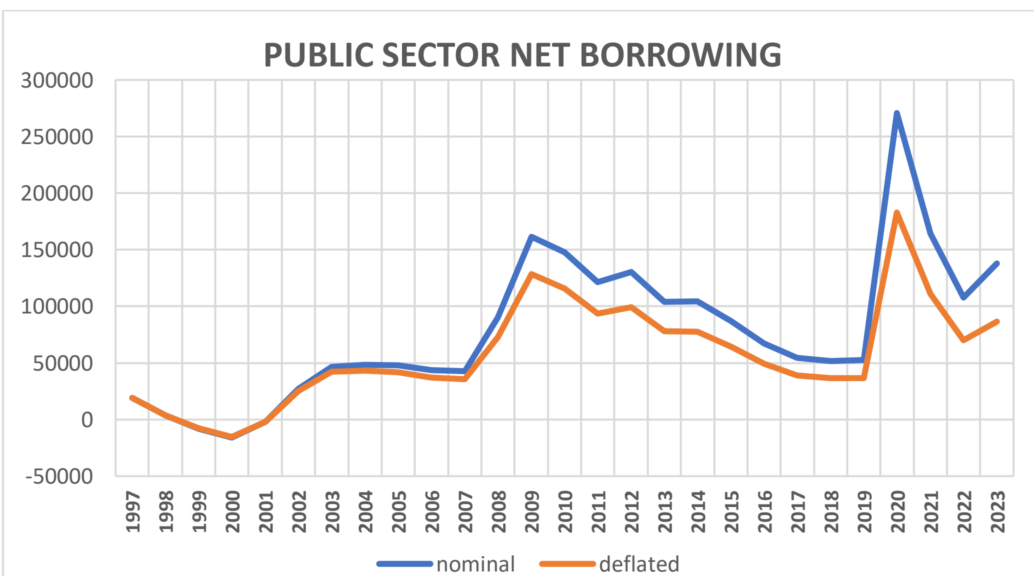
Graph 1.



(Source: Office for National Statistics)

And the latest release for public sector borrowing shows an above expected rise in September. Real borrowing is double that for 2007 and 2019 and is within 70% of the peak in 2009 after the financial crisis.

Graph 2.

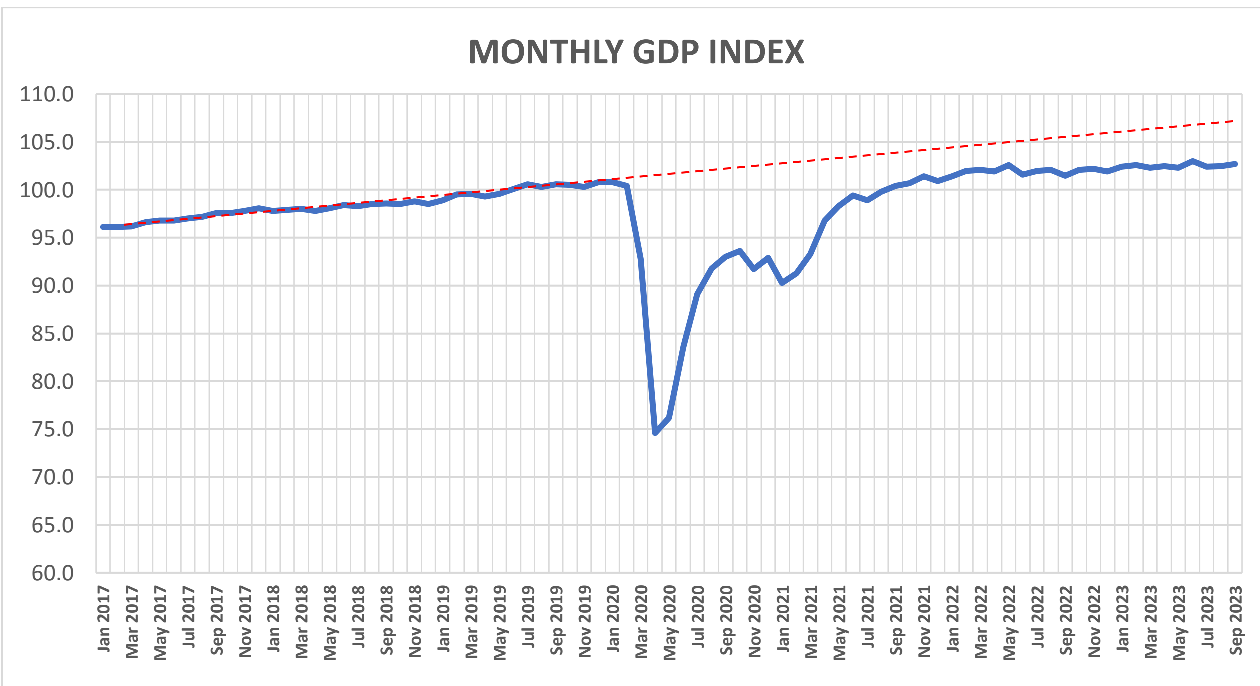


(Source: Office for National Statistics)

Next let us look at current output and its outlook. "*[UK gross domestic product](#) (GDP) is estimated to have shown no growth in Quarter 3 (July to Sept) 2023, following an increase of 0.2% in the previous quarter. GDP is estimated to have increased by 0.6% in Quarter 3 2023 compared with the same quarter a year ago." "Looking at the broader picture, GDP showed no growth in the three months to September 2023 when compared with the three months to June 2023,"* While technically speaking, the UK economy is skirting with recession rather than having fallen into recession, the difference is negligible. The economy has been flatlining for 20 months as the graph below shows. Furthermore while the Office for Budget Responsibility has raised its outlook for the British economy for this year it has reduced its medium-term outlook by half to 0.7% for 2024. *"we (the OBR) now expect the economy to grow more slowly over the forecast period, leaving the level of real GDP only ½ a per cent higher in the medium term than in our March forecast."*

In terms of the cumulative lost output the monthly contraction in output from March 2020 and September 2021 amounted to 59.8% of GDP. The fall below trend since October 2021 to September 2023 amounts to another 60%. Annualised the total fall in GDP between March 2020 and September 2023, both actual and below trend, is equal to 34.3%. Thus over a third of a year of output has been lost and the figure would be higher if government Covid support did not artificially raise GDP. Taking this into account the fall in output adjusted for the increase in government debt has been of the order of half a year's GDP.

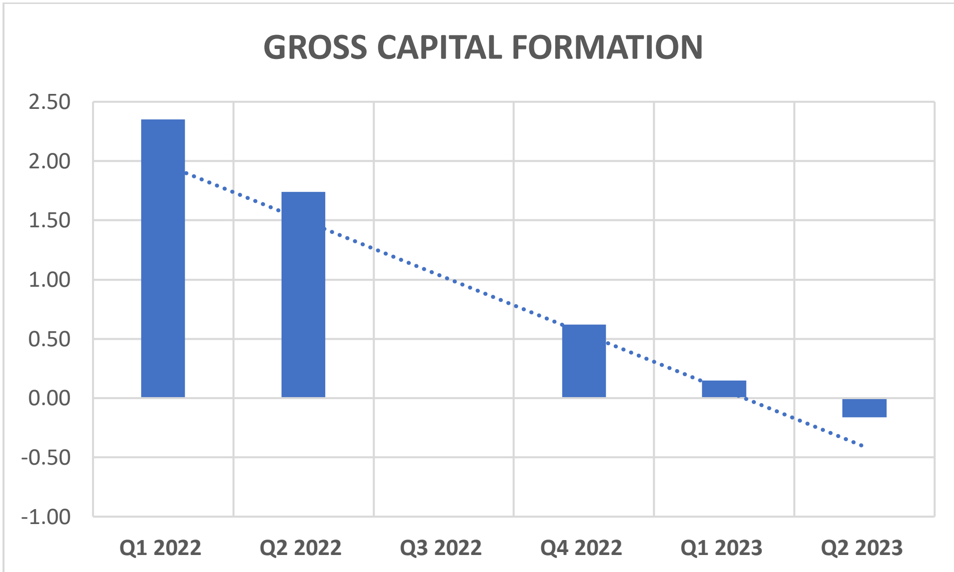
Graph 3.



(Source: Office for National Statistics)

In the graph below Gross Capital Investment declined primarily because of the fall in construction. Business investment according to the OBR assisted by tax reliefs was better. In 2022 and 2023 business investment rose by 9.6% and 5.4% respectively. Nonetheless investment remains subdued and will remain subdued given the long term decline in the rates of return.

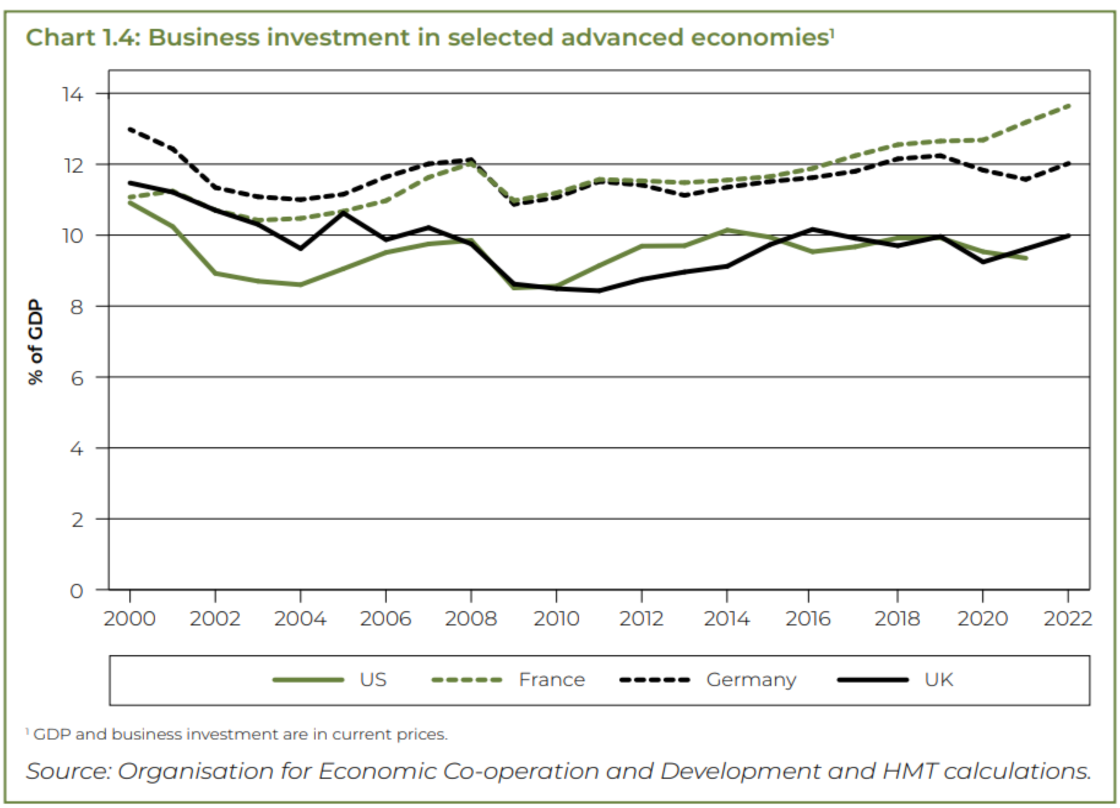
Graph 4.



(Source: [Office For National Statistics])

Comparing investment rates it is worth noting that while the UK rate is below France and Germany, it is no lower than the US rate. No wonder these two countries rely on the tax-support-crutch.

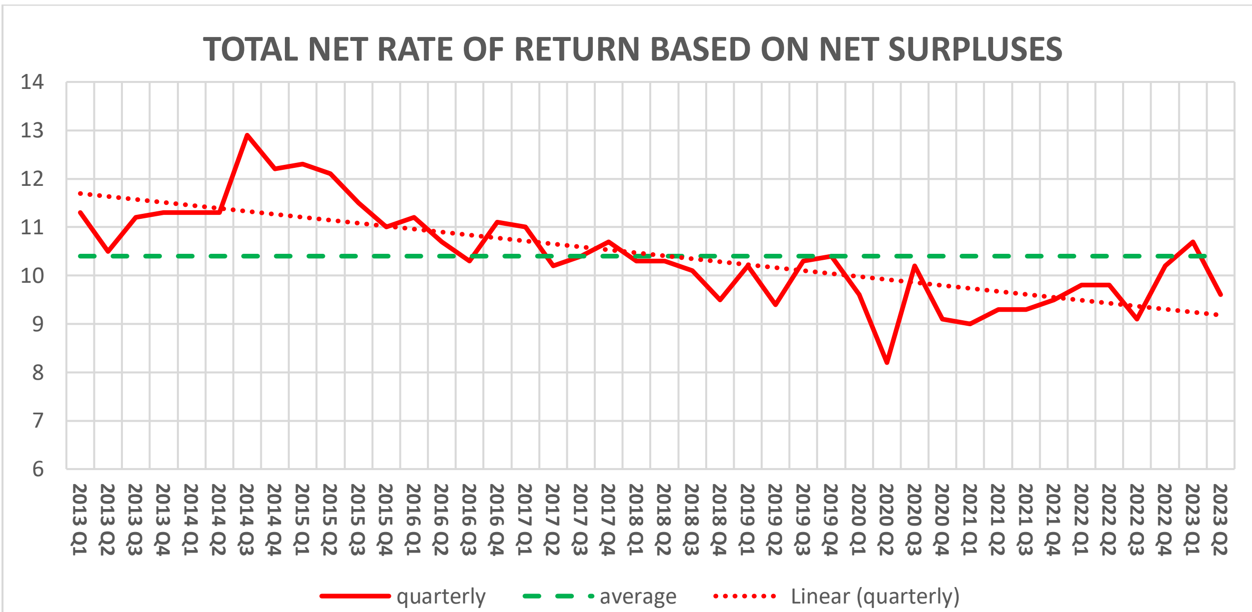
Graph 5.



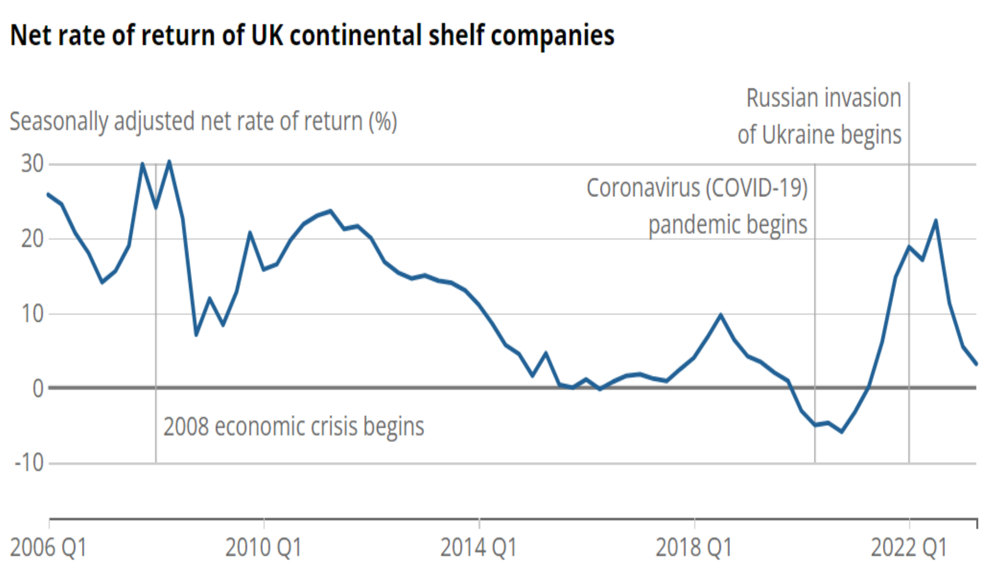
Next let us examine the profitability of UK private corporations. This is the key to all the data. All data and graphs are provided here by the [Office for National Statistics] and are based on net surplus, not enterprise profit, which would yield a significantly lower rate of return. It goes without saying that when circulating capital is introduced the actual rate of profit based on enterprise profits would be less than half the figure provided by the ONS below, and would be currently below the rate of inflation.

The increase in profitability up to the first quarter of 2023 was the product of profit gouging courtesy of the influx of Covid funds despite all the naysaying. This can be seen in the following graph examining the energy industry where the spike in the return is undeniable and even greater.

Graph 6.

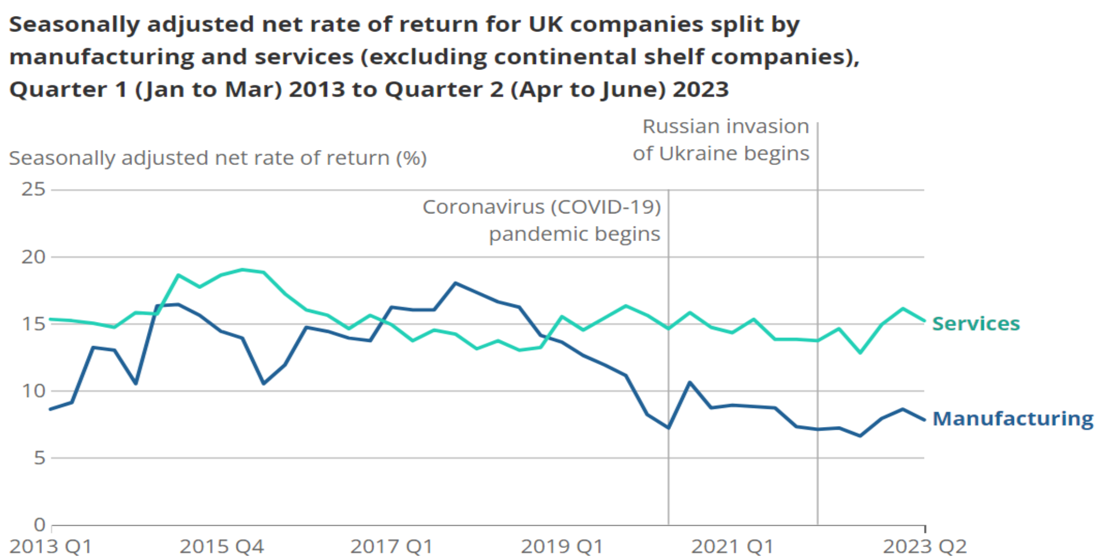


Graph 7.



In the graph below split between services and manufacturing we see a more stable rate of return for services due to the contribution from financial services. However in the manufacturing sector we see a significant fall in the rate since 2018. This is particularly important in the context of the Autumn Statement which extended tax relief on fixed asset investment primarily machinery and equipment including IT investments. While tax relief plays a role at the margin, it cannot compensate of the longer-term fall in the rate of return. Note, because this return is based on the net surplus it remains unaffected by tax relief, which would only affect post-tax enterprise profits. Thus this graph plots the unaffected and underlying fall in profitability.

Graph 8.



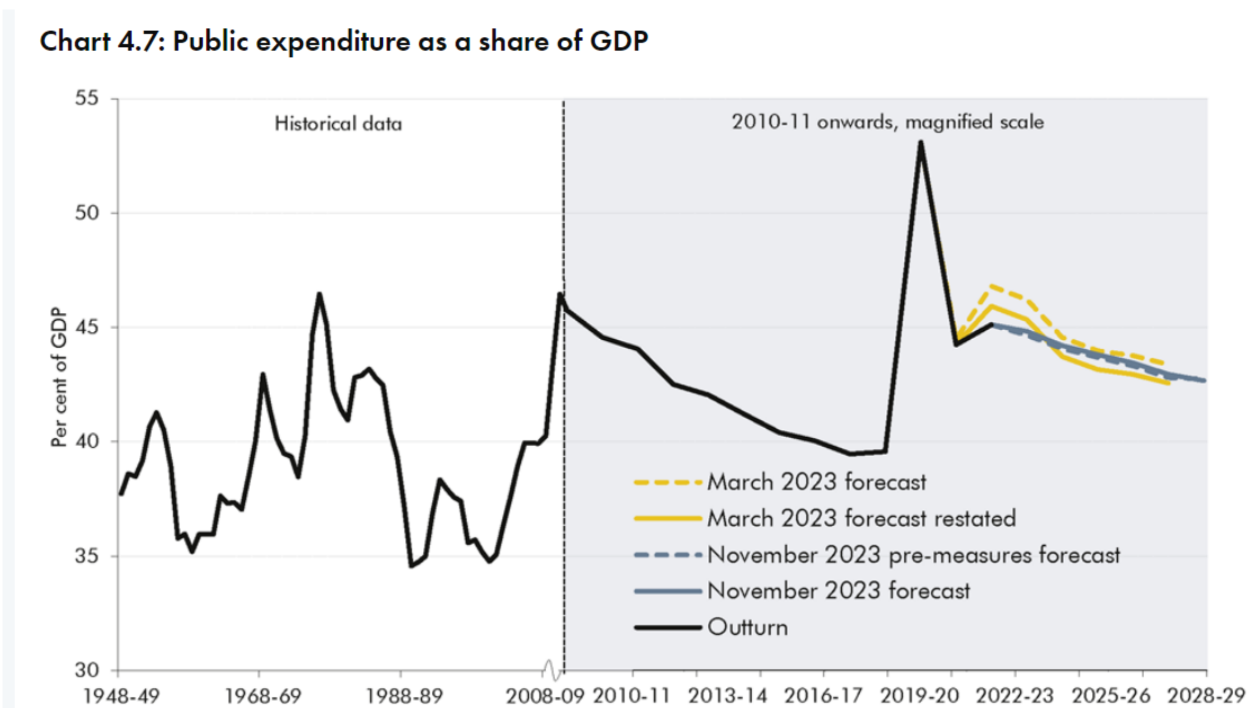
Once again it goes without saying that rising standards of living are incompatible with a falling rate of profit. *"Living standards, as measured by real household disposable income (RHDI) per person, are forecast to be 3½ per cent lower in 2024-25 than their pre-pandemic level. While this is half the peak-to-trough fall we expected in March, it still represents the largest reduction in real living standards since ONS records began in the 1950s. RHDI per person recovers its pre-pandemic level in 2027-28."* It has just been announced that energy prices to households are to rise by 5% in the new year. They should be coming down not going up. Compared to pre-pandemic, the wholesale price of gas is up by >30% while household prices are up >200%. In justifying the 5% rise, OFGEM is dancing to the providers' tune as they game the forward market. There is so much gas around they should be holding a fire-sale, literally.

Living standards are being measured by the OBR narrowly because they exclude public services. But public services such as health, education, social services, other council services all form part of the living standards of workers and are vital for their well-being. And as we can see in Graph 9 below, the Chancellor is intent on reducing public services as a share of GDP by 3.3% over the next five years back to the average found during the age of austerity which began after the financial crash. This would reduce net public debt currently residing at 100% of GDP down to 92.8% in five years. Despite this attack on public services Chancellor Hunt had the gall to say he was "*protecting public services.*" Seems it is crime to deliberately lie to parliament but mandatory to lie to the public.

What about the future? No-one can predict it not even the OBR. First we have to get through summer 2024. This is not so much uncharted waters as a waterfall. There is no lockdown nor vaccine against hyperthermia (heatstroke). 2024 is when the cooked chickens come home to roost.

Currently however wage rises are exceeding price rises generally. (It is different lower down the income scale where fuel and food costs dominate.) This being so, the next round of wage negotiations is going to be brutal as the employers seek to claw back any wage gains. In pursuit of this goal, the chancellor is seeking to tip the labour market in favour of the employers by increasing the reserve army of labour through re-organising the benefit system. The intention is to raise the threshold where claimants can be judged unfit for work. While he has not provided any additional winter funds for the NHS, he has provided £1.3 billion for the DWP to freeze out claimants. "*3.24 As part of the Back to Work Plan the government will invest over £1.3 billion over the next five years to help tackle long-term unemployment by establishing an end-to-end process that supports and incentivises unemployed Universal Credit claimants to find work.*" Once again this is an attack on the most vulnerable sections of the working class, most of whom have been burnt out by work, or ruined by poor diet.

Graph 9.



The tax cuts: smoke and mirrors.

Jeremy Hunt claimed that he could make tax cuts because the Fiscal Outlook had improved since March. Just because the projection has come out better than expected does not mean the money is there. While the OBR claims it was tax gains wot did it, it is actually the fall in energy prices below the budgeted level which provided the windfall. Chancellor Hunt grabbed this windfall with both hands in order to cast this Budget as a windfall for workers, companies, and the economy.

"Jeremy Hunt has cut business and personal taxes by £20bn in an Autumn Statement aimed at boost-ing growth yesterday but the budget watch-dog warned that over-all taxes were still rising to a post-war high." So concluded the *Financial Times*. Of this £20 billion, £11 billion will go into the pockets of business by making permanent the capital allowance benefits, while £9 billion will go into the pockets of workers and the self-employed through cuts to National Insurance. However, because tax thresholds continue to be frozen, it means that what the chancellor gave with one hand he more than took with the other. The total tax take is expected to continue rising to 38% of GDP, helped by that most onerous of taxes – VAT - which increases with inflation, and which is paid equally by those in work and those on benefits.

The chancellor also sought to support the housing market indirectly. Like China the UK housing market, which is highly leveraged, is in crisis. For the first time in three years the Chancellor chose to unfreeze housing benefit, basing it on the bottom 30% of market rents. Simply put the upper limit could now rise by £800 costing the exchequer more than a £1 billion p.a. Of course this money goes into the pockets of landlords not tenants and it matches the current increase in average buy to let mortgage repayments. Thus this measure provides a floor to the housing market allowing landlords to raise rents and protect their mortgages, which in turn protects a banking system vulnerable to mortgage defaults.

The City of London.

The City of London remains crucial to the British economy. It employs one in five financial employees and generates $84 billion in output (all fictitious of course.) The City of London contributed 10% of all taxes and London 30%, no mention of avoided taxes. The 30% figure is the more important, because besides government, ancillary services and tourism, London has little going for it besides the City of London. In terms of employment the data is confusing for while the number of jobs in London has increased so too has the unemployment rate, with the latter increasing quite sharply over the last six months to above 2019 levels. This trends seems to be ongoing. "*London saw the largest increase in the economic inactivity rate compared with the same period last year, up 1.0 percentage point, with the North East seeing the largest decrease of 3.4 percentage points. Between March and June 2023, workforce jobs decreased in 9 out of 12 regions of the UK, with London seeing the largest decrease of 72,000*," That said, H.M. Customs and Revenue data does show a slight increase in Finance and Insurance jobs in London.

Last year the City of London lost its top spot as the centre for finance in a report by the City of London Corporation reported in the Financial Times and CITYA.M. The Global Financial Centres Index (GFCI 34) is less kind, it gives a clear lead to New York. The slippage in London can be seen in the sub-sectors. In terms of Banking London is fifth and in terms of Trading it is fourth. The Bank of International Settlement City of London survey finds that the City's loss of trading to be only marginal. This is because London continues to be the world's largest forex trader with over 40% of all foreign currency transactions carried out in London.

The biggest loss so far has been the shrinkage of the London Stock Exchange. By midyear the value of shares traded in London was ninth in the world just above Saudi Arabia in tenth place and less than half of Euronext (Amsterdam). The withering of the City of London can be seen in other ways. Canary Wharf was built to take the overflow from the City of London, and it prospered for this reason. Today Canary Wharf is battling rising vacancy rates which reached 14.8% mid-year. Hunt trekked to Edinburgh earlier this year pledging to overturn regulations in the City of London to attract new business, always a bad sign. And if Hunt cannot bribe investors with regulation lite, he is trying to strongarm the British pension and insurance industry into investing more in shares and other instruments traded in the City.

But it is not only in the City of London where problems are surfacing, hence the reinstatement of lifeguard Cameron. Chancellor Hunt or simply Chancer Hunt lauded a number of leading industries in the UK. Unfortunately for him those were the industries where the vacancy rate increased the most sharply recently. Seems these industries are less hiring than booming.

Conclusion.

Very little is going right for the economy, and much is going wrong. It remains the weak link in the chain of Imperialism. The reinstatement of Cameron can mean two things. Firstly, that the Tories are seeking out the middle ground once more by abandoning the red belt in order to hold on to the blue belt in the shires. Secondly, that the Tories are softening their position on Brexit given Brexit has become unaffordable because of the weakness of the economy and the threat to the City of London.

One thing is clear, the Tories have nothing to lose by shedding their populist image and defanging their populist wing. The populists have done their job, blocking Corbyn. With every revelation from the Covid enquiry Johnson's standing is trashed. Now the job for Sunnak is to re-assemble the Tory Party, perhaps not for this election, but certainly for the next one after Labour crashes as surely it will. This was the context for the Autumn Statement.

In the end who wins elections or not, is not decided by culture wars, but by economic competency and management. Hunt has used the opportunity afforded by the Autumn Statement to re-claim the economic high ground. But just because the captain of this economic ship is no longer intoxicated by ideology, does not make the ship more seaworthy. In October the world economy took a further lurch downwards. It is more than likely that the OBR and Hunt's projection for the future of the economy will not be worth the paper it is written on especially when that paper becomes scorched.

Brian Green, 23rd November 2023.