A cautious Political budget with all the difficult decisions delayed

Posted on Wednesday 17th November 2010

The last Budget before the General Election shows that the Treasury and Prime Minister have not agreed on a comprehensive medium-term strategy to deal with the public finances. By not giving targeted and detailed cuts in spending, the Chancellor has left all the really difficult decisions until after the General Election. It is a cautious but modest political budget.

Alistair Darling has agreed a vague form of words 'should the economy do better than expected we will be able to do more to reduce the deficit'. This shows that the mixed signals coming out of No 10 and No 11 have not been clarified. The official Treasury would like to see a clearer message that the budget deficit will be reduced through tougher cuts in spending in order to return public finances to a state that will allow borrowing to be covered without a rise in interest rates or a run of confidence by outside investors in UK PLC.

It is fascinating that Alistair Darling has walked a clever political tightrope: the Budget appears to offer extra lending to businesses – particularly small businesses that would benefit Birmingham – but only through pushing the banks (RBS and Lloyd's) that the Treasury has a large shareholding in, not through a big increase in public sector investment. The commitment to a green investment bank is potentially helpful to the economy long-term but this is only through a promise of money being unlocked through a relatively small outlay of public money. On the fiscal side there is nod to more radical 'soak the rich' policies – but not too much – by increasing the threshold on stamp duty for first time buyers paid for by an increase in duty on properties valued at more than £1million. Similarly, in a reversal of the ill-fated policy of trying to out bid the Conservatives on inheritance tax in the Autumn of 2007, he has frozen the inheritance tax threshold to help pay for caring for the elderly. This opens up some ideological water between the parties – one of the few battle lines of the upcoming election – but not so much as to frighten either the financial markets or middle England.

The Budget shows just how constrained the Treasury is by the state of the public finances preventing them from being able to indulge in an election give-away but also that it is worryingly still so concerned at the fragility of the recovery that it hasn't acted more dramatically to cut the deficit which is estimated to be £167bn this year.

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