The 2011 Budget: the big squeeze continues

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Britain had an overdose of budget announcements in 2010, from Labour's budget in March, to the Coalition's 'emergency' budget in June and then their Spending Review in October. Compared to all of this, the March 2011 Budget was a rather dull affair. Apart from some concessions to angry motorists about the price of fuel, the Chancellor of the Exchequer announced very few changes and is largely sticking to the spending cuts he announced last year; cuts which will put state spending in Britain on a steeper decline than in any other major European country. By 2014–15, levels of state spending in Britain will even fall below the levels projected in the US, the first time this has ever happened.

The March 2011 Budget was billed as a 'budget for growth', aimed at stimulating growth through some cuts in taxation (for example, a reduction in corporation tax and an increase in some personal tax allowances) alongside the creation of 21 enterprise zones and cuts in business regulation. In his budget speech, George Osborne also put the newly adopted top rate of income tax (50% on incomes over £150,000) under review:

'High tax rates can do real damage...They crush enterprise, undermine aspiration and often undermine tax revenues as people avoid them.'

Low taxes are clearly seen by some in Britain as essential for growth and competitiveness but there is, in fact, no strong evidence for this. The World Economic Forum's Global Competitiveness Report 2010–11 shows that while low-tax Switzerland is at the top of the economic competitiveness league, Sweden comes second, two places ahead of the US, despite having far higher tax rates. In Sweden, as in much of continental Europe, tax is seen in a much more positive way than it is in the US and UK. Taxes there are viewed as a means of investing in human capital (through state spending on education and health for example) rather than as a barrier to aspiration and entrepreneurship.

While Osborne seems keen to abolish the 50% tax rate, he did raise taxes on non-domiciles and also announced further crackdowns on tax avoidance. These measures might explain the somewhat surprising conclusion from the IFS that the biggest losers in the budget were the richest 10% of the population. But we must remember that this group can afford a drop in income more easily than others as they currently receive more income than the whole of the bottom half of the population. Next in the league table of budget losers was the poorest 10% who have very little spare change to lose. And the cuts in public services and spending outlined in last year's budgets will particularly impact on those on low and middle incomes in the next few years.

The 2011 Budget also confirmed that the Coalition is shifting priority away from the 'hard-working families' that Labour championed so much, towards pensioners who are (and this is probably no coincidence), of course, more likely to vote Conservative. Despite some reductions in winter fuel payments, pensioners continue to be protected from major cuts while those of working age, particularly those with children, will be increasingly 'squeezed' in the next few years.

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