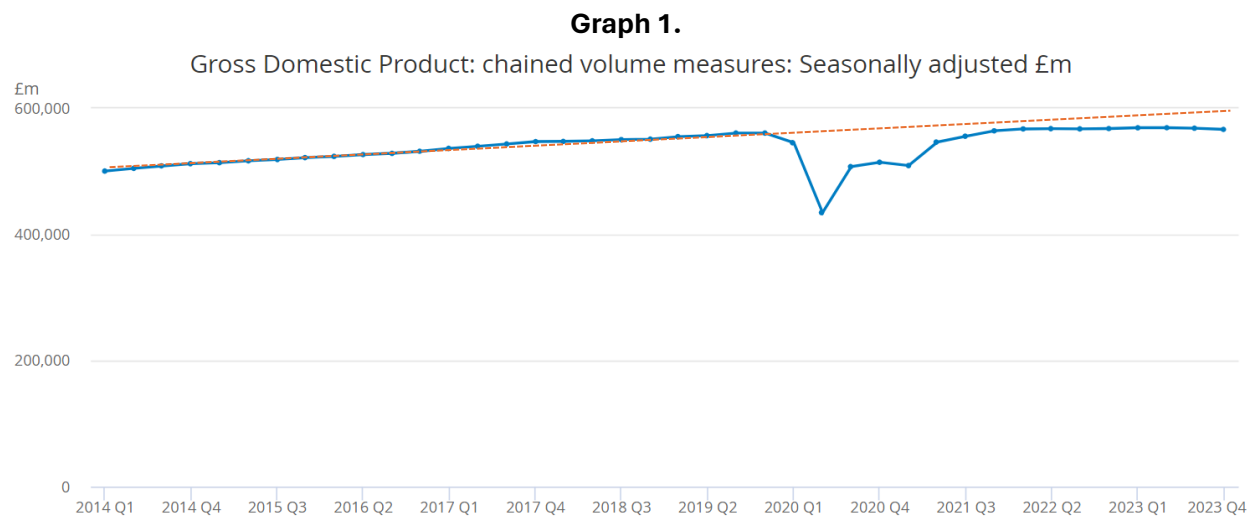


THE UK's MARCH BUDGET AND THE DEEPENING CRISIS OF BRITISH CAPITALISM.

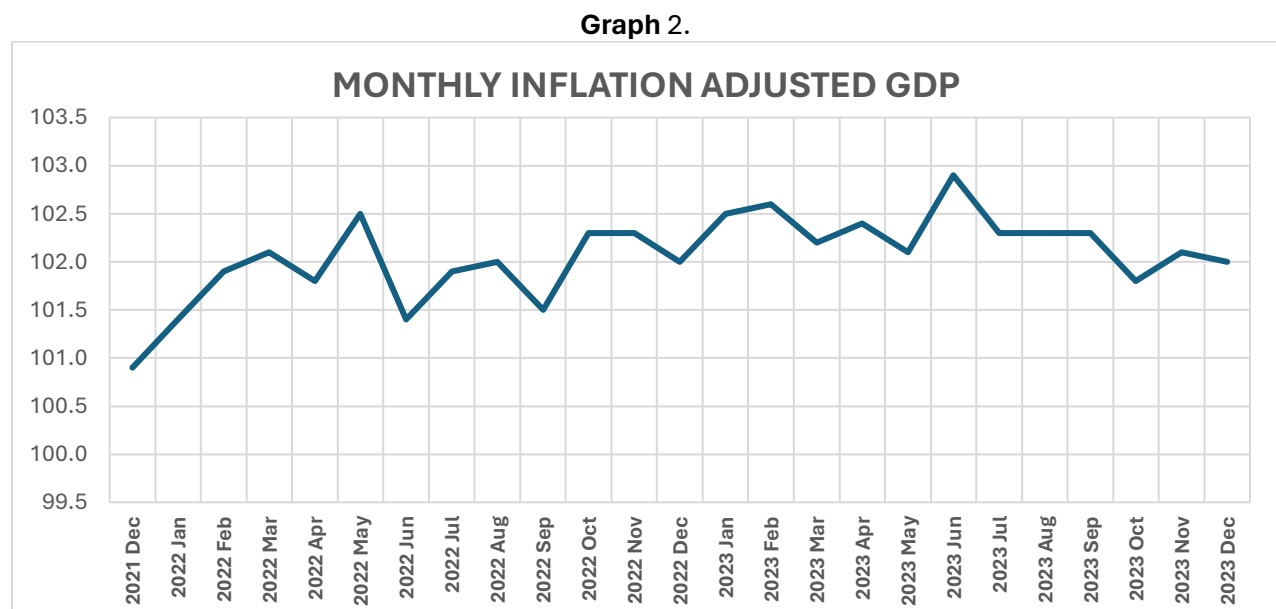
Britain is in recession, in political turmoil and its foreign adventures are backfiring. It is facing an election. The population is restless while the streets are angry with protests. This is the background to the budget announced on Wednesday in front of a braying mob in parliament detached from reality.

We will begin our analysis with inflation adjusted GDP data. As Graph 1 shows real GDP is now no higher than pre-pandemic. In fact the UK is currently in recession. The monthly data which can be seen in the next graph shows the average GDP in the second half of the year stands at 102.1 compared to 102.5 in the first half of the year, implying a contraction of 0.4%.



(Source: [Office for National Statistics](#))

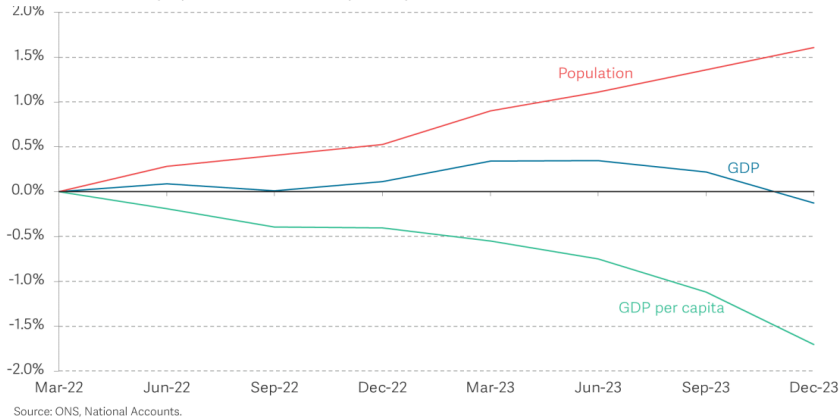
In graph 2 we note that this December's GDP is no higher than in 2022. And in Graph 3 we note GDP per capita has fallen sharply.



(Source: [Office for National Statistics](#))

Graph 3.

Growth in GDP, population and GDP per capita since Q1 2022: UK



GDP has surprised to the downside in the second half of 2023, unexpectedly falling into recession

Faster population growth means GDP per capita looks even worse – falling for an unprecedented 7 quarters in a row

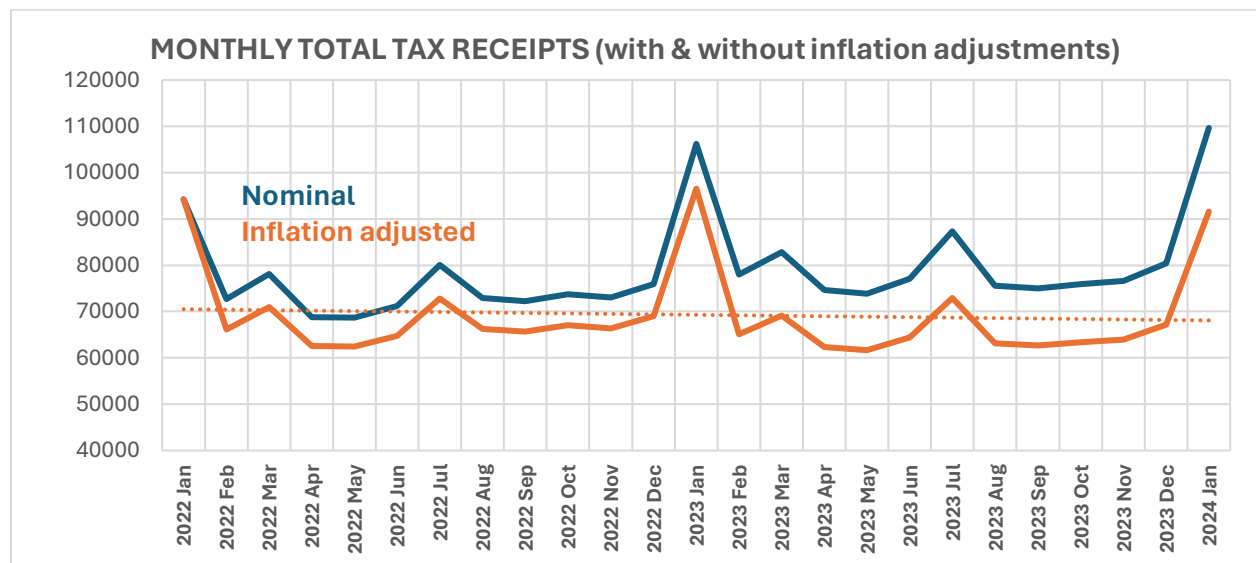
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(Source: [Resolution Foundation](#))

Turning back to Graph 1, we note that growth is below trend. Additionally, we note the loss of production during the pandemic. This loss of production, actual and potential is equal to around half a Trillion Pounds, and even that figure is understated because the government pumped in between [£310 and £400 billion](#) in support funds to individuals and businesses during the pandemic. Much of that money, in the form of direct subsidies to business and increased consumer spending, collectively inflated GDP. Therefore it is likely that the total loss of actual value producing output was closer to 6 months of production rather than 3 months, from early 2022 to now. A huge loss of real income, replaced by a huge increase in public debt.

When assessing the accuracy of GDP figures it is always useful to measure tax receipts this income should generate. In the absence of changes to tax regimes there tends to be a strong association between the tax-take and economic growth. Should this association break down, more often than not, it is the GDP figures which are wrong. [The Office of National Statistics](#) recently issued tax receipts data for January 2024. January is important because that is when annual returns and payments are due in.

Graph 4.



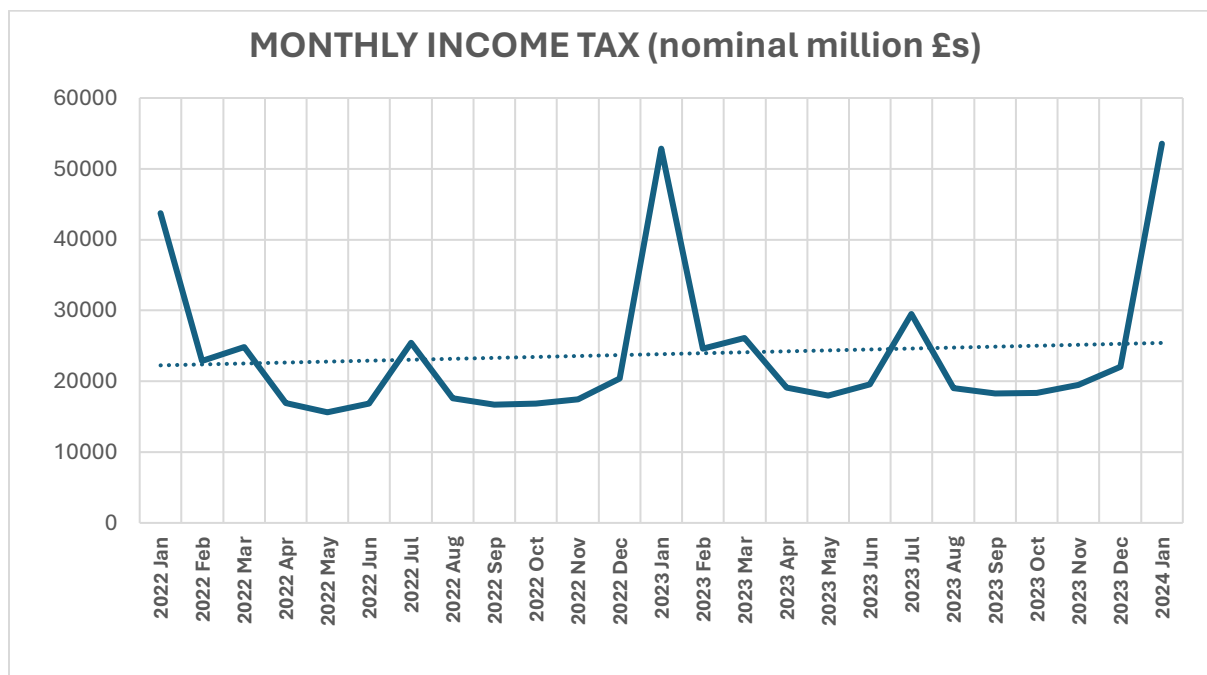
Between 2022 and January 2024 most tax-takes with the exception of corporate tax were barely up in cash terms, and down when adjusted for inflation. Based on these figures, in real terms, there is an average >5% fall in total tax receipts in the second half of the year compared to the same period in 2022, **greater than the fall in real GDP** recorded over this period. (I used the CPI as the deflator because it is the only inflation index released monthly and because some of the taxation, e.g. VAT is tied to the price of consumables.) Thus the association between GDP and taxation has been broken.

This can be seen in greater detail in the table below which converts individual forms of tax, which appear in the next three graphs, into real taxes adjusted for inflation. I have excluded National Insurance as here the tax rate was changed in the last budget. Of interest was the fall in capital gains tax despite the rise in fictitious capital, especially share prices. (Incidentally, the £2.7 billion p.a. in tax to be raised by scrapping the Non-Dom status for rich foreigners is almost matched by the fall in capital gains between Jan 2023 and Jan 2024.)

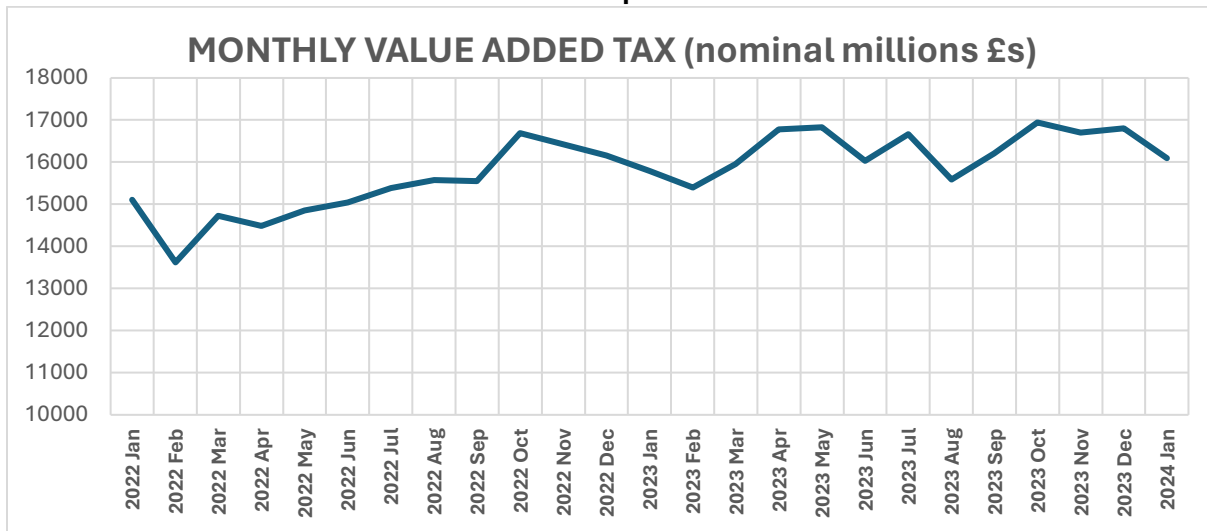
Table 1.

Billions of £s	Jan - 22	Jan - 23	Jan - 24	Jan 23 – 24 Difference
Income Tax	43.71	48.05	44.71	-7.0%
VAT	15.1	14.23	13.44	-5.6%
Capital Gains	10.67	11.63	9.53	-19%
TOTAL TAX	94.28	96.55	91.56	-5.2%

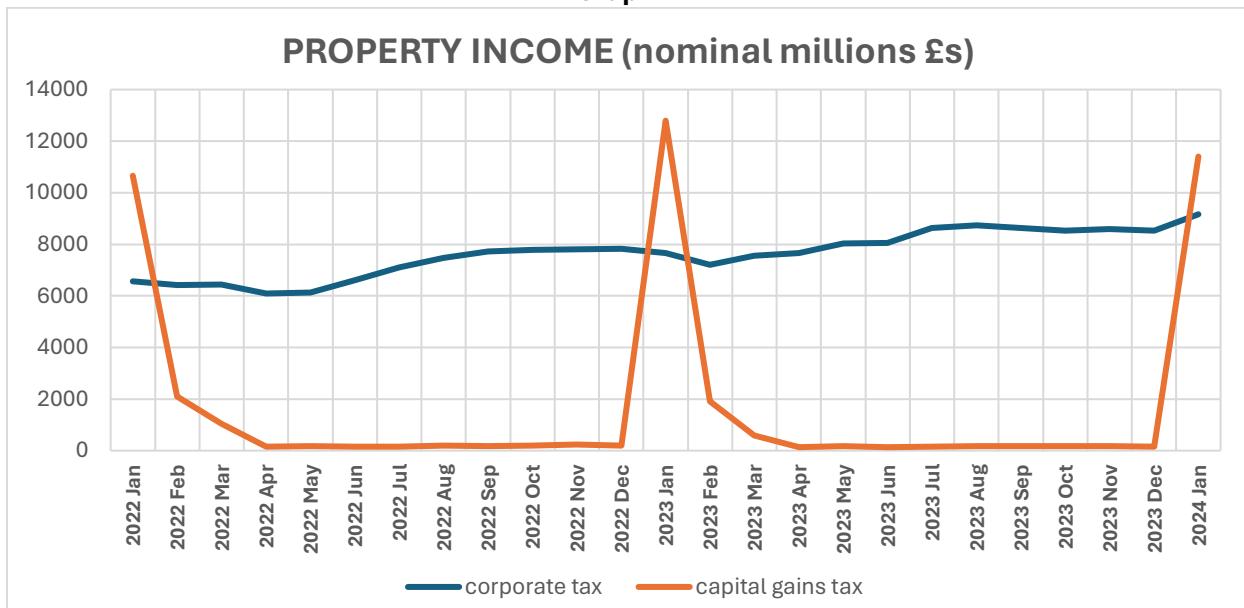
Graph 5.



Graph 6.



Graph 7.

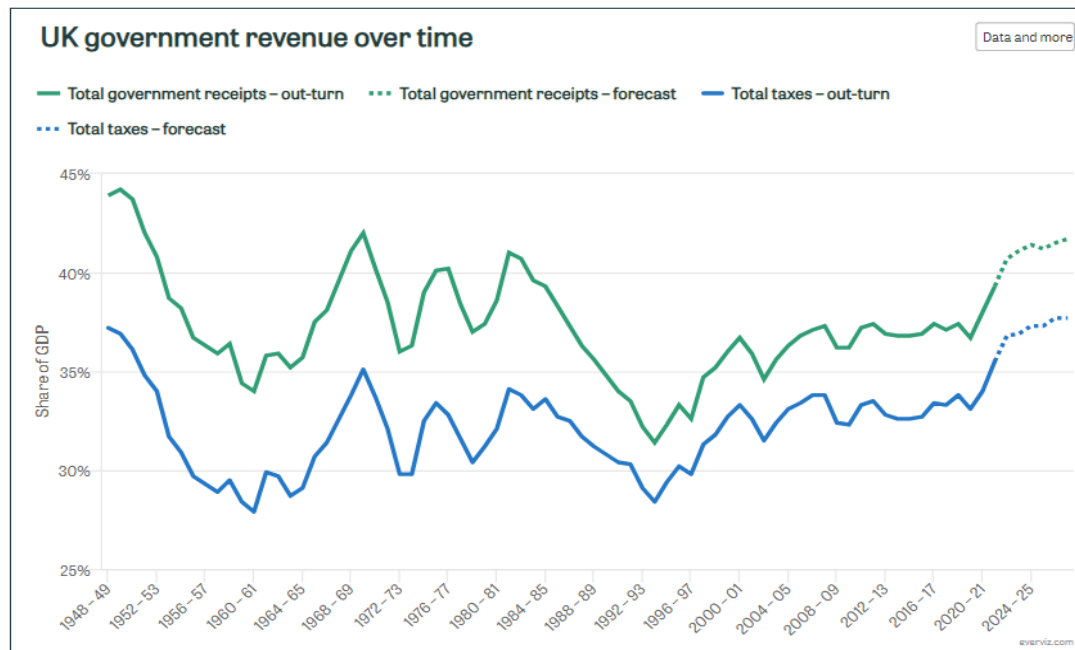


Here are the interesting points. In every case inflation adjusted taxes, as found in the table, have fallen between Jan – 2023 and Jan 2024. In the case of total taxes the fall has been 5.2%. The fall compared to Jan – 2022 is less severe at 2.9%. The most important indicative tax is VAT, because it is tied to consumer spending. It fell by 5.5% between Jan – 2023 and Jan – 2024. Worse, it has fallen by 11% when compared to Jan – 2022. This is not consistent with an economy that has fallen by only a fraction of a percent.

While the cut in National Insurance Contributions reduced tax somewhat, the freezing of tax thresholds has boosted personal tax even more. In total the [Resolution Foundation](#) projects a net rise of £37 billion in taxes resulting from the previous Budget Announcement. This is verified by the graph below. Tax as a share of GDP since the tax year 20-21 is rising significantly more quickly. And yet it is rising despite the fact that in absolute terms the tax take has fallen. If the association remained, a lower real tax take should have reduced rather than increased the share of tax in GDP given that GDP over the last two years has not

varied by more than 1%. Clearly it must be the case, that the GDP figure is weaker than reported as this is the only way a falling tax take can result in a rising share of GDP.

Graph 7.



(Source: [Institute for Fiscal Studies](#))

The important point to make is this. Hunt in his Spring Budget statement intends to reduce taxes further by around \$12 billion or 1.4%. Much of this will be paid for by the fall in interest payments due to a fall in inflation of £3.5 billion and the fall in energy support of £6.6 billion as wholesale gas prices have plummeted. These are not real falls, merely undershoots of earlier budgetary forecasts by the Office of Budget Responsibility, which mimics the Congressional Budget Office in the USA. Despite these unexpected savings net borrowing for the year only fell by [£3.1 billion for the current financial year](#) up to January, compared to the same period ending January – 2023.

Given that total tax in real terms is down by over 5% and Hunt is going to reduce it by a further 1.4% where is the shortfall going to come from. The answer is from a savage cut back on already collapsing public and health services, as well as already lamentable public investment.

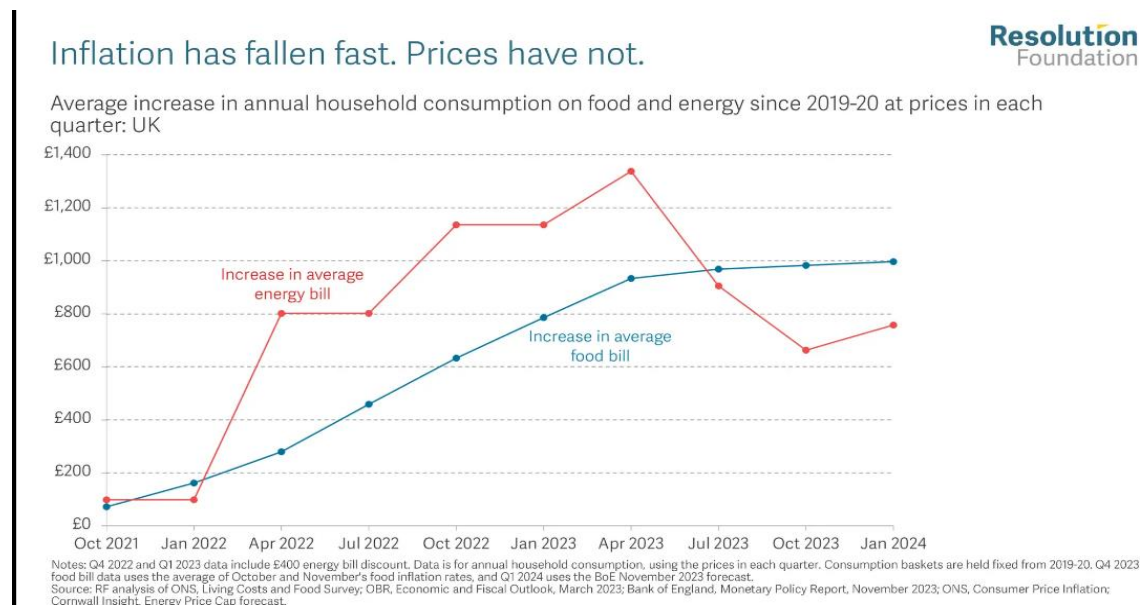
Before proceeding to the expenditure side, I would like to pause and consider comparative statistics on living standards provided by the Resolution Foundation in their must read [The 2030 Enquiry, the Final Report](#). Here are key extracts, which like charcoal, paints a bleak picture of the health of British society.

- *Middle-income Brits are now 20 per cent poorer than their peers in Germany and 9 per cent poorer than those in France. Worse, low-income households in the UK are now around 27 per cent poorer than their French and German counterparts. 15 years of lost wage growth has cost the average worker £10,700 a year.*

- In the 40 years to 2022, total fixed investment in the UK averaged 19 per cent of GDP, the lowest in the G7. Virtually all of the productivity gap with France is explained by French workers having more capital to work with.
- Labour productivity grew by just 0.4 per cent a year in the UK in the 12 years following the financial crisis, half the rate of the 25 richest OECD countries (0.9 per cent). The UK's productivity gap with France, Germany and the US has doubled since 2008 to 18 per cent, costing us £3,400 in lost output per person.
- Although the majority of investment is in the private sector, public investment matters too. Here, the average OECD country invests nearly 50 per cent more than the UK and the results are everywhere to be seen.
- Benefit levels have failed to keep pace with prices in 10 of the past 15 years. Along with wider cuts since 2010, this has reduced incomes of poorest fifth by just under £3,000 a year.

The graph below shows the impact of key prices on poorer households.

Graph 8.



(Source: [The Resolution Foundation](#))

In short the British economy is an economy plagued by low investment, lost productivity, falling living standards and a benefit system under siege.

Turning to the expenditure side.

The data used here is drawn from the Office of Budget Responsibility's (or OBR) report accompanying the Budget, titled *Economic and Fiscal Outlook 2024*. "Based on its current policies, we forecast that the Government achieves a primary surplus and falling debt by 2028-29, through a 1.1 per cent of GDP increase in primary receipts, and a **1.7 per cent fall in primary spending** as a share of GDP." (My emphasis) "Spending is forecast to fall steadily as a share of GDP from 44.5 per cent this year to 42.5 per cent in 2028-29." "The single largest contribution to the decline comes from the assumed 1.0 per cent of GDP reduction in departmental spending on public services over the next five years." The cat is out of the bag. There is no

1% rise in real spending as the Chancellor claimed. The purpose of the cut to spending on the working class is to reduce spending as a share of GDP so as to reduce the rise in public debt while giving away an electoral bribe. *“In our central forecast, borrowing as a share of GDP is expected to fall steadily from 4.2 per cent this year to 1.2 per cent of GDP in 2028-29.”*

Of course, the Chancellor, to much braying by the donkeys on his side of the House, threw titbits to those bothering to watch his display on a screen, a couple of billion here, some hundreds of million there, but that was only the equivalent to bailing out a sinking boat using a thimble. The fact of the matter is that the government is intent on making cuts of £218 billion in public spending on welfare between 2022-3 and 2028-9 based on a cumulative fall of 2.6% in GDP. (Note 1) Cuts to public services which are already collapsing and if not collapsing, are teetering on the edge of collapse. Cuts to a population who for the first time since the war has seen its standards of living fall during a parliamentary cycle.

Public spending on investment did not fare better as the table below shows. Aggregate investment by the public sector is projected to fall in each of the following five years.

Table 2.

Table A.10: Fiscal aggregates: changes since November

	Per cent of GDP						
	Outturn	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Receipts and expenditure							
Public sector current receipts (a)	0.2	0.1	-0.3	-0.3	-0.2	-0.2	-0.4
National Accounts taxes	0.1	-0.2	-0.5	-0.4	-0.4	-0.4	-0.5
Total managed expenditure (b)	0.2	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2
Public sector current expenditure (c)	0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Public sector net investment (d)	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Depreciation (e)	0.1	0.2	0.2	0.2	0.1	0.1	0.1

That is equivalent to a fall in investment over this period of £20 billion in cash terms. No catching up to the rest of the G7 then. But look on the bright side. Instead of fixing potholes the ruling class is intent on potholing the rest of the world through raising Defence Spending to 2.5% of GDP when ‘economic conditions allow’, a limitation which has never held them back.

When estimating the standard of living, public services have to be included. Workers rely on services, from health to housing to social care. The 4% cut in National Insurance over the last two budgets may serve to reduce the overall tax burden on average paid workers, but that does not offset the cuts to services, nor the sharp rise in Council Taxes to compensate for the drying up of government support to Councils.

The City of London & Canary Wharf.

Brexit has had three major impacts on the British economy. Trade, inward investment and the jewel in the crown, the City of London. I will begin with the City of London. The City, in the face of intense competition from New York and the rising stars of Asia, was only going to survive as the financial center for the European Union. Brexit has put paid to that. That Johnson fool can add yet another scalp to his belt. One wonders if secret financial backers based in New York were not behind Brexit because the main beneficiary of the City’s transition to a provincial financial center was New York. Seems despite that ‘special relation’ the US is doing to Britain by blocking the flow of finance, what it did to Germany, by provoking the war in the Ukraine which blocked cheap Russian gas. A Dying Empire always sucking life out of its allies.

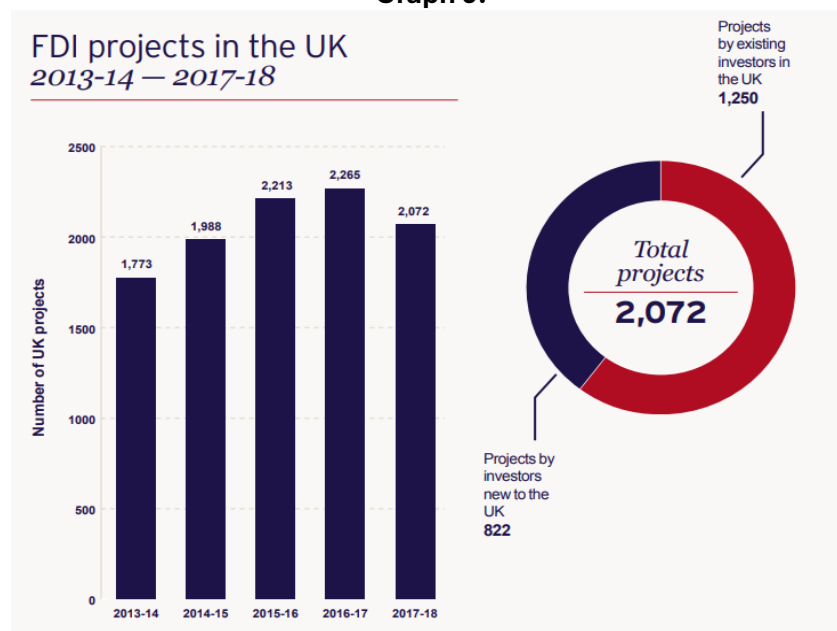
Here is an interesting and revealing insight into the decay of the city reported by [Addison Lee](#) the posh couriers. *Liam Griffin said bookings for Addison Lee's courier business, which he described as a "true measure" of London's economic activity, had fallen 10 per cent year on year in the first two months of 2024, following a strong performance in 2023.* This was entirely due to the fall in bookings from the financial sector.

The sector hardest hit sector has been the local bourse, the London Stock Exchange or LSE. *"More than 100 companies left the market over the course of last year, according to the Quoted Companies Alliance. London's public market populous has now shrunk by around 40 per cent since its peak in 2008."* It's not just about companies leaving the London Stock Exchange, it is also about fewer companies listing or raising funds via the LSE. [UK companies](#) raised just £1 billion in 2023, the lowest since 2009. The result is that the total market cap of the LSE fell from \$4.3 trillion in 2007 to around \$3 trillion currently according to Bloomberg. According to Statista, the LSE, which was once the biggest stock market in Europe, is now only half the size of Euronext based in Paris and Amsterdam, at \$3.18 trillion vs \$6.65 trillion. The LSE is now only the seventh largest global bourse, slightly bigger than the one found in Riyadh.

The canary in the coal mine is literally Canary Wharf. Its purpose was to exploit the overflow from the City when the City's expansion was hobbled by the availability of plots for new buildings. Thus it follows that as the City contracts, this will first be felt and revealed in Canary Wharf. With vacancy rates approaching 20% in Canary Wharf (the last data was mid-year at 16%), Commercial Properties are being offloaded with huge discounts. [5 Churchill Place](#), which was bought for £270 million has been sold at the distressed price of £110 million. With many of the buildings in Canary Wharf having been bought with debt, debt defaults are bound to rise adding to the misery in the commercial property space.

Turning to inward investment, the two graphs below show a rise in the number of new projects up to 2016 followed by a decline after Brexit. Of course this is a crude indicator because it does not indicate the size of each project. Nevertheless the falling trend is clear as is the fall in investors new to the UK (Graph 10).

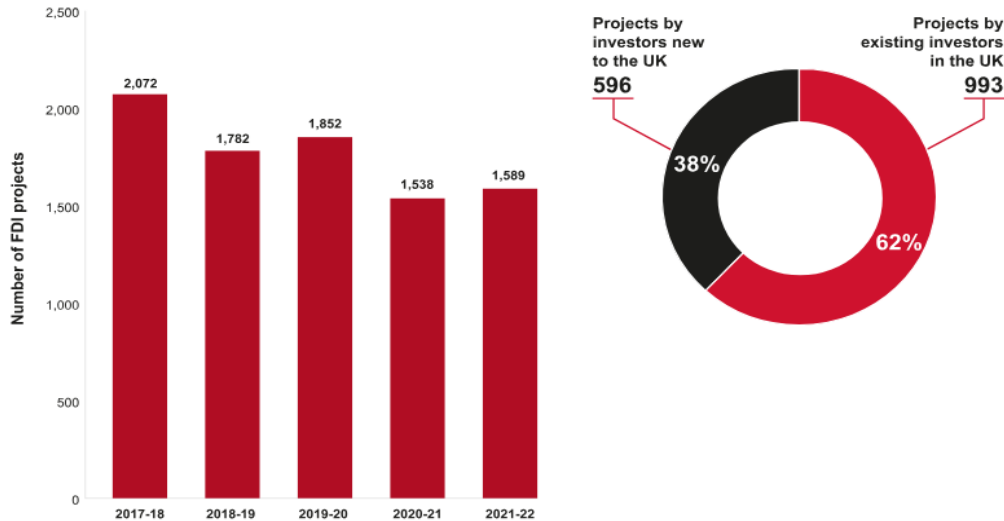
Graph 9.



Source: ([Department of Trade](#))

Graph 10.

FDI projects in the UK between 2017 to 2018 and 2021 to 2022



(Source: [Department of Trade](#))

Finally the issue of trade. The [Financial Times](#) did not celebrate the fourth anniversary of Brexit but it did take the opportunity to debunk the government's view that Brexit has been positive for the economy. Far from rising, it quotes the London School of Economics data to show that export growth was the weakest of all the G7 countries, if a decline in exports can be considered growth. "By 2023, [UK trade as a share of GDP](#) was down 2.2 percentage points on pre-pandemic levels (compared to a rise of 0.5 percentage points across the rest of the G7)."

A perfect storm is brewing.

The outturn of the economy was better than the earlier November had projected. The Chancellor had a bit more fiscal headroom to play with if he wished to keep to his fiscal rule. Here are the fiscal rules:

- Debt should be on course to fall as a share of national income in five years' time.
- Public sector borrowing should not exceed 3% of GDP in the five years' time.
- Some types of welfare spending must remain below a pre-specified cap.

The fiscal rules are like a credit card with a fixed limit. As long as one remains below the limit you are considered a good risk. But who wants to be at the limit paying all that interest? Is it not better to pay of the debt by taxing the rich. But this they wont do, so the fiscal limit is what they can get away with, without raising taxes on the rich. It is worth reading this [Financial Times](#) satirical piece debunking the fiscal rule.

The OBR has taken the improvement in the fiscal picture between November and today the wrong way round. The benefit coming from lower energy support and interest payments are not a sign of strength but of weakness. If gas prices are falling that is because the demand for gas is weak. If inflation is falling depressing interest rates that is because price falls are responding to demand falls. Yes the Chancellor was gifted an unexpected extra £10 billion, but if he read the runes correctly, he would have banked it rather than given it away as an election bribe.

The UK economy is drowning in debt. The economy is sinking. And on top of this the country is at war though it does not feel like it. And the war is going badly for the British neocons. It's Ukrainian ally is being crushed despite the deep involvement of Britain in the war as revealed by the [German leaks of British boots on the ground](#). The Israeli assault on Gaza too is being bogged down, and diplomatically, Britain like its big brother the USA, is being increasingly isolated by its support for Zionism.

And finally, and potentially the biggest threat, is the emergence of a durable and dynamic anti-war movement in the country, possibly the strongest in the West. It has learnt to organise, to mobilise and its creativity is admirable. The ruling class is beginning to fear this new power emerging in the streets which is beginning to scatter its ballot boxes as Rochdale showed.

This is the background which brought the beleaguered Prime Minister to his soap box outside Downing Street the other day. Here we have a Prime Minister who supports genocide by unconditionally supporting Israel and arming it, castigating those seeking a ceasefire and an end to the carnage, as Muslim extremists. Extremists who are, if not taking over the country, then certainly disrupting it and dividing it. His remedy, not to change his foreign policy which will damn him for all eternity, but to malign and clamp down on those whom he considers extremists.

This is a Prime Minister on the ropes economically, politically, and morally. Lashing out, demanding his mercenaries in uniform take stronger action to suppress the MOB, (Muslims of Britain) to prevent mob rule taking over. Sunak like his class is not that bright but the ruling class is congenitally sensitised to threat and Sunak like Starmer identifies a threat to rule by consent. Rule by consent, the darling option by capital, requires rewards, but in a society where the bosses can no longer give, only take back, rule by consent starts fraying. And it is fraying as Rochdale shows and as Sunak's speech shows. Repression is on the horizon which will not secure the future of capital, only delay the inevitable outcome.

Conclusion.

The budget amounted to only a rounding up figure compared to GDP. Hunt, the Chancellor was an easy target for criticism by Starmer across the floor of the House. In what is likely to be the final budget of this parliamentary cycle, the Tories have the dubious honour of having presided over falling standards of living, a rising burden of taxes despite the small giveaway, destitute benefit claimants and crumbling services. A record to shame any government, but one which the next Labour government is bound to continue.

Of course the future looks even bleaker given the summer to come. It is notable that [Europe](#) is now wargaming a food crisis due in part to its Mediterranean area being turned into a dessert. More and more workers are finding life increasingly intolerable. Some are taking to the streets, and some are voting with their feet. The capitalists can budget for taxes and spending, but what they are unable to do is bolster household budgets to prevent what is emerging, a pre-revolutionary period, because when workers can no longer live in this manner, they are forced to act even in the face of rising repression.

Note 1. Average cash GDP over the 6-year period should be £2.8 trillion p.a. making £16.8 trillion. **2.6%** cuts from 2022/3 ([OBR Table A9](#) page 154) are baked in. £16.8 trillion times **1.3%** average = £218 billion.

Brian Green, 7th March 2024.