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Autumn Statement: the experts respond

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Ready for the hard sell? Hannah McKay/PA Wire

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The chancellor of the exchequer, George Osborne, has delivered the financial package he hopes will convince voters to deliver a Conservative majority in May 2015. Here, our team of academic experts responds to the contents of the Autumn Statement.

Tax and tax avoidance

Ronen Palan, City University

The lack of useful detail in the chancellor's tax clampdown announcement, for me, confirms the suspicion that the British government intends to do very little about tax evasion and avoidance. But as we all know, the best defence is attack – it does so by pretending to be doing a lot.

First let us be clear on one thing, the UK is a tax haven. If anyone has any doubt about it I suggest you read the quote below from a website called Companies365 about a facility called the "agency company":

> *With the ever increasing vigilance of tax authorities, especially with the introduction of offshore blacklists, it has, in recent years, become increasingly difficult for companies incorporated in offshore jurisdictions to trade with on-shore companies. By using a UK registered company, which agrees to transact business on behalf of an offshore company, a structure is available which gives an on-shore profile yet allows the benefits of offshore taxation.*
>
> *The UK company is formed specifically to operate as a nominee for the offshore company - in effect the UK company acts as a fiduciary or agent for the offshore company … The existence of the offshore company behind the UK company need not be apparent to customers; as far as they are concerned, all they will see is the UK company. The customer enters into a contract with the UK company, is invoiced by them and pays the invoices into the bank account of the UK company. Income is then remitted to the offshore company by the UK company after deduction of an agreed commission. The UK company is managed and*

> *controlled by the offshore company and its officers, as are the funds in the UK company's bank account.*
>
> *It should be noted that the UK company cannot trade within the UK or with any UK businesses. If it does then this income would be subject to UK taxation.*

Now, the Department for Business, Innovation & Skills (BIS), headed by Vince Cable is seeking to introduce new measures on corporate transparency and accountability. I like the proposals they are putting forward. We heard nothing about those in the Autumn Statement.

Introducing a 25% tax rate on profits generated by multinationals from economic activity in the UK is a puzzling announcement. The UK is applying the principle of corporate taxation on profits made in the UK by foreign companies as it currently stands – so in one sense the announcement is simply stating the obvious and is maintaining that the UK will continue doing the same going forward.

But we also know that multinationals "play" the system by presenting accounts in which their UK operations are run either at loss or very little profit. These schemes are generally considered legal, so unless the law changes, or some other rules are changing, it is very hard to see how Osborne's announcement amounts to anything but show without substance.

Meanwhile, days before the Autumn Statement, the same George Osborne made the following announcement in Belfast. Let me quote from the FT of December 1:

> *George Osborne will signal his backing this week for the devolution of corporation tax to Northern Ireland, in a politically significant move which would allow the province to compete with super-low business taxes in the Republic of Ireland.*

So the Osborne of headlines new is clamping down on tax evasion and avoidance, the George of the UK treasury is seeking to ensure that Britain will emerge as the world's most successful tax haven.

The Economy

James Foreman-Peck, Cardiff University

Mr Osborne had little room for election-friendly spending measures if moving deficit-reduction targets were to remain credible. He therefore cleverly turned to the other side of the fiscal balance. He has increased the tax liabilities of those groups likely to be unpopular with Mr and Mrs Average Voter; bankers, non-doms, owners of very expensive houses and tax-avoiding multinationals. Where the average (or median) voter's pocket is concerned, the £100 increase in the personal allowance is more an expression of future good intentions than a serious attempt to fill them.

Underlying the present deficit-reduction problem is the celebrated strong growth of employment without a corresponding rise in output. This has knocked tax receipts (and therefore deficit) forecasts off course. The puzzle is surely resolved by the terms and conditions of the additional employment, low wage, part-time or temporary, contracts. In turn this stems from low investment. Mr Osborne offers to address this investment shortfall with business rate relief for SMEs. Imaginatively, he has perhaps taken a lesson from Norway's treatment of North Sea gas and oil in contrast with the UK's less favourable experience. The proposed sovereign wealth fund base on shale gas for northern England looks interesting and no doubt the detail will be eagerly anticipated.

Little attention is paid to the Office of Budget Responsibility's (OBR) sobering estimate that current fiscal plans for eliminating the structural deficit by 2018-19 involve an 80% contribution from spending reductions and only 20% from tax increases, largely achieved already with the rise in the VAT rate to 20%. A substantial proportion of these spending cuts are presumably due after the election.

John van Reenen, LSE

As analysed by the LSE Growth Commission, Britain has a chronic problem of low productivity rooted in the failure make long-term investments. We argued that we could address this though radical supply side changes in the way we support innovation, and educate, tax and finance our citizens.

A major way of reducing public spending after 2010 was to slash public investment. With low interest rates, under-utilised resources and falling private investment, this was the exact opposite of standard economic advice. The outcome was widely predicted - rather than building, we dug ourselves into a deeper economic hole.

Some of this infrastructure destruction has been reversed, but the Chancellor plans again to accelerate public spending cuts to pay for tax cuts after the election. Since public investment creates capital that can be used in the long-term, it should not be lumped in with current spending like civil service salaries. But for purposes of creating an absolute budget surplus it has been and so, once again, will be ripe for the chop. The Liberal Democrats and Labour rightly want to keep capital investment separate. Let's hope, if re-elected, this will be one more target that the government misses.

Amrita Dhillon, Kings College London

The defining feature of the economic policy of the current government has been austerity and the jury is out on whether it has paid off. The UK is doing better than other EU countries on various economic indicators such as growth and unemployment in the first quarter of 2014 but this is projected to change. On the other hand, the main stated reason for austerity – to reduce the budget deficit – has failed as the numbers show that the deficit has climbed to £100 billion. Monetary policy is being used at the same time to gear up demand in all the wrong ways that we have learnt from the US housing bubble.

The autumn statement has some welcome news on reducing inequalities in the housing market and plans to close loopholes in tax revenues from multinationals. It is about redistribution while keeping the projected deficit the same. If taken seriously, reducing tax avoidance could be a way to keep tax revenues high and at the same time provide fiscal stimulus via increased demand by low income earners. Recent work by Zucman (2014) demonstrates just how much is lost by tax avoidance. This might indicate a change of direction from austerity but it is too close to elections to judge whether this is a temporary shift or not.

Craig Berry, University of Sheffield
Christopher Kirkland, University of Sheffield

Despite advance announcements (actually re-announcements) on infrastructure spending, either in the shape of roads or flood defences, today we find George Osborne in a highly defensive posture. The question of how we got here, despite the resumption of steady growth, seems to be genuinely puzzling Osborne and his hand-picked forecasters based at the Office for Budget Responsibility (OBR).

The main, direct reason why the coalition's deficit reduction agenda has failed so comprehensively is that tax revenues are significantly lower than expected. In 2013/14, income tax revenue was £155 billion. Yet, at the 2010 Autumn Statement, the OBR forecast that income tax revenue (in cash terms) would be £178 billion (an over-forecast of 15%). The figure published today for 2013/14 revenue was actually slightly higher than predicted a year ago, but revenue has been significantly revised down, as usual, for every subsequent year.

Karen Rowlingson, University of Birmingham

While investment in infrastructure can help to increase employment, the problem with the UK recovery is not so much the level of employment but the level of wages on offer. Working people are now on average £1,600 a year worse off since the last election because wages have lagged behind prices. Wages have, this year, just about caught up with inflation but millions of British households are heavily indebted and, for many, with interest rates likely to increase in the coming year or two, life could get even tougher than it is now.

The Autumn Statement will do little to help the 13m people in poverty, half of whom are in employment. The various cuts to benefits will, if anything, make their lives even more difficult. With Christmas approaching, we may see shorter queues at the Jobcentre but queues at the food bank are likely to lengthen. Homelessness will also increase. For those still able to keep a roof over their heads, increasing fuel poverty may make this a very cold winter indeed.

Alan Shipman, Open University

Can an economy sustain a return to growth and balanced budgets by saving less, rather than investing more? The perilous result is that UK household debt has started rising again well before public debt starts to fall. Financial and non-financial business debt will also rise again if present policies succeed. This makes the UK recovery extremely sensitive to any increase in interest rates, and explains continued reluctance to raise them despite fears of another asset-price bubble.

It's hard to explain to voters, in a soundbite, how extra borrowing for investment in 2010 could have brought lower budget deficits by 2015. The "multiplier effect", driving faster production growth, makes this possible. But the two Eds (Balls and Miliband) have struggled to convey this. George

Osborne's counter claim – that costlier homes make us richer – is just as paradoxical, but an easier one to sell.

Jonathan Reynolds, Saïd Business School, University of Oxford

The 2% rate rise cap will bring continued short-term relief to bricks-and-mortar retailers, along with the provision for discounts for small business and tenants in empty premises. But this is still tinkering with a system which fails to reflect both the fundamentally changing nature of retailing and the disproportionate effects on smaller High Street firms. The lack of detail on the timing of a more fundamental review of business rates is discouraging.

Housing

Dean Garratt, University of Warwick

The Autumn Statement reaffirmed the government's wish to see new build play a central role in easing pressures on the housing market. Over the past 40 years or more, UK house prices have been characterised by considerable volatility and by an average rate of growth of 4 or 5 percentage points above the rate of consumer price inflation.

The economics point to supply-side problems that mean demand pressures feed directly into prices. The commitment to build has now seen the announcement of a new garden city near Bicester in Oxfordshire and £100m pledged to the Ebbsfleet Garden City project.

An interesting development is the willingness of government to countenance being more actively involved in house building. It signals, at least on paper, that the government is prepare to think more broadly about the way in which it works with the private sector in helping to deliver new homes.

While this may be sensible economics, the politics of delivering on new homes is considerably more difficult since the prospect of new developments naturally raises considerable local concerns.

Postgraduate loans

Nicholas Barr, London School of Economics and Political Science

Loud cheers for a loan for postgraduates. Not having a loan for postgraduates is barking mad – you can hear them sniggering in South Korea. Though it sounds as though quite a lot of detail has still to be worked out, the principle of the loan is right.

It is also right that that the loan should be designed so that most borrowers should repay in full. A "leaky" loan is very costly to the taxpayer. Much better to have loans that are largely self-supporting, thus freeing up resources for the policies that really widen participation, most of them much earlier in the system.

It is good news that the loan is not restricted to certain subjects. Governments always think they know what subjects are important – and governments are usually wrong. Rather than trying to second guess an uncertain future by choosing subjects, policy should encourage analytical training in broad flexible skills across the whole range of subjects.

Paul Wakeling, University of York

The restriction to make it just for people under 30 was quite surprising – I don't think anybody had spotted that coming. There's still a lot of detail to be clarified but I think it's fantastic that the government has listened to demands for action on postgraduate loans as this is not a doorstep issue. There's not massive political credit for them doing this, beyond quite narrow circles.

A couple of things concern me. One is the potential for fee inflation, where the fees for masters courses may rise up towards £10,000 (as happened post-Browne to undergraduate fees). There's definitely a worry that money could get taken up in fee inflation, and people will be left looking for money to support their maintenance.

There could be a bonanza of EU students applying, as those studying in England will be eligible. These loans – which are limited to English-domiciled students for courses in the rest of the UK – are laying down the challenge to Scotland, Wales, and Northern Ireland. The Scots already have a postgraduate loan system, but it's a lot smaller than this one – it's only for a specific set of named courses.

Jo Blanden, University of Surrey

Postgraduate qualifications provide a way for recent graduates to distinguish themselves from others and access the top jobs. The postgraduate year is associated with the highest increase in wages of any year spent in education. Postgraduate qualifications are more commonly taken by young people from richer backgrounds – and that this disparity has widened as more people continue for a postgraduate year.

The new postgraduate loans will make it easier for young people who cannot rely on parental support to access these qualifications. This should redress the balance and mean that postgraduate degrees are more likely to help rather than hinder social mobility.

Benefits for migrants

Michael Ben-Gad, City University

I have not seen much reporting on the changes to migration benefits, beyond what was already announced by David Cameron last week. Most of the changes are not unreasonable – they are aimed at dissuading people from coming here to claim benefits, although they are probably illegal under existing EU legislation and, when implemented, will deter very few people from migrating, at least from within the EU.

This is all about UKIP and I suspect that support for that party is more about unease about the threat migration poses to British identity and the changes it brings to cultural norms than it is about economics.

Like trade, migration creates both economic winners and losers among the absorbing population. The overall effect is probably a small net benefit, (see also) but we should expect to see a much stronger shift in income from unskilled to skilled, from workers to owners of business and property.

Empirically, we generally find the losses suffered by the losers smaller than this theory would suggest. Again, I think people are reluctant to express their concerns regarding culture and identity lest they be labelled bigots and xenophobes, and so gravitate towards economic arguments (no matter how tenuous) instead.

Extra £2 billion funding for the NHS

Graeme Currie, Warwick Business School

The "Nicholson Challenge", on departure of the previous chief of the NHS, was a call to transform healthcare delivery to save billions of pounds. So we might ask how, instead, the NHS is asking for additional budget?

While it is hospitals asking for the extra money, it is not necessarily hospitals that are the problem. The problem is one that lies at the system level. The Nicholson Challenge was one that required transformation of healthcare delivery. Such transformation relies on care delivered outside hospitals, in primary care settings or even extending to self-management. It requires greater emphasis upon public health and prevention, self-management of long-term conditions and use of digital technology. So why hasn't this happened?

Policymakers continually tinker with health and social care structures, with public health in a state of flux. Meanwhile, primary care hasn't developed sufficient capability and resilience to reduce undesirable A&E attendance.

Politics Economy Education Housing Britain Macroeconomics George Osborne UK General Election 2015 Autumn Statement stamp duty