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Regulars

# Opinion



## Budget fudge−it


The chancellor's red briefcase

My mate Gordon has decided that if he spends more next year than he did this year, it'll make him more popular. So he's asked his friends to give him some more money, which they've done (with a lot of grumbling about the fact that he promised he'd never ask them to do such a thing). The trouble is, he doesn't dare ask them for enough to finance all his grand plans (he's afraid that then they'd stop being his friends), so instead he's decided to budget for next year on the basis that his income will rise faster than he used to think it would. Hopefully noone will notice, and he can spend now and worry about his predictions later.

When Labour came to power in 1997, they did so partly on a pledge not to raise income tax. This pledge was repeated in their 2001 election manifesto − and much time since Gordon Brown's last Budget has been devoted to arguing whether or not they have kept this pledge. The main feature of the budget was an extra 1% on both employer and employee rates of national insurance − a rise in income tax in all but name. The measure is expected to bring in an extra £8 billion per annum − half each from employers and employees.

It is striking that when a tax change is described only in terms of percentage points, it is difficult immediately to assess its effect on individuals, and impossible (unless you have economic statistics at your fingertips) to work out how much money is actually involved. One tiny percent sounds so innocuous, whereas £8 billion is a colossal sum. No doubt this mismatch between description and reality is very convenient for governments, but at least it's clear that a tax rise means more in Government coffers and less in taxpayers' wallets. However, there are sneakier things governments can do if they want to spend more.

While all the attention was focused on the rise in national insurance, sleight of hand elsewhere gave Gordon Brown even more money to play with − and this extra money seems to have come from nowhere. Again, it seems innocuous at first glance. The chancellor increased his estimate of the longterm trend rate of economic growth by a quarter of a percentage point, from 2.5% to 2.75%. Although it doesn't seem like much, it means that without any extra revenue−raising measures, the government is allowing itself to spend £1 billion more this year, £2 billion more the year after − £4 billion more per annum by the next election. And this is apparently without costing anyone anything.

We are in the habit of thinking that numbers cannot lie, and governments rely on that belief. They hope to blind us with numbers, knowing that many people are scared of them. But no matter how careful Treasury officials are, their numbers are only as good as the predictions they are based on. And economic predictions have a nasty way of being proved false. This extra spending depends even more than other government spending on economic growth remaining on course, and is just a new, and less cautious, piece of guesswork.

On the other hand, perhaps Gordon's budget has a lesson for us all. Why not, when planning your future expenditure, increase your estimate of your future growth in income? Hopefully noone will notice, and if your predictions don't come true, you can worry about it later.

***Helen Joyce,***
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