



Unite Investigates: The Chancellor's choices - a budget for the City

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Contents

1	Message from Sharon Graham, General Secretary of Unite the Union	3
2	The Chancellor's Choices	4
3	Did the Chancellor need to announce major spending cuts and tax rises?	4
3.1	Hunt argues this is needed to calm markets after Trussonomics – but there's no consensus on whether that is so	4
3.2	The government has put the public finances at the mercy of financial markets (or its fear of them)	5
3.3	The "fiscal hole" only exists because of an arbitrary government target	5
4	Who should pay for the crisis?	7
4.1	Public services like the NHS desperately need more investment, not cuts: this is a matter of life and death	7
4.2	Profiteering companies have gained from the crisis – now they should help pay for it	8
4.3	Profiteering is not just in energy: record profits have been reported by many sectors	8
4.31	Most recently we've seen massive banking profits – profiteering from interest rate rises.	9
4.4	The rich have increased their wealth through the crisis – they should pay a fairer share	9
5	What specific tax/spend measures were announced?	10
5.1	Spending	10
5.2	Tax	10
6	What different choices could we make?	11
6.1	We could drop the "fiscal hole" policy altogether	11
6.2	But if any fiscal tightening is needed, we could choose to tax profits and wealth	12

1 Message from Sharon Graham, General Secretary of Unite the Union

The Chancellor has made choices today which put him on the side of those benefiting from today's economic crisis, and not the working people of this country.

By locking us all into an arbitrary fiscal rule, he is making a clear choice to use the chaos of Liz Truss's leadership as cover to make working people pay for a crisis not of our making. He has embarked on a new round of austerity based on rules that he has made up himself. At a time when real wages are set to shrink two years in a row, and unemployment to rise by half a million.

Jeremy Hunt has chosen to meet his self-imposed targets by slashing public services and raising taxes on workers, rather than those responsible. Our members didn't crash the bond market last month any more than they crashed the banking sector in 2008.

The Chancellor has chosen stealth taxes on wages, while cutting taxes on bank profits. Just as banks report leaping profits from high interest rates, and record bonuses in the City.

This in a country where, over the pandemic, the wealth of UK billionaires grew 22%, and the Treasury estimates that energy companies are making £170 billion in "excess profits" in two years.

None of this is inevitable. The Chancellor could have chosen today to fix the crisis in our NHS, where emergency workers who got us through the pandemic are being pushed out by real term pay cuts and crisis conditions.

He could have chosen to tax profiteers across the British economy, who have taken advantage of pandemic and war to drive up inflation and fill their pockets.

But our political class repackages the same failed approach, crisis after crisis, choosing to put a sticking plaster on a wound that needs surgery.

And that includes the Labour Party. Who today decided to accept the very basis for austerity and the cuts to our services that will inevitably bring. They chose to tinker rather than challenge.

It is clear. We need to make different choices. We need an economy that works for us all.

2 The Chancellor's Choices

It's all about choices:

- The Chancellor has chosen to base his Autumn Statement around an arbitrary target – the so-called “fiscal hole”.
- The Chancellor has chosen to give fears about financial markets a veto over what the country needs.
- The Chancellor has chosen to do this by making ordinary working people pay the bill – while protecting the profits of big corporations and the wealth of the 1%.
- The Chancellor has chosen to cut taxes for banks, lift caps on bankers' bonuses, and loosen financial investment rules – at a time when banks' are reporting profit leaps due to rising interest rates.

3 Did the Chancellor need to announce major spending cuts and tax rises?

3.1 Hunt argues this is needed to calm markets after Trussonomics – but there's no consensus on whether that is so

- **The Chancellor has prioritised reassuring markets after the mess made by Liz Truss and Kwasi Kwarteng.**

The government vowed to “deliver public finances markets expect” to re-gain confidence after the financial crash triggered by the Truss/Kwarteng mini-budget¹.

- This announced £45bn of unfunded tax cuts (for the rich) led to the pound-falling to its lowest-ever levels against the dollar, mortgage rates increasing, and the Bank of England intervening to buy up £65bn of government bonds to save pension funds.²
- The huge increase in government borrowing from the mini-budget made investors lose confidence in UK government bonds (gilts), leading to rising interest rates (gilt yields). This has increased the OBR's estimates of future debt – thus the “fiscal hole” (see Section 2.3).

- **But it is uncertain whether “fiscal tightening” is really necessary, and if so by how much.**

Debt interest costs are still much higher than expected a year ago – but financial markets have started to recover, government bond rates are recovering, and mortgage rates are falling back down³.

There is no economic consensus on whether further interventions are still needed to restore the financial markets.

- In any case, the benefits of any additional financial certainty could be outweighed by the damage from public spending cuts.

3.2 The government has put the public finances at the mercy of financial markets (or its fear of them)

- **If these measures are necessary to calm financial markets, what does this say about the government’s control of the economy?**

The government is apparently basing its spending and tax plans on what it thinks financial markets want, rather than what is best for the country.

- **Even many investment fund managers are now cautioning against a return to austerity.⁴**

- **The government is acting as though the UK were a “submerging” economy**

In September, former US Treasury Secretary Larry Summers accused the UK government as acting like it was turning itself into a “submerging market”.⁵ He was talking about Truss, but the same applies to Hunt’s plan.

- But the UK is still the world’s sixth biggest economy (though it recently lost fifth place to India).⁶ As economist Duncan Weldon writes: unlike actual “emerging markets”, the UK has not yet lost its “developed market privilege” of being able to use expansionary fiscal policy to help boost the economy out of recession.⁷

3.3 The “fiscal hole” only exists because of an arbitrary government target

- **The government has set itself an arbitrary “fiscal rule” of getting debt to be falling as a share of GDP by 2027-8.⁸**

- The so-called “fiscal hole” (or “fiscal black hole”) is the amount the Treasury thinks it will need in extra tax income or spending cuts each year to meet that target, given the Office for Budget Responsibility (OBR)’s economic forecasts.⁹

■ **The “fiscal hole” is not a law of nature – it’s a political choice**

The government has chosen its “fiscal rule”. It could extend the time frame, or change the target entirely. There is no economic consensus on the fiscal rule.

- Other countries use a wide variety of fiscal rules, or none at all.¹⁰
- Leading economics think tanks have proposed a range of alternatives. The Resolution Foundation has proposed an alternative target based on the public sector balance sheet; NIESR has argued that the fiscal rules should be scrapped, and there should be more focus on evaluating policy; the IFS has said that rather than fixed rules there should be “rough rules of thumb that Chancellors should strive to keep to in most periods”.¹¹

If the fiscal rule changes, then the size of the fiscal hole changes or even disappears entirely.

■ **There are big questions about the calculations and forecasts used**

Recent research by the Progressive Economy Forum (Jo Michell and Robert Calvert-Jump) showed that the ‘fiscal hole’ calculation was based on models which are highly sensitive to small changes in future growth rates and interest rates.

- They estimate that a fiscal ‘hole’ as large as £50bn could be eliminated simply by reverting to the official measure of public debt used just 18 months ago (which included the Bank of England’s debt within the target). The research shows that by this measure, debt is forecast to *fall* by around £64bn in five years’ time, meaning there is room to increase spending by £14bn without making a fiscal hole.¹²

■ **Many other countries have had substantially higher debt to GDP ratios than the UK for many years without problems.**

Many other countries have had substantially higher debt to GDP ratios than the UK for many years without problems. In the beginning half of 2022 the UK had a lower gross debt to GDP ratio than Italy, France and Spain, and at the

end of December last year the UK's gross debt to GDP ratio was 29.1 percentage points below the G7 average. *(See tables 1 and 2 below.)*¹³

4 Who should pay for the crisis?

If borrowing needs to be reduced, it shouldn't be workers paying for it – the fair solution is taxing wealth and profits.

The Chancellor has announced a mix of about 50/50 spending cuts and tax rises to meet his self-imposed target. But workers didn't cause this crisis, and shouldn't have to pay for it: those who have gained from the crisis should pay for it.

4.1 Public services like the NHS desperately need more investment, not cuts: this is a matter of life and death

- **We are in a life or death fight to save our NHS.**

There are over 6.8 million people waiting for non-urgent hospital treatment and the NHS is operating with 130,000 staff vacancies¹⁴.

- **The real “black hole” is in the NHS budget.**

NHS England has warned of a £7bn shortfall next year¹⁵. This is a direct result of austerity: over the last decade the UK has spent 20% on healthcare than similar European countries.¹⁶

- The Chancellor's announcement to increase NHS funding by £3.3 billion does not go far enough to fix our NHS crisis.

- **Public services have been cut to the bone after over a decade of austerity.**

Schools are underfunded, criminal courts are backlogged, and social care providers are going out of business or handing back contracts.¹⁷

The NHS and other public services face a major staffing crisis as workers leave, pushed out by real terms pay cuts as well as crisis conditions.

- **The Chancellor paid lip-service to public services in his Autumn Statement; yet spending cuts make up half of the measures.**

- For the remaining years of the Spending Review 2021 period, i.e., up to 2024-25, department annual budgets have been largely frozen in cash terms at the planned levels allocated in Autumn 2021. Because of the large

rise in inflation since then, this amounts to significant real-terms cuts for many department budgets.

- The exception to this is short-term increases to NHS, care and schools spending respectively.
- From 2025-26 onwards, large cuts have been made to plans for the total departmental day-to-day spending budget (RDEL). This had been assumed to grow by 2.5% a year in real terms but will now grow by only 1% a year, saving the government over £22 billion in 2027-28.
- Also from 2025-26 onwards, large cuts have been made to plans for the total departmental capital budget, i.e., investment (CDEL). This had previously been budgeted to grow by 2.5% in real terms. Instead it will now fall by 1.2% a year, saving the government £14 billion in 2027-28.

4.2 Profiteering companies have gained from the crisis – now they should help pay for it

- **The government may have increased windfall taxes on energy companies – but these still don't touch the sides of their massive profits.**

The windfall tax on oil and gas companies has been increased, but only to 35%. The new tax on electricity generators will tax “excess profits” on revenue above a set price level, at just 45%.

- According to leaked Treasury research, UK energy companies including gas producers and generators could make excess profits as high as £170 billion in the next two years.¹⁸ (That alone would more than cover the “fiscal hole”.)
- Over the last 30 years, the UK North sea producers have seen huge tax breaks, with their effective tax rate of 18%: compared to Norway's 46%.¹⁹

4.3 Profiteering is not just in energy: record profits have been reported by many sectors

- **There is an argument for a windfall tax on all profiteering companies.**

Unite's profiteering report showed that the UK's biggest listed companies (FTSE 350) boosted their profit margins by 73% in 2021 (compared to before the pandemic in 2019). Even excluding energy companies, it was 52%.²⁰

Further Unite research confirms that massive profits have been made in numerous sectors: e.g., petrol refining and retail; food producers and supermarkets; automotives; transport – including massive windfalls for shipping and ports companies.²¹

4.31 Most recently we've seen massive banking profits – profiteering from interest rate rises.

- **Rather than raising tax on banking profits, the Chancellor gave them a tax cut.**

The Chancellor reduced the Bank Corporation Tax Surcharge (an additional rate of tax beyond corporation tax) from 8% to 3%.

- This comes at a time when Banks have increased profits due to higher interest rates, and the Chancellor has lifted the cap on bankers' bonuses.

- **And rules to protect insurance firms from risky lending practices are being torn up.**

So-called Solvency II regulations are to be watered down, even though the Prudential Regulation Authority has previously warned that “freeing up pensions and insurance companies to invest in riskier assets could leave policyholders at risk, but City firms had said a conservative set of rules was stopping them from backing more innovative investments that could generate higher returns for their customers”.²²

4.4 The rich have increased their wealth through the crisis – they should pay a fairer share

- **The wealth of the UK's billionaires increased by over 20% in one year when the pandemic arrived.**

According to the Sunday Times Rich List, the number of billionaires rose by 24% and billionaires' collective wealth rose by 22% during the pandemic.²³ Even some of the wealthiest people in society – including the former chairman of Greggs – are arguing for a greater contribution from the rich.²⁴

- **A wealth tax on its own could cover any “fiscal hole”.**

The London School of Economics Wealth Tax Commission found that:

“a one-off wealth tax payable on all individual wealth above £500,000 and charged at 1% a year for five years would raise £260 billion; at a threshold of £2 million it would raise £80 billion.”²⁵

5 What specific tax/spend measures were announced?

5.1 Spending

■ Energy Bill Cap set to go up – hitting households hard

Truss/Kwarteng capped average household energy bills at £2500; this will rise to £3000 from April, although with targeted support for less well-off households.

- Unite has argued that sky-high energy bills result from energy profiteering: prices should be reduced through substantial windfall taxes – or ultimately renationalisation.

■ Freezing/reducing government department spending limits

- This will mean many departments having to choose between cutting services and cutting staff pay in real terms – or both. (See section 3.1 for details.)

■ Cutting public investment

Longer-term infrastructure projects will be delayed.

- Short-termism: save money in the short term at the expense of future wealth and wellbeing.

5.2 Tax

■ Rather than taxing banking profits, the Chancellor gave them a tax cut

The Chancellor reduced the Bank Corporation Tax Surcharge (an additional rate of tax beyond corporation tax) from 8% to 3% at a time when Banks have increased profits due to higher interest rates. This is despite the former Bank of England deputy governor Charles Bean being amongst those calling for a windfall tax on bank profits.²⁶

■ Extending energy windfall tax on oil and gas; plus new windfall tax on generators.

- See above: does not touch the sides of massive profiteering.

■ **Freezing tax thresholds.**

This is one of the principal ways in which the Chancellor has tightened fiscal policy.²⁷ Normally income tax (and National Insurance) bands are increased in line with CPI inflation: freezing the band thresholds brings more people into each progressively higher tax band. This is often referred to as a stealth tax as people are less likely to notice it than a rise in their tax rate.

- This affects the vast majority of people – pain for the workers who have kept the country going through crisis.

■ **Cut capital gains and dividend tax thresholds**

The Chancellor reduced tax-free allowances for returns on capital but retained existing rates. At present capital gains and dividends are both taxed at lower rates than income from work, and benefit from additional ‘tax free allowances’. It has been suggested that the Chancellor could raise either or both – though a backlash from Conservative MPs may have stalled that.²⁸

- As a result, income from capital is still taxed more lightly than income from work.

■ **Raising limits on council tax rises for social care.**

Councils with social care responsibilities currently have to hold a referendum if they want to increase council tax by 3% or more: the Chancellor has raised this to 5%.²⁹ This will mean significant tax rises for most households, or further cuts to local councils’ budgets, or both.

- The political advantage for the Chancellor is clear: he can pass on the blame to local councils either way.

6 What different choices could we make?

6.1 We could drop the “fiscal hole” policy altogether

As explained above, the government’s “fiscal rule” is self-imposed and arbitrary, and has no consensus from economists.

6.2 But if any fiscal tightening is needed, we could choose to tax profits and wealth

The NHS and other key public services need more investment – not less. That leaves tax rises. But then there is a choice between who those taxes target. In Hunt's plan, they largely hit working people through income tax. They hit the producers, the people who are actually keeping the economy going.

- As well as being fairer, there are arguments that taxes on wealth and profits are more economically effective than taxes on workers' incomes. Including because taxing the incomes of the majority squeezes household budgets, so suppressing demand and GDP growth.³⁰

These are just some alternative choices discussed above:

Taking back profits:

- Substantial (not just token) windfall taxes on energy profiteers.
 - According to leaked Treasury research, UK energy companies including gas producers and generators could make excess profits as high as £170 billion in the next two years.³¹
- Windfall taxes on other corporations who have been profiteering from the crisis.
- Windfall taxes on banks, which are now profiting from interest rate rises.
- Increasing tax on capital gains.
 - Research by IPPR has suggested that as much as £90 billion could be raised over five years by reforming CGT taxation alone.³²
- Increasing tax on dividends.

Taking back wealth:

- A wealth tax: tax on the assets of the wealthy.
 - The London School of Economics Wealth Tax Commission found that:
“a one-off wealth tax payable on all individual wealth above £500,000 and charged at 1% a year for five years would raise £260 billion; at a threshold of £2 million it would raise £80 billion.”³³

Table 1: The UK's GDP to debt ratio was lower than other large EU economies in the second quarter of 2022

<i>Country</i>	<i>Gross public sector debt as a percentage of GDP (2022 Q2)</i>
Greece	182.1
Italy	150.2
Portugal	123.4
Spain	116.1
France	113.1
Belgium	108.3
UK	101.9

Data source: [ONS](#)

Table 2: The UK's GDP to debt ratio was 29.1 percentage points lower than the G7 average at the end of 2021, lower than Italy, US, Canada and France

<i>Country</i>	<i>Gross public debt as a percentage of GDP (end of 2021)</i>
Japan	262.5
Italy	150.9
Group of Seven (G7)	134.7
United States	128.1
Canada	112.9
France	112.6
UK	105.6
EU 27	89.8
Germany	69.6

Data source: ONS

¹ <https://www.bbc.co.uk/news/uk-63621864>

² <https://www.theguardian.com/business/2022/oct/20/the-mini-budget-that-broke-britain-and-liz-truss>

³ <https://www.ftadviser.com/mortgages/2022/11/11/mortgage-rates-fall-back-to-month-old-levels-as-lenders-make-cuts/>

⁴ Investors warn UK government on dangers of new austerity wave. <https://www.ft.com/content/514f269b-dc0f-4eaa-82b4-ebff00b8c3e3>

- ⁵ <https://www.marketwatch.com/story/the-uk-is-behaving-a-bit-like-an-emerging-market-turning-itself-into-a-submerging-market-former-u-s-treasury-secretary-says-11663944639>
- ⁶ <https://www.bloomberg.com/news/articles/2022-09-02/uk-slips-behind-india-to-become-world-s-sixth-biggest-economy>
- ⁷ <https://duncanweldon.substack.com/p/learning-the-wrong-lessons>
- ⁸ <https://www.ft.com/content/df59e66a-1659-428e-b96a-b0419ed584b1>
- ⁹ <https://www.ft.com/content/1772624e-735f-4de8-8202-65fc2334444f>
- ¹⁰ For a survey see July 2022 Parliamentary research briefing, pp22-3:
<https://researchbriefings.files.parliament.uk/documents/CBP-9329/CBP-9329.pdf>
- ¹¹ For a survey see July 2022 Parliamentary research briefing, pp19-21:
<https://researchbriefings.files.parliament.uk/documents/CBP-9329/CBP-9329.pdf>
- ¹² <https://progressiveeconomyforum.com/publications/the-dangerous-fiction-of-the-fiscal-black-hole/>
- ¹³ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/june2022>
- ¹⁴ <https://www.ft.com/content/8510eaf9-3272-44f7-ad9c-d73fab7f5a50>
- ¹⁵ <https://www.ft.com/content/8510eaf9-3272-44f7-ad9c-d73fab7f5a50>
- ¹⁶ <https://www.ft.com/content/f752a1ad-4a23-408f-a549-4909974c6a2c>
- ¹⁷ <https://www.instituteforgovernment.org.uk/publication/performance-tracker-2022/summary>
- ¹⁸ <https://www.bloomberg.com/news/articles/2022-08-30/uk-predicts-up-to-170-billion-excess-profits-for-energy-firms>
- ¹⁹ Average of effective tax rates for UK and Norway for 1990-2017 calculated by Juan Carlos Boué:
<https://s3.documentcloud.org/documents/6774634/Northsea-Neoliberal-Experiment-Final.pdf>
- ²⁰ <https://www.unitetheunion.org/media/4757/unite-investigates-corporate-profiteering-and-the-crisis.pdf>
- ²¹ Source: Unite Investigates unpublished report “Its systemic: profiteering across the economy”
- ²² <https://www.fn london.com/articles/autumn-statement-insurance-bosses-back-solvency-ii-overhaul-20221117>
- ²³ <https://www.standard.co.uk/news/uk/uk-rich-list-sunday-times-billionaires-wealth-rise-pandemic-b936423.html>
- ²⁴ <https://www.theguardian.com/commentisfree/2022/nov/14/chairman-greggs-millionaires-more-tax-jeremy-hunt>
- ²⁵ https://www.wealthandpolicy.com/wp/WealthTaxFinalReport_ExecSummary.pdf (p5)
- ²⁶ <https://www.bloomberg.com/news/articles/2022-11-01/uk-should-impose-windfall-tax-on-banks-former-boe-chief-says?leadSource=uverify%20wall>
- ²⁷ <https://www.ft.com/content/a3698777-99a1-4165-9d9d-be11b421c073>
- ²⁸ <https://www.cityam.com/rise-in-capital-gains-tax-on-the-cards-as-chancellor-hunt-scrambles-to-raise-50bn/>
- ²⁹ <https://metro.co.uk/2022/11/14/council-tax-bills-set-to-soar-after-jeremy-hunts-new-budget-17754283/>
- ³⁰ See Cem Oyvat* and Özlem Onaran (2021): Tax wealth and profit income to fund social care and healthcare
- ³¹ <https://www.bloomberg.com/news/articles/2022-08-30/uk-predicts-up-to-170-billion-excess-profits-for-energy-firms>
- ³² <https://www.ippr.org/files/2019-11/capital-gains-tax-briefing.pdf> (p5)
- ³³ https://www.wealthandpolicy.com/wp/WealthTaxFinalReport_ExecSummary.pdf (p5)