Group Economics

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The Autumn Understatement

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We went into the 2014 Autumn Statement with the spotlight very firmly on the private sector, and all talk focused on the likely devolution of corporation tax setting powers to Northern Ireland. However, whilst the Chancellor did comment on the potential for this to happen in the not-too-distant future, for fiscal anoraks, the spotlight very quickly shifted to the public sector due to the state of the public finances and the scale of the public expenditure cuts that are still to come.

The UK Government has now linked granting Stormont the power to set its own corporation tax rate with progress in the current cross-party talks, meaning that politics and a key economic issue have now become hitched. Success or failure in securing the most significant policy lever in Stormont's history now lies within our politicians' hands. Up until now, there has been consensus on the economy being number the one priority, with securing the devolution of corporation tax the number one objective within this priority. Now, there is a pressing need to extend this consensus to other political issues. Thereafter, a consensus will need to be reached on funding the corporation tax reduction during a period of significant public expenditure cuts. Finding agreement on this front could be tricky, particularly with the mobilisation of the anti-corporation tax cut lobby and 'corptax sceptics' ahead of next year's elections.

Overall, outside of Stamp Duty reform, today's Autumn Statement was easily the dullest of George Osborne's ten fiscal events since becoming Chancellor. Whilst Osborne was able to bask in the best UK economic growth figures since becoming Chancellor, the fact that the robust economic recovery has had minimal impact on the deficit is concerning. The UK has experienced a 'tax light recovery' and this trend is set to persist with the Office for Budget Responsibility (OBR) slashing its tax revenue forecasts going forward. UK growth forecasts beyond 2015 have been lowered too. As a result, the UK has continued to borrow heavily, in spite of a robust recovery, with some £91 billion required for the current year alone. For perspective, this would fund Northern Ireland's total public expenditure needs for 4 years. Whilst borrowing is set to fall, with a surplus between revenue and expenditure finally arriving in 2018/19, this is only possible due to even more public expenditure cuts.

These public expenditure cuts, as yet unspecified, are on top of existing cuts yet to take effect. The OBR notes that we are now in the fifth year of a 10-year fiscal consolidation. Furthermore 60% of the planned cuts in public expenditure are still to take pace in the next Parliament. Delivering these cuts will be a tough challenge both politically and administratively. It is noted that total public spending as a share of UK GDP is set to fall to a level not seen since the data began in 1948! Inevitably there will be more welfare reforms within these cuts. This presents further difficulties for Northern Ireland given its failure to agree to implement reforms already announced.

A reduction in corporation tax may come, but the public finances will remain the number one issue at a national and regional level for the next five years. Cuts are inevitable to balance the books, and the kind of political consensus that we have seen on the corporation tax issue is essential to deal with these in the best possible way.

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