Group Economics

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Time to put economy where our mouth is?

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Delivering a Budget is as much to do with presentation as it is fiscal substance, and any good Chancellor will have an acute sense of how things are going to play with the media and electorate. This means having up their sleeve a raft of populist policies that will take the limelight away from some of the more unpalatable realities. Yesterday's Autumn Statement was no exception, with a disproportionate amount of attention being focused on politically-savvy but relatively insignificant measures such as the abolition of Air Passenger Duty for under-12s.

The overhaul of stamp duty for residential property was an exception, being both sensible from a political and economic perspective. But despite its position on the front pages of many national newspapers the following day, it certainly wasn't the real story of the Autumn Statement. For the fourth year running, this dubious honour goes to the poor state of the public finances. However, most of its negativity remained buried in the spreadsheets accompanying the Chancellors speech and press releases.

Overall, outside of Stamp Duty reform, it 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, 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 place 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! This raises question-marks over the fiscal credibility of the current Chancellor (if not his credibility for political presentation).

From a Northern Ireland-perspective, 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 actually almost glossed over this in his speech, it was quite-rightly the Northern Ireland front-page story. In spite of this, there is still no escaping the fiscal realities Northern Ireland faces, stemming from both a regional and national level over the next five years.

Indeed, these fiscal realities will be crucial to what happens over the next five months, with the devolution of corporation tax powers dependent on the NI Executive agreeing a 2015/16 Budget, implementing welfare reforms, and resolving outstanding political issues in enough time for legislation to be introduced before the end of the current parliament.

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 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 the number 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.

Over the last number of years the business community has presented a united front in support of the devolution of corporation tax powers. This has given rise to the perception that all businesses are in support of such a policy. However, this is not actually the case and the strength of this consensus will be tested in the coming weeks and months. Indeed, in recent weeks we have seen some prominent business people pour cold water over this broad agreement.

It is perhaps overlooked that there are vast swathes of society – straddling the business community, public sector and political circles – that do very well, financially or otherwise, out of Northern Ireland’s unbalanced economy. Therefore whilst preserving the status quo is not in the economy’s overall interest, it may be a very profitable and rewarding for sections of Northern Ireland society to maintain it.

A 12.5% rate could well lead to an influx of more businesses into Northern Ireland, and increased levels of investment and employment from existing firms too. While essential for a vibrant economy, for individual firms it will mean greater competition for the existing skills base from within their firms, and will push up wages to keep talent and to reduce staff turnover. What is important is that the overall economy’s interests, which include the needs of future generations, are taken on board.

Cuts are also 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. 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.

We’ve had the consensus that the economy is the number one priority and that lower corporation tax is the key tool. We’ve won the argument with the UK government. George Osborne is now challenging whether we have the courage of our convictions. Some would argue that he is calling our bluff, so our fiscal and economic credibility are under the microscope. It’s time to put the economy where our mouth is.

Richard Ramsey
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