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Comment: Has Osborne pulled it off? Smoke and mirrors postpone Budget crunch

Published on March 16, 2016 — in Finance — by Takahiro Hasegawa

“**T**he next generation first,” George Osborne repeated many times in his eighth budget speech, emphasizing that the Conservative party is on the people’s side.

Osborne, who wants to succeed David Cameron as Prime Minister, tried to maintain his reputation as a political reformer while avoiding unpopular austerity measures which would upset the Conservative party, which is now split over the Brexit referendum.

The tactics used by the Chancellor included not only shelving controversial plans such as petrol duty increase, but also introducing several populist measures, including a new [lifetime ISA](#) to help young people save more, a [tax on sugary drinks](#) and an [education overhaul](#).

“For every £4 you save, the government will give you £1. So put in £4,000 and the government will give you £1,000. Every year. Until you’re 50,” Mr Osborne said in his speech spelling out the overview of the lifetime ISA. It is rare for this government to offer people money so bluntly.

Converting every school in England into academies is popular policy among the Tory members and longer school hours would get support from many working families.

“Dangerous cocktail”

These headline measures may have helped to distract the public’s attention from the deteriorating economic outlook and the disputes over the Brexit among Tory MPs.

In fact, Osborne was boxed in by a “dangerous cocktail” of economic risks, in his own terms, and shaky political environment faced with the EU membership referendum. Given his political ambition to move into Number 10 Downing Street, he had every reason to play safe in this budget. But, he acted more boldly, doling out many sweeteners to tame the political uncertainty.

Actually, “uncertainty” was another **frequently used word** in his speech.

While the majority of economists had predicted that the Chancellor would miss his promise of running a budget surplus by 2019/20 fiscal year, Osborne managed to find a way to stick to his goal.

Fiscally neutral

However, in terms of overall figures, there are not many substantial changes from November’s Autumn Statement and Spending Review, where an optimistic economic outlook enabled the chancellor to ditch the most contentious cuts on tax credits and police funding while sticking to his fiscal mandate.

In the grand scheme of things, this March budget is fiscally neutral compared to the last one. What was changed significantly was the timing when the government anticipate the improvement effects; major adjustments were just delayed to the end of this parliament, 2019/20 fiscal year.

Many populist measures such as freezing fuel and beer duty hikes and tax cuts for small businesses were balanced by hidden tax rises.

This does not necessarily mean that Osborne’s fiscal challenges of achieving a surplus became easier – but the crunch will come later in the Parliament.

But, what the chancellor really needed in this budget was not figures. It was political impact that boost his political reputation.

Brexit dominates agenda - and Conservative backbench

Since the Brexit referendum is now dominating the political agenda, the Eurosceptic Boris Johnson has been gaining popularity, and Osborne is struggling to keep up his hopes of becoming the next prime minister alive.

“Britain will be stronger, safer and better off inside a reformed European Union,” he told the House of Commons – but his speech was repeatedly interrupted by noisy backbenchers.

It looks like he will have to continue his balancing act for some time in an increasingly difficult political and economic environment.

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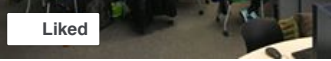
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