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Brexit looms over Osborne's Budget

Published on March 16, 2016 — in [Politics](#) — by [Takahiro Hasegawa](#)

The UK's EU membership referendum scheduled for 23 June makes the political equation more complex for the Chancellor, George Osborne. With a weaker economic outlook, he needs more austerity in theory to maintain his promise of running a budget surplus by the 2019/20 fiscal year. The question is whether this is politically feasible.

Over Brexit, the Conservative Party is now split in two. Whilst the Chancellor and Prime Minister David Cameron want Britain to stay in a "reformed EU", Mayor of London and Osborne's rival Boris Johnson is campaigning to leave, gaining popularity among Eurosceptic Tory members.

This leads to another dilemma for Osborne, who some believe is eyeing the route to 10 Downing St.

Osborne's Budget today could be a make-or-break moment in the battle over the future Tory leadership.

No windfall this time

In November's Autumn Statement, an optimistic economic outlook enabled the chancellor to find a £27bn windfall. This additional funding **allowed him to shelve the most contentious cuts** on tax credits and police funding, while maintaining his fiscal mandate of eliminating the deficit in 2019/20.

But, "the hopes of a stronger global recovery have evaporated," as Osborne himself wrote in an article entitled a **"pre-budget plea"** to readers of the Sun on Sunday. According to a **Reuters poll**, experts think it is unlikely the chancellor will meet his fiscal target.

"This is going to be an excuse budget"

"This is going to be an excuse budget," said Ronen Palan, professor in international political economy at City University. "He is basically in trouble and needs excuses."

The chancellor said on BBC1's **Andrew Marr Show** he needs "additional savings equivalent to 50p in every £100 the government spends by the end of the decade". At the same time, in his Sun on Sunday article, Osborne wrote: "We need to act now rather than pay later. This week, I will set out our bold plans to do just that."

Expectation management

Seeing an £18bn fiscal black hole, Osborne simply needs additional spending cuts and tax rises to balance the books. However, it is not very clear whether the fresh cuts will be as bold as they might sound, because the chancellor's warning could be management of public opinion. If he announces smaller cuts than expected, he can mitigate the criticism.

Moreover, being boxed in by the Brexit referendum, it became even harder for Osborne to play hard, as it could affect the power balance within the divided Tory party and may shatter his political ambitions.

"Play it safe"

According to reports, **David Cameron urged Osborne to play this budget safe** and the chancellor **dropped a proposed major change in pension tax relief**. This pension reform could have led to a large increase in revenue in the short term, according to **the Institute for Fiscal Studies**. But, the Treasury let it be known that Osborne scrapped the option to avoid a backlash from backbenchers and the insurance industry.

Increasing fuel duty is another focal point where the chancellor faces a tough decision amid strong resistance among Tory MPs.

On the other hand, Osborne is reportedly considering raising the threshold for higher rate tax payers. The chancellor has hinted at the possibility of a tax cut, **boasting about an £8 billion tax revenue increase** as a result of his decision to reduce the top rate to 45 per cent in 2013, despite **critical views from tax experts**.

Despite several tax rises, cuts of more than **£1bn in disability benefit** and an expected sharp increase in **insurance tax, which will cost motorists up to £80 more every six months**, Osborne's revenue increase **tactics will be more stealth and niche**, given the shaky political situation.

Boris's ascent



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What makes this budget particularly tricky for the chancellor is the growing popularity of Boris Johnson, his potential rival for the Tory leadership. Before Christmas, Osborne was top in the website Conservative Home's regular poll for the next Conservative leader. But **in this month's poll**, he dropped to fourth place, accumulating just 11 per cent, while Boris ascended to the top with a double-digit lead of 33 per cent.

Osborne mantle as a reforming chancellor has been seen by many as part of his path to future party leadership. But, in his eighth budget today, the chancellor has many reasons to play safe and offer many sweeteners. Regardless of whether he presents himself as a hardcore austerity chancellor or something a bit softer, he will need a good excuse, and the excuse must be a good one in order to retain his political ambitions to the premiership.

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