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Department of Economics and University Academics Offer Their Thoughts on the 2013 Budget

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The University of Birmingham asked six leading academics from across the University for their thoughts on the 2013 Budget and what the likely impact might be for growth, manufacturing, personal wealth and the high street.

John Fender from the Department of Economics discusses the state of the British economy and possible changes to the remit for the Bank of England.

The state of the UK economy

Professor John Fender

Central to the Budget will be the facts that the economy, having shown virtually no growth over the last two years, can be expected to grow at a sluggish rate in the near future, and, in spite of the belief that the Chancellor has already inflicted considerable austerity on the economy, that the budget deficit seems to be shrinking at a painfully slow rate.

As far as stimulating growth in the economy is concerned, it will be interesting to see whether he changes the remit given to the Bank of England. It is just possible, although unlikely, that he will raise the inflation target or instruct the Bank of England to target nominal GDP growth rather inflation. But he might do something slightly more subtle, such as suspending the inflation target when GDP growth falls below a certain level (such as 5%).

Another important question is whether he will adjust the fiscal consolidation programme at all. There are calls for more austerity, from some of his back benchers, and calls for less austerity, from the opposition and many commentators. A major change in either direction seems extremely unlikely, although he may move slightly in one direction but claim he is sticking to his policy.

It will be interesting to see whether he does more to promote infrastructure spending or house building. It would be good if he could make relevant reforms that improved the functioning of the housing market, which is crucial to the success of the economy; such reforms might involve changing the current absurd system of stamp duty on property and changing the equally absurd system of council tax (based on 1991 property values and highly regressive).

It will be surprising if the Budget contains no surprises.

Professor John Fender (/staff/profiles/business/fender-john.aspx), *Professor of Macroeconomics at the University of Birmingham*

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