

Department of Management 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.

Two academics from the Department of Management offered their thoughts; Gill Bentley discusses the impact of the Budget on British industry and John Bryson offers nine suggestions for boosting economic growth.

Impact of the Budget on British Industry

Professor Gill Bentley



We wait to see what impact the Chancellor's budget will have on industry. It is very clear that the situation is dire. As Joseph Stiglitz, the former chief economist of the World Bank, has said "lower output and rising debt across the continent are nothing but a toxic brew".

Social unrest is a real prospect if the Chancellor does nothing to support industry, fails to stop the cuts and does nothing to boost employment.

The possibility that the Chancellor will scrap the planned 3p rise in fuel duty might ease household budgets and give a boost to the car industry as the Prime Minister suggested in his visit to the Mercedes-Benz plant in Milton Keynes last week.

With manufacturing output down and the prospect of a triple dip recession, something needs to be done to restore confidence in the British economy for it to regain that triple A rating from Moody's.

Vince Cable, the Minister for Industry, waded into the debate this last week to suggest that the government's austerity policy is not working. He was backed by the Office for Budget Responsibility, which saw the cutbacks in public expenditure as causing contraction of the economy.

Consumers are not spending, businesses are not investing and given a downturn in demand in the regional theatres of the global economy, the prospects for growth in manufacturing output through exports is not good.

I would agree with the British Chambers of Commerce, which said that £2.2bn of current spending needs to be shifted to provide financial support for capital spending in high growth industries and that a large dose of Keynesian demand management through public expenditure on infrastructure projects is required.

However, the most important policy that is required is to stop the cuts in public expenditure and to let people keep their jobs and create more, so that people can spend and be taxed, as can the rich, as a way to reduce the deficit. The trouble is that much more needs to be done to boost domestic manufacturing production and consumption capacity in the UK – just as the Chinese are thinking of doing – to build on competitive strengths and to address regional disparities.

[Dr Gill Bentley \(/staff/profiles/business/bentley-gill.aspx\)](#) is a lecturer in [Economics at the University of Birmingham \(/schools/business/departments/economics/index.aspx\)](#)

Unlocking Economic Growth: The Chancellor needs to be both Brave and Bold

Professor John Bryson



It is perhaps a platitude to state that the Chancellor is between a rock and a very hard place when it comes to this year's Budget. The difficulty is that output is still going nowhere; the economy is yet to recover from the recent recession. The debt fuelled years of false unsustainable economic growth are still holding back expansion.

The Coalition's deficit reduction plan has yet to constrain public spending and the structural budget deficit continues to grow. The Coalition's failure thus far to jolt the economy back into growth means that without a miracle there will be a Labour government by 2015 implementing a radical Left-wing debt fuelled agenda. This week's budget is critical for the future economic prosperity of the UK and for the outcome of the next general election. The Chancellor needs to follow Virgil's principle – *Audentis Fortuna iuvat* – fortune assists the brave.

The budget must focus on policies and strategies to encourage the economy to grow sustainably and to ensure that economic activity is rebalanced away from unsustainable forms of growth to more desirable sources of demand; public expenditure must focus on economic growth. The UK needs a vibrant, resilient and growing economy. This can only be created through a careful alignment of all public policies to focus on economic growth. Without economic growth all forms of public policy intervention will be undermined as Government, irrespective of which party holds office, will have to concentrate on extreme forms of austerity. The question is: what can a brave and bold Chancellor hope to achieve? We will know on Wednesday, but a brave and bold Chancellor should:

1. Ensure that all forms of public expenditure with the potential to enhance economic growth are focused on aligning economic outcomes with social outcomes. This would be a radical alteration. Every department would have to identify alterations to existing expenditure that would create additional economic benefits. This might mean that the location of an infrastructural investment might need to be changed; a minor locational alteration would give greater economic benefits, but with the same social benefits. This is about ensuring that existing expenditure is used more effectively producing social as well as economic benefits.
2. All public procurement – of works, services and goods – should be used to create local jobs and to stimulate innovation in the development of new products and services.
3. Provide funding or tax benefits to enhance the commercialisation of innovations created by the country's research and innovation ecosystem.
4. The removal of restrictions that prevents the private sector from investing in new infrastructure.
5. A significant reduction in corporation tax and the removal of capital gains tax.
6. Develop tax incentives to encourage British companies to invest in new facilities to support growth in overseas trade.
7. Focus on policies that ensure that the UK is an attractive place for all companies and entrepreneurs. These policies require initiatives that can be implemented immediately and also longer-term policies that focus on the country's skill base – education of all types.
8. Maintain and even increase expenditure on the science budget. Ensure that there is a balance between blue skies research that will produce commercial returns over a long time period and research that has more immediate economic returns. Nevertheless, to focus on short-term returns from research and innovation would

destroy the country's innovative capacity.

9. An extremely brave and bold Chancellor would avoid being distracted by short-term policies that predominantly focus on a distributional agenda. Such an agenda does not lead to economic growth but rather stifles growth and contributes to the long term decline of the economy.

The UK does not only require a brave and bold Chancellor, but brave and bold political parties. Prosperity for all based on sustainable economic growth requires that all political parties cooperate to embrace policies that will stimulate sustainable economic growth. We need to move beyond playground or kindergarten politics towards a more mature politics in which the political parties work in the national interest rather than predominantly in their own interests.

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