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Budget 2014: The narrative beneath the spectacle

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Context

Budgets are always a politicised spectacle. However, for all the headline seeking schemes and tweaks, it is the narrative beneath the event which is of most interest. The crash of 2008 presented an unprecedented challenge, but nevertheless an opportunity. An opportunity to build an economy which was more spatially and socially balanced, which ramped up investment into manufacturing, to make it greener, and to build an economy which dealt with inequality and poverty; a resilient economy for all.

A resilient economy is not about following an economic model of the past, its about forging a green, socially and economically robust economy of the future. However, after 4 years, it would appear we are getting an economy like before the crash. But this time it is more unjust, weaker and brittle; not resilient. The divides are getting worse, both spatially and socially, we are less green, we are still overly reliant on the finance sector, investment in regions and SMEs is weak, we still have a very poor trade deficit and our reducing public services are struggling with rising demand.

According to the Chancellor, the emphasis upon austerity and growth focused policy is bearing fruition. The narrative of the Budget report is that growth has returned following the recession; that through the raft of austerity measures the national debt has been reduced and savings have been made; that there has been jobs growth and more people are in employment; and that wealth is being generated in areas other than London through infrastructure investment and growth policies.

The more socially reflective amongst us, believe the reality behind the Chancellor's red briefcase is very different. Real earnings against levels of inflation are down and showing little sign of increasing in many sectors. The jobs being created are of low value and are often part time and temporary in their nature and overly based in London. Poverty and inequality is growing. And the lauded growth is being defined by increases in personal borrowing; people are spending more. This is not growth fuelled on the back of austerity and the public sector getting out of the way.

Furthermore, whilst not a significantly reported feature of the Budget, austerity ploughs on. The cuts continue and fiscal consolidation will run up to at least 2018/19. And for those who may be taken in by the good news on growth, the Institute for Fiscal Studies have indicated by the end of this financial year, under half of the planned cuts will be in place. We have not seen the half of it.

In this it is evident, that one of the big successes of this Chancellor has been to create a narrative, in which cuts at this pace and scale are seen as essential. This narrative masks a return to consumer debt based growth and the re-birth of the housing bubble.

However, we call for a deeper debate around this dominant narrative which is common to all mainstream political parties within Westminster. We need to shift a debate onto questions, such as how do we create a fair context in which local economies can flourish? How do we create local demand, for more local goods and services? And we believe economic success goes hand in hand with social growth and tackling inequality and poverty. We believe public services are a valued input to economic growth.

With the points above in mind, this briefing paper does three things. First, it details the key content of the 2014 Budget. Second, it provides a critique of this content. Third, it outlines ways in which we think local economic growth can be twinned with addressing poverty through a localised and collaborative approach.

The content of Budget 2014

The opening line of the Executive Summary of the 2014 Budget is an interesting one, 'this budget sets out further action to secure the recovery and build a resilient economy'. It is interesting because it suggests that we have now got to a point in the Government's economic plan where we have moved out of recession, balanced the books, and where quarterly growth is becoming the norm. It is also interesting because it is the first time Government have used the term 'resilient' in relation to the economy. Resilience has different interpretations but again suggests that the economy has bounced back from an economic shock and is moving towards a period of growth and stability.

Below we describe the key commitments which are relevant to economic development and local government. The commitments are framed around the three themes of the Budget: UK economy and public finances, growth and fairness.

The UK economy and public finances

- The Budget highlights the progress of the Government's economic plan detailing in particular that GDP growth has exceeded forecasts and has been balanced across the main sectors of the economy. It also suggests that there has been a net increase of over 1.6 million jobs in the private sector;
- The Budget forecasts growth of 2.7% in 2014, 2.3% in 2015, 2.6% in 2016, 2.6% in 2017, and 2.5% in 2018. It also forecasts that claimant count will fall below 1 million in 2017.

Growth

- The Budget commits to supporting businesses to invest and expand by doubling the annual investment allowance to £500k until the end of 2015;
- The Budget commits to providing businesses with the best export finance in Europe and reducing the cost for exporters visiting the UK;
- The Budget commits to reducing energy costs to ensure that the UK remains a competitive location for manufacturing;
- The Budget extends the Help to Buy Scheme and creates an Urban Development Corporation for Ebbsfleet in Kent;
- The Budget invests a further £74million over five years in the network of Catapults which are designed to commercialise novel technologies;
- The Budget provides £85million in each of 2014-15 and 2015-16 for apprenticeships;
- The Budget extends the availability of business rate discounts in Enterprise Zones by three years.

Fairness

- The Budget gives people greater freedom over how they access their pensions, by removing the requirement to buy an annuity;
- The Budget introduces a range of measures for savers including a new ISA;
- The Budget raises the duty on fixed odd betting terminals to 25%;
- The Budget raises the National Minimum Wage by 3% to £6.50 from October 2014;
- The budget increases the tax free childcare cap to

£10,000;

A critique of Budget 2014

From an economic development perspective the budget is weak. Whilst previous budgets under the Coalition Government have at least had some form of investment in infrastructure or LEPs or new economic development vehicles, the 2014 Budget is conspicuous by an absence of discussion, resource and power for cities. There are fragments of economic development and regeneration funding, aimed at one or two specific localities or projects such as Greater Cambridgeshire, the Mersey Bridge, and large housing estates in London. There is certainly not the swathe of investment and power for cities called for by some.

The Budget is a political one. As is expected 14 months before a general election, its fiscal focus is one of growth and highlighting the impact the Government's economic plan and welfare reforms have had upon growth rates and employment rates. Additionally, the commitments detailed in the Budget have a target audience in mind, and appeasing a section of the electorate. This is particularly evident in the commitment around pension reform.

The Budget does provide some opportunities for small business and businesses more generally, particularly in the manufacturing sector. Support to invest and export is welcome. Given the negative impact of the welfare reforms on social tenants, there is also little emphasis upon social housing building and support for housing organisations to mitigate those impacts.

There is a twinge of hope for those on low incomes with the 3% increases in National Minimum Wage. However, given increasing living costs, this is unlikely to have a significant impact upon individual and family wealth. Similarly, whilst the extension of the tax-free childcare cost cap comes with much fanfare, it simply offsets the losses many families have experienced as a result of the reform of Child and Working Tax Credits.

Finally, while the Budget commits further to apprenticeships, it does nothing in the way of addressing the inadequacies of the key welfare to work programme (the Work Programme) in relation to the sustainability and quality of jobs on offer.

Towards a new approach to achieving resilient local economic growth

The 2014 Budget has further reaffirmed CLES' assertion that central government are not serious about place and local economic development. This is reflected in the lack of substance around the devolution of powers and resource for infrastructure and LEPs. Whilst we and others argue for more powers to cities and localities, let's be frank, for all the noise in the local government/city devolution and localism arena, this agenda is marginal to the Treasury.

The absence of action, has made our hypothesis that future economic policy needs to be more bullish and place based, even more urgent. As such, we feel that the following needs to happen in order to realise resilient local economic growth which combines wealth creation and addressing poverty:

- We require a meaningful fiscal decentralisation for the major cities, including an increase in borrowing limits and full local control over council tax and business rates.
- We need an active central state with a national industrial strategy, and not just sectors but with a spatial planning edge. Rebalancing needs state action.
- This industrial strategy needs to be wedded to a national investment strategy (including local/regional investment banks).
- We should consider slowing cuts and making sure the poorest parts of the country get a fairer deal.
- A fundamental constitutional settlement between central and local government is needed ensuring

reform cannot be changed by a tinkering Whitehall. Central and local government must work as co-directors of the nation.

- The public, commercial and social sectors need to harmonise and work collectively on the key challenges facing their place around worklessness, low skills, low pay, and poverty and deprivation.

Over the course of the next 14 months and in the lead up to the General Election, CLES will be working the messages above up into coherent ways in which place based economic policy can become a reality and norm. To get involved in this work, please contact Matthew Jackson, CLES Associate Director on 0161 236 7036 or matthewjackson@cles.org.uk