Sticking plasters – some reflections on Sunak's budget

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The budget is always a big political occasion. However, this year is bigger than most. Set by a Chancellor with serious political ambitions, it gives an early glimpse at the UK government's post-Covid economic plans.

The budget needs to tread a fine line, delivering sufficient stimulus during the pandemic and immediately afterwards to keep the economy afloat, whilst simultaneously convincing Conservative backbenchers that this doesn't threaten their small-state vision.

The economics are fairly simple and relatively uncontroversial: there is no case for significant budget tightening until the economy has recovered sufficiently for interest rates to move away from the zero lower bound. The politics is not: many within the Conservative Party have a quasi-religious belief in the merits of balanced budgets and a small state. Of course, the pill of increased state spending (and, eventually, higher taxes) can be sweetened by pledges of constituency-specific spending for Conservative MPs, of which we see plenty.

A substantial portion of the core document is devoted to outlining the measures undertaken during the pandemic, with much of the remainder dedicated to outlining how the Chancellor intends to reduce the budget deficit later in the parliamentary term.

Of perhaps more interest is the rather more forward-looking (and vague) document that accompanied the budget: "Build Back Better". This appears part of nascent efforts to rebrand the government's Industrial Strategy under the "Build Back Better" label, moving it from BEIS to the Treasury.

Overall, it's hard not to conclude that the measures announced are underwhelming, particularly given the UK's large productivity deficit (both relative to its previous trends and its international peers) and the intentions to “level up” poorer regions. All governments want to improve productivity growth and it’s difficult to see what transformative policies are here. Moreover, as is always the case on budgetary matters, it takes a lot to “move the needle”.

East Germany experienced a complete institutional overhaul and sustained vast fiscal transfers over many years in an effort to “level up”. The total amounts involved must total hundreds of millions of pounds (in current terms). Handouts of a few million pounds here and there, alongside token gestures towards devolution just won’t cut it.

The document points out upcoming capital spending (broadband, roads, rail and cities) to the tune of £100bn (up from £70bn in 2019). This was originally announced in last year’s Spending Review and is welcome, although it remains below what is necessary to catch up following the squeeze of recent years. Most important of all, however, is ensuring that future capital spending is on the right priorities and in the right areas. The recent furore over the allocation of funding for deprived towns does not imbue one with confidence.

The document stresses both the Levelling Up fund and the Shared Prosperity Fund. However, we continue to lack detail on what these will look like. Moreover, the UK will need to do a significant amount for many areas just to make up for lost EU funding (ESIF). To make a big difference will unfortunately mean spending much, much more (and sensibly).

The Towns Fund is a modest pot of money overall and, as mentioned, there are concerns over the process used to allocate money. Moreover, the High Street Fund can only begin to address some of the damage of the past year. In any event, much activity that has moved online is likely to stay there (with productivity gains thrown into the mix).

The “smart money” will be on helping town centres transform and adapt to this new world. We would posit that this is likely to involve a much greater focus on “experiences” (cafés, places to eat, escape rooms and the like) and less on traditional “high street shopping”.

Any funding to help achieve net zero is welcome, although the details will be key. Also note that £12bn, although it sounds generous, is still much less than has been allocated to Test & Trace alone during the pandemic, and will be spread over time. The new UK Infrastructure Bank looks like it could be promising. Again, the challenge lies in how the details work out in practice.

In terms of skills (an area the UK needs to address, particularly outside of London), the proposals look modest. Much of the focus on technical training is carried over from Theresa May's government. This is an area where UK governments have been seeking to make improvements for many years, with mixed success. Much of the heavy lifting of "upskilling" in recent years has actually been undertaken by universities, particularly through efforts to widen participation. Policy will want to ensure that any changes do not damage this.

The Lifetime Skills Guarantee is promising, although there are probably benefits from increasing lifelong funding for higher skills levels too. The focus on improving apprenticeships is very welcome. This is an area that has not always lived up to its enormous promise but will be key moving forward.

However, on innovation, the regulatory system and visas for skilled workers the proposals are very thin on detail (perhaps deliberately, given the sensitivity around post-Brexit regulatory change and immigration). Every government talks around supporting innovation: what substantial and radical new proposals are actually on offer? One area that is welcome is the focus on "scale-up" firms – this represents a positive shift from previous work that has focussed only on start-ups. There is increasing evidence that firms that "scale up" are responsible for productivity growth and innovation.

As already alluded to, much needs fleshing out regarding "levelling up", to which we would add that successful implementation of the Freeports programme will need buy-in and cooperation from the devolved administrations. This is far from guaranteed. Talk of "supporting jobs growth" in green industries needs to be better backed up by specifics. The same is true of the section on "Global Britain".

In conclusion, all of these ideas have some promise but detailed policy proposals and very substantial amounts of money are now needed in order to make them real. Otherwise, we shall remain with empty slogans.