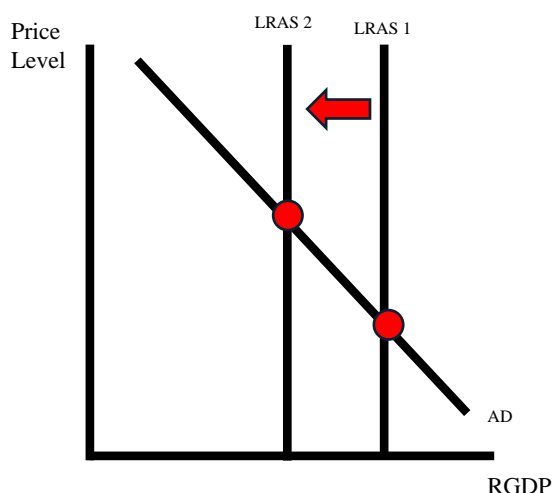


# “How well has the new government done in addressing the UK’s economic problems and what should they do next?”

The United Kingdom’s economy has faced significant macroeconomic challenges in recent years, some of which include high inflation, fiscal pressures and stagnant economic growth. Due to issues such as Brexit, which has resulted in trade disruptions and structural inefficiencies in labour markets, the UK’s economic problems have worsened over time. This new labour government has decided to invest into the tertiary and quaternary sectors rather than primary and secondary industries. This coupled with targeted policy interventions has helped to stabilise the economy, laying the foundations for economic growth. This essay will critically examine the new government and their efforts in addressing the UK’s economic problems, focusing on the most recent Autumn Budget. I will do this by giving a brief outline of the UK’s economic problems and outlining the key macroeconomic problems in the UK, followed by an evaluation of the current measures used and those that have been implemented. Finally, I will explore what problems haven't been addressed adequately and what could be implemented in the future.

The UK faces a confluence of severe macroeconomic problems that threaten its economic stability and potential long-term growth. In any economy, the 4 key macro objectives are a low & stable rate of inflation, full employment, economic growth, stable balance of payments. Due to supply chain disruptions and wage pressure, this has caused a spike in energy prices, such as those for gas and oil, resulting in a rising cost of living, and subsequently a high rate of inflation. This has meant that income inequality has widened. This is because at a higher price level, the consumption, investment, and net export components of AD will all fall. This leads to a reduction in the market value of goods and services demanded, leading to a less productive economy that may not be operating at its capacity, and therefore, not on the Production Possibility Frontier (PPF).

This can also be shown as a decrease in Long Run Aggregate Supply (LRAS), which shows a contraction in Aggregate Demand (AD). This contraction in AD can lead to a decline in the components of AD, such as consumption, investment, government spending, and net exports. This can also lead to an increase in prices and thus worse inflation, as well as a widening output gap, unemployment and reduced output.



Additionally, labour market inefficiencies further worsen the UK's current dire economic situation. Ongoing skill shortages in vital sectors such as health, technology, and construction have impeded productivity and output<sup>6</sup>. These have been exacerbated by post-Brexit migration policies, which reduced the supply of skilled workers hailing from the European Union. This situation is further compounded by the rise in economic inactivity, where about 21% of the working-age population are out of the labour force<sup>7</sup>. These trends are driven by such factors as long-term health conditions and early retirement barriers, childcare barriers putting pressure on public services and dampening economic growth. The current account deficit adds more dimensions to the UK's macroeconomic vulnerability: at about 5.5 percent of GDP in 2022, it reaches one of the highest levels seen in several decades<sup>9</sup>. This is mainly attributed to the weak performance of exports, especially in services, coupled with high imports of both energy and manufactured goods<sup>10</sup>. Besides, Brexit further caused an interruption to trade flows: the exports of the UK to the EU faced increased barriers that reduced competitiveness and market access<sup>11</sup>.

A sustained current account deficit threatens to increase reliance on external financing, hence leaving the economy more vulnerable to global market volatility. These inefficiencies in the labour market and trade imbalance underpin the interconnectedness of the UK's economic challenges, thus requiring comprehensive and coordinated policy responses.

With those being the key macroeconomic problems in the UK, I can start to discuss the key macro policies in the Autumn budget. I will be assessing how well these problems have been addressed within this, and afterwards suggesting which haven't been addressed adequately and providing alternatives as to what could be implemented in the future. Setting aside the energy crisis, the Autumn Budget 2024 by the UK government sought to deal with problems of stagnant growth, inflation, high public debt, and inefficiencies in the labour market. The balance that has been struck is a balance between fiscal prudence and targeted measures aimed at stimulating growth and cushioning the cost-of-living crisis. This is all about fiscal discipline, not only supporting but complementing monetary policy, especially to fight inflation-structural factors related. Inflation, though well below the 11.1% peak reached in 2022, is way above target at 4.6%<sup>12</sup>. The Chancellor made a point of highlighting the Bank of England's 2% target for inflation and resisted the temptation to undertake too much fiscal expansion-the kind that would partially offset monetary tightening. This marked a signal for a coordinated approach to macroeconomic stabilization<sup>13</sup>, one which is balanced with inflation control while putting relatively restrained growth in public spending and ensuring that the additional support measures are well-targeted.

The most striking policy introduced in the Autumn Budget has been the Energy Security and Sustainability Fund. It has taken into consideration, in particular, the continuous tension that high energy prices have imposed on the budgets of households and businesses and, therefore, announces £8 billion in targeted subsidies for renewable energy projects and energy efficiency upgrades<sup>14</sup>. This is with a view to reduce the UK's reliance on imported fossil fuels-one of the key drivers of inflation. The government has also extended the Energy Price Guarantee, capping average household energy bills at £2,000 per year through the

winter of 2024–2025<sup>15</sup>. These policies have an immediate relieving effect but at the same time lay down the foundation for a greener, more self-sufficient energy infrastructure. They deal with both the short-term and structural problems of the energy market. Critics counter, however, that funding may be insufficient to accelerate renewable energy production, and the UK is thus highly exposed to medium-term energy price volatility<sup>16</sup>.

Anaemic growth and falling productivity saw a set of investment-related measures brought in under the Growth and Innovation Plan. A £15 billion fund for infrastructure projects, including transport, digital networks, and green technologies, aims to address the UK's persistent infrastructure gaps that hinder productivity<sup>17</sup>. Additionally, the government has expanded R&D tax credits for small and medium-sized enterprises (SMEs) in high-tech sectors, incentivizing private investment in innovation<sup>18</sup>. Above measures also include long-term measures of making UK more competitive in science and technology, with especial focus on Artificial Intelligence and clean energy. Thing is, some economists do say that their impressions might be long-term-so less than what was expected-and there is also long implementation in most projects<sup>19</sup>.

That means a budget in which keen interest from the labour market emanates, certainly considering the strain on shortages that's brought about by Brexit and additional economic inactivity. Funding for the Workforce Activation Programme was set at £6 billion, which enables and alleviates the skills shortfall across the economy - more in health, construction, and technology sectors<sup>20</sup>. Added to that are subsidization of childcare to enable parents, especially, to go to work and reskilling of other economically inactive adults<sup>21</sup> and additionally, more relaxed visa rules for skilled workers hailing from non-EU nations to partly make up for post-Brexit tight migration policy constraints in the labour market<sup>22</sup>. These above initiatives thus prove that there is an awareness of the structural challenges in the labour market and an effort being taken for workforce participation. Yet critics say the measures fall short of what is required to reverse long-term demographic trends, such as the aging population and rising rates of long-term illness that have kept weighing on labour supply so far<sup>23</sup>.

The fiscal budget has taken a precisely calculated approach to the public debt of the UK, which is still above 100% of GDP<sup>24</sup>. Accordingly, targeted spending cuts along with modest rises in taxes, including an increase in the rate of capital gains tax and the imposition of a windfall tax on large energy firms earning excessive profits, were introduced by the government<sup>25</sup>. The Government also intends to bring in another £12 billion a year in DWP welfare savings, braking austerity in the public finances with less austerity<sup>26</sup>. The state pension age would rise gradually to 68 by 2035; highly political but economically necessary as a move, judging by fiscal pressures created through the aging population<sup>27</sup>. While prudent, these are criticized to have the effect of risking underinvestment in crucial public services- especially the NHS, which faces record waiting times and short staffing<sup>28</sup>.

Finally, trade and investment policies were drafted in a way to lighten the burden on the UK's current account position that had been encumbered by the persistent trade deficit<sup>29</sup>. New schemes especially for promoting export businesses were introduced apart from general facilitation; SMEs and free trade deals with the most important key state partners included India and Australia<sup>30</sup>. It had also announced offering many free-ports across Britain offering

generous tax and other facilitation aimed at jacking up the exports coupled with investment. It has, therefore, been a step in this direction, and to what extent it will go towards easing the trade deficit depends on how it gets implemented with a favourable external economic environment. The persistent trade tensions and pressures of Brexit would therefore keep the economy challenged continuously<sup>31, 32</sup>.

Although the government's Autumn Budget 2024 took some important steps toward the economic challenge, there were several areas that were still badly addressed, including sluggish wage growth, regional economic disparities, the housing crisis, climate change goals, and the mental health crisis-each of these requiring comprehensive demand-side and supply-side policy consideration. Accordingly, the current policies could be further strengthened in certain areas to make sure that recovery and growth are better and more equitably achieved.

The government has been using fiscal policy and monetary policy mainly on the demand side to stimulate economic activity. Particularly, in the management of inflation and stimulation of spending, monetary policy has been on the front line through the actions of the BoE and the MPC. It has tried to employ the most essential tool of rate reductions so that hopefully this would alleviate the cost of borrowing, and thereby investment and consumption would increase. During the 2024 Autumn Budget, the BoE continued its quantitative easing programme-buying government bonds-to inject liquidity into the economy<sup>33</sup>. While these policies were successful in the short run, they have suffered from diminishing returns in view of the incessant inflationary pressures.

The Monetary Policy Committee will have to set interest rates in a way that checks inflation while at the same time supporting economic growth. Inasmuch as inflation has remained above target, the MPC has been balancing between stimulating the economy and maintaining price stability. Though the low-interest-rate environment following the 2008 GFC lasted into the pandemic, higher rates may be needed now to combat more recent inflationary concerns<sup>34</sup>.

Apart from monetary policies, fiscal policy is a very effective tool. The government has utilised expansive fiscal policy, which was amply reflected in its Autumn budget - an increase in public spending in such crucial social sectors as the NHS and housing along with higher taxation revenue from corporations and high-income earners<sup>35</sup>. Such stimulus would certainly provide a direct fillip to demand through transmission mechanisms like public investment and transfers. However, the real effectiveness of fiscal policy depends on the multiplier effect-how much more output arises from every unit increase in government expenditure. While this had some relatively good success during the crisis of 2008-when such measures as the bank bailout and public infrastructure investments prevented an even deeper recession-it has fared worse for more general, long-term problems such as regional inequality and wage stagnation<sup>36</sup>.

These are demand-side policies followed by the UK government in perspective of history during the Great Depression in the 1930s and the financial crisis in 2008. Large-scale public works programmes, including construction of roads and bridges, were pursued by the government in trying to decrease unemployment and increase demand in the 1930s. Similarly, fiscal measures are those of bank bailouts, stimulus packages, and quantitative

easing were done in the crisis of 2008. Most of these were meant to make sure that the financial markets were stable. Moreover, with time and sluggish recovery, the policy mixes have been mixed since some inequality deepened<sup>37</sup>.

While monetary and fiscal policies have cushioned the downturn, measures themselves cannot resolve structural issues that have been inherent in the UK economy, including wage stagnation, housing, and regional inequality. Other policies will be required to complement these approaches beyond the short term if there is to be long-term growth.

Supply-side policy is a means by which the productive potential of the economy can be increased by gains in efficiency, innovation, and the better skills of workers. The potential supply-side policies that are available fall into two main categories: market-based and interventionist policies, one of which may provide the solution to the UK's unresolved economic problems. Market-based supply-side policies are usually based upon the concept of reducing government intervention with a view to increasing competition and efficiency in markets. These may include cuts in income tax, reductions in other taxes, which affect profitability, such as corporation tax<sup>38</sup>. It could reduce the corporate tax rate further in order for business activities and, thus jobs to thrive. A positive wage growth with a concomitant reduction in the unemployment rate will be achieved. The government can also limit some of the regulations of industries such as house construction to facilitate the ability of the supply by increasing house building in a shorter duration of time.

The interventionist supply-side policies are those kinds of policies that need direct government action by way of correcting market failures in order to raise productivity to reduce inequality. Government investment in affordable housing is a major interventionist policy that could deal with the housing crisis by directly increasing supply in under-served areas and lowering housing costs<sup>39</sup>. Similarly, in ensuring the availability of the right skills to workers for future industries, government investment could be irked in skills training programs and education, including in areas like green energy, digital technology, and health<sup>40</sup>. Investment in green technologies and sustainable infrastructure could not only tackle the UK's climate change goals but also provide jobs arising in emerging sectors. Moreover, innovation subsidies in high-tech sectors such as AI and clean energy can render the UK competitive in the global markets<sup>41</sup>.

The mental health crisis of the UK, which the pandemic has brought into being, got some attention in the 2024 Autumn Budget. Community mental health programmes need further expansion. Indeed, the need is growing, with an overburdened system already unable to keep pace with rising demand for services, thus needing more public investment in mental health services. One of the main areas where this needs to take place is through an increase in funding for community-based services so that people receive timely and appropriate care before they reach more serious levels of mental health<sup>42</sup>. Such services should be a priority of the government; it needs to extend counselling and psychological support programs in schools and workplaces so as to remove the stigma associated with mental illness and intervene early. Community-based mental health programs reduce pressure on acute services, and therefore, longer-term healthcare costs contribute to a healthier workforce and healthier society as a whole<sup>43</sup>.

Apart from this, in terms of the challenges faced by the UK on climate issues, incentives for green consumption and subsidies for green technology would have to be the cornerstone for any such future policy. While the Autumn Budget 2024 introduced certain green initiatives like green subsidies for households for upgrading to energy-efficient appliances and systems<sup>44</sup>, these would need to be massively scaled up if climate targets are to be met. This includes subsidies for electric vehicles, retrofitting of homes for energy efficiency, and greening of technology in construction, manufacturing, and agriculture<sup>45</sup>. Another approach would be to incentivize demand for greener consumption through tax breaks or direct subsidies in a way that economic activity is incentivized toward carbon neutrality with the creation of jobs in the green sector. This would, in the process enhance the long-term energy security of the UK and reduce dependence on fossil fuel, which can raise resilience over energy use in the country<sup>45</sup>.

The Labour government's Autumn Budget 2024 will be the ambitious effort to overcome some of the severest challenges the UK economy faces: energy inflation, stagnant growth, inefficiency in the labour market, and fiscal pressures. One set of proposals that will be set forth in the budget is an £8 billion Energy Security and Sustainability Fund for renewable energy projects that increase energy efficiency. It hence provides fundamental investment in the face of continued volatility within the world energy markets, as well as in the need for transition into a more sustainable energy regime<sup>46</sup>. It invests in wind farms, solar projects, and the retrofitting of buildings by the government to make reductions in the reliance on the fossil fuel resources possible with a view to providing a method of energy price stabilization throughout the UK economy. Critics add, however: "Imposing an impressive scale on these measures, they are clearly woefully inadequate against such an enormous challenge."<sup>47</sup> It is clear from the evidence that both of these measures, plus net-zero, requires significantly more substantial annual investments for the rest of the decade<sup>48</sup>. Secondly, while Energy Price Guarantee offers welcome but temporary respite for households, it doesn't actually help address the root causes of high energy prices. This combination of quick fixes and inadequate long-term planning brings into question whether the policy can actually achieve its intended twin objectives: energy security and price stabilization.

The government's Growth and Innovation Plan emphasises infrastructure development, digital connectivity, and support for emerging technologies and has allotted £15 billion to boost productivity and competitiveness<sup>46</sup>. Better transport networks and improved digital access will tend to reduce the barriers to economic participation, including those from the most disadvantaged areas. An expansion of R&D tax credits to target SMEs are the way for the government to create more innovation in high-growth sectors, such as AI and green technology<sup>49</sup>. History repeatedly demonstrates that large infrastructure projects often take longer than planned to complete, which usually generates cost overruns with even less immediate economic benefit in store. While tax credits may encourage innovation, it cannot surmount one or two big obstacles: lack of skilled labour and access to finance. The attempts to overcome such obstacles naturally lead to a more holistic approach - one calling for cooperation among government, academia, and the private sector in establishing innovation ecosystems<sup>49</sup>. This therefore can only be realized unless systemic problems are resolved, and then the potential benefits of this Growth and Innovation Plan materialize.

Among the key issues in budget are labour market challenges whereby Workforce Activation Programme will be participating by targeted training and employment supports<sup>46</sup>. Expanded childcare subsidies are supposed to make it easier for parents, especially women, to return to work, while relaxed visa requirements for skilled workers from outside the EU are intended to ease severe labour shortages in fields like healthcare and technology<sup>50</sup>. The nature of such initiatives thus recognise that the drivers toward labour market inactivity are multi-dimensional. The childcare support provided, though welcome and important, speaks only to a small part of the economically inactive population. The other causes of inactivity unrelated to childcare for a large proportion of the inactive population, include chronic health problems or lack of relevant skills<sup>51</sup>. Recent evidence suggests that a need exists for more generalist interventions: examples being the retraining of older workers and the adapting of workplaces for the disabled<sup>50</sup>. Immigration to fill the skill gaps, while often effective in the short run, does not solve any underlying issues such as a domestic pipeline of adequate training and education. Long-term strategies must focus on building a more inclusive labour market that enables diverse participation across all demographics.

The budget's fiscal measures demonstrate a cautious approach, with targeted tax increases designed to generate revenue without undermining economic growth<sup>46</sup>. An increase in the capital gains tax and the windfall tax on energy companies is a reflection of the balancing act being pursued between fiscal responsibility and fairness<sup>46</sup>. This will also be the revenue accrued from such taxes, which is to be used on such priority areas as housing assistance and NHS funding, hence responding to some of the sharpest needs within public services. This has seen the restrained nature of public spending in the budget criticized for not setting sufficiently systemic solutions to the problems in healthcare and education. For example, the NHS still faces extreme pressures from an aging population, staff shortages, and post-pandemic recovery demands<sup>52</sup>. In the absence of substantial funding increases and reforms aimed at enhancing efficiency, the NHS is at risk of failing to meet even basic standards of service delivery. Similarly, the limited investment in education - in particular, technical and vocational training-risks exacerbating skill shortages and inequalities<sup>50</sup>. That would suggest that if these foundational sectors are to underpin wider economic and social ambitions, something rather more ambitious in terms of the funding of public services will be required.

Another key element of the budget is trade and investment policies, with measures to deal with the UK's current account deficit and improve international competitiveness. Other policies, such as freeports and export promotion schemes, aim at the attraction of foreign investment and stimulation of trade flows<sup>52</sup>. Freeports will have tax incentives and lighter customs and administrative procedures to attract economic activity to particular regions of the country. However, benefits from freeports are likely to be very unevenly distributed and could exacerbate regional inequalities. More importantly, unaddressed trade frictions with the EU weigh heavily upon exporters, increasing their cost and eroding their competitiveness<sup>52</sup>. Hence, success will depend on a government commitment to break structural bottlenecks and make sure that trade and investment policies go hand in hand with responding infrastructure and workforce development policies.

Historical lessons underpin how demand-side measures matched with structural reforms result in sustainable economic recovery. Indeed, for example, public works programmes implemented during the Great Depression and fiscal stimulus packages during the financial

crisis in 2008 brought stability to economies and generated jobs rather successfully.<sup>53,54</sup> But the abnormalities of the current economic situation - enormous regional disparities, and a deficit of habitation-demand an even more custom-fit solution for it<sup>52</sup>. These are deep-seated structural problems that have developed over time, and which can only be removed by complementing temporary fiscal measures with long-term investment in renewable energy, housing, and skills.

The Autumn Budget 2024 is a balancing act-a set of attempts to solve the immediate economic challenges while laying the ground for economic growth. One can admire these measures, but they mean little in some key areas that include energy transition, funding of public services, and labour market resilience. A more comprehensive transformational approach is urgently needed to plug the gaps and build resilience and equitability that rises to the challenges ahead.

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