



Spatial Economics Research Centre

Wednesday, 30 November 2011

Rebalancing versus Growth

As regular readers will know I tend to steer away from commenting extensively on the overall macroeconomic position. This reflects the fact that I know my limitations. Or, if you prefer David Ricardo to Dirty Harry, my comparative advantage is in the economics of cities and regions.

For what it's worth, I came away from yesterday depressed by both the economics and the politics. The economics is self explanatory (for anyone that was listening). In terms of politics, and at the danger of stating the obvious, it seems this crisis is capable of bringing out the worst in everyone. The Labour Party continue to imply that this is all Osborne's fault for pursuing austerity. But as Evan Davis argued so coherently on the Today Programme, Ed Balls really claiming that a 1% extra stimulus last year would have had such a large effect on medium term growth rates? The OBR certainly doesn't appear to agree with this assessment (blaming revisions to forecasts on price inflation and the eurozone). On the other side, Osborne's absolute insistence that we are currently at the limit of bond market tolerance (with no wiggle room) certainly deserves closer scrutiny in the light of changed circumstances.

Turning to my more usual remit, what about the urban and regional elements of the statement? Here, my fundamental question [remains one about priorities](#). In a world where it would be good to have growth coming from *anywhere* how much emphasis [should the government place on 'regional rebalancing'](#)? The (as yet untested) regional growth fund receives another 1bn to help the areas most affected by public sector job cuts. Why not focus on the *people* most affected by job cuts which helps focus on the fact that *other* areas might best be placed to generate new jobs for those people? On broadband we will see ten 'super-connected cities' *across* the UK. I think it's reasonable to ask whether (for example) Belfast should be a priority for that kind of investment? More generally, the national infrastructure plan will 'invest in all parts of the UK'. Again, does this make sense in terms of priorities? To take just one example (although one of my favourites) is now the moment to halve tolls on the Humber Bridge through a debt write down of £150m? At the same time, local transport projects only receive an extra £170m. And then there's the tricky issue of [billions on HS2](#).

Even in better times, [SERC argued that it might make sense to focus investments](#) so that government was working *with* market forces at least within regions. A discussion around these issues appears more important than ever, if we want policy to be as effective as possible in helping those worst hit the downturn. Of course, the politics of this are awful, so I am realistic about the likelihood of any serious discussion. That's a pity, because politics as it's possible (although unlikely) that the economics of this could be awful as well and you would hope that some free and frank debate might help figure out if this was the case.

Posted by [Prof Henry G. Overman](#) on [Wednesday, November 30, 2011](#)

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