Management

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Course

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The need to control government spending in the context of the UK economy is a very critical macroeconomic policy. At a time when most governments across the world are bogged down by excess spending that seriously impact on the outcome of other government prerogatives, it becomes important to limit the amount of spending on public resources. In any case, several economies in the world have successfully managed to pull through despite radical mitigations in the amount of resources availed by the government. Using Keynesian analysis, a reduction in government spending triggers a very vibrant private sector growth that contributes immensely to the economy of the United Kingdom. Like most economies, the UK practices a system where most critical social services are provided by the government (Engineers, 2008). Education and healthcare sectors are some of the areas where the government plays very imperative roles. However, with a growing budget deficit that continues to raise concerns, austerity measures become inevitable. The United Kingdom, with its expanding public sector coupled with a growing population, has been forced to borrow severally to finance its budget deficits. Such continued borrowing may have long-term impacts on the economy considering that the debts have to be repaid. In such a case, the austerity measures advocated for by most policy advisors become necessary. It certainly becomes a plus to the many private firms across the country as new opportunities will emerge in product and service delivery.

However, in light of the recent street protests against the proposals to cut government spending, several considerations emerge. Several hospitals in the UK are already bogged down by numbers courtesy of the cuts that greatly impact on the quality of social services. The education system in the country has for several years been one of the best in the world (Al-Mazrouei, 2001). This attribute emerges out of the great support that the government allocates to the basic services like education, water and healthcare. It therefore becomes imperative that several considerations be made before any major government spending is practicated. In most cases, increased taxes are normally dreaded by the public. Nevertheless, a government that effectively uses the tax money on proper policies that impact positively on the masses certainly faces little antipathy towards its social reform policies. The UK's situation in indeed one of the most notable cases in the entire world. It demands greater government intervention which can only be attained through proper spending policies.

In its bid to exercise its mandate in the establishment of the lending base rate that guides the interest rates in England, the Bank of England's monetary policy Committee faces myriad challenges in its approach to the whole issue (Tennant, 2009). The essence of setting the base rate is basically to ensure price stability in the country and to limit variations in the various interest rates across the country. In light of the emerging economic challenges that continue to bedevil the world, it is inevitable that economic priorities too need to change with a view of addressing the whole issue. Currently, the Committee's main focus is keeping the interest rates at the basement levels with a view of economic expansion. In the recent years, it is indeed true that an inflation overshot has characterized the UK economy as the Banks pretence that the situation will return to normalcy in two years only help to escalate the tensions that emerge in policy circles. However, in view of this challenge, the basic challenge that confronts the Bank of England needs to be understood. The excess price and output volatilities are issues that must be addressed in tandem with the inflationary extremities (Giuseppi, 2008). The high inflation rates in the country have greatly influenced the performance of many firms. As the borrowing rates become unbearable, most commercial firms are reconsidering their borrowing policies. The high inflation rates have also affected the purchasing power of the consumers which subsequently reduces productivity of most firms. In general terms, the returns from investments will usually diminish in the cases of high inflation rates as portfolio value reduces. It is no doubt that most people continue to think that the Bank of England's monetary committee is mostly focused on addressing growth other than the mandated inflation levels.

In an increasingly global and competitive business environment that continues to characterize the modern world, protectionist policies are normal occurrences in the trade policies of most countries. The trade relationship between China and the United States is a classic case that illustrates this concern. Indeed, the Chinese government has always been very wary of the infiltration of foreign firms into the country with a view of encouraging the growth of their infant and local industries (Krueger, 2007). In a way, such policies have always worked for china. Most multinationals from the Western economies are well established and will always lead to a stagnation of the local industries. The United States on the other hand is always in a constant watch against the vibrant growth of most Chinese multinationals.

In the current global economic climate, protectionist tendencies become imperative. Local industries need to be given the vital protection against the adverse competition posed by trade liberalization and open market economies. The global economic climate has seen many countries evidence several instances of recession and depression. Protectionist policies are ideal measures of stimulating such economies through the promotion of local employment opportunities and local consumption (Salvatore, 2010). The current currency wars between the dollar and the Yuan are extensions to the protectionist wars that characterize the two countries. These wars have greatly affected the performance of Chinese corporations in the United States especially those that import part of their raw materials from China. On the other hand, the American trade policies are being geared toward controlling the inflow of Chinese goods into the country. Nevertheless, protectionist tendencies are always imperative in the modern age. Such policies will always help promote the growth of local firms which eventually stimulates the investment activities and economic growth.

Over the years, most transactions in the UK have been dominated by US dollars as a consequence of the dwindling sterling pound. The decision to join Euro zone is critical in redressing the barriers to free competition between the nations in Europe. It promotes price transparency as customers can easily compare the relative prices of commodities in the whole zone. In the same vein, the UK can greatly benefit from the integration of national financial markets which leads to efficiencies in the allocation of capital across Europe. Currency barriers have been great barriers to direct foreign investment in the UK. A single currency across Europe stimulates the free flow of capital within the zone as investors seek better grounds for their investments. On the contrary, joining the Euro zone translates to a transfer of the monetary economy of the UK to the European Central bank (Rostowski, 2006). In such a case, the response to external economic shocks becomes very marginal and inadequate. In the same vein, managing interest rates within the greater euro zone is normally a challenge to policy advisors. Many firms in the United Kingdom may therefore face many challenges in the long-term as a consequence of the single currency policy (Farkas, 2011). The different countries in the zones are havens of totally different economic environments. This might therefore present unfair circumstances for several firms not only in the UK but in the greater Euro zone as well.

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