Budget day

There have been many mini budgets over the last year. Never have the official figures for the outlook changed so drastically so rapidly, as forecasters rushed to bring their estimates in line with the big lurches in activity created by anti pandemic policies. Today we await new forecasts from the Office of Budget Responsibility. We should do so remembering that they like all forecasters were of course hopelessly wrong footed by the arrival of the virus. They will now find it difficult to gauge the pace of recovery and the sustainability of gr0wth against an uncertain health policy background and given the damage done to many businesses shut down by lockdown. In an economy where a 0.5% variation in growth was a big movement prior to CV 19 we have gone to a world where a 5% variation is modest.

The lack of clarity and reliability in the forecasts provides a good reason why this is not the budget to raise taxes to tackle the deficit, as the authorities have no reliable idea of what the underlying deficit will be once we are out of lockdown and into recovery. Some are suggesting there is a gap of £40bn or even £60bn that needs filling by tax rises. Yet the forecast budget deficit for 2020-21 is £400bn or ten times the alleged underlying gap. Let us assume this forecast was too high and the 2020-21 deficit comes in lower than that. Who can say what the 2021-22 deficit will be when we need to know how fast the recovery will be in 2021-2. What we do know – or should know – is the bulk of the deficit this year is the result of the pandemic. It comes from a collapse of tax revenues as many people and businesses are not at work earning wages and profits . There was ab ig fall in VAT on everything from eating out to travel. It comes from a huge surge in pandemic related spending on everything from furlough through the self employed scheme, small business loans to the train subsidies and vaccine costs. As soon as we get out of lockdown most of the extra costs of the pandemic will fall away, and there will be a surge of tax revenue.

What we can also say is that were the Treasury to impose new taxes and higher tax rates on the economy now, or even propose such changes for later this year, it will slow the recovery before it has properly begun. It will prolong the need for special measures spending, and lower the tax take. It will damage confidence at the very moment we need to encourage businesses back to work. Small businesses and the self employed include many who are approaching retirement who could decide not to bother to reopen. It includes people who were not earning a good sum prior to lockdown who might decide it was no longer worth the struggle. The brightest and most energetic will of course be able to reopen and succeed even with tax rises, but we need a more democratic small business and self employment policy that helps the many who provide a good local service but who are not going to be able to battle against heavy odds stacked against them by an overtaxing government.