[My Intervention on the Charter for Budget Responsibility – Inaccurate forecasts]

John Redwood
(Wokingham) (Con)

Does the Minister not think there is some difficulty in trying to steer the economy on the basis of a five-year forward debt forecast when the official forecasters have been more than £100 billion out in two of the last three years, and £75 billion out this year with a one-year forecast?

John Glen

I will address the provisions of the charter and my right hon. Friend’s point directly in a few moments. As the Chancellor set out last week, we have a credible plan to generate economic growth by getting Toggle showing location of Column 723people back into employment, reinvigorating a culture of enterprise and continuing to drive up standards in education, and ensuring that that happens everywhere. The Chancellor’s plans to generate growth need to be underpinned by sustainable public finances, but the global economic shocks we have faced mean that borrowing remains high. We are expected to borrow £177 billion this year—double pre-pandemic levels. That is contributing to ever larger public debt.

Along with high debt in a time of rising inflation and interest rates comes the £120.4 billion we are projected to spend this year on debt interest alone. Let me remind the House why that is. For almost two years, in the face of a historic pandemic, we took unprecedented, bold, decisive action to support people, jobs and the economy. We rolled out vaccines at a world-leading pace, we paid 80% of people’s wages, and we gave grants to businesses to help cover their bills. The costs of inaction in the face of covid-19 do not bear thinking about. I am proud to represent a Government who took the big decisions to keep the public and the economy healthy.

As inflation rose to figures we have not seen in more than 40 years, led primarily by increasing energy prices, we again took action to safeguard the nation by contributing to people’s bills. Nobody in this Government would argue that that is not money well spent, but we are also cognisant of the facts. At nearly 100% of GDP, public debt is at its highest level since the early 1960s. It would not be sustainable to continue to borrow at current levels indefinitely. If debt interest spending were a Department, its departmental budget would be second only to the Department of Health and Social Care. Not only does that direct our resources away from vital public services, but for those of us who have paid attention to the economy, it is clearly unsustainable in the long run. It is unsustainable because increasing debt leaves us more vulnerable to changing interest rates and inflation. For every percentage point increase in interest rates, the annual spending on debt will increase by £18.2 billion. That is money we could be using to invest in schools or hospitals and in the transition to net zero.

Aside from investing in the services that we need and that so many rely upon, there is another important moral point to debt. Letting our debt increase is simply racking up debt on the nation’s credit card and handing the bill to our children and grandchildren. We are not alone in our ambition to reduce debt as a share of GDP over the medium term—Germany, Canada and Australia have made similar commitments. It is not just numbers on a spreadsheet; it will have a material impact on the lives and living standards of those who have not yet been born.

Instead, we choose a responsible, fair approach. We are demonstrating fiscal discipline, which will support the Bank of England in bringing inflation down. That is carefully balanced against the need to support the most vulnerable and to protect vital public services. At the autumn statement we announced a series of difficult decisions worth around £55 billion to get debt down, while ensuring that the greatest burden falls on those with the broadest shoulders.

All Members will hope that, having faced the pandemic, war in Europe and a bout of rising prices, we will have seen the worst of this economic storm. The truth, however, is that we do not know exactly what lies ahead, and we need to create the room to respond comprehensively in the future, should another shock occur. Last year my right hon. Friend the Member for Middlesbrough South and East Cleveland (Mr Clarke) came to this place to approve rules to guide us on a path to strengthen the public finances after the worst of the pandemic had passed. By the third year of the forecast, in 2025-26, those rules require underlying debt—that is, public sector net debt excluding the impact of the Bank of England—as a percentage of GDP to be falling and everyday spending to be paid for through taxation by the same year.

Since then the context has changed yet again. To continue protecting the most vulnerable and investing in public services, the Chancellor updated the fiscal rules at the autumn statement, and we are updating the charter for budget responsibility. It will give everyone the confidence and certainty that we are going to repair our public finances. It will provide the foundation for long-term growth. In following them, we will be able to get debt down while protecting the public services upon which we all rely. The rules require that we reduce the deficit so that debt falls as a share of the economy in five years’ time. Expenditure on welfare will continue to be contained within a predetermined cap and margin set by the Treasury unchanged from the level set in 2021. I am pleased to say that the Office for Budget Responsibility confirmed in November that we are on track to meet all our rules, with debt falling and the deficit below 3% GDP in the target year of 2027-28.

Aside from the fiscal rules, the charter remains unchanged. We continue to be at the forefront of financial management through our monitoring and management of the broader public sector balance sheet. The independent Office for Budget Responsibility provides transparency and credibility via its economic and fiscal forecasts. Many colleagues have remarked on the important principle that our fiscal plans are transparent, fully costed and accompanied by an independent assessment of the economic and fiscal implications. The Government agree with this principle. There may of course be extraordinary circumstances where that cannot be the case, as we saw during the pandemic, and it was right not to delay announcing critical help for households and businesses, but in normal times major fiscal announcements should be made with one of the OBR’s two forecasts. As is usual, the spring Budget on 15 March will be accompanied by a full OBR forecast.

This updated charter puts stability first. It sets a credible plan to deliver on the Prime Minister’s key promises to get debt falling and to halve inflation, and it fosters the conditions for growth. It continues our historic support for households, as it allows us to increase the national living and minimum wage and pensions. It maintains gross investment at record levels in innovation, infrastructure and education. We have protected the most vulnerable and vital public services, and we are protecting the economy. After making the difficult decisions at the autumn statement, today we have a choice: we can sit idly by and let our economy slip into disrepair, or we can secure the foundations of our future by protecting the foundations of our economy. For those reasons, I commend this motion to the House.