My Telegraph Article after the Autumn Statement

The Office of Budget Responsibility makes running a consistent economic policy extremely difficult. Their numbers change from forecast to forecast with wild swings making it impossible for the Chancellor to know how much future borrowing is likely to be, how much he needs to do stimulate growth and to curb inflation, and what is likely to be the outcome. I have long been a critic of the fiscal rules which seek to ensure debt is falling as a percentage of GDP by the end of a five year planning period. I argue for proper controls on inflation and borrowing for the immediate year of the budget. Strengthen the inflation target, have a growth target, and have a statement about how much it is appropriate to borrow in the light of debt interest costs. No-one can come up with a reliable forecast of what the borrowing will be five years out. The OBR can stop tax cuts by offering an unduly pessimistic forecast of revenues. The Treasury can try to create more scope for tax cuts or spending rises by putting forward an unduly low figure for spending for the fifth year. The Chancellor needs to make good judgements about how much he should borrow , tax and spend in the first year of the forecast when the forecasters have much more opportunity to get the numbers roughly right. Unfortunately the run of estimates this decade have been far from accurate for the immediate year in question, let alone year five.

The latest OBR forecast is a revision for forecasts made as recently as March 2023. The OBR tells us "The combined effects of the historical revisions and latest outturns leaves the level of real GDP at the start of this forecast almost 3% higher than we thought in March" A fall of 1.1% has become a rise. The government had to live with all the bad press for the alleged bad performance, and the March budget judgement was on the wrong basis. Their views of inflation have gone the other way. In March they said inflation would be well beaten next year and into 2026. Now they tell us it will get down to the 2% target a year later and will not go well below as they said in March. That requires a very different policy response as well. They expect the Bank of England's base rate to be 100 basis points higher or a quarter up on the rate in the March forecast, and expect longer dated gilt interest rates to be between 100 basis points and 150 basis points higher. That has a direct impact on the debt interest charges which on the official method of calculation are large. The higher inflation rate also boosts those account items as they lump the indexation of debt costs which are not items requiring cash payments year by year with normal payments of debt interest which are most certainly annual spending.

The government is rightly concerned to get borrowing under good control and not to add to the real stock of debt going forwards relative to the country's ability to pay. The OBR have announced that they overstated the deficit and borrowing for just the period from April to October this year by £20 billion, so why should we believe their five year figure and agonise over it? The deficit mistake is based partly on an understatement of the amount of revenue that existing tax rates will yield. They confess that they greatly understated migration numbers which they use to boost GDP as more people taking more jobs boost output. There are arguments over what the public spending impact of that is, and whether it helps GDP per head as well as GDP. Their report does include a summary of the overall errors in GDP forecasting and shows they have got larger in recent years.

It seems likely the tough monetary squeeze which the Bank is administering will help inflation down some more and will continue to slow activity. It is clearly hitting the housing for sale market and will drag on some companies ability to expend where they have high borrowings. The Autumn Statement was right to look for ways to stimulate more investment, to help the self employed and small business, and to look for more ways to help people into work. There will only be a stronger recovery when inflation is down enough to persuade the Bank to relax its squeeze. The Bank like the OBR have had major problems with forecasting. They ran far too loose a policy for too long because their forecasts said inflation would stay around 2%. Now they run the risk of doing the opposite and running too tough with forecasts that do not properly reflect the slowdown. The Bank is selling far too many bonds at huge losses, unlike the European Central Bank who made a similar problem by creating too much money and buying too many bonds to create inflation. At least the Bank is reviewing its models and forecasting. Maybe the OBR should do the same.

The idea of the OBR was to have an independent referee or forecaster who could keep the Treasury honest. It can only work if the referee has sensible rules and gets its forecasts right. If it persists in getting growth, inflation and deficits very wrong it can generate wrong policy responses and can certainly distort the debate about how the economy is doing. There are always dangers that an independent body formed largely from Treasury officials talking to Treasury officials a lot may not consider other views and other ways of running models that are more accurate. Maybe a truly independent OBR would be bought out by its managers and experts and would be available to offer tailored forecasts for others. I am all in favour of independent forecasts as a means of exploring public policy and as a check on what governments do and say. I worry about an independent body owned and paid for by the Treasury that offers fluctuating forecasts that are given so much significance when on some of the key variables they are wrong.