The Office of Budget Responsibility

The Office of Budget responsibility is a recent invention. George Osborne wanted a body that was said to be independent that could assess government economic policy and set out in forecasts what the results were likely to be. To do this he transferred the Treasury model for forecasting the economy and some Treasury officials to this new body. It was given the privilege no other forecaster has of getting prior access to budget measures so when the budget is published the OBR can publish a set of forecasts that include the impact of the latest budget measures. Other independent forecasters can then catch up, putting the new budget measures into their models and running them to see what change results. The OBR forecasts and the average of private sector forecasts are often quite close to each other, with the old Treasury model still having some sway with a range of external economists. Treasury officials clearly work closely with OBR ones, as they used to do when they were all part of the same organisation.

The main problem with this system is the failure of the POBR to come up with reliable and accurate forecasts of the budget deficit. This matters hugely because their wrong forecasts unlike other people's are used to mark the government's homework. The main economic policy control is a derivative of the old Maastricht debt and deficit controls. The government aims to have debt falling as a proportion of GDP by the end of the five year forecast period if not before. This relies on the OBR forecasts of the difference between two large numbers, total spending and total revenue, five years hence.

In recent years the OBR has been £100bn or more out in its same year forecasts, let alone in its five year forecasts. The OBR presumes to say the government needs to raise an extra £10 to say £30bn in taxes, when its deficit forecasts swing by far more than these sums year by year. Observing the pattern they tend to greatly exaggerate the deficit when the economy is growing and underestimate it when the economy is slowing or shrinking. The main errors occur on the revenue side. Their model does not seem to take much account of the behavioural effects of higher tax rates which may depress tax take, or the way in which lower tax rates may boost tax take. It certainly doe snot seem to recognise the great sensitivity of revenues to gr9wth rates.

The independent OBR should follow what the Bank has decided. faced with its own failure to forecast inflation, crucial to its task, the Bank has announced a review of its models. The OBR needs to do the same, as it models cannot forecast deficits sensibly, leaving no sound basis for their advice on tax levels.

Interest rates now higher than at the time of Truss budget

The Bank of England has been up to its old tricks, hiking rates and selling bonds to hike mortgage rates some more. They think taking money away from mortgage holders will squeeze their ability to spend which will cut inflation by reducing demand.

Will it? The extra money mortgage holders pay in interest certainly cannot be spent any longer by them on goods and services. The money however does not disappear. Much of it is passed onto savers who have deposits in the banks that lend the money. They will have more income to spend. Some of the extra interest is extra bank profit, which leads to higher dividends so shareholders will have more money to spend.

Higher mortgage rates therefore will not limit demand for goods and services as much as the Bank seems to think. It is possible the savers will not spend all their extra interest income, whilst it is likely the mortgage holders would have spent more of the money they now have to pass to the lenders. This is however a matter of degree. It is also likely the savers who tend to be older may well pass some of their deposit interest gain onto their children with mortgages to help them out.

The further sell off in bonds underwrites my argument that the high mortgage rates come mainly from Bank of England rate hikes and bond sales.

What is the point of a Central Bank digital currency?

We already have digital money. You and I have money held in a commercial bank which is just an electronic line in their accounts. We can use it to buy something, transferring our digital money to someone else’s digital account electronically. We have a digital credit card which we can wave at a machine to pay. If we save money in a deposit account that too is digital. The banks do not keep all our monies in bank notes, just having enough till money to meet usual demands for physical cash with a margin.

Some people have created different digital tokens like Bitcoin. These do not fulfil the normal characteristics of money. You cannot use them to buy things. Most shops and websites decline bitcoin. They are not a store of value as a sound major state currency is, with wildly fluctuating values. They are not a standard of measurement. Few quote prices in bitcoin where many quote them in dollars or pounds.

There are things called stable coins which seek to link their value to a well known currency. Some achieve this, but there could in some cases be failures to do so. If they succeed what advantage do they have over holding the currency itself?

The Bank of England and other leading central banks are thinking of issuing digital versions of their own currencies. Given the way commercial banks already do this I assume it means the Central bank itself offering a current account to regular customers. This would be a big diversion from their current functions and would not offer much that a commercial bank does not already offer.

People worry about the way the state could use a CB digital currency to increase surveillance over people and even control their money. I cannot see them making everyone have a CB account as the Bank of England would not want millions of small accounts. Existing digital money through commercial banks is already under plenty of surveillance to prevent crime and money laundering.

My Business Question to the Leader of the House

John Redwood (Wokingham) (Con):

It would be better to get inflation down by expanding supply, rather than hitting mortgage holders again to get them to spend less. Can we have an urgent statement, before the summer recess, from the Government on measures to expand our domestic output of food, oil and gas, and industrial products with suitable incentives and facilitations?

Penny Mordaunt, Leader of the House:

I thank my right hon. Friend for that very helpful suggestion. He will know that, as Treasury questions are not until after the summer recess, he will have no opportunity to raise it there, so I will make sure that the Chancellor has heard his suggestion. I know that that will be welcomed by many Members across the House.

HS2

I voted against the HS2 project when Parliament made the decision in principle to go ahead. I have always thought it a bad investment. I proposed alternative ways to increase rail capacity for a fraction of the cost with much speedier results.

I am told they are going ahead with one of those ideas. Improved digital on board signalling means a train can see what lies ahead and be warned of blocked lines in real time. Central controllers could slow or stop trains approaching danger if the driver has missed it. It would be safe to run at least 25% more trains on a given line with smaller gaps between trains. As they are all going in the same direction on most tracks and if they see what lies ahead and what speed it is doing we can run more trains. We run far more vehicles with very little separation on busy roads just based on driver eyesight and judgement.

They could also do more to provide many more short sections of bypass track. Non stop express trains need to be able to overtake slow frequent stopper services when timetables get stressed. Again digital signals and intelligence on track positions would facilitate this.

The collapse of five day a week commuting post covid has undermined whatever business case there was for HS 2 . Much rail travel going forwards is going to be leisure and pleasure travel where high speed is less necessary and high cost cannot be repaid by premium business tickets. The government should reconsider the very expensive much delayed Euston and inner London part of the project. Spending a fortune on rail in London was always bizarre for a levelling up project to help the north.

Perhaps given the huge delays in construction and planning this should no longer be called High Speed 2. It is taking years of delay for the first train. HC 2 , High Cost 2, would be a more accurate description.