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.

[My Question to the Chancellor on the Autumn Statement]

John Redwood (Wokingham) (Con):

I welcome the measures to promote more investment and more growth, which is vital. We have lost about 800,000 self-employed people since February 2020. The national insurance measure will help a bit, but will my right hon. Friend look again at the way in which IR35 prevents them from expanding their businesses and getting contracts? The measures to promote the growth of small businesses are also welcome, but the VAT threshold acts as a strong disincentive to expand a business when it reaches a certain point.

Jeremy Hunt, Chancellor the Exchequer:

I thank my right hon. Friend. I had extensive discussions with him in the run-up to the statement, including many discussions about the self-employed. Indeed, it was partly his advocacy of the role of the self-employed that made me so enthusiastic about making the national insurance changes that I was able to make.

I hear what my right hon. Friend says about IR35. We took our decision partly because of concerns about avoidance, but I am happy to look at that again. As for the VAT threshold, many other colleagues have made the same point. We do have the highest threshold in any major European country, and, indeed, any G7 country, but there is always this issue of the cliff edge, and my right hon. Friend is right to draw my attention to it.

Dublin stabbings and riots

I am not posting contributions on this topic as the Irish police are not telling us who carried out the knifing though they do tell us in general terms who they think were rioting.

I condemn all the violence and law breaking.

Ireland needs to manage its own migration and law and order issues and will want to deal with criminal activity in ways their local laws and Irish public opinion require.

Too many people

The latest immigration figures show the government should have listened to those of us who said they needed to tighten the rules over inviting in economic migrants and students. Last year to June 2023 1.2 million came to stay in the UK, with 508,000 leaving. All the people coming need housing, health care, schools for the children. The 508,000 leaving free some housing, but not necessarily the right type in the right places for those arriving.

The costs of all this are very large for taxpayers. There is a growing danger we cannot offer enough decent housing and public services for our new arrivals. The government needs urgently to raise the income level for a job that qualifies for a work permit, and to enforce new rules over students' dependants whose numbers have shot up.

In 2016 Commissioner Timmermans, today in the news contesting the Netherlands election for the left/Greens alliance, made proposals about burden sharing for EU migrants. He told the EU that member states should make a payment of 250,000 Euro for every migrant a country did not want to take under its quota for sharing the influx of migrants around the Union. That was probably a fair assessment then of the capital costs of providing new homes and public service provision, along with the early running costs borne by the state.

I think the UK should produce an updated figure for us today. It may well be that around £250,000 is a fair guess. A new social home costs around £300,000 to provide, but much of that is family not single person housing. A new school place costs say £20,000 to provide the building, averaging primaries and secondaries. The annual cost of a secondary school place is above £6000 and of a primary place above £4600. Adding an additional 600,00-700,000 people a year probably needs a couple of new District General hospitals at say £500m each as well as new surgeries. The annual cost per person of NHS provision is now more than £4000.

This shows that the so called cheap labour we invite in may help employers but creates a headache for public spending. The bogus figures that say a low paid incoming worker profits the state leave out all the extra capital provision to provide the services and homes, and leaves out the running costs of the public services they need. If one extra person comes in we can find an empty home and a spare school place. If a million come in we need to build two or three new cities to provide for them.

So government, change policy. The Treasury says adding more people adds to economic growth and adds to total tax revenue. They do not tell us how much it adds to public spending or what it does to GDP per head. The Health department says it means we can staff our care homes and social work settings with new people. We also though need to recruit a lot more of them to provide all the extra healthcare for all the new arrivals. There is a lot to be said for fewer invitations and better pay for people already here to fill the posts.

Autumn Statement

Glad to see the government now start to cut taxes and set out their intent to bring them down more. I am also pleased that they wish to assist the self employed, the small businesses and the larger companies that can make major investments. As I have long argued you need tax cuts for growth and you need more capacity to make things and provide services at home. The balance of trade deficit remains too large and supply shortages help fuel the inflation Bank policy unleashed.

I raised the questions again with the Chancellor about the need to change IR 35 and raise the VAT threshold for small business. He responded more favourably to a question about reinstating VAT free shopping for foreign visitors now we are losing business to Milan and Paris from our imposition of it.

I am writing today in the Telegraph about the wildly swinging forecasts of the OBR. They have changed the forecast for GDP by 3% between March and October portraying now an economy that had grown and was above pre pandemic levels instead of an economy that was performing badly and had fallen in output. The OBR had to make major revisions to its March forecasts of migration numbers, interest rates, inflation and the deficit.It had been too pessimistic about the deficit by £20bn so far this year. It had expected lower interest rates and lower inflation than we experienced.

These wrong and fluctuating forecasts make economic policy making difficult.The idea of headroom for tax cuts is based on wrong numbers. They never discuss headroom for spending rises where there have been many.