

The battle over recession

In the summer I and a few others warned the government and advised the Truss campaign that then economic policy was going to take us into recession. Official forecasts from the budget said otherwise. I argued that we could change policy to seek to offset some of the recessionary forces coming into play. If the Bank with tight money combined with a treasury hiking taxes, and a concurrent inflation squeezing real incomes, there would be a sharp downturn.

Liz Truss centred her campaign around the need to boost the UK growth rate, and to abate the recessionary forces. She was right to do so, and it proved the more popular cause. The establishment she was battling now accept that their policies will lead to a recession, with the Bank forecasting six quarters of misery and slowdown. Despite this they still are keen to put up taxes. As a result they face public borrowing this year 75% higher than their budget forecast, confirming the warnings I gave that this year unlike recent years the OBR borrowing figure would be far too low after periods of massive overstatement. Borrowing remains most sensitive to whether you get growth or not. Slowing the economy deliberately gives you higher borrowing, not less.

What we can agree on is the UK state needs to do a better job at controlling public spending. I have issued lists of ways of getting spending down a bit, whilst improving both spending and performance levels in key areas like health and education. I see in a recent poll ending spend on HS2 and reducing Overseas Aid are the two most popular ways of getting spending down a bit from the issues raised. There are plenty of other ways. It is imperative that more of these public sector pay disputes are settled with something for something settlements, allowing better pay for smarter working. Above all the government should get on with the changes to help many more people into work. There are still plenty of vacancies and people of working age who could be better off if assisted into work.