The delayed budget should not seek to convert a downturn into a recession

There was more uncertainty yesterday about the Financial Statement scheduled for 31 October. We had been told it was crucial to the markets to see early sight of the spending and tax proposals of the new team and to accompany it with Office of Budget responsibility forecasts. I was never that happy about holding it on Halloween, thinking of some of the obvious headlines and journalistic jokes that would invite. It is better it is done in a considered way with full buy in by the new Prime Minister as well as the fairly new Chancellor. They are saying that they want the latest forecasts, and with the recent fall in gas prices there will be at least temporarily better news on the costs of the Energy package and inflation.

We are told this will be a Financial Statement, not a budget, yet it will have many of the characteristics of a budget. It will presumably have a set of tax proposals, full spending plans, and forecasts of budget outturns with borrowing figures for the next few years. It will be accompanied by OBR forecasts. The difference between a Statement and budget will not it seems be a matter of substance, but a matter of Parliamentary treatment. A budget is presented to the House by the Chancellor often in an hour long speech, responded to immediately by the Leader of the Opposition with a speech and followed by a five day debate on wide ranging economic, taxation and public spending matters. A Statement will be a much shorter speech by the Chancellor followed by maybe two hours where many MPs can ask just one question each of the Chancellor, with the Shadow Chancellor able to ask several things in a short response. The idea of announcing substantial spending plans by Statement was developed by Rishi during the pandemic to reflect the need for quick action, often agreed on a cross party basis.

The Financial Statement is clearly dominated by whatever figure the Office of Budget responsibility comes up with for the possible deficit or amount of borrowing in 2025. The government has allowed itself against my advice to have as its main economic control the need for state debt as a percentage of GDP to be falling in three years time. The problem with this is twofold. The OBR has been wildly wrong on its next year forecasts at all three recent annual budgets. No-one can come up with a realistic forecast of state borrowing three years out given all the likely big changes to inflation, the costs of the energy package, interest rates and government policy. The second is the figure could send the wrong signal for policy changes now. Today inflation is near its peak and is widely expected by independent forecasters as well as by the Bank of England to fall away rapidly over the next two years. The new threat is to trigger a longer and deeper downturn to the economy as the higher interest rates and restricted credit have their impact. Tightening further into a downturn is usually a bad policy but a negative quess about borrowing levels in three years time could force just such an action.

The cruel paradox is this. Tightening too much now, whether by hiking taxes

or cutting public services could create a recession. In a recession deficits rise and the state has to borrow more, not less. Tax revenues fall as people lose jobs, consumers spend less and companies make less profit. State spending goes up as more people need benefits. It would not be a good idea to follow the wrong response to current economic conditions in pursuit of a lower number for three years time which no-one can accurately predict or deliver .