Will a gloomy Treasury try to stop a budget for growth?

My forecasts show that if the UK has a budget soon which confirms the spending increases announced for next year and offers around £12bn of tax cuts, the economy should grow faster next year than this, assuming we leave on 31 October 2019 without signing the Withdrawal Agreement. As readers have seen, I allowed for some loss of export volume on agricultural exports affected by EU tariffs, some favourable import substitution on agricultural imports from the EU affected by our tariffs, maintained farm incomes from UK assistance to farms replacing EU, a boost from tax cuts and spending increases to domestic demand and savings of £12bn on public spending and the balance of payments from no more net EU contributions. Overall we could see up to an additional 1% gain of GDP on the growth rate depending on how far the fiscal reflation goes and depending on whether monetary policy would also be made supportive . Money policy is currently too tight and out of step with relaxations elsewhere in the Euro area, US, China and Japan.

The Treasury and OBR may want to paint a different picture. I read that they wish to suddenly introduce a £12bn non cash charge as an item of public spending to allow for student loans that may not be repaid. The Student loans scheme was first introduced in 1999 for tuition fees, was beefed up in 2004 when Labour trebled the tuition charge, and increased substantially again when the Coalition after 2010 put through a further trebling in tuition fees. All the time we have been in the EU seeking to get debt and deficit down in accordance with EU Maastricht criteria the Treasury has not thought it necessary to make early provision for possible loan losses. All of a sudden to coincide with the PM's stated exit date from the EU they decide they need to introduce an extra spending line item at exactly £12bn, roughly the amount of our net budget contributions to the EU. If was as if they wanted to say to Leave voters who want to spend that money on our priorities, we will make it vanish away even though nothing real changes for the student loan scheme the day we leave the EU.

Worse still, the OBR may want to issue economy forecasts that are pessimistic about growth if we just leave without the Withdrawal Agreement. This would be in line with wildly inaccurate short term Treasury forecasts made during the referendum saying the UK would enter recession in the first few months after voting to leave. Such forecasts would presumably suggest a bigger deficit, claiming that revenue will be down owing to less activity, and benefit spending up owing to more unemployment. Even under revised deficit control rules it would probably be used as an excuse to argue against the economic boost the economy clearly needs with or without Brexit.

The government needs to argue back. It needs to say that the OBR as an independent forecaster can of course forecast as it wishes, but the government does not have to rely on a forecast as unreliable as the Treasury 2016 pre referendum forecasts and can point to how wrong they have been in the past. The government should also make the good point that were any OBR pessimistic forecast to be in the right direction it would strengthen the case even more for a stimulus to offset the feared downturn.

The current deficit is under good control. The state can afford to spend the savings on EU contributions and a bit more. Some of the tax cuts will actually raise more revenue, as some taxes are above the revenue maximising rate.