The Office for Budget Responsibility should start doing...

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As a Council Member of the Progressive Economy Forum I was involved In drafting this letter to the FT, published this morning, the content of which will be familiar to those who have read this blog over time:

Having reviewed the fiscal sustainability report published by the Office for Budget Responsibility (Report, July 14), we believe that its approach to economics is wrong. The view it presents does not help economic recovery.

The OBR's focus is on how the government might pay for the consequences of the coronavirus crisis. We do not think that this is appropriate. That is because this approach is essentially microeconomic, and assumes the government is an entity independent of the economy as a whole. The implication is that the government is an agent too small to influence the direction and level of activity in the economy.

We do not agree with this view. In the macroeconomy the government shapes the direction and size of the economy through its regulations and decisions on spending, taxing and borrowing. As a consequence, the focus of the OBR report should not have been on the sustainability of the current debt-GDP ratio but on the impact of government spending on the economy. This would require that the OBR assesses the affordability of government finance in a macroeconomic context.

Given the prospective rise in unemployment, the OBR report should have considered whether the policy proposals announced by the chancellor in July will be sufficient to maintain the economy as it exits from the lockdown. That would have required an assessment of the revenue generating potential of each proposal.

In an economic downturn, increased revenue needs to be considered as a consequence of policy and not as a primary aim. As Keynes suggested, if the problem of unemployment is solved, so too is that of the budget.

Might the OBR discuss economics, the economy and necessary economic policy and stop obsessing about the accounting problem of balancing books that have very rarely ever been balanced in the past 326 years?

We might all be better off if it did. We would certainly have better economic policy and better public finances.

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The asterisk against John Weeks name was there for good reason. As is apparent from the date in the letter and the time of publication, this letter took a fortnight or so to be published. John was actively involved in drafting it, but sadly died on Monday this week. It was, of course, right that his name remained on the letter.

Some here will have read John’s last book, on debt. There was much there to agree with, but he remained vehemently opposed to MMT, on which we robustly disagreed whilst remaining mutually committed to progressive economics.

John was an academic macroeconomist, mainly at SOAS, for more than five decades. He was generous with his time, comment and support. I will miss him. He was adamant on the issues to which this letter refers. I think he would have been pleased to get a last word in on something that mattered a great deal to him.