Funding the Future

Labour's Budget Responsibility Bill would probably have...

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This is how the government describes the Budget Responsibility Bill, which is the first Bill described in its King's Speech publication:

ECONOMIC STABILITY AND GROWTH

Budget Responsibility Bill

"Stability will be the cornerstone of my Government's economic policy and every decision will be consistent with its fiscal rules. It will legislate to ensure that all significant tax and spending changes are subject to an independent assessment by the Office for Budget Responsibility"

- Economic stability is the foundation of the Government's growth mission. This Bill delivers on the manifesto commitment to introduce a 'fiscal lock', requiring every fiscal event which makes significant and permanent changes to taxation or spending to be subject to an independent assessment by the Office for Budget Responsibility. This will ensure there will always be scrutiny of the Government's fiscal plans.

What does the Bill do?

- The Bill will introduce a 'fiscal lock' which will:
  - **ensure any Government making significant and permanent tax and spending changes will be subject to an independent assessment by the Office for Budget Responsibility (OBR)**, giving them the power to produce an assessment at a time of its choosing.
  - **reinforce market credibility and public trust** by preventing large-scale unfunded commitments that are not subject to an OBR fiscal assessment.

Territorial extent and application

- The Bill will extend and apply UK-wide.

Key facts

- This Bill will prevent significant uncosted measures from being announced without sufficient scrutiny to mitigate the impact on the public finances.

Let's be candid about this Bill. It is a little bit of student politics, at best.

Every Budget since 2010, when the Office for Budget Responsibility was created, has been accompanied by an OBR report, except that by Liz Truss and Kwasi Kwarteng. There have been no exceptions. And no one seriously believes that their mistake will be made again.

In that case, this Bill does, at best, score very cheap points. Labour should really prove that it is better than that.

And what does an unfunded commitment mean? In the current context, it can only mean that quantitative easing will be used.

When was quantitative easing last introduced? In March / April 2020.

Why was it introduced? To fund the furlough and other schemes required to tackle Covid.

What was the timescale for the introduction of quantitative easing? Days at most.

Would that be possible again if we had a similar crisis? No, because the Office for Budget Responsibility generally reckons it takes ten weeks to report.

So what does this Bill do? It outlaws another emergency use of quantitative easing in the event of a national crisis. People would have to die whilst waiting for the Office for Budget Responsibility to forecast, wildly inaccurately, what the consequences might be so that the use of quantitative easing could be described as 'costed'.

Seen in this way, this proposed Bill looks to be totally irresponsible because it constrains what the government can do in an emergency.

No doubt the Bill will include provisions to address this point, but in that case, this looks even more like a bit of student politics.

If Labour wants to be taken seriously when in office, it really should start behaving as if they're grown-ups.