# The Office for Budget Responsibility's forecast for the...

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The Office for Budget Responsibility issued a report yesterday that showed their ignorance of a great many issues and, in the process, highlighted the danger of relying on people who do not understand the substance of what might happen in the real world but who would rather, instead, extrapolate financial data in ways that are utterly impossible.

What they noted was:

*The past two decades have seen the UK economy hit by a succession of extraordinary shocks, in the form of a global financial crisis, a pandemic, and an energy crisis. The public finances have emerged from these shocks under strain. Deficits have averaged just under 5 per cent of GDP since the start of the century. This has caused debt to more than triple as a share of GDP to 98.1 per cent of GDP by March 2024, its highest level since the early 1960s.*

As they also noted:

*Public spending is at nearly 45 per cent of GDP in 2023-24 – its highest sustained level since the mid-1970s – as a result of increased spending on public services, welfare, and interest costs.*

And as they added:

*To reduce the deficit and arrest the rise in debt over the next five years, the previous Government’s fiscal plans were based on holding real growth in public spending below that of the economy, and the tax take increasing to 37.1 per cent of GDP, which would be its highest level since the late 1940s.*

All, then, is gloom and doom. So much so, in fact, that right at the outset of their report, they note that:

*The analysis in this report shows that, based on policy settings in March 2024, these and other pressures would eventually put the public finances on an unsustainable path.*

*Over the next 50 years, public spending is projected to rise from 45 to over 60 per cent of GDP, while revenues remain at around 40 per cent of GDP (Chart 1.1).*

*As a result, debt would rise rapidly from the late 2030s to 274 per cent of GDP in our baseline projection.*

They add, just for fun:

*Indeed, debt is projected to rise further to over 300 per cent of GDP, when further shocks and pressures are taken into account.*

*In practice, if these pressures and shocks were to materialise as we project, then governments would need to take mitigating policy action to prevent this debt spiral from occurring.*

*On our baseline projection, to return debt to its pre-pandemic levels would require an average fiscal tightening of 1.5 per cent of GDP per decade over the next 50 years.*

What are the shocks that they expect? They say that they are:

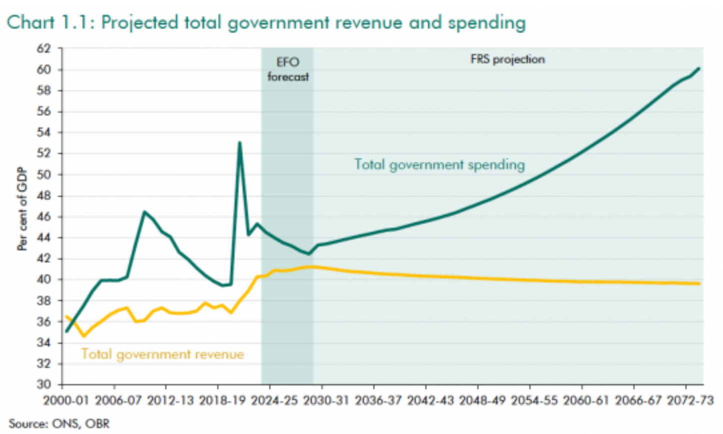
• *an ageing population, with a falling birth rate*

• *climate change, including the fiscal costs of completing the transition to net zero while also coping with damage from rising temperatures and more severe weather; and*

• *rising geopolitical tensions, with both the previous and current UK Governments aspiring to raise defence spending to 2.5 per cent of GDP.*

In other words, the costs of what is already observably happening are what is going to send us into the economic tail-spin that they predict.

They summarise their forecast in this chart:




I will admit that I have not read all the rest of the report that they have produced: time has not permitted that. But I have read enough to think that this is laughably wrong, although it will be widely believed.

In essence, what they are saying (and I think what follows is fair, although a drastic simplification, in a tone that they do not use) is:

* We will not be able to afford to tackle climate change because of the increases in government debt that it will create, as noted above.

* We will not be able to provide health care for those who need it - the cost of which is going to rise considerably.

* We really can't afford to fall out internationally, although the likelihood that we will is growing.

But what they ignore altogether is that if public spending grows to 60 per cent of GDP - as they say is likely - then it is utterly implausible that taxes will stay at 40 per cent of GDP. That simply cannot happen if inflation is to be controlled. Because they do not understand that state spending is funded by government money creation, the result is that they do not apparently appreciate that taxes will have to rise if the state commands so much of the output of the state to meet essential needs - which all of these issues will represent. Unless they do, inflation would follow, like night does day.

Instead, they assume, wholly without reason, that there is a limit to which taxes can go, whatever the circumstances. Only dogmatic belief, and not evidence, can explain this bizarre assumption. They have only to look at other times of crisis (like wartime, in the UK's most recent experience of existential threat) to realise that no such limit on tax raising exists. But they apparently have not been able to undertake that simple exercise and think that there is a ceiling on tax revenues beyond which it cannot rise. Their neoliberal beliefs blind them to reality.

Worse than this, their assumption is that the excess of government spending over tax would all be lent back to the state, fuelling ever-growing interest costs, whilst inequality would go through the roof because of the refusal to tax all the wealthy beneficiaries of this government spending largesse which would inevitably result in the accumulation of excess funds by a small number in society. It is, after all, a fact that, as the sectoral balances show (which are ignored in the report), public deficits fuel the growth in private wealth.

So, what this report claims to show is that apparently:

* the state can spend a great deal more to meet essential needs without taxing more,

* but inflation will not rise, and

* inequality will go through the roof, and

* the state will have to divert resources from essential purposes to pay those who own that state-created private wealth for the right to use it.

As a result, the OBR concludes all other state services must be cut from now on, meaning austerity is required. Even then, we might just not be able to afford to both care for the elderly and tackle climate change.

All of this is pure nonsense. There are good reasons for saying so:

* The UK population will grow: inward migration will guarantee that.

* As a result, tax revenues will grow, come what may.

* The state will tax more as it spends more - it will have no choice but do so to prevent inflation, the causes of which the OBR clearly does not understand. If state spending reaches 60% of GDP, expect taxes to be at least 55% of GDP, and as a result, debt will not accumulate as the OBR suggests. In that one observation, I have solved the whole crisis the OBR says exists.

* Wealth inequality will be tackled. It will have to be, and that is what happens in crises.

* Society will change radically in the face of the demands imposed on it: the OBR assumption, not stated but implicit in all they say, that all things will, bar those they mention, stay as they are now is absurd.

In summary, this work is a worthless summary by economically illiterate fantasists who wish to justify economic and social inaction in the face of climate change, ageing populations and other issues. And these are the people Rachel Reeves thinks should be in charge of saying whether the country is on the right track or not.

I despair.