The OBR says we're in a mess - but has none of the solu...

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As the Office for Budget Responsibility noted yesterday in its new Fiscal Risks and Sustainability Report:

At 94 per cent of GDP, UK government debt is the fourth highest among advanced European economies... and with its 10-year bond yielding 4.5 per cent at the end of June, the UK government faces the third-highest borrowing costs of any advanced economy.

As they said:

The UK's public finances have emerged from a series of major global economic shocks in a relatively vulnerable position.

This appears to be a stark and troubling assessment for the Office for Budget Responsibility, but its implications go far beyond the standard economic arithmetic of debt ratios and gilt yields that dominate much of the OBR's analysis.

First, it is clear from the OBR's own data that the UK's weak fiscal resilience is happening despite taxes having risen to their highest level relative to GDP since the 1950s. In other words, we are taxing heavily but are still running deficits because underlying growth is weak, spending needs have risen, and will keep doing so.

This, though, is not a story of profligacy. It is the predictable consequence of running an economy on the basis of neoliberal dogma. There has been long-term underinvestment in productivity-enhancing public and private infrastructure, as well as austerity in local government and social services spending. This has gone on for so long that crises have become systemic, and hopes that deregulated markets and property bubbles can somehow deliver broad-based prosperity despite this have been shattered. The myth of financial engineering as a basis for prosperity has been blown apart.

Second, the OBR highlights the strain on pensions and health costs due to an ageing population. They note that state pension spending is set to rise from around 5% of GDP today to nearly 8% by the early 2070s, driven by longer life expectancy and the triple lock. Meanwhile, the shift from defined benefit to defined contribution pensions means that households shoulder more risk, many will lack adequate retirement incomes, and demand for gilts from pension funds will dwindle, which they suggest will push up government borrowing costs even further.

The result is that they suggest there is now a fiscal time bomb created decades ago by governments that decided upon the demise of secure workplace pensions, failed to build sufficient rental housing, and left too many self-employed individuals and low earners without meaningful pension savings. The consequence is higher future costs for housing benefit, social care, and, ironically, public debt service itself.

Third, climate change stands as the most daunting fiscal risk of all. The OBR calculates that if global temperatures rise to 3°C above pre-industrial levels, as now seems plausible, then climate-related damages could reduce UK GDP by 8% by the 2070s, pushing debt up by an additional 56% of GDP, just for this reason alone. The costs of transition to net zero add another 21% of GDP, even under moderate assumptions. And that transition might also make life possible, when at 3 degrees, the punishment is not just going to be to GDP, but life as we know it in many ways. Despite that, policymakers are still treating net zero as an economic burden to be minimised, rather than an essential investment in the country's future solvency and security. The costs of inaction vastly exceed those of transition.

So what does all this mean? It means we can't go on as we are. The first real risks to the UK's public finances, and to the living standards of future generations, come not from borrowing as the OBR would have it, but from our failure to invest productively, whilst creating hidden, off-balance sheet liabilities that dwarf any cyclical deficit.

This risk could be addressed. Instead of obsessing about debt levels, as the OBR does, we should be:

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Prioritising public investment that builds productivity, resilience, and a fair transition to a low-carbon economy. Borrowing to build assets that sustain future incomes is fiscally prudent.

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Rebuilding collective pension security, including serious reforms to housing, so older people are not forced to drain savings or rely on housing benefits in old age. **I discuss this issue in this morning's video.**

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Taxing wealth, rents, and environmentally destructive activities far more effectively, to shift the burden away from labour income and broaden the

base that funds state commitments. Some of these are issues I discuss in the Taxing Wealth Report.

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Recognising that fiscal sustainability requires an economy that delivers decent wages, stable work, and healthy local economies and not just balanced books.

There is, however, more to it than that. We also need to rethink the financing of government:

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The £80 billion now spent to subsidise pension and ISA savings for the wealthy has to be reconsidered when those savings are not being put to productive use. This issue is addressed in the Taxing Wealth Report.

*** An increased role for the government in the savings market is essential to provide the capital for investment. I have discussed this at length, for example, here. There need be no shortage of funds for investment if only the government rethought how to attract capital for this purpose.**

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We need to stop paying interest on the central bank reserve accounts commercial banks hold with the Bank of England, at least in part. There can be no justification for these payments given the state of the UK's national finances.

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The Bank of England's fiscally irresponsible quantitative tightening programme has to end now. The artificial inflation of interest rates that it is promoting is profoundly undesirable in the current economic context.

*** We might also need to consider more quantitative easing, or simple central bank financing for government spending if the economy is underperforming and it has the capacity to undertake more economic activity than it is at present.**

In other words, the Office for Budget Responsibility needs to stop thinking that we live within a rigid and unalterable economic framework, when in fact we do not.

The OBR is right to issue a warning, but the real problem that the UK faces is

not a deficit on the Treasury's cash accounts. It is, instead, decades of neoliberal neglect that have left us with fragile growth, insecure households, escalating climate risks, and a tax system that no longer does its job, plus ingrained thinking by the Office for Budget Responsibility amongst others that suggests structural reofmr of our finances is not possible when it is.

The answer is not to retreat further into austerity. It is to remake the economy so that our future spending needs, on pensions, healthcare, climate, and social support, are matched by an economy robust enough to fund them. That is the only sustainable path forward.