

The budget: my reaction

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It is very hard to explain just how bad yesterday's Budget was, in terms of having nothing to say, in terms of its presentation, and in terms of the abandonment of responsibility to the people of this country that it represented on the part of a Prime Minister and a Chancellor of the Exchequer, both of whom were desperate for power, and both of whom have proved that they have no idea what to do with it.

I have now offered two videos on the Budget, but the point to note is that for most people it literally did nothing to change their financial situations, with all the supposed benefits being made available on energy costs likely to be less than the increase in household payments due from January 2027.

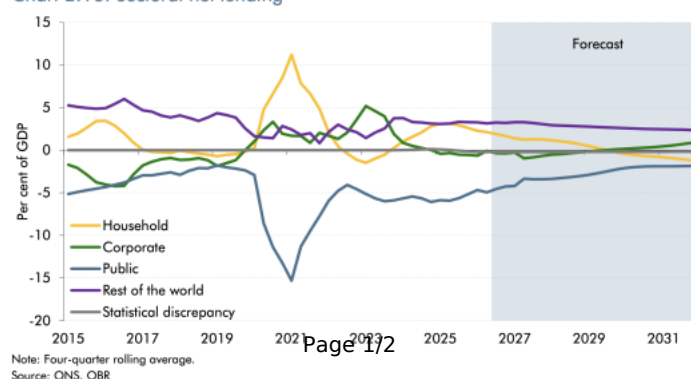
Elsewhere, banks had a better day than expected, but Burnham and Healey otherwise deferred every major decision that should have been made until later. That strongly reinforces my belief that a general election is coming, whatever Burnham says.

That being said, the underlying macroeconomic assumptions are also quite bizarre.

For example, it was assumed there will be continuous growth of between 1.5% and 2% in the coming years, when the prospect of that is so remote that the suggestion is utterly ridiculous. We are going to have a crisis because of either war, an AI bubble burst, or the consequences of climate change, and quite possibly all three. Growth is very unlikely.

And then there are the sectoral balances. This is the chart included by the Office for Budget Responsibility in its forecast.

Chart 2.16: Sectoral net lending



By definition, these lines must equal zero. The logic is quite simple. If somebody is saving, somebody must be borrowing, and that is what double-entry requires of all transactions in sterling, which is what this chart represents.

The chart includes the typical projection that the government will reduce the level of its borrowing. All the forecasts I have ever seen from the Office for Budget Responsibility have done that, and that outcome has never been delivered, or even come close to doing so, as the chart shows. John Healey's claim that he will meet his fiscal rules is based on this projection, and it is a work of fantasy.

What, however, is most fantastic about this is the belief that household debt is going to increase significantly over the next few years, which is the necessary consequence of the government reducing its support for the economy, which must be the case if it is to meet the fiscal rules. In other words, if the government balances its books, households must go seriously out of balance when many households are already seriously vulnerable to the burdens of debt. If you want a definition of government irresponsibility, that is it.

At the same time, it is forecast that businesses will go into a net-savings situation, meaning they will invest less in the economy than they already do, which, by international standards, is negligible. Forecast growth is, in that case, just a pipe dream

Add it all up, and the projections in this one chart prove this Budget has no credibility or relevance at all except to support John Healey's claim that he will meet his fiscal rule, which he will not.

Never has so much effort been wasted for no net gain to anyone, which might well be the summary for this whole Labour government under both its prime ministers.