

# The IFS Green Budget is an exercise in naive hope rather...

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The latest [Institute for Fiscal Studies](#)

[Green Budget](#) has been published today.

Like all such forecasts, this one is pure speculation, and whether it provides any indication as to what John Healy might actually do is completely unknown. As a result, I am not placing too much weight on its forecast of the fiscal difficulties he will face if he complies with his own fiscal rules, not least because he might, of course, change those rules in this budget to solve that problem.

In that case, I will not waste my time commenting on what the IFS think might happen, but I do think it is worthwhile to look at their macroeconomic forecasts.

The IFS did once, of course, famously say that it did not do macroeconomics, and that remains true. The macroeconomic forecast they published today was produced by Barclays Bank, not their own staff.

The forecasting question is typically neoliberal. Because neoliberal economics always assumes everything returns to equilibrium, which for these purposes can be translated as 'normality', that is what Barclays suggests will happen in this report. They recognise that the world economy may experience some disruption in the very short term, but then assume the issues in question will be resolved.

As a result, Barclays forecasts 3.3% growth in the world economy for 2026, supported by continued US AI investment, despite slower growth in Europe and China. Importantly, this means that the IFS believes that the AI bubble will not burst. As a result, the IFS does not forecast a global recession. UK annual growth remains positive too: 1.4% in 2026 and 1.2% in 2027. Positive annual figures do not, however, rule out a technical recession within a year.

On oil and gas, the baseline assumes the conflicts disrupting supply will all ease within months, and prices start falling in early 2027. Refining margins also stop widening, meaning the diesel crisis will dissipate.

Even the adverse forecast scenario keeps energy prices at current levels throughout 2027, but then allows them to fall. It excludes consideration of additional global uncertainty from prolonged conflict. This models prolonged expensive energy, rather than a collapse in physical availability.

On food, the forecast is, in my opinion, as naive. It flags harvest disruption from weather and El Niño as inflation risks, but presents no food-shortage scenario.

My interpretation is that, in that case, the IFS's fiscal conclusions depend heavily on supply disruption remaining manageable, which makes no sense in a world where that is obviously not happening.

A fair interpretation of all this is that the IFS recognises that there is a war going on in the world at present, but it will all be over soon. Much the same can be said of the effects of climate change, seen so far this year.

The question to ask in that case is how much will this forecast have in common with that from the Office for Budget Responsibility, which will underpin the Budget forecast itself?

My suspicion is that the OBR forecast will look very like that from the IFS. It too will take a rosy view of the likelihood of diplomatic successes from Donald Trump, the delivery of peace in the war between the USA, Israel and Iran, and the removal of stress in Ukraine. That, after all, is the message that the government will wish to impart. The OBR will not be permitted to disagree.

The same will be said, if anything at all is said, about the risks arising from climate change, because the government does not want to have it implied that it should be taking more action on this issue, because that would require expenditure which it will not wish to allocate.

The result is that we can anticipate that the Budget will adopt the same relatively rosy worldview that Barclays and the Institute for Fiscal Studies have done in this Green Budget.

My suggestion is that this increasingly feels like we are going to have the Budget presented by Rishi Sunak at the time that he was Chancellor of the Exchequer in March 2020, when the Covid crisis was already developing, but the assumptions within the OBR report that supported his Budget made little reference to it, even though the entire economy was about to explode in a way totally unforeseen.

I remember discussing that Budget in Jeremy Vine's BBC Radio 2 studio on the day in question, and agreeing after we went off air that the likelihood that we would be back, talking about a major revision fairly shortly, was very high indeed.

We were, indeed, back soon thereafter, many times as it turned out, although not in

person, because that did not happen at that time.

My expectation is that if John Healey shares this view of what is going to happen in the world, his October Budget will be about as irrelevant as Sunak's March 2020 Budget. The assumptions that Barclays make on behalf of the IFS that there will be no AI bubble burst, war will be contained, and climate impacts as a consequence of this year's drought, fires and fertiliser shortages will be limited are so flawed that a Budget based upon those assumptions will, in retrospect, become one of those that is used as a case study in naive expectations.

That said, I could be wrong. Everything might return to neoliberal normality. That is within the range of possibility, but I would suggest the probability is very low, and the uncertainty surrounding any such expectation is too great to ignore; but that is what seems to be happening.