Funding the Future

What happens if the Budget is based on false assumption...

Published: October 14, 2026, 6:03 am

Could the October 2026 Budget be based on economic assumptions that bear little relationship to the risks we actually face? In this video, I question the forecasts underpinning the Institute for Fiscal Studies' Green Budget and ask whether policymakers are preparing for the wrong economic future.

Recent economic forecasts from the IFS, Barclays, and the IMF assume many of today's disruptions will ease soon and that the global economy will move back toward something resembling normality.

But what happens if the AI boom ends in a financial crisis, war continues to disrupt energy supplies, or climate change causes further problems for food and global supply chains?

We have seen this problem before. Rishi Sunak's March 2020 Budget was based on forecasts that were rendered almost immediately irrelevant by COVID. Emergency government intervention then became unavoidable.

I argue that we risk repeating that mistake. Economic forecasts based on a return to equilibrium can underestimate the possibility that disruption itself has become the new normal, which it has been in 2026.

That matters because the government's Budget will be shaped by forecasts from the Office for Budget Responsibility and constrained by its fiscal rules. If those forecasts underestimate the possibility of serious economic shocks, the resulting policies could be inappropriate almost as soon as they are announced.

A crisis would require resilience, investment and government intervention rather than an overriding commitment to arbitrary fiscal rules.

The important question now is not whether a forecast balances neatly on a spreadsheet, but whether government has prepared for the risks we can already see coming.

I argue that MMT offers a better framework for this uncertainty because it focuses attention on real resources and economic capacity rather than artificial financial constraints. We cannot know exactly what will happen, but we can prepare for it, and we should, and not have a budget built on the basis of economic fantasy.

https://www.youtube.com/watch?v=lCcaI_6pRvo?si=UDCcSdwLGgR2tUx-

This is the audio version:

https://www.podbean.com/player-v2/?i=iqdxe-1b82a56-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This video supports this video:



This is the transcript:

Are we heading for a budget based upon assumptions that bear little relationship to reality? I ask this question because the Institute for Fiscal Studies, which everybody says is the most esteemed think tank with regard to such issues in the UK, has now issued its Green Budget for 2026, and it is assuming that the world economy will return to normal in 2027 and that there are no crises that we need to worry about.

But what if the AI bubble bursts and triggers a financial crisis? That isn't mentioned by the IFS.

And what if war, energy shortages, and climate change disrupt global supply chains? These are dismissed as potential inflationary impacts by the IFS, but not of any great consequence.

Could, in other words, if this set of assumptions were used for the real budget, we face a budget that is almost irrelevant as soon as it is announced? That's the question I'm asking in this video.

I well remember Rishi Sunak delivering his budget in March 2020. I was sitting in Jeremy Vine's studio at BBC Radio 2 when I did so. I will be sitting there again on the 28th of October this year as John Healey presents his budget. And the official forecasts that underpinned Rishi Sunak's budget in March 2020 were, to be polite about them, complete nonsense by the time he stood up at the Dispatch Box in the House of Commons.

The economic assumptions were all based upon the idea that we were not going to have a COVID crisis, of course, and we had that crisis. In fact, I caught my first dose of COVID that day. That was the last occasion when I went out before lockdowns happened, and I had the misfortune to get ill.

Sunak was forced to announce emergency measures many times over the subsequent weeks and months, and could we now be facing the same pattern if John Healey presents a budget as if everything is normal in October 2026?

Now, let's be clear. The Institute for Fiscal Studies has long said it does not do macroeconomics, and so the latest IFS Green Budget relies on economic forecasts supplied by Barclays Bank. That I do not consider to be a reliable source. I think they have skin in the game, to use a common phrase.

The underlying assumptions reflect conventional neoliberal economics, the sort that banks tend to adopt when they undertake their type of analysis, and the economic shocks in the world are being treated as temporary disruptions as a result, because all

of their work assumes, as standard neoliberal macroeconomics does, that everything will return to equilibrium very soon: and equilibrium, an economic concept of almost no real meaning, implies that everything will return to normal.

Current international crises are, then, expected to ease relatively quickly: early in 2027 as the forecast, although there is no indication of that being true. And oil prices are not expected to rise further than where they are now, although in one of the versions of the forecast, it is assumed that they might stay at current levels.

But what happens if disruption becomes the new normal? We've got used to that in 2026, and why should it be any different in 2027? Again, that's the question we need to ask.

The fact is, Barclays is forecasting global economic growth of 3.3% in 2026, with the US leading the pack because of the expenditure on artificial intelligence in that country. And it is forecasting UK economic growth in 2027 of 1.2%, which is almost identical to the 1.3% forecast by the International Monetary Fund on Monday this week.

Neither an AI crash nor a global recession is anticipated, nor is it by the IMF, and yet, and I make this point very strongly, the IMF, at the same time as forecasting there would be growth, said that the risk of an AI crash could trigger a major worldwide financial crisis, something that the Bank of England is saying is a very real possibility in the UK, but which is being entirely ignored within the IFS budget forecasts, and which I believe will be ignored inside John Healey's budget forecasts when he comes to the Dispatch Box.

As a consequence, what we're seeing are economic forecasters ignoring real supply chain disruptions.

They are ignoring the possibility of conflicts continuing.

They are ignoring the possibility that we might continue to have diesel shortages.

They are ignoring all the supply chain disruptions as a result of climate change.

None of those is apparently real as far as they're concerned. Everything will go back to normal, and normal is defined by their concept of economic equilibrium.

The fact that we might have drought, fires, and further disrupted harvests because of reduced fertiliser availability; all of those things don't matter. They are just inflation shocks. It is as if economists live on another planet, which of course they do. The assumptions that they make do not reflect the reality of the world that they actually live on.

And so we have an enhanced risk of a crisis actually happening. We have budgeting and forecasts being prepared on the basis that these things won't happen, when

everybody can see that the risk of a crash is very high indeed. Climate change, energy and food all provide the reasons for thinking that is a possibility.

The real risk then comes from the Office for Budget Responsibility. If they replicate the IMF assumptions, and they replicate the Institute for Fiscal Studies assumptions, we will have a budget that will make no sense. We will be back in Rishi Sunak March 2020 territory.

That really worries me because we'll have a budget that will focus upon the need for fiscal rules, and it will presume optimistic forecasts as to growth, but neither of these things will be relevant in a world where we suffer real economic shocks.

And at the same time, we will, of course, because of those fiscal rules, have a world in which it will be claimed that we must cut government spending. But the point is, as we know, in an economic downturn, the requirement is that the government does spend. That is what is essential, and indeed, in March 2020, Rishi Sunak had to learn that very quickly. My point is, we are facing that crisis, and we are facing it now unless the OBR is doing its work properly.

As I left that studio in March, 2020, I had a conversation with Mark Littlewood, not somebody I usually agree with. That is why we have sparred so often when discussing budgets on Radio 2. But on this occasion, we did agree. We agreed that this budget was so unreal we would be discussing revisions to it very soon, and we did. And that is what is likely to happen now.

Let's be clear: I am not expecting the October 2026 budget to have any real consequence at all. Whatever the measures are, they will be for a world that will not, I think, exist by the time they come to have impact. Many of those measures will not be introduced until April 2027 at the earliest. By then, everything might be different.

I've been right so far on this issue. I forecast that by October this year, we would begin to see the real problems arising with regard to fuel supply. We know they are now hitting airlines very hard. We know they are hitting haulage very hard. We know they're hitting motorists very hard. We know we are seeing food problems elsewhere. We know that the crisis is real. We know that inflation is real. We know that we have budget problems as a consequence. I was right about all those things. It is going to get worse.

Now, I can't say what the future will bring with certainty. It would be absurd for me to say so. But we have to recognise the scale of the risks that we face. And if we have a budget that doesn't do that, we would just make everything worse because crisis management requires prudent planning. That is not what the IFS and Barclays are doing. That is not what the IMF is doing with its own financial forecasts, even though it recognises the risks.

This government needs to do prudent planning. My question is: will it? Will it put in

place all the measures that are required to manage the multiple shocks that might come our way? Economic resilience matters more than compliance with arbitrary fiscal rules. I believe we'll get a budget focused on those arbitrary fiscal rules. It's not clear that any of our forecasters understand the real issues that we face, and my belief is that we could pay a very big price for that.

The world is not returning to normal anytime soon. Only time will tell, but fingers crossed have never yet made things work all right just because we have hoped that they will. Only proper planning does that, and that's what MMT would require in this scenario. What worries me is we are not going to get that planning because the possibility that the government will need to create significant additional funds to support the economy very soon, which MMT says is permissible, but which most economists dismiss as unrealistic, is what we need at this moment because MMT focuses upon reality and not fiscal balancing, and that's therefore the model we require at this moment to do the planning that is necessary to deal with the potential situations that we face.

That's what I think. What do you think? There is, of course, a poll down below. Let us have your comments. Please do like and share this video. Please do subscribe to the channel. Please hit that bell button because then you will be told when we make another video. And if you would like to support our work, there's a coffee or Ko-fi button down below, and if you'd like to make a donation, we would really appreciate that because this whole thing runs on coffee.

Poll

[poll id="556"]