Wrong official forecasts will produce the wrong budget

The Budget this week will doubtless be damaged and misdirected by wrong official forecasts. The Office of Budget Responsibility is meant to be independent, yet Chancellors seem obliged to use these forecasts and defend them. Given how wrong they usually are it places the government in a false position and misleads them over what is the proper policy response. Indeed, it leads officials to recommend advice which will slow the recovery and worsen the outturns.

The OBR and Treasury officials are wedded to Maastricht austerity economics. They slavishly publish the UK's position against the Maastricht debt and deficit criteria as if we were still in the EU and had to comply with the Treaties. They will doubtless inveigle the old Maastricht debt and deficit requirements back into a so called new statement of economic policy aims and controls for this Budget despite Ministers rightly wishing to review the framework.

If you are going to steer economic policy around debt and deficit figures you need to be able to forecast them accurately and understand what actions balloon deficits and which ones reduce them. Last year I drew attention to the wildly pessimistic budget deficit forecasts. The outturn was first published as an overstatement of a massive £90 bn in the deficit, even larger than I had dared to suggest. It was subsequently adjusted down to £64 bn by proposing that there will be some hidden losses yet to be determined to add to last year's figures. I repeated the claim that this year's budget deficit was also substantially overstated. At the half year stage it turns out the deficit was overstated by a whopping £43 bn in just six months.

The main reason is the OBR and Treasury underestimate the buoyancy of revenue in an upswing, and have false models of tax revenues which depress revenues when you cut rates without allowing for behavioural effects which increase transactions and output with lower rates. Thus we see that in the year to date Stamp Duty has risen by a massive 85% thanks to a mixture of unlocking and the lower tax rates the Chancellor wisely introduced. Corporation Tax is up 20% despite the Chancellor offering a super deduction for investment which officials are nervous about reading their latest published report.

The Chancellor should announce a strong commitment to low inflation, underlining the 2% inflation target which we are currently breaking. He needs to target tax cuts, regulatory actions and government procurement on scarcity areas where prices are under upwards pressure and offer supply side reforms to boost capacity. Energy, transport, domestic food growing, domestic timber and others are obvious areas.

There should then be a growth target, to send a clear signal to all of government that there is work to be done to boost the growth rate and the productivity rate with great education, training, network investments, incentives for the self employed and small businesses and innovation.

The state debt is currently stated as £2.2tn or 95% of GDP. As the state will own £475bn of the debt by year end the true figure is £1.75tn or 75% of GDP. This is a manageable amount at current low interest rates. Because the OBR grossly overstate the deficit they will demand tax rises which will slow the economy , garage confidence and impede rectifying supply shortages.

The politics of COP 26

The 26th COP conference to save the planet takes place in early December. Like its forbears they tell us this is the last chance and that much is riding on the results. Clearly they are right that as the previous conferences have not agreed sufficient action to even begin reducing the total carbon dioxide produced in many places nor to start to cut the total amount of fossil fuel burned around the globe this conference needs to be more successful than past ones to wean the world off fossil fuels as they wish. World oil demand at 85 m barrels a day in 2006 is forecast to exceed 100m barrels a day again as world recovery from the pandemic continues, and to stay there for the next decade. As the Conference approaches we are told that it will be an extremely difficult task to get an Agreement. I would be surprised if it is allowed to break up without one. I would also be surprised if it is the last such conference, declaring job done. In practice the world is nowhere near getting to net zero any time soon all the time China, India, Brazil, Pakistan, Bangladesh and other heavily populated countries see the need to burn more coal, oil and gas to grow.

The UK as joint chair with Italy has set out four crucial areas to get agreement – coal, cars, cash and trees. They will need to negotiate the question of grants and loans from the rich countries to the lower income countries, as they are making this an essential part of co-operating with the general green revolution. A recent meeting of the 20 country strong Like Minded Developing countries (includes China, Saudi, Pakistan, Malaysia, Bangladesh) issued a tough communique saying the advanced countries as a whole needed to cut their carbon output more quickly as they had put plenty of carbon dioxide into the atmosphere during their industrialisation. The rich countries needed to be tolerant of the developing world’s need to grow using fossil fuels, and to offer far more financial support for green transition by them. They pointed out that many developed countries had failed to make their full contribution of cash under the Paris promises, and had not met their own carbon dioxide reduction promises either.

It seems likely the Conference will have to proceed without either President Xi, or President Putin being present. China is by far and away the largest producer of carbon dioxide, at 28% of the world total, and Russia is in fifth place at 4.5%. It now seems likely Prime Minister Modi of India, in fourth place with 7%, will attend but it is unlikely he will be able to pledge cuts in Indian use of fossil fuels and will understandably want more financial support. China and Russia will send delegations and will offer national plans of sorts, but they will fall far short of what green campaigners would expect. There is unlikely to be an early phase out of coal by emerging countries, with China aggressively adding coal mines and coal power stations to her energy mix.

It will be easier to agree more trees, though difficult issues remain in parts of Latin America and Asia over cutting down forests to grow crops and graze cattle. Everyone will be sympathetic about electric cars.

The central Agreement will therefore rest on further pledges of progress from the world's second and third largest emitters, the USA and EU. The UK will assist as the one larger advanced country that has already done the most to cut its own carbon dioxide output. Getting a better commitment from Germany to cut out coal would help them. There are rumours that a possible new coalition government there might want to bring forward the elimination of coal from 2038 to 2030. The EU will doubtless find it more difficult to get an improved commitment from Poland, another large coal user.

Without larger and faster contributions from the first, fourth and fifth largest producers of CO2 in the world it is going to take more such conferences to chart a reliable path to net zero for the world.

Good and bad trade deals

To the BBC and Remain critics a free trade deal with the EU was essential to our economy, whilst a free trade deal with anyone else is a big threat to our own farms and industries, allowing foreign competitors more of a chance to lift orders from us.

They never see the contradictory nature of their twin positions. Apparently New Zealand lamb could drive our sheep farmers out of business. No such damage they say is being done by the EU. They ignore the way German cars, French dairy, Italian textiles, continental steel and others drove many of our companies out of business when we went to zero tariffs with the ECEC on joining , let alone the damage the CAP did to farming and the Common Fishing policy did our fishing grounds and industry.

The truth is we rely for our substantial foreign trade on WTO membership which secures most of it with or without top up trade deals. A top up trade deal can be helpful overall, but of course it only helps our business where we are competitive and harms it where we are not. We have a massive deficit with the EU thanks to the asymmetric way tariffs and barriers were taken off industry where they had an advantage, but kept barriers on service where we had an advantage.

The other criticism they advance of a deal like the New Zealand one is our trade is relatively small. This of course contradicts the other criticism that it is seriously harmful. The NZ deal cements a friendly alliance that matters, but it is also progress to joining the TPP which is large Asian trading area of faster growing economies which we can do more with.

The absurd argument that we have swapped a great deal with the EU for one with smaller counties is silly. We have a tariff free deal and WTO access to all EU markets, no we are adding a bit better deal with places like NZ and Australia, preparatory to joining TPP which the USA may well also join.

Brexit supporters always had a sense of perspective over trade deals, knowing the key was WTO membership for trade access. We left to run our own affairs generally. Membership of the EU single market did considerable damage to industry, agriculture and fishing owing to the asymmetry in its rules. They could fish our waters, for example, but we didnt get rights to Mediterannean fish.

My interventions during the debate on the Environment Bill, 20 October 2021

Sir John Redwood (Wokingham) (Con): As there is a lot of concern about this on both sides of the House, can the Minister give us some encouragement about what pace of change we can look forward to under her proposals? I think people want some reassurance that this is going to be tackled quite soon.

The Parliamentary Under Secretary of State for Environment, Food & Rural Affairs (Rebecca Pow): I thank my right hon. Friend for that, and honestly, people are coming up to me left, right and centre about this.

I feel as strongly about it as everybody else, so I am so pleased we have got this into the Bill. I have to say that a lot of it is thanks to working with my right hon. Friend the Member for—[Hon. Members: "Ludlow."] I have been to Ludlow, but I have a lot of data in my head!

I think my right hon. Friend Philip Dunne would agree that we have worked unbelievably constructively to get what was going to be in his private Member's Bill into this Bill, which is absolutely the right thing to do. I hope we are demonstrating that this is happening quickly.

For example, we are requiring water companies to put in monitors above and below every storm sewage overflow to monitor the data. They will have to start that right now, because the sewerage plans coming forward in the Bill are already under way.

…

Sir John Redwood: Is the Minister saying that if this change goes through, another HS2-type assault on ancient woodland would not be allowed, whereas the last one was?

The Parliamentary Under Secretary of State for Environment, Food & Rural Affairs: What it will mean is that, yes, there will be much more credence given to the value of ancient woodland.

At the moment, ancient woodland does not necessarily win, because one can have the infrastructure, or whatever it is, if one can demonstrate that there are wholly exceptional reasons for getting rid of the ancient woodland.

This approach will really strengthen the position: it is a really big commitment to ancient woodland, which is like our rainforest. We have to do something about it—and we are, which I hope will be welcomed.

…

Sir John Redwood: Is there a possible compromise? The Minister said that the regulator could set and enforce targets and extract penalties; would that be a way forward? Could we get the Minister to come up with some tough regulatory targets that fall short of the absolute guarantee of a legal statement?

Chair, Environmental Audit Committee, Chair, Environmental Audit Committee (Mr Philip Dunne): There will be targets—there are water-quality targets in the Bill anyway—and the Minister referred to the guidance that she is on the point of finalising for the next pricing review period for Ofwat.

My Committee, the Environmental Audit Committee, is currently conducting an inquiry into water quality, and we will make some recommendations to strengthen that guidance, so there are tools that can be used.

That does not, though, get away from the fact that in my view there should be a primary legislative duty on water companies, to persuade them to treat this issue with sufficient seriousness.

Keeping the lights on and homes warm

Over the next few years we will face a reduction in nuclear power as older stations are closed, well before a new large nuclear power station comes on line. We will experience growing demands for electrical power as more people switch to electric cars and electric heating, and as the economy and the population continues to grow creating more need. There will be a further major increase in wind power, which will cover the days when there is the right level of wind to maximise turbine output without needing to shut them down through too high a wind speed. The question remains, what is the back up plan for days of high demand when the wind does not blow and when solar output is also low?

In the short term the government has brought three coal power plants back on stream to deal with shortages. These have to be kept, and perhaps could be converted to biomass to make them more reliable and popular contributors to our power output. The country relies heavily on its remaining combined cycle gas stations which produce less carbon dioxide than the coal stations per unit of output. It would be a good idea to bring several old retired gas stations back into a state of readiness to be available to produce power when the wind drops. These are matters which our managed system of generation can commission by offering capacity payments to the owners to make the facilities available.

The government should also look at how it can increase domestic gas output. Currently half the gas we use is imported. Some of this is dependent on paying high and wildly fluctuating spot market prices. Some of it is shipped long distance on tankers. If we produced more domestic gas this could pass to users via pipeline and could be purchased under contract at more stable and lower average prices. Immediately the government could allow Shell to progress the Jackdaw field, which can use the existing Shearwater platform and the existing gas and liquids pipes into St Fergus/Cruden Bay for onward distribution by the existing pipe network. This would be a greener method of supplying gas than the imports and provide us with more national resilience in energy provision. The government should review its other options for producing more UK gas as a transition fuel whilst it puts in place much more reliable renewable electricity and better storage for variable wind power.