

Some funny numbers from the Treasury and OBR

The OBR has had to explain why it was so far out in its forecasts of the deficit and borrowings last year. They have written:

“Our latest forecast for (Central government borrowing) 2021-2 is £48.3bn below the October forecast and £131.2bn below our March 2021 forecast (the Budget)” They accept they underestimate tax revenues by a massive £77bn and overstated state spending by £48.7bn. It should be easier to forecast what you spend when you are running the spending controls.

We can all make mistakes. Forecasting is difficult. What is more difficult to forgive is that this was not the first time they have underestimated the revenues and overstated the deficit. Worse still is they used their precise forecasts of revenue and deficit to tell the Chancellor he needed to raise more taxes to reduce the gap between spending and taxing. It turns out they need not have asked him to do that as the numbers were so much better than the numbers they tried to create with tax rises. So when I am asked how do we pay for the tax cuts, the first answer is we are so far ahead of plan there is no problem. The second answer is if you cut the right tax rates to a sensible amount you can end up with more growth and more revenue, not less.

The Treasury also needs to come clean about the debt interest. They have been using their current high figure of £83bn which includes index costs on the repayment of inflation linked debt which does not entail making any cash payments before redemption. They use this figure to scare politicians into accepting more austerity to control the debt interest. What they omit to point out is on their definition of debt interest they forecast a collapse in the cost of it to £46.7bn by 2024-5. That is a fall of £36.3bn or 44% in debt interest.

The Treasury has a tradition of overstating deficits when there is good growth and understating them in recession. There is also a danger their policy advice based on very wrong forecasts could drive us unnecessarily into recession.