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.