Tullett Prebon Research, a blog by Dr Tim Morgan

The budget – smoke, mirrors and plus ça change

by Tim Morgan on March 19, 2013

How do you start a budget speech? Well, "stop me if you've heard this one before" would be appropriate, because, to quote Yogi Berra, this budget is likely to be a case of "déjà vu all over again". The economy will, yet again, have confounded the serial optimists at the OBR. The deficit reduction plan will…er, yet again…have gone further adrift of the government's plan. The debt target will – well, "yet again" – have slipped by another year.

This time, though, observers will need to keep their calculators handy if they are to figure out what is really happening. Whilst Mr Osborne is likely to disappoint sensation-seekers, lovers of the obscure will have a field-day.

One of the less scrupulous initiatives of the Nixon administration was the concept of "core inflation". This, it was claimed, showed the real state of affairs if distorting variables were left out. The snag, of course, was that the things that Tricky Dickey wanted to omit were those very items – energy and food – whose prices were rising most rapidly at the time. Small wonder that one critic dubbed it "inflation ex-inflation". It's a bit like saying that "Britain had wonderful weather in 2012, if we exclude the days on which it rained".

The Treasury, it seems, is lining up a similar exercise in smoke-and-mirrors for the budget, arguing that the British economy looks fine and dandy if the weak bits (principally, finance and the North Sea) are left out. They could take this even further, of course, showing how the economy looks really terrific if we also leave out construction, real estate, retailing and the state-funded sectors…

If this is indeed a line that the Treasury pushes, it will join another piece of legerdemain which will portray a deficit of about 7.8% of GDP as something closer to 5.1% by including within the fiscal numbers, amongst other things, the £28bn assets (but not the £37bn liabilities) of the Royal Mail pension fund, taken over by the state in April.

Behind the statistical smoke, the reality is that Britain combines one of the developed world's most troubled economies with one of its worst deficits. The biggest source of frustration for objective observers, however, will doubtless be yet another repetition of the sterile debate between plans A and B, with the government claiming that Britain's policies would be working were it not for global economic conditions ('it's those foreigners again'), whilst Labour, ignoring the £1.1 trillion that has already been pumped into the economy, calls upon ministers to borrow Britain's way out of a debt problem.

Considering the economy on a basis which excludes financial services would, of course, be ludicrous, because assessing Britain ex-banking is about as rational as evaluating Saudi ex-oil. Politicians who spent decades wooing the City seem now to have forgotten that it's the financial sector which alone earns the foreign currency to pay for essential imports such as food (a deficit of -£18.7bn last year) and energy (-£21.3bn).

Let's be clear that there is one initiative, above all, that could get the economy moving, and that is house-building. Unfortunately, the only way in which this could work – a state-financed programme of building council houses – contradicts the mantra of government ideology. Ministers would prefer to encourage private sector developers, but this idea is a non-starter. With the over-valued property market already critically exposed to interest rate risk, developers are not going to commit to building over-priced properties any more than mortgage lenders are going to rush to finance them.

Just this once, the government should sacrifice ideology to the public interest, and start building council houses, funding this from savings in current expenditure.