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As the Autumn Statement looms, 'Spreadsheet Phil' can have it both ways - if he's careful

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The Chancellor Philip Hammond entering 10 Downing Street

The Autumn Statement used to be a pretty humdrum affair, simply giving an update on the official forecasts for the economy and public finances. In recent years, though, it has taken on the character of a mini-Budget. It needs to revert to its earlier status.

But this Wednesday may not be the right time to downgrade it. Mr Hammond has been in the job for only a few months and needs to make an impact. Meanwhile, the economy is at a critical juncture.

Mind you, having just had Guy Fawkes night, there is no need for fireworks this week. A number of commentators have accused "Spreadsheet Phil" of being dull. But seeing a former shadow chancellor disporting himself on the dancefloor is surely enough entertainment from the ranks of chancellors, actual and nearly. Dull but competent is fine by me.

Mr Hammond's task is made more demanding by greater than usual forecasting difficulties. Under George Osborne, the Treasury sub-contracted forecasting to the Office for Budget

Responsibility (OBR). We all know that the record of most economic forecasters is pretty poor. Sadly, the OBR's own is no exception.

The big forecasting issue at the moment is the impact of the Brexit vote. The forecasting establishment is mostly gloomy. It believes the impact on aggregate demand will be negative as the squeeze on consumers' real incomes resulting from the lower pound – and the reduction in corporate investment caused by uncertainty – will outweigh any boost to exports.

More importantly, it also believes Brexit will harm the UK's medium-term productive potential because of reduced trade and investment. Yet this group of forecasters recently has been even more than usually inaccurate. The much-heralded Brexit recession still hasn't appeared. Indeed, last week's retail sales figures showed, yet again, how resilient the economy has proved to be.

In the past, the OBR's forecasts have tended to be pretty close to the consensus. Unless it breaks this habit, it will probably forecast growth next year of only about 1.2pc, down by roughly 1pc. Moreover, it will probably see lower growth continuing in the years ahead. In that case, the OBR will come in for a barrage of attacks from Brexiteers in Parliament, as well as from Brexit-supporting economists outside it – including me.

But the poor Chancellor is bound to take the OBR's forecasts as the basis for his budget planning. So should he loosen fiscal policy or tighten it? He may be able to do both – on different definitions.

Indeed, it will be difficult to tell exactly what he is doing even after he has spoken. Practitioners of the black arts of Budget analysis will have to work extra hard.

The essence of the difficulty is that under the plans bequeathed by Mr Osborne, there was due to be continued fiscal tightening for the next three years, including a tightening of 0.8pc of GDP next year. Mr Hammond has said he will not be aiming to achieve a surplus that quickly, although the medium-term objective is still to eliminate the deficit.

On top of that, he is likely to announce a fiscal giveaway, concentrated on infrastructure spending, and tax sweeteners directed at low-earning working households. But unless this is substantial, fiscal policy will still tighten.

There is also the issue of how the deficit numbers are assumed to respond to any weakening of economic activity in the forecast. The OBR will probably tell him that in 2019-20, the deficit is due to be about £35bn higher than under previous plans.

So in regard to what was assumed to happen in March, the Autumn Statement is going to represent a loosening of policy. But as far as discretionary measures are concerned, in comparison with where we are now, there will still be a tightening. Got it?

There is a silver lining to the cloud that the OBR is sending the Chancellor's way. The more pessimistic outlook for borrowing should make it easier to justify a strong effort to contain day-to-day spending. Although Mr Osborne reduced the deficit significantly, he didn't go far enough in cutting non-investment spending. Containing it is now paramount. Mr Hammond could find himself in a stronger position to reduce taxes in a couple of years' time.

This logic does not apply to infrastructure spending, which needs to be higher. But there is no need to come up with some new-fangled financial rinky-dink that supposedly magicks money out of the private sector. The purpose would be to keep the spending out of the conventional definitions that govern the budget deficit. But it was thinking such as this that gave us the extremely wasteful Private Finance Initiative (PFI). If Mr Hammond wishes to increase infrastructure spending he should finance this in the once normal, simple and cheap way, by issuing gilt-edged stock.

In the meantime, the Chancellor could boost confidence by laying out a credible plan for the tax system. The aim should be both to simplify it and to reduce key tax rates, corporate and personal.

This need has recently become more pressing. America is likely to embark on substantial cuts in individual and corporate tax.

Meanwhile, over here, companies and individuals need reassurance in the wake of the Brexit vote that Britain is a good place in which to base themselves. When short of money to give away, chancellors should not deploy gimmicks. They usually turn out to be ineffective and wasteful. But Mr Hammond can and should give us “the vision thing”.

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