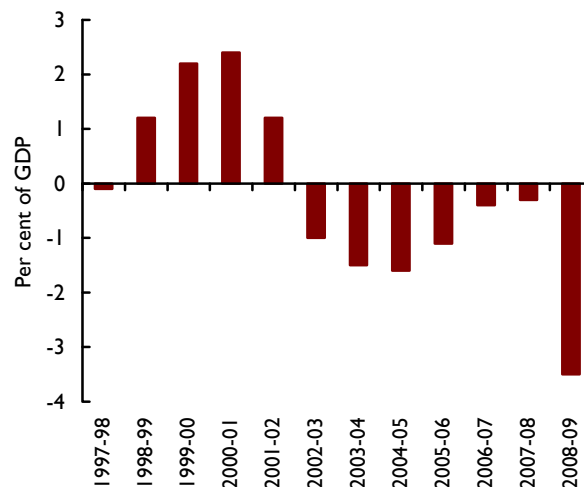


## Press notice for Fiscal Policy under Labour

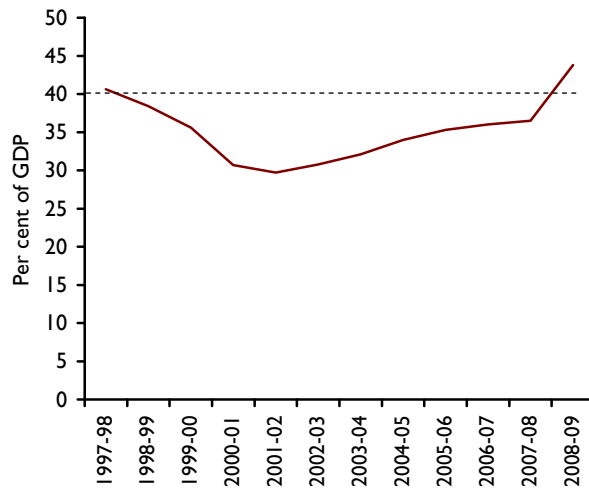
In *Fiscal Policy under Labour*, Alan Budd examines the record from the election of the Labour Government in 1997 to the Pre-Budget Report of November 2009. He describes (and commends) the many innovations introduced in the early years but questions whether the changes were as radical as claimed. He reports the early successes in reducing the deficit and lowering the debt/GDP. There was a tendency for outcomes to be better than expected and progress was rapid. The process of fiscal tightening also supported the general direction of monetary policy.

The turning point was around 2001, the year of a General Election. The general direction of fiscal policy was reversed and projections tended to be over-optimistic. Budd notes the significant increases in expenditure on the NHS and a reluctance to raise taxes or cut other expenditure adequately to pay for them. The Government could claim that its two fiscal rules were met over the cycle which was judged to have run from 1997 to 2007. It could also claim that fiscal policy had supported the easing of monetary policy from around 2001 onwards. But the years from 2002 to 2007 produced successive current deficits. While the Treasury was not alone in failing to foresee the impact of the financial crisis (and Mr Darling was more pessimistic than many commentators), the nature of the Golden Rule, and the tendency to over-optimism from 2001 onwards meant that the UK was less well prepared than it might have been to deal with the shocks of recent years.

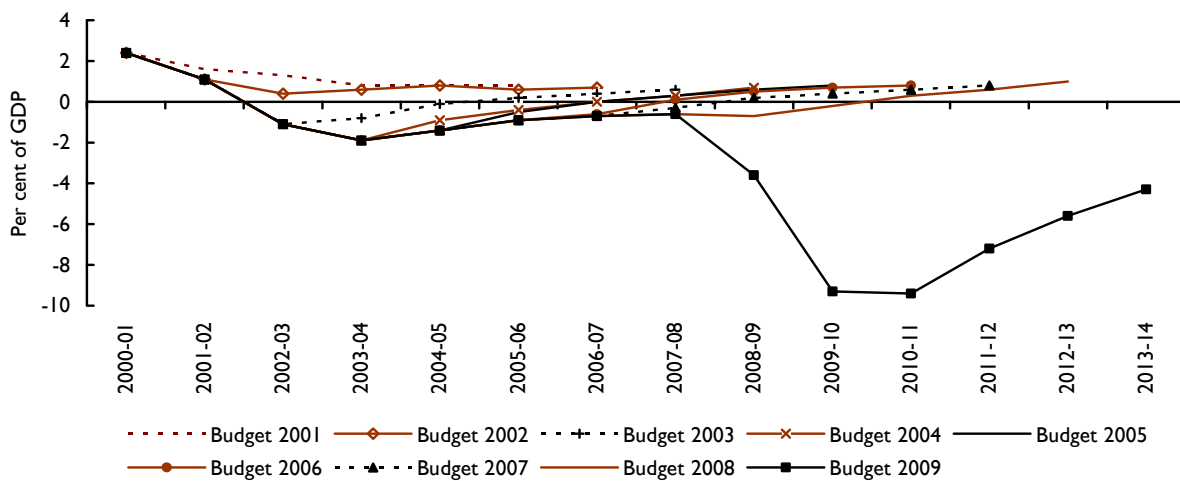
His final conclusion is that the uncertainty of fiscal forecasts should reduce, rather than increase, the Chancellor's room for manoeuvre.



Public sector current budget surplus (fig 2)



Public sector net debt (fig 3)



HM Treasury forecasts for the current budget surplus (fig 4)

Sir Alan Budd was Chief Economic Adviser to HM Treasury and Head of the Government Economic Service between 1991 and 1997. He was a founding member of the Monetary Policy Committee of the Bank of England and Provost of The Queen's College, Oxford from 1999 to 2008. In the event that the Conservatives win the next election, George Osborne has announced that he will set up an independent body which will, among other things, publish independent fiscal forecasts around Budget time and announce the amount of net fiscal tightening or loosening it judges necessary for the Treasury to have a better than 50% chance of achieving a forward-looking mandate set by the Chancellor. This body, the Office for Budget Responsibility, will be headed by Sir Alan.