

National Institute of Economic and Social Research

**Time to scrap current fiscal rules – and focus on
more explicit policy evaluation,
NIESR research shows**

EMBARGOED UNTIL 00.01AM FRIDAY 23RD APRIL

New research to be published on Monday by the National Institute of Economic and Social Research (NIESR) and funded by the Nuffield Foundation sheds a light on the current fiscal framework failures and proposes a number of changes to resolve the key issues of the present approach.

The analysis, based on interviews with politicians and policy-makers, shows that fiscal rules have limited use, both over time and across space, given the difficulties in setting rules that give enough flexibility to respond to unforeseen circumstances and given the difficulties in meeting the pre-set targets due to uncertainties about the state of the economy.

Main **proposals** around creating a new fiscal framework include:

- The Chancellor should set out a structured timetable for fiscal events and deliver a Budget speech focused on the state of the economy and the government's socio-economic objectives that is more extensively debated and scrutinised by Parliament and a Fiscal Council;
- The OBR should publish pre-fiscal event reports with key issues to which the Budget and the Autumn Statement should respond;
- The Chancellor should provide more guidance as to how fiscal policy would respond if certain risks materialise and the OBR should produce economic forecasts and scenarios to inform government on fiscal choices;
- The OBR should be encouraged to state whether the policies they condition on are reasonable and aligned with social welfare given the economic outlook
- HM Treasury should create a new body of independent experts for ex ante advice and ex post evaluation of the key fiscal choices, moving from descriptive fiscal policy to a formal assessment of normative choices;
- Fiscal strategy has to be joined-up across the UK and all its constituent parts, with particular attention paid to distributional effects, productivity, well-being and ecological sustainability.

Former Chancellor, the Rt Hon. Alistair Darling, said *“What stands out from the findings in this collection of papers is that, whilst a government’s approach to fiscal and monetary policy needs to be credible so it supports the wider societal aims, and flexible enough to adapt to the changing circumstances of the day, it must also be transparent. Governments need to be open about what they are doing and why.”*

Former Chancellor, the Rt Hon. the Lord Lamont of Lerwick, said: *“The findings from this research represent a valuable contribution to the current debate on fiscal frameworks, with an insightful consideration of the historical context and lessons from previous crises. Whilst no-one can be sure what the future holds, it is clear from this authoritative study that any future framework should be based on a collection of clear principles, born from a clear strategy concerning expenditure, and agile enough to adapt to the unknown.”*

NIESR Director, Professor Jagjit Chadha, said: *“With the Covid-19 pandemic continuing to pose difficult questions of our policymakers, now is the time to consider the role of fiscal policy. It simply makes no sense to be in thrall to arbitrary rules that do not match society's broader needs. Our research shows how time and time again policy ends up flexing in response to society's needs and so we show how it is possible to build a better fiscal framework.”*

Nuffield Foundation’s Chief Executive Officer, Tim Gardam, said: *“This research puts forward practical proposals that have potential to make fiscal policy more transparent, accountable and responsive to the needs of society, which, as we have seen with the pandemic, can change very suddenly. Crucially, the proposals recognise that decisions about tax, spending and borrowing are ultimately about people’s well-being, and that consideration of distributional effects, particularly in relation to different regions and devolved nations, need to be embedded within fiscal policy.”*

ENDS

Notes for editors:

For a full copy of the embargoed report, *“Designing a New Fiscal Framework: Understanding and Confronting Uncertainty”*, please write to: press@niesr.ac.uk

For queries and to arrange interviews, please contact the NIESR Press Office: press@niesr.ac.uk / l.pieri@niesr.ac.uk / 07930 544 631

The Nuffield Foundation

The Nuffield Foundation is an independent charitable trust with a mission to advance social well-being. It funds research that informs social policy, primarily in Education, Welfare, and Justice. It also funds student programmes that provide opportunities for young people to develop skills in quantitative and scientific methods. The Nuffield Foundation is the founder and co-funder of the Nuffield Council on Bioethics, the Ada Lovelace Institute and the Nuffield Family Justice Observatory. The Foundation has funded this project, but the views expressed are those of the authors and not necessarily the Foundation. Visit www.nuffieldfoundation.org



Further details of NIESR's activities can be seen on <http://www.niesr.ac.uk> or by contacting enquiries@niesr.ac.uk - Switchboard Telephone Number: +44 (0) 207 222 7665