


Rethinking the UK's fiscal architecture

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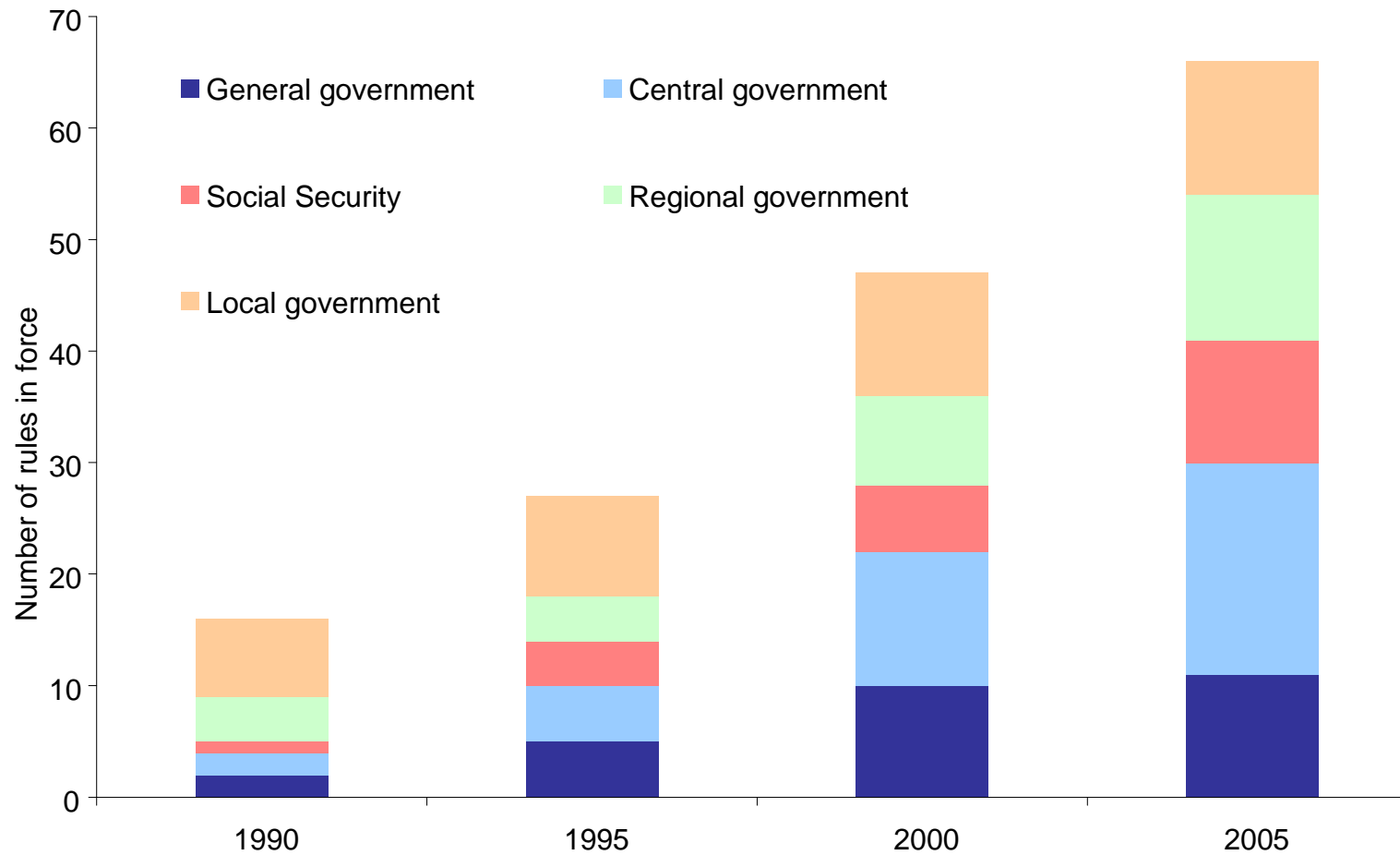


‘Balancing the budget is like going to heaven.
Everybody wants to do it. They just don't want
to do what you have to do to make the trip.’

Phil Gramm

1990

The increasing use of fiscal rules in the EU



Source: European Commission (2006).

Most OECD countries have fiscal rules



	Countries	Per cent
Budget balance rule	18	60
Expenditure rule	17	57
Debt rule	10	33
No rule	6	20
Revenue rule	4	13
Other rule	1	3

Source: Based on responses by 30 OECD countries to question 15 ('In developing the budget, are there any fiscal rules that place limits on budget policy?') in a 2007 OECD survey: <http://www.oecd.org/gov/budget/database>.

But simply having a rule is not enough



‘[There] is no guarantee that governments will be able to control their deficit excesses by simply being told to borrow less. [A] rule must create the **appropriate incentives** for those making fiscal choices to adhere to the regulation.’

Robert Inman

1996

The quality of fiscal rules matters (1)



- Inman's four criteria for a 'strong' fiscal rule:
 - Applied ex post, not (only) ex ante
 - Difficult to override
 - Independent enforcement with significant penalties
 - Difficult to amend

The quality of fiscal rules matters (2)



- Also (Buiter 2003, Anderson & Minarik 2006):
 - Simplicity
 - Avoid pro-cyclical behaviour (not only in bad times!)
- Are spending constraints most effective?
 - Gramm-Rudman-Hollings v Budget Enforcement Act
 - More successful consolidation (Guichard et al. 2007)

Fiscal rules alone do not guarantee control



- A comprehensive medium-term spending framework:
 - Strong case for including ‘mandatory’ spending
 - Possible benefits of a rolling framework
- More programme-level scrutiny
 - Outcome focus complicates accountability
 - Excessively high-level appropriations dilute parliamentary control

Summing up



- Fiscal rules can help consolidation
- The detailed design matters
- Fiscal rules do not work in isolation

Further reading

- Anderson, B. and J. J. Minarik (2006). "Design Choices for Fiscal Policy Rules." OECD Journal on Budgeting 5(4): 159-208.
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- Kopits, G. and S. A. Symansky (1998). "Fiscal Policy Rules." IMF Occasional Paper 162.
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- Schick, A. (2003). "The Role of Fiscal Rules in Budgeting." OECD Journal on Budgeting 3(3): 7-34.