

The Case for a UK Fiscal Council



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Based on

Kirsanova, T., Leith, C. and Wren-Lewis, S (2007) "Optimal Debt Policy, and an Institutional Proposal to help in its Implementation", European Economy, European Commission

The problem



- Asymmetric information on public finances
- Deficit bias - Governments face constant pressure to spend more, tax less
- Consequent lack of trust will hurt even the most prudent government
- Rules are either too simple to be credible or too complex to monitor
- Requires 'watchdog with authority' to provide pressure against deficit bias

Requirements for an effective Fiscal Council




- Political authority
 - Key is to ensure that a government that ignores the council's advice incurs a finite political cost.
 - Implies unique body given authority by government
- Technical capacity
 - Needs to make own projections of public finances.
- Seen as unbiased
 - Analysis must be in public domain, and subject to public scrutiny
- A Fiscal Council can help a government resist political pressures to cut taxes or raise spending.

A concrete proposal for a UK Fiscal Council



- Established and financed by government
- Director appointed by, and subject to, a board of experts. The board appointed by government for 5-10 year terms.
- Needs staff sufficient to prepare once a year detailed public account projections over a 50 year forecast horizon, based on current government plans. This goes well beyond an 'audit' of government forecasts.
- At the same time the Council would assess sustainability and optimality of current plans, and publish (if necessary) their preferred corrections
 - Would not suggest how to achieve deficit corrections
- The government would be required to respond to these projections and proposals

Key differences between a Fiscal Council and the Monetary Policy Committee

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- Time horizon
 - MPC sets instrument given target, Fiscal Council sets target but not instrument
 - Less consensus on goal of fiscal policy
 - Key problem in giving actual power to a Fiscal Council. In addition
 - ‘No taxation without representation’
 - In any case, Fiscal Council would be a prudent first step towards an Independent Fiscal Authority.