A DEMOCRATIC FISCAL FRAMEWORK

TRANSFORMING THE OFFICE FOR BUDGET RESPONSIBILITY INTO THE OFFICE FOR FISCAL TRANSPARENCY

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Published: August 2025

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EXECUTIVE SUMMARY

The UK's fiscal framework is suffering a democratic deficit. It relies heavily on the Office for Budget Responsibility (OBR) to judge whether the Chancellor is meeting her fiscal rules. Yet it gives no route for the Chancellor to disagree with the OBR, even when they may be justified in doing so. Born of promises to "eliminate" the deficit and take "urgent action to reduce debt", the OBR has manifestly failed to deliver what it was set up to do. Instead, if one views it as part of George Osborne's austerity agenda, it has been successful in insulating austerity measures from democratic accountability.

The responsibility for this democratic deficit is certainly not solely the OBR's. It is our entire fiscal framework, and specifically how our fiscal rules are defined, that has created these problems in the first place. In any other context, the OBR would be a well-designed independent institution. Yet, our fiscal framework gives it an effective veto on fiscal policy decisions. It privileges the OBR with a power that has received little democratic scrutiny. This must change to alter the trajectory of economic policy and protect the OBR from being overhauled in a way that allows the government to evade proper scrutiny. NEF proposes reform to the OBR that would sever the link between its assessments of the fiscal rules and government fiscal policymaking, by making it so that the fiscal rules only need to be met by the Treasury's own forecast. In turn, the OBR's role would be to scrutinise the Treasury's economic forecast rather than explicitly define it. Importantly, this is not a call to abolish the OBR but to recognise that its current form is not fit for purpose.

To ensure that the OBR's newfound independence from the assessment of fiscal rules isn't completely ignored by the Treasury, we suggest more wholesale reform. We propose an Office for Fiscal Transparency (OFT) that would replace the OBR while absorbing its forecasting capacity. Importantly, the OFT would be required to publish where the OFT and Treasury disagreed on economic forecasting, making fiscal policy more transparent. Further, to stimulate debate, we recommend introducing a Fiscal Policy Committee (FPC). The members of the FPC would be required to judge whether they agreed more with the OFT or the Treasury regarding disagreements. The FPC would allow for better debate and recognition of alternative policy solutions even under our current fiscal rules. This would give the Treasury more degrees of freedom to go against the OFT's judgment if it so wished.

Taken together, these reforms have the potential to transform UK fiscal policy for the better. However, such a proposal needs to be assessed not only on potential economic merits but on democratic ones too. As we live in an age of rising fascist movements, protecting democracy should be one of the government's number one priorities. Yet the current approach, where governments seek to bolster independent institutions like the OBR, is doomed to fail. The OBR cannot be protected from anti-democratic attacks if it is already part of an anti-democratic fiscal framework. This paper sets out how to design a fiscal framework that can actually protect the UK against anti-democratic threats.

1. INTRODUCTION

In 2010, George Osborne created the Office for Budget Responsibility (OBR). The charter that legally established the office states the OBR was "designed to address past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy".[1] It was created in a context where the Conservative party had promised "urgent action to reduce debt" and to "eliminate" the deficit,[2] to allow the UK government to "restore stability" and "live within its means".[3]

Yet, since the OBR's establishment, government debt has risen by £1.7tn from 75.9% to 101.3% of GDP.[4] The UK government has been in a deficit the entire time. OBR forecasts have consistently overestimated long-term growth by 2.2 percentage points while underestimating borrowing by 3.1 percentage points.[5] The fiscal rules that the OBR is mandated to assess have been changed eight times.[6] The portion of the public satisfied with public services like the NHS has fallen from 70% to less than 25%.[7] Taking the Conservatives' intentions at face value, the OBR has been a resolute failure.

However, these failures are inherently linked to the government's austerity agenda, for which the OBR's economic model helped provide technocratic cover. While slight improvements have been made to the OBR's model – for example, in 2024 it finally set out a case for some public investments being good for growth[8] – it ultimately rests on a framework that inherently biases policies it views as supply-side, like tax cuts, labour market changes, deregulation and, now, public investment.[9] Its economic model places almost zero value on other government spending, like welfare or public service provision, particularly in its ability to change the trajectory of the economy.[10]

1.1 THE OBR'S AUSTERE ORIGINS ARE UNDERMINING ITS CREDIBILITY

Throughout the OBR's history, countless economists have criticised its modelling, taking the now well-established view that austerity would be self-defeating.[11,12] Cuts damage growth in a way that makes debt-to-GDP worse. Even economists at the International Monetary Fund (IMF), no champion of anti-austerity causes, concluded the same.[13] While changes to the OBR's accounting of public investment now also make the case that some cuts will damage growth, there is still a blind spot for day-to-day spending that can prevent poverty, slow climate change, and boost people's skills, for example.

At no point did the OBR estimate austerity would harm long-term growth, nor would cuts lead to more expensive problems down the line. This is especially surprising when we are reminded of the scale of changes that were made. In his first three years as

Chancellor, George Osborne cut government investment by 31.9% in real terms. Government reforms to local authorities had taken away 63% of central government funding by 2019.[14] Cuts to government budgets left children's services and support programmes for vulnerable people at barely a quarter or a fifth of their original capacity, respectively.[15] Cuts to the welfare state mean unemployed people receive nearly 10% less in real-term benefits than they would have in 2009.[16] All these austerity measures were forecast to help the Chancellor lower debt, yet time would show that this never actually happened.

With this understanding, it was incongruous to see Labour promising "no return to austerity" in the election[17] while also committing to emboldening the OBR.[18] In fact, the first policy to be announced in the King's speech under Labour's government was its bill to make sure the OBR's forecast and assessment of fiscal rules could not be sidelined,[19] the so-called fiscal lock. The mistake here was that it tied Labour to the OBR's economic model, one that had time and time again justified austerity.

Of course, Labour's fiscal lock was based on its critique of the fallout of Liz Truss's mini-budget. In the mini-budget, Truss and her Chancellor, Kwasi Kwarteng, announced £45bn worth of tax cuts without seeking scrutiny from the OBR,[20] as their measures would likely have been judged as breaking the fiscal rules. Market expectations that such measures would be counteracted with higher Bank of England interest rates and the general incompetence of avoiding independent scrutiny caused movements in bond yields that eventually caused a crisis for pension firms,[21] exacerbating pressures on yields. This crisis was only resolved once the Bank of England offered temporary support to pension firms,[22] yet some saw the temporary offer as directly undermining the government's measures,[23] a sequence of events that ultimately ended with Kwarteng being fired and Truss resigning.

Seemingly, the lesson Labour took from the mini-budget was undermine the fiscal rules and the OBR at the peril of bond markets. Yet this view is mistaken for several reasons. First, it ignores the fact that fiscal rules have often undermined themselves. The nine different sets of fiscal rules the UK has had since the OBR was introduced exemplify this.[24]

Second, bond markets don't react to borrowing levels in isolation. During the Covid-19 pandemic, the government borrowed massive amounts to cover its furlough scheme while interest rates fell.[25] Instead, bond markets take in a combination of factors, including their expectation of central bank interest rates, the credibility of economic policy, and confidence in the government to make good on its promises. When a government evades its own fiscal framework, proposes tax cuts focused on the richest to boost growth despite little evidence that this does anything for growth[26,27] and makes policy announcements without consulting the Bank of England, a bond market fallout should not be a surprise.

1.2 THE OBR AND THE BOND MARKET ARE GUIDING FISCAL POLICY

If Labour's fiscal lock was intended to avoid standoffs with bond markets, then it has certainly failed; the UK's mercy to bondholders has become more significant, not less. Global movements in bond yields have caused adjustments to the OBR's forecast that have materially affected the government's ability to meet its fiscal rules. As seen in the 2025 spring statement, the OBR's forecast changes, including other global headwinds, required Labour to make policy changes to meet its fiscal rules. Effectively, unfortunate movements in bond markets and GDP led to some disabled people getting their annual household incomes cut by £10,000.[28] As Chris Giles at the Financial Times put it, the OBR's tail is "wagging the government dog".[29]

The impetus to respond to these changes in the OBR's forecast is stronger when the government leaves little headroom against its fiscal rules – that is, how much extra borrowing or debt it can withstand without breaking said rules. Therefore, if the government had left itself more headroom at the 2024 autumn statement, such problems could have been avoided. Yet, how much headroom the government has left is also downstream of the OBR's economic model. When the government announced a £372bn spending package, worth 2.2% of GDP by 2029–30, the OBR forecast this would only increase 2029–30 GDP by a mere 0.15%, compared to if the measures were not implemented at all.[30] NEF analysis showed how small changes to the OBR's assumptions about the impact of these policies could have opened up nearly £16bn extra fiscal space a year, as measured by the fiscal rules.[31]

Now, as we enter a period of ever-increasing economic uncertainty, struggles to make up shortfalls in headroom should only be expected to get worse. In the run-up to the 2025 autumn budget, there is already speculation that a combination of borrowing cost increases, an OBR revision to its productivity forecast, more global headwinds, and factored-in U-turns will force the Chancellor to adjust in tens of billions[32] – just to meet her fiscal rules. The fact that these factors cascade down to fiscal policy decisions further adds to this uncertainty. As seen at the start of 2025, some argued bond market movements were driven by expectations of the fiscal rules causing changes to economic policy that might damage growth.[33] While fiscal rules are designed to placate bond markets, they are, in fact, also a potential source of uncertainty for the markets, forcing the government to make unpredictable policy changes.

While Reeves is expected to make tax rises to meet this gap, Richard Hughes, chair of the OBR, has stated "higher and higher levels of taxes" are "not good for growth".[34] This view conforms to the OBR's economic model, which favours spending cuts over tax rises; it typically assumes the former has no impact on long-term growth while the latter damages it.[35] Yet, this view will make Reeves's job harder and downward revisions to growth will make the gap to meet her fiscal rules larger. Whether she will give in to the OBR's favourable treatment for spending cuts over tax rises remains to be seen.

Overall, Labour's adherence to the fiscal rules means adherence to the OBR's economic model. A model that has again and again justified austerity despite its failure to bring debt down. Yet this is precisely why Labour has good reason to go against the OBR's economic orthodoxy. Labour's green investment agenda may have a much more significant impact on growth than the OBR assumes. IMF research suggests green spending can have a pretty significant effect on growth.[36] Furthermore, if Labour were to tackle poverty and improve living standards in the way many of its backbenchers desire,[37] there are likely to be spillover effects on growth and cost savings that the OBR currently does not assume.[38]

If these effects could be modelled, then taking on more ambitious proposals needn't increase government borrowing; higher growth and reduced costs elsewhere could lead to lower debt levels down the line. Instead, by locking itself into OBR assessments, the effects of these policies can never be realised in OBR forecasts. In doing so, our fiscal framework guarantees the UK economy a never-ending 'doom loop' of rising debt and austerity proposed to fix it.[39] The fallout of the Liz Truss mini-budget showcased that challenging the OBR's assumptions can go spectacularly wrong. But the lesson of the mini-budget shouldn't be that we should never challenge economic orthodoxy, just that those challenges to the orthodoxy need to be well justified.

Together, the OBR's assessment being treated as gospel and the threat of bond market fallout obscure the fact that all policy changes are a political choice. Like any forecaster, the OBR will always be wrong, but our fiscal policy is designed to meet forecast targets to the decimal place.[40] Furthermore, the government chooses to design a framework that means bond market movements eventually force policy changes, even if such policies ultimately amount to a rounding error in the amount the government borrows per year. Not only does this mean unelected powers are effectively guiding our fiscal policy, it also reduces the democratic engagement the electorate has with fiscal policy choices.

The main effect of Labour bolstering the OBR has been to put it under more criticism,[41,42,43] especially in terms of its undemocratic influence on the UK economy. Ultimately, the current fiscal framework's tight grip on UK policy must be challenged. In the next section, we set out an approach that will unshackle the UK from the OBR's economic model while also helping widen democratic debate over fiscal policy by making it more transparent.

2. MAKING THE OBR ACTUALLY INDEPENDENT

The Charter for Budget Responsibility, which defines the government's fiscal rules, specifies “the OBR [assesses] the government’s performance against the fiscal mandate.”[44] The fiscal rules are designed to be met within a forecast, and implicitly, that of the Office for Budget Responsibility (OBR). This means that the government cannot disagree with the OBR, even on justifiable grounds, without undermining its fiscal rules. At a glance, this may not sound too controversial, so it is worth illustrating what this means in practice.

In a 2025 Telegraph article[45], Adam Smith, Jeremy Hunt’s former Chief of Staff, described his interactions with the OBR in the run-up to a budget. In it, he described the Treasury sending 110 growth measures to the OBR to include in its forecast – the OBR rejected 107 of them. The three policies accepted to cause growth were two tax cuts (one to National Insurance and another to widen full expensing relief), and welfare reforms that increased conditionality on benefit schemes – an effective spending cut. The policies that were included conform to the view mentioned earlier that the OBR biases towards policies conventionally seen as supply-side.

This process, says the Institute for Government, encourages a “throwing everything at the wall and seeing what sticks” approach to fiscal policy.[46] Further, it can be gamed. Chancellors who want policy to be scored generously would be wise to send as much information and justification to the OBR as possible. Other policies that could have negative effects can be sent as late as possible to slip under the radar. It is worth bearing in mind that the scrutiny the OBR provides is certainly useful. Many of the 110 measures Hunt’s team proposed would likely do very little for growth. Yet the OBR having the power here is what creates perverse incentives and bad practices in the first place.

This brings into question the OBR’s independence in two key ways. First, the OBR is given effective veto power on policy issues, making it not properly independent from government decision-making. Second, it puts the OBR in a position where any changes to its forecasts, for instance, to reevaluate productivity or to model the effects of climate change, will potentially have significant effects on the ability of the government to meet its fiscal rules. That is, even if the OBR wants to radically change its economic model, it cannot do so without forcing the government into an awkward and potentially very difficult position.

One could argue that the government could just ignore the OBR’s forecast without a change to any legislation,[47] as the Charter for Budget Responsibility contains no repercussions for a government breaking the fiscal rules. However, this would be as good as scrapping the fiscal rules entirely, which could risk market fallout if not done carefully. Instead, to ground expectations, it would be wise for a government to amend the Charter to specify that the targets need only be met under the Treasury's own forecast, thus making the OBR's assessment of the fiscal rules actually independent of government policy choices.

2.1 SPECIFY THAT THE FISCAL MANDATE NEED ONLY BE MET BY HMT'S FORECAST

Specifying that the fiscal mandate need only be met by HMT's forecast would come with two immediate benefits. First, it gives the democratically elected Chancellor a formalised process to disagree with the technocratically selected OBR. Such disagreement, if conducted appropriately and in public, would open up democratic debate over the effects of policies and allow the Chancellor to take risks where merited. It would immediately improve the state of British fiscal policy as it unshackles the Chancellor from the OBR's model, which has continued to justify and necessitate austerity.

Second, the Treasury could ignore the OBR's forecast without undermining its fiscal rules. Currently, Rachel Reeves's commitment to "one fiscal event a year" has been confused by the OBR's duty to do two forecasts a year.[48] When the OBR judged her fiscal rules would be broken in the spring 2025 forecast, the Chancellor announced welfare cuts to meet the gap. In this sense, the policy changes that make up a fiscal event are supposedly only tax changes, with spending cuts being announced whenever. This stance has attracted criticism from the Institute for Government[49] and even the International Monetary Fund (IMF).[50] It has been recommended that the Chancellor allow temporary assessments that the fiscal rules are broken and stick to making policy changes only once a year. Changing the fiscal rules to only be assessed by the Treasury's forecast gives a non-arbitrary way to do this. While the Treasury only needs to produce a forecast at the one fiscal event per year, the OBR can still produce two forecasts a year without requiring adjustments to meet the fiscal rules.

This isn't without its downsides, however. The OBR has been lauded by multiple people as it stops politicians from 'marking their own homework'.[51,52] This change would admittedly remove that. Yet, it is worth noting that the constant changing of fiscal rules has effectively amounted to the same thing. If politicians don't like the mark the OBR might give them, they change the assignment[53] – shifting the goalposts to avoid accountability. Therefore, if one accepts that the fiscal framework is already one where politicians set the parameters for judging themselves, this proposal is not such a radical departure. Furthermore, if one agrees that the OBR provides undemocratic accountability to fiscal rules, we should question why we ever allowed an undemocratic institution to mark politicians' homework. Isn't that the proper role of democracy?

2.2 CHANGE LEGISLATION TO ALLOW THE OBR TO ACT MORE INDEPENDENTLY

Some of the most important work the OBR does is in its yearly Fiscal Risks Report, where it looks at long-term economic trends.[54] Here, the OBR has been world-leading in showing the fiscal risks of climate change, a highly commendable success story. The OBR's leadership here is strengthened by it acting completely independently of the government. The OBR's Fiscal Risk Reports have no direct bearing on government policy but contain its most cutting-edge fiscal analysis. Therefore, one would assume that giving it more ways to act independently would further improve its analysis.

For example, the Charter for Budget Responsibility states the OBR must report fiscal indicators "required to judge progress or achievement against the government's mandate for fiscal policy". In general, the OBR has interpreted this as a need to make a forecast against which the fiscal rules are measured. However, if the OBR's forecast was no longer the arbiter of the government's fiscal rules, then this requirement could be relaxed slightly.

Without having to directly judge progress or achievement of the fiscal rules, the OBR could instead provide analysis that scrutinised the Treasury's forecast. For example, it could report where the Treasury's forecast fell compared to its opinion over a realistic range of assumptions and provide a judgment on the likelihood that the Treasury's forecast would be met. The OBR already does this sort of analysis, but now this could become the OBR's central output. Presenting figures as ranges rather than precise estimates is something that the IMF recently recommended the OBR do to "[de-emphasise] the concept of headroom in the public debate". [55]

Furthermore, the change would untie the OBR from having to make specific judgments on economic variables[56]; instead, this would be the Treasury's job, guided by the Chancellor. Opening this up would allow the OBR to make sure its role was to scrutinise the forecast, rather than define it. For example, it could report that it found the Treasury's judgment on a certain variable to be met 25% of the time ie unlikely but still plausible. By making its central output a wider range of outcomes and highlighting uncertainty, it potentially averts some of the knee-jerk reactions from markets and government alike that the current fiscal framework encourages.

Furthermore, it is reasonable to assume that the OBR may disagree that the fiscal indicators that make up the government's fiscal rules are appropriate measures of fiscal sustainability. The current rules are based on what happens within a five-year forecast period; this means risks outside of this forecast period can be ignored. The OBR could use its freedom from directly assessing the fiscal rules to comment on longer-term trends and judge the likelihood of the Treasury's forecast meeting longer-term pressures like climate change and ageing costs. While the OBR might still be required to assess the forecast for fiscal rules defined in the government's terms, it could more freely highlight longer-term aspects of budgets, something that is currently reserved for Fiscal Risk Reports.

Given that longer-term forecasts are subject to even larger uncertainty, such statements would come with caveats, but this would likely be an improvement to the current situation, where longer-term trends are mostly ignored. Furthermore, debt sustainability is defined by a complex set of macroeconomic dynamics, which means what is most useful to look at can change over time.[57] Giving the OBR more independence here would allow it to highlight risks even if they didn't fit into the government's fixed framework.

With the OBR enabled to act more independently, how can we make sure the government takes heed of anything the OBR says? While it was mentioned that the Fiscal Risks Reports are a good example of what the OBR has been able to do when fully independent, they are also analyses that governments have successively ignored. If the Treasury were now the arbiter of the fiscal rules, what impact would the OBR's judgment actually have? NEF proposes a system which would allow the government to disagree with the OBR while still emphasising the important role of the independent scrutiny it provides.

3. TRANSFORMING THE OBR INTO AN OFFICE FOR FISCAL TRANSPARENCY

To ensure the OBR can properly provide accountability even if it is no longer the ultimate judge of the fiscal rules, NEF recommends wholesale reform, transforming the Office for Budget Responsibility (OBR) into the Office for Fiscal Transparency (OFT). With the OBR and Treasury both doing their own forecast analysis under our proposed reforms, it would be good to know why/how these forecasts differ. Therefore, the OFT's role would be to replace the OBR, absorbing its current forecasting capacity while additionally comparing this to the Treasury's and scrutinising where it differs.

The OFT could provide scrutiny for the Treasury's forecast of the fiscal rules, providing reasoning for anywhere it disagreed with the Treasury's assessment or found it particularly unlikely. A memorandum of understanding (MoU) would need to be published detailing the level of information sharing that would be necessary for the OFT to perform this task. The OBR and the Treasury already have two MoUs that outline how they share data[58] and manage the macroeconomic models[59] that produce their forecasts. The new and updated MoU would have to account for how differences in the OFT's and Treasury's modelling assumptions would be shared and tested.

As NEF has detailed previously, there is good reason to disagree with some of the multiplier and supply-side effects the OBR applies to policies to gauge their impact on GDP growth.[60] Assuming the OFT used the same assumptions as the OBR, the Treasury could make credible disagreements with the OFT based on, for example, the growth impacts of green investment[61] or poverty reduction.[62] Further, it would more easily allow the Treasury to make the case for policies which invest now to save money later. For example, Sure Start has been a good example where the empirical evidence is heavily in favour of it being fiscally positive by reducing the use of emergency services and boosting opportunities for children.[63] This type of analysis is seemingly precluded from the OBR's economic model, but the OFT would allow the Treasury to pursue these policies more confidently. The OFT would have to detail why it disagrees, and the Treasury would have to detail why it believes a policy would have different economic effects.

The Treasury and OFT could also disagree on the outturn of specific economic variables. A key area here could be the outturn of the Bank of England's interest rate. At the moment, the interest rate that the OBR assumes the Bank of England will set has a significant relationship to other economic variables like private investment. While the OBR has typically used market expectations of the Bank of England interest rate in its forecasts, it adjusted this at the autumn 2024 budget. In that budget, the OBR assumed that extra public investment would cause the Bank of England to respond with higher interest rates, which in turn would crowd out private investment.[64]

In this sense, the OBR's economic model precluded the possibility of monetary-fiscal coordination[65]; it doesn't matter whether the government thought its measures wouldn't change the Bank of England's interest rate strategy, the OBR decided for them. Therefore, if a government wanted to suggest its policies would not lead to the central bank raising rates, it could justify itself in doing so. The OFT would have to state why it didn't believe this. It has been observed that market reactions to budgets have often changed once OBR reports are published.[66] OBR reporting in its forecasts that borrowing costs would increase have led to market movements that have increased borrowing costs. Having differing opinions on how this might pan out could at least avoid such assumptions becoming completely self-fulfilling.

Furthermore, the economic model used by the OBR currently defines the relationships between variables and how things are forecast into the future. A simple change, like how the output gap evolves over time, could make a massive difference to the expected trajectory of economic variables and the effects of fiscal policy.[67] More wholesale changes to the macroeconomic model the Treasury uses could also be tabled, including whether calculating the output gap is a useful exercise at all.[68] Again, the OFT should be the vehicle that makes disagreements like this transparent and detail what the effects of changing the economic model are. The Treasury would be able to justify why it thinks its choice of model is more correct.

Lastly, one could also imagine that the OFT and Treasury could disagree on technical assessments. This would probably be the type of disagreement the Treasury would want to avoid the most, as such a disagreement would be a direct attack on the Treasury's competence. The disagreement wouldn't come from fundamental changes to the model but rather the OFT would have identified a miscalculation in the Treasury's forecast. Allowing the OFT to scrutinise the Treasury's forecast in this way seemingly helps steer away from criticisms that such a system would simply allow politicians to "cook the books".[69] The OFT's scrutiny should be embraced on disagreements on theoretical judgment and avoided for technical ones.

All types of disagreements should be laid out by the OFT, with both the OFT and Treasury justifying why they disagree. If the OFT took an approach where it just scrutinised the Treasury's forecast, then it could report on the assumptions that it saw as the most unlikely, if it deemed them noteworthy. This means that disagreements would come at some political cost to the Treasury's credibility, and therefore, the Treasury would need to pick its battles carefully.

With a record of different approaches to forecasting, this could be well used by the OFT when conducting its Forecast Evaluation Reports. Instead of just mandating the OFT to evaluate its own forecasts, it could be mandated to evaluate the Treasury's forecasts too. Potentially most usefully, the OFT could see what combination of Treasury and OFT assumptions provided more accurate results. Therefore, if the Treasury stuck to disagreements that were clearly unjustified, the political credibility cost of doing so would increase over time. Equally, if the OFT's assumptions and model turned out to produce less accurate results than the Treasury, this would give it impetus, and importantly direction, to change its economic model.

With the OFT, fiscal policy choices would no longer be constrained by the OBR. However, it would potentially be hard for the government to make sweeping changes that result in a significant divergence from the OFT's assessments, without significantly hurting its credibility as perceived by markets. Having the OFT report whether the Treasury's forecast fell within a realistic range could help this, as it would show that government plans have some chance of being viable. To further allow the government to disagree with the OFT in a justifiable and credible way, widening the public debate and the advice the government receives over these things would help.

3.1 FORMING A FISCAL POLICY COMMITTEE

NEF proposes that alongside the OFT, the existing Budget Responsibility Committee be reformed and expanded into a Fiscal Policy Committee (FPC). The FPC could be made up of nine economists, with some appointed internally by the OFT and some appointed politically by the Chancellor (making sure appointments by the latter did not make up the majority). This makeup would be important for the FPC to represent a diversity of viewpoints. Specific term lengths could be required, such that political appointments could judge Chancellors they were not appointed by. The Chair of the FPC could be responsible for what is seen as the OFT's view, but the other economists on the FPC could disagree with both the OFT and the Treasury. Most usefully, the other members of the FPC would be required to judge who they agree with (or simply who they think is more likely to be correct) on OFT and Treasury disagreements, with public statements detailing their justification.

The FPC would give more degrees of freedom to how the Treasury may choose to disagree with the OFT. It might be unwise to adopt a position that all members of the FPC disagree with. But if a proposal has some backing from the FPC against the OFT, then it may still be credible for the government to go ahead with it. Of course, the government could still disagree with the entire FPC if it wants but doing so would likely come with a higher cost to its credibility. How much of a risk the government can take before risking a large fallout may be hard to gauge exactly, but it would allow flexibility for challenges to be made without the worry that the government is undermining its whole fiscal framework. By designing a system that allows space to disagree in the face of scrutiny (and potentially also support), then disagreements with the OFT could be seen as disagreements in judgment, not competence, helping prevent market fallout from reacting to the latter.[70] A government could still showcase incompetence by making judgments that were viewed as extremely unrealistic, but this framework gives it much wider discretion to justify itself on a range of realistic assumptions.

The biggest benefit of the FPC is that it would get rid of the pretence that there is one sort of 'authoritative' economic opinion. In fact, in interviews with former OBR leaders detailed by Ben Clift, it was concluded that almost all subjective macroeconomic judgments come down to just one person on the Budget Responsibility Committee and it's "the model in [their] head that is the crucial one".[71] The FPC would be able to make sure different opinions over the economy and over the effects of economic policy were publicly disclosed and help to inform fiscal policy. Allowing such debate isn't even a view mainstream economists are likely to oppose. Both Daniel Susskind[72] and Chris Giles[73] have proposed similar reforms to the OBR in the Financial Times. NEF's OFT proposal goes further by allowing the OFT and the Treasury to disagree on more than just the causes of economic growth.

It should be recognised that NEF has called for an FPC in the past.[74] We called for an FPC that would calculate a target range for the government's primary balance based on government-set fiscal principles for what fiscal sustainability looks like, helping to abolish numerical fiscal rules. This new proposal as part of the OFT, therefore, represents an expansion of the FPC's role. The FPC would still be a useful body for showing the risks of both underspending and overspending in a world where we have moved to fiscal principles over fiscal rules. Yet the FPC would improve how fiscal policy works even under a system of fiscal rules, showcasing different judgments and the possibility of different policy responses.

Ultimately, the OFT incentivises the Treasury to pick its battles. The FPC gives it a diversity of public advice to pick from. NEF's proposal shouldn't just be seen as a way to improve fiscal policymaking but also to introduce greater democracy. It guarantees debates over how economic policy works are had in the open rather than behind closed doors. Not only is this beneficial in allowing the Chancellor to explore more options and take calculated risks, but it also likely opens debate for what the electorate sees as politically possible. It makes economic policy political again.

4. CONCLUSION

Democratic engagement with economic policy should mean that the path of future policy is uncertain.[75] If we change our minds on economic policy, we should expect that to be replicated by governments. Yet currently, the OBR is wed to an economic model that provides us with close-to-certainty over which types of policies are adopted, and which are not. Our fiscal rules tell us that debt should be decreasing in the short term, even if that never materialises. The OFT could help disrupt this.

With more independence to analyse debt sustainability, and transparency in how these are judged, whether debt sustainability actually means lower debt or lower borrowing in the short term can finally be challenged appropriately. The economic impacts of climate change and how we respond to it offer a perfect example. OBR's long-term forecasts have repeatedly shown that large up-front action reduces fiscal costs down the line.[76] Yet this sort of action is incompatible with our current fiscal rules. Not only could an OFT make debates over how to approach this much more transparent, but it could also provide backing to a government making the case to invest in our futures now. The current fiscal framework incentivises us to kick the problem down the line and presents this as the only solution. Only an overhaul of our fiscal framework will allow us to see the many alternative pathways. NEF's proposed framework would bring back proper democratic accountability to how our economy is run.

ENDNOTES

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