# Progressive Fiscal Policy-making:
## UK Fiscal Reform After 1997

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# Introduction – About Me

- Economic Adviser to the (Shadow and real) Chancellor, 1994-99
- Chief Economic Adviser to H M Treasury, 1999-04
- Economic Secretary to the Treasury, 2006-07
- Cabinet Minister for Schools and Children's Services, 1997-10
- Shadow Chancellor, 2011-15

# The 1997 Inheritance – Good Points

- A commitment to a Medium Term Fiscal Strategy
- Regular, timely, reliable, published information
- A falling deficit

# The 1997 Inheritance – Not So Good 1

**Macro:**

- No underlying fiscal principles
- A pro-cyclical ‘medium-term’ fiscal target which changed almost every year
- No published cyclical-adjustment
- Cash-budgeting with investment treated as an expense
- No systematic long-term fiscal planning or focus on net worth
- Spending/economic outcomes driving fiscal rules

# The 1997 Inheritance – Not So Good 2

**Spending:**

- One year rolling budgets
- A large ‘Reserve’
- No current-capital split or register of National Assets
- No focus on long-term liabilities falling
- No end-year flexibility
- No output targets
- Treasury knew ‘price of everything & value of nothing’

# Fiscal Reforms - Macro

- New firm fiscal rules for deficit and debt
- Rules set ‘on average’ over the economic cycle
- NAO audit of assumptions
- Current-Capital split and National Asset Register
- Long-term fiscal projections
- Legislate for a Fiscal Code
- Start move to Resource Budgeting and Whole of Govt Accounts
- Integrate Budget, policy-planning & spending

# Fiscal Reforms – Spending

- Comprehensive Spending Review
- Three year budgets
- Treat capital spending differently
- Tiered reserve, much smaller in year 1
- End-Year Flexibility
- Output Targets – Public Service Agreements
- Delivery Unit – led by Prime Minister

# Reform Implementation – Macro 1

- Strategic Pre-commitment

  - importance of realism and cyclical flexibility

- Lessons & Learning

  - transparency is your friend, repetition works

# Reform Implementation – Macro 2

- When to set spending ‘envelope’

    - not too late, not too early

- Fiscal Rules and Output targets drive spending

    - look ahead and force Gov’t to make choices

# Reform Implementation – Macro 3

- Move to Whole of Government Accounts is not easy

  - Departmental Resource Accounting first

  - Learning and Data Accumulation takes time

  - Civil servants and politicians do learn

# Some Hard Lessons

- Financial shocks make politics more short-term
- EYF can be too much of a good thing
- Cyclical Adjustment is tricky
- Output targets can be orphans
- Embed in Legislation or it’s easy to reverse
- Shift to WGA is worth doing but hard

# Advantages of WGA

- Better Financial Planning
- Much greater transparency
- More focus on value of long-term investment
- Drives cooperation between public agencies
- Highlights changes in long-term liabilities
- Restricts scope for financial engineering – but do the public believe you?

# UK WGA 2010-2014

- Markedly smaller fall in Deficit on a WGA basis than National Accounts – 20% v 35%
- Annual picture complicated by Bank nationalisation
- Significant Deterioration in Government’s financial position - net liabilities doubling over period from £0.8tr to £1.85tr
- High asset write-downs, growing pension liabilities and increasing in charges for nuclear decommissioning and clinical negligence

# Challenge to wholesale shift to Balance Sheet for Financial Planning/Accountability

- Custom – IMF, EU, media
- Measurement/Delay issues/International Comparisons
- Measures Sensitive to Assumptions
- Politics of ‘Fiddling Figures’

# Conclusion

- Important Progress Made – Accounting, Economics, Efficiency
- Challenges Remain - Politics
- More Gains to Come – Leadership
- Don’t let the best be the enemy of the good