HOUSE OF LORDS

Economic Affairs Committee

Corrected oral evidence: The UK's fiscal framework

Tuesday 28 October 2025

3.05 pm

Watch the meeting

Members present: Lord Wood of Anfield (The Chair); Lord Agnew of Oulton; Lord Blackwell; Lord Burns; Lord Lamont of Lerwick; Baroness Liddell of Coatdyke; Lord Liddle; Lord Londesborough; Lord Razzall; Lord Turnbull.

Evidence Session No. 1 Heard in Public Questions 1 – 14

Witnesses

I: Helen Miller, Director, Institute for Fiscal Studies; Ben Zaranko, Associate Director, Institute for Fiscal Studies.

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Examination of witnesses

Helen Miller and Ben Zaranko.

Q1 **The Chair:** Welcome to the Economic Affairs Committee's first evidence session in our new inquiry into the United Kingdom's fiscal framework. We are delighted to have two expert witnesses from the Institute for Fiscal Studies: Helen Miller, who is the director of the IFS, and Ben Zaranko, the associate director of the IFS. Helen and Ben, thank you so much for your time. This meeting is being broadcast live on parliamentlive.tv, and a full transcript will be taken, which will be made available shortly after the meeting so you can make any factual corrections.

Let me start by asking you an overarching question: what is the value of us having a fiscal framework at all? What is the purpose of having rules, and has the period, post 1997, of a more formal fiscal framework resulted in greater fiscal stability as a result of fiscal rules and the architecture that has been built around them?

Helen Miller: With the danger of sounding like a pedant, I would say there has always been a framework of some sort, it is just that, post 1997, there was a codified framework that was written down; it had some rules as opposed to the Government just doing some things with the Treasury in a behind-the-scenes way. That highlights that things have become a lot more transparent now that we have a written-down framework. We know what it is, and there is a set of rules. Everyone can see the fiscal mandate the Government say they want to hold themselves to. That is a good thing.

Of course, Governments can have different opinions on what they want to be held to account on and what their fiscal mandate is going to be. Maybe we will get into that. It is good that the Government will be open and transparent about what they want to achieve with public finances in a way that we can all see and hold them to account on. That is a clear change from the pre-1997 world.

Has the UK enjoyed greater stability? That is a tricky one. On the one hand, if you look at where the public finances are now, they are not in a great place. Debt is high; growth is low. But of course there have been some pretty big shocks over time including the financial crisis, the pandemic and the cost of living. The question is: would things have been better or worse had we not had a framework? We would have had less information about all those things without the framework and without an OBR to put that out information. There would have been less information out there.

Maybe Ben wants to come in here, but it is not obvious to me that it would have been better without a fiscal framework. I cannot guarantee that it is better or say how much better it is, but in a world where there is less transparency and fewer parties are able to hold the Government to account, it is not clear to me that you would have debt coming down any more.

A thought experiment is to think about the austerity years. Whether you like the austerity years is not a point about the policy per se but given you had a Government that wanted to achieve cuts in public spending, the fact that they had a fiscal rule and said what they wanted to use it to tie their own hands arguably helped them achieve what they wanted. In that sense, you can point to things that have helped.

The Chair: I want to ask a quick follow-up before Ben comes in. Is the purpose of fiscal rules stability or transparency, or transparency in the service of stability?

Helen Miller: I would say it is both. You want a fiscal framework, which could include fiscal rules, which are one way of achieving this. Ultimately, because you want sustainability for your public finances—meaning you do not want debt on an explosive path—you want to be able to service your debt and avoid deficit bias by Governments not borrowing more than they want to. Fundamental sustainability is important, but at the same time you want transparency because it allows people to hold the Government to account and participate. It is also a way to signal credibility, and that can have pay-offs for government. You want both as opposed to either/or.

Ben Zaranko: There needs to be some sort of framework. The key thing in 1997 was the introduction of formal numerical fiscal rules; we can talk about why we have fiscal rules. The other big change in 2010 was the fact that forecasting shifted from Treasury to the newly created OBR. It is almost worth splitting the period into two there. More than 100 countries have formal fiscal rules in some form or another, and lots view them as valuable. The intellectual origin of this comes from the same field as the move towards more independent central banks, where Governments find they can achieve better outcomes on average by sometimes tying their hands and constraining their degree of discretion. By setting out commitments to certain things and trying to limit the degree of flexibility, you end up delivering better outcomes for society.

Helen mentioned what is often called deficit bias in the literature—a rather ugly name—which is the idea that Governments left to their own devices may spend more, tax less and borrow more than is socially desirable, whether because of electoral concerns, because they are short-termists, or because every single spending Minister wants to get more for their department but they do not internalise the cost to everybody else from having to raise that money.

There is also an important role for signalling. You can signal your intentions in a credible fashion to financial markets that lend the Government money. You can make it cheaper to secure financing if it is viewed as credible. If you design rules well, you can also improve the incentives for better policy-making by discouraging things like cutting the building of roads the first time things get hard because it is the easiest thing to cut rather than to assess what is the most economically rational programme to make savings from. You can try to restrict and change incentives that policymakers face.

Finally—this is an underdiscussed element—Governments find fiscal rules valuable as a collective buy-in mechanism for spending control. If you talk to people inside Government, often their key audience is not so much the public or financial markets; it is Members around the Cabinet table. Everyone collectively buys into the budget constraint that they sign up to. Fiscal rules serve as a means of making that explicit and tackling that tendency to always ask for a bit more and a bit more and a bit more. There are multiple purposes, which can sometimes be in conflict with each other, but there is value in having some framework around tax and spending policy.

Q2 **The Chair:** A lot of people have remarked that they notice the bond market's reaction to the Government's following of fiscal rules and the margin by which they miss or hit them has become more and more sensitive. Is that a misperception? Has the system centred on fiscal rules led to a different relationship between the Government and the bond markets, or is it just that in recent years more attention is focused on bond market reaction because of debt issues?

Helen Miller: As Ben said, it is worth remembering that you want fiscal rules so that you can tie your own hands, be more accountable and have external credibility. That means you should expect there to be more outside influences. That is by design and not by accident. That is what you were trying to do. Obviously, there has been more focus on bond markets fairly recently, but that is largely because debt is very high. The ultimate constraint on the Government is the price at which people are willing to lend to us.

There are lots of things going on in the world such as quantitative tightening by the Bank of England and the change in DB schemes. Weaker demand for government bonds means it is a harder time to borrow. Regardless of whether you had fiscal rules or not, you would find the Government would pay more attention to the price at which investors would lend to them. The fact that there are fiscal rules and the Government bump up against them makes that a very acute part of the public debate, but it is not clear to me that it is due to the fiscal rules per se or the fact that the Government operate with very small headroom against these rules. It is not the rules per se; it is more the broader context and the ways in which the rules are being used. Do you agree with that, Ben?

Ben Zaranko: Yes, the fiscal fundamentals are what matter. At the moment, the Government are trying to borrow lots of money—as are other Governments—at the same time as the Bank of England is selling gilts, meaning that private sector holdings of gilts are expected to grow above what we have become accustomed to. That is the fundamental. The fiscal rules become important because when Government hint that they might think about changing them, or someone might come into government and change them, it is not that markets are intensely wedded to those particular rules; it is a signal that the Government might borrow more and issue more gilts, and that will get reflected and priced in. It all comes back to the fundamentals, but the key thing is that the rules are a way of providing a credible signal about where you intend those fundamentals to be.

Q3 **Lord Burns:** I should begin by declaring an interest: I was chair of the OBR oversight board between 2012 and 2018 or thereabouts. Also, I am sorry that I will have to leave because I have an amendment down this afternoon.

To what extent does the present fiscal framework encourage Governments to prioritise short-term fiscal management, possibly to the detriment of longer-term planning? I am thinking particularly in relation to public investment but also about various measures which might be thought of to improve productivity in the public sector but where the pay-off comes a little later. As we observe all the noise around the present Budget and fiscal rules, I notice that it is all very short-term. Are there problems with this?

Helen Miller: That is a great question. There is a problem with short-termism, which the rules encourage to the extent that they are about what happens in the next three to five years; that means the Government will focus on that particular timeframe and do things that affect it. There have been particular problems when the debt rule is binding, and where cutting longer-term investment projects can be the way to meet the fiscal rule. It is often deemed to be politically easier than cutting day-to-day spending, and therefore Governments have operated the rules in such a way that is not good for long-term investment. But there is a political cycle as well. So even if we did not have any fiscal rules, I would not be surprised if Governments had an incentive to do things that were in the Parliament framework rather than things that are going to pay off in 10 or 15 years' time. We should not over-calibrate to the extent that it is a problem with the rules per se, but having these rules with relatively short-term timeframes pushes the focus on to short-term matters.

Ben Zaranko: The rules under this Government are biased against public investment by far less than the old Government's rules were. In that sense, they are an improvement, and they allow explicitly for capital investment. Capital investment is not the only type of spending or programme that might bring long-term benefits, and the distinction can get murky, but the bias is certainly less now than it would have been in the past.

One example of the clear focus on the scorecard period of three to five years, to the exclusion of everything else, was the full-expensing policy on corporation tax under the last Government. If you want to hear about the policy, Helen can explain it better than I can. The point was that it would cost quite a lot in the next few years, but it would cost much less in the long-term. But because the peak cost came at the moment when the fiscal rules were to be binding, it was not made permanent. Initially, it was announced as a temporary policy because of that scorecard. That is an example of short-termism being driven by the design of the fiscal framework.

It is tricky when you start trying to think 10 or 20 years ahead. Clearly, we should think longer-term for policy. The OBR has taken steps to highlight some longer-term impacts of things such as public investment in its analysis and in its excellent reports between the Budgets, which tend to get less attention. But if you moved to a world where Governments were able to promise tax cuts and spending increases in the short-term to be paid for by a tighter policy in five, 10 or 20 years' time, I expect we would have all those tax cuts and spending increases, but they would not end up ever getting paid for when the medium-term becomes the short-term. You are constantly fighting that battle between a longer-term focus and trying to keep the numbers credible and believable.

Helen Miller: If we think about the framework broadly defined as including the fact that there is an independent fiscal council that produces the fiscal stability and risk reports that Ben talked about, the fact that they shine a light on longer-run issues and can say what is coming down the track in 10 or 20 years is a good part of the framework in the sense that it means that at least somebody is putting information out there and on to people's radars.

Lord Burns: A question that occurs to me frequently is: is it wise to call them rules rather than, say, targets or objectives? We do not have an inflation rule for the Bank of England. What do other countries do? Do they use the word "rules" and the notion that somehow they are binding, or do they use a greater variety of ways to describe what the objectives are?

Ben Zaranko: There is certainly a variety. As regards the linguistics of "rules" versus "targets", sometimes they are used interchangeably.

Lord Burns: One must imply that it is rather tighter.

Ben Zaranko: It would seem to. There is an economist called Xavier Debrun; he used to be at the IMF and now he works at the central bank of Belgium. He has done a great paper which talks about the trilemma in this, where you cannot simultaneously have rules that are simple, flexible and binding or enforceable all at once. We can go through examples of why that is. That helps when you think about whether it is a rule. If it is a fiscal rule that is completely and utterly binding in all circumstances, that clearly makes it less flexible than something where you can respond in a crisis differently, or you can change if you need to.

Across Europe, there is a more legal aspect to some rules—for example, the constitutional debt breaks and so on in Germany. New Zealand has a more fiscal principles-based approach, which is less legally binding and more flexible and sets high-level objectives, sometimes with a number and sometimes not. It tries to step back a bit and get a big picture of what it is trying to achieve without getting too bogged down in particular targets and rules. Even there though, it has numerical targets and says, "We want to get operating expenses down to this", or, "We want to do this to this particular measure of borrowing". It is hard to get away entirely from numerical targets, but there is definitely a spectrum of ways to approach it. Ours is particularly flexible once you start thinking about the fact that Chancellors can change them whenever they want, and have done so.

Helen Miller: I do not have the Budget charter in front of me so I cannot remember the exact language it uses, but it talks about a fiscal mandate, which the Government set for themselves. I do not think it specifies that the Government have to set out rules or specific numerical targets. Governments have chosen to have their mandates operated in that way. I want to check the language before I say it with complete certainty, but it talks about a mandate. Governments could interpret that in different ways so that it does not have to be a rule. You can call it something different.

Lord Turnbull: Ben, you suggested that one of the benefits of a fiscal framework is it could be a counterweight to short-term decision-making, such as cutting the roads programme. What was the first thing that Rachel Reeves ever did? It was to cut two major roads programmes, almost the day she came in. Can these fiscal rules, well applied, have the benefit of getting a longer-term perspective but, poorly applied, make things worse?

Ben Zaranko: That is always true. I used roads more as an example of a longer-term infrastructure project that you might find politically easier to cut rather than laying off staff in the short term. But cutting roads versus other types of infrastructure is a choice the Government have made while increasing planned capital investment overall, particularly in areas like defence, net zero and, to a slightly lesser extent, housing. That is more about the composition of capital investment.

It is to the Government's credit that they now try to make a distinction between current and capital spending and borrow only for the latter. To take quite a recent example, when Jeremy Hunt came in as Chancellor in late 2022, one of the first things he did was announce a cash freeze in capital spending plans, which was a big cut relative to what was previously planned. When a tightening was needed, that was one of the first levers they reached for.

If you go further into the past—I am sure some in this room were involved in the decision, certainly more than I was given I was rather young at the time—the distinction between resource and capital spending in the late 1990s was explicitly about trying to stop the perceived bias against capital. The current framework does a better job, but of course it will not always be perfectly applied, and there will be political choices.

Q4 **Lord Blackwell:** Can I raise a number of questions about the way the fiscal rules impact on what Governments do? You have talked about the short-term incentives that sometimes come with them. Are there other perverse effects of the fiscal rules that you would like to draw attention to? For example, do they drive Governments to look for things that can be concretely scored by the OBR rather than things that are less tangible? What would you list as the perverse effects?

Ben Zaranko: There are a few big ones. The first you mentioned, which I will park for now, is a big one where there is now a huge amount of attention placed on whether the OBR scores something as benefiting growth or improving the economy's supply-side prospects. The Government are getting into a bit of a routine of throwing everything at the wall to see what sticks. This creates unusual incentives within government and arguably a bias in policy towards certain types of programmes. The OBR will score things that are large and genuinely seen as additional, and which are well evidenced. That creates an incentive to do one or two large things rather than lots of small ones and to do things for which there is an existing evidence base and a neat, quantifiable effect that you could plug in to a model. For example, it could be a labour market intervention to get a certain amount of people back to work rather than something more nebulous, such as planning reforms or reforming property taxes that might shift people to different parts of the country and where it is harder to put a precise number on it. There may be less space for politicians to take a punt because they think it is the right thing to do, even if it is something that has not been tried before. So there is an incentive question about which growth policies get put forward. There may be other issues or perverse effects around that aspect of the system.

Another perverse effect is when the rules are forever rolling. You used to aim for year 5 of the forecast; it is now year 4 and will soon be year 3. You can always meet the rule by promising in the future to do fiscal tightening that you either have no intention of doing, you will not be around to do, or nobody believes that you will do. You can see in the evidence that that is something Governments have done.

Another is where we have these hard pass/fail numerical rules. When the system is overly fixated on the concept of headroom and the amount by which you meet those rules, there is an incentive to operate with a small amount of headroom, partly because if you have a larger buffer, it is seen as effectively free cash to spend. I heard an interview with an adviser to the Treasury in the 2010s, where it was said that the OBR forecast moved and when we got to the Budget suddenly we had £10 billion in our pockets to spend. That is not the way to think about uncertain movements in forecasts. Particularly if you think you are going to lose the next election, why would you do the hard yards to build up a bigger buffer in order for your successor to just spend it? That is another perverse effect. There are probably many others, but I will pause and let Helen come in.

Helen Miller: I will add two things to that: one is to emphasise the point that Ben made about the scoring. What worries me is not just what gets through but also the bandwidth that is taken up trying to work out not what the best policy is for the country, which is what we should be putting our time and resources into, but, "Can we get this policy scored in this way?" A lot of effort is put into things that are not very productive.

A different point—this comes to the idea of rules versus targets—is they are often used as if they are targets rather than rules. We often hear the question, "Could the Government borrow more?" The question should be, "Should the Government borrow more?" Obviously, you want to know if they could, and the answer is always, "Usually"; we are a long way from the answer being no. The answer is yes; it is a question about the price you can borrow at. But the fact that you can do it within a fiscal rule does not mean it is a good thing to do. I worry that we have bought so much into the idea we could do it and get away with it that we have forgotten to ask, "Is this a good reason to borrow money, or to borrow this much money?"

As an example—it is not the only one—this Government changed the measure of debt used for the debt rule, opening up quite a lot of scope to increase investment spending. Whether you think that was good or bad, it was all about how much they can borrow within that fiscal rule: "What is the numerical number?", as opposed to, "What is the case for each of these types of spending to be done through borrowing rather than through spending and through tax?" That is one particular issue I worry about with the rules: that it has moved the focus too much on the "could", and not on to the more important question of "should".

Q5 **Lord Blackwell:** This committee looked at the rolling target before. The alternative is to have a fixed date so that you cannot game that there will always be some virtuous future. What are the pros and cons of having a fixed target date that you eventually run into?

Ben Zaranko: It relates a bit to the trilemma I talked about earlier. A fixed target is more binding and enforceable, but it is less flexible. If some negative shock comes along—for example, a US tariff change or a global slowdown, and if you have to meet a rule in the next year or two, or indeed this year—you have less flexibility to respond in a counter-cyclical fashion. It binds your hands more. You are making that trade-off. It is more binding, but it is less flexible. You could make it more complicated by adding an escape clause, so in the case where certain conditions are met, the rule will be suspended or delayed. That makes it less simple and easy to communicate, which is the other part of the triangle, or the trilemma.

It is hard to write down a set of conditions that will be suitable for all shocks that come along. For example, the conditions in 2022 were quite unusual. The energy price spike led to very high inflation and interest rates above zero but also a slowing economy. If you tried to write down, "We will respond when the output gap is negative, so we are below capacity and interest rates are constrained", that would not have applied in 2022. You would have been unable to respond with energy price subsidies, for example. It is very hard to foresee all possible circumstances, which is why you might want to leave yourself greater discretion and flexibility.

In general, a rolling target of three years combined with three years of detailed departmental spending plans on a rolling basis is a pretty reasonable balance between those competing objectives. It is particularly damaging when you have a rolling target for future years where the Government can just pencil in overall spending numbers, without any detail, that are widely viewed as implausibly tight and meet the rules that way. Now that that option is largely closed off, we are in a better place, but inevitably reasonable people can disagree about how much weight to place on these different objectives.

Lord Blackwell: As with the Bank of England's inflation target, you could have a "comply or explain" principle. It is not a fixed rule. Going back to what Lord Burns asked in terms of the objective, the audience is the markets, presumably, so you would have to have a reasonable explanation. What about the frequency with which the rules have changed? Has that been an issue?

Helen Miller: There is not an optimal, correct set of rules that will be right at any point in time. It is right to expect that Governments will want to change rules or mandates across time depending on the context. We should not think about fixing for the next 100 years, but if you change them frequently you undermine credibility because the markets do not believe that you will actually carry them out in a few years' time. Again, there is a bit of a trade-off between wanting to flexibly adapt your framework as the broader conditions change but not changing them so quickly that no one believes you. In the UK, they have changed quite a lot since the post-2000s system, and they have probably changed more than is desirable.

Ben Zaranko: It is the accumulated effect of chopping and changing them with such regularity and frequency that we are now in a world where markets are almost in a show-not-tell mood. If you want to move to more of a, "Here is our general path for debt that we would like to get on where it is gradually falling in normal times, and when we deviate from that we will explain why and tell you what we are going to do to get things back on track", that is much easier to do if you have a track record of already having done that and behaved in a sensible, credible and sustainable way. When you regularly change the rules, people rationally place less weight on them and therefore demand action, maybe even where it might be economically more rational to say, "I will act in future if needed". But if people stop believing you, sometimes you have to overreact to things. That is closer to the world we are in now.

Lord Blackwell: If there was a possibility at some point in the future to change the rules, do you have a view on what would make them better?

Ben Zaranko: It would depend heavily on the context. The UK is currently set to do quite a large consolidation over the next few years—bigger than in other countries. If the Government were to see that through and at the end of this decade we were running a small current budget surplus or primary surplus and had a credible plan to get debt falling, from that point, the UK should try to move away from having so much emphasis placed on a particular singular number on which everything rides or dies. We need to move away from treating the point estimates of uncertain forecasts for future years as being a magical number that we have to meet precisely and fine-tune policy in order to do so, and away from incessant debate about what the headroom may or may not be and what policy should be or should not be in response. From a position of strength, the UK could move away from pass/fail numerical rules.

I would advocate for a broader assessment on a range of metrics selected by the Government. I would argue for something more like a traffic light system with shades of recognising that it is not "everything is okay" or "everything is terrible", but there are things in between. If one thing looks a bit worse but several others look a bit better, maybe that is okay. You can make the argument for that and try to move away from having so much focus and emphasis on a single numerical assessment. But that again is easier to do if you have a proven track record and are already viewed with credibility. To do that tomorrow would be incredibly risky and unwise in the present context. So it would depend. I would like to see us move to a slightly more holistic framework than the one we have.

Lord Blackwell: Do you agree, Helen?

Helen Miller: Yes, absolutely. I will underline a few points that Ben just made. We are definitely not saying you should change the fiscal rules at the Budget. That would have lots of costs. Given that Rachel has set out her fiscal rules at the moment and has been very clear she wants to stick to them, there is a good case for doing so. But it is also good to think now—which is why it is good that this is happening—about how a future fiscal framework could evolve to get towards a more wholesome place so that we can start debating how that might look.

Ben is absolutely right: the idea that you can manage the public finances by looking at one or two numbers is obviously not right. There are lots of things that matter in the short and the long run. Different kinds of spending matter; investment matters for other reasons. You need to look at a whole range of things in order to manage the public finances well. A problem with the current debate is that it has collapsed into a focus on the headroom, and everything is driven by that as opposed to those broader concepts. We need to broaden that debate out again and get back to focusing on the bigger picture issues that matter and how we make sure that debt does not balloon, that there is not deficit bias, et cetera.

I think Ben would agree with this. There is not one optimal or correct way to do this. There are different ways. Countries do things quite differently. There is a lot to be said for looking at other models—for example, this traffic light system that Ben just set out to say, "Could we find a way to say: here is a set of things that we think matter?" Importantly—Ben and I are on the same page here—it should be the Government of the day who set out the things they want to manage. This is not about some technocrat saying, "Here are the eight things that you should manage". The Government of the day would say, "Here is what we think of as good public finances; here are the things that we want to monitor". Then you would have someone like an OBR that would put the data together.

It would be better to have a broader set of information about public finances, and not over-calibrating to a number above or below a particular threshold. There would be difficulties with doing that, so we would need to thrash out exactly how to operationalise it. But the equilibrium we are in currently is not good. There is a great chart the OBR put together about successive government plans to get down debt, which they are always promising to do. Debt has just carried on ramping up. We are failing. If one of the things we wanted to do was get debt down in the good times, that has not worked. We are in this cycle now of a constant obsession with headroom and asking, "What is the headroom, and how big is it?" It just chews up the debate. If you accept that the current system is not a complete car crash but is not working wonderfully, it is worth thinking about how else we could do this to get what we want.

Q6 **Lord Liddle:** Could I follow up on that? It is a very interesting observation. You may think what I am about to say is completely off the wall, but is it not the case that the fundamental problem in Britain is our very poor growth performance? The reason the debt problem is a worry is that we know we have to improve the growth rate—that is the best way—rather than inflation to get the burden of debt down. The Labour Government are committed in that their first priority is economic growth. So why do they not set out a plan for economic growth and then look to the fiscal rules and see how these need to be adjusted in order to make that credible? You must have fiscal discipline and a system that stops money being spent willy-nilly on things that do not do much to improve our long-term situation. Somehow there is an obsession with fiscal rules; Rachel's focus should be on growth.

Helen Miller: I absolutely agree. If you think about the fundamental public finances problem in this country, poor growth is at the heart of that. We had higher levels of debt coming out of the world wars. How did we deal with that? Not by paying it off slowly but by growing the economy and making that debt become less important relative to the size of the economy. If we had more growth, everything we are talking about in the public debate would be easier. If the economy was growing by more, life would be easier. I absolutely agree that growth is the central challenge for our generation.

I have two things to say in terms of the rules. Even if we were in a high-growth state, you still want to manage the public finances well. You want to think about when you want counter-cyclical policy or in the good times how quickly you want debt to come down. You would still want to address questions about the public finances. Even Governments who have growth as their number one mission have other priorities too. For example, when we had the spending review in summer, the Government had a big increase in investment, partly on things such as transport and housing, and partly on defence and net zero, which I would argue were not really growth-focused areas but were other priorities. We should not forget that Governments do other things as well, and therefore you want to think about potentially constraining their choices. They also want to constrain their own choices. Again, this relates to what I said earlier about "should" rather than "could".

This Government did a lot more investment. Let us debate when you should borrow for those investments because they have long-run pay-offs in growth. Are they the right investments? How does it match with other things you are doing on tax and spend? The debate should be about the levers we can pull to try to get growth up and not solely on the management of public finances.

Q7 **Lord Agnew of Oulton:** I rather agree with you on this whole issue of fiscal headroom. I am astonished that, if you or I were running our households and we had £1,000 a month to spend, we are talking about a £10 buffer. As Ben said, if you have too big a buffer, they will just go and spend it. How much do MPs understand all this? Why do they keep pushing for more spending, or—in your example on so-called investment—activities that will not increase economic growth? If they understood what you were saying, would we be where we are now?

Ben Zaranko: That is something of a common pool problem, which, put in human language, means that if you are an individual MP with a particular passion or project that you care a lot about, of course you want to argue for more funding and you want to support an area that you are interested in. Even departments are completely rational in arguing for more money for their programmes to achieve the objectives they have been given. When everybody does that, you end up spending perhaps more than you ought, so it is a matter of finding a way to counteract that natural tendency, which is why having a rule or framework can be helpful.

The fundamental problem is that the fiscal arithmetic right now is really difficult. We have not fully absorbed or adjusted to a world where we spend an extra 2% of national income every year on debt interest compared to what we did for 20-plus years. That is an extra roughly £60 billion a year that we cannot spend on other things. That has not fully worked its way through into the collective psyche of people in this space.

Lord Agnew of Oulton: It is also going up because it is compounding. We have a structural deficit of £85 billion. Last month we borrowed £20 billion, and half of it was to pay interest.

Ben Zaranko: As I say, the UK is set to bring borrowing down quite quickly over the next few years on current forecasts. Debt interest spending is set to broadly stabilise as a share of national income. We have gone from spending about 2% to about 4% every year. That is the simple way of describing it. It is a big change, especially when you add on to that a world where we maybe have to spend another 1.5% of national income on defence compared to what we used to until very recently, going from 2% to 3.5% of GDP as part of our NATO commitment. If you add on to that the slow burn of demographic pressures on the health service and state pension, as well as recent pressures on particular parts of working-age welfare—not all of it—it adds up to quite a lot, which leaves less for discretionary spending on other nice things without commensurate tax-raising measures.

Then you get into the question of, "Could we just make painless cuts that will magic up ginormous efficiency savings?" Maybe we can talk about areas where that could be possible, but we have to be realistic. Also, can we raise taxes from a very small number of firms or people without having any damaging economic side effects? Those are two get-out clauses, if you like, for people who are not responsible for making the fiscal sums add up in the real world.

Helen Miller: Without going too off piste, it is interesting to come back to last year's election. Given that we knew all this, we could have had this debate this time last year, or multiple years ago. This was not the big public debate that was played out in the election when, ideally, it would have been. There is pressure to increase the size of the state for the many reasons that Ben listed. We have a society-wide choice about what we want the state to do, how big we want it to be, which pressures we are and are not going to accommodate, how we are going to do that, who we will raise taxes on and what we will borrow. Those questions were not part of the debate. It was more, "No, there is nothing to see here".

The Labour Party—I pick it because it is in government—said, "No increase in taxes, no increase in borrowing, no spending cuts; nothing to see here", and of course it has raised taxes and increased borrowing. There is a missed opportunity that our political system somehow was not capable of having big public debates about these thorny issues that underlie the public finance issues we are talking about.

Q8 **Lord Lamont of Lerwick:** Lord Burns mentioned the word "stability". Let us go back a moment. The whole concept of a buffer is a sort of reserve to cope with the unexpected, but the swings that you get in public finance are absolutely ginormous. The average swing in one year is something like £20 billion in either direction—namely, £40 billion—and some previous Chancellors have had a so-called headroom of £30 billion or £40 billion, which has been very little commented upon.

Lord Razzall: What was yours, Norman?

Lord Lamont of Lerwick: We did not have fiscal rules then, which is an interesting point. But we seem to have ended up with a situation that is very unstable. Going back to what Lord Burns said, we have this endless speculation about headroom, which results almost daily in someone deciding on some spending project or tax increase, which is terribly destabilising. I do not remember any speculation before anybody's Budget that was anything like this. Is that the fault of the rules or just the fault of the margin being so very tight?

Helen Miller: If you are going to have bright-line pass/fail rules, you need enough headroom to avoid this speculation. You are absolutely right. Having those kinds of rules and the very small headroom that Rachel Reeves has given herself leads to this instability, because completely run-of-the-mill forecast changes can knock you off course—not because anything really changed in the world but because forecasting happens that way.

You are absolutely right that previous Chancellors under the rules had much higher levels of headroom. Jeremy Hunt was the first to cut that back to a very small margin, and Rachel Reeves chose to stick with it. There is no optimal level of headroom. There is always a trade-off in the sense that you could have a very large one that would mean that very few things would knock you off course, but you have to raise taxes or cut spending by more, and that has a cost. But there is a strong case for saying that the headroom the current Government have is too small and is destabilising things and creating all this speculation.

The speculation and the uncertainty are directly damaging because firms do not invest when they are not sure what is going to happen. At the moment, it is particularly bad because the Labour Party chose to tie its hands so strongly on tax policy. It has tax locks. That just feeds into, "If it has to react, what is it going to do? It told us it would not do these things", and that adds into the mix at this moment in time.

In summary, if you have these rules, you want enough headroom that you are not knocked off course every six or 12 months. The problems we have at the moment about the speculation are, to a very large degree, directly the result of the choice the Chancellor made to have a very small headroom against the rules that she set herself.

Ben Zaranko: I completely agree, but there is another development that coincides. Post 2022, we started to operate with very minimal amounts of headroom against these pass/fail rules. That coincides with the period when interest rates and bond yields became higher and more volatile. They move around the most in the forecast, whereas for a long period they were effectively stuck at close to zero. So you almost have this cottage industry of City analysts marking to market day by day, week by week, plugging in the latest market-implied path for interest rates and seeing what that does to the headroom or what has happened to gilt yields this week and what that would mean for Rachel Reeves's headroom.

Interest rate volatility was not really a thing in, say, 2018, in the way it is now, so that is unhelpful. It is not a good state for the world to be in, and we should recognise that we have created a framework and a set of norms and policy-making processes that represent a bad equilibrium that we should be trying to break out of. One way to do that would be to build in a bigger buffer again. We have to recognise the political difficulty of doing, say, £20 billion of tax rises or spending cuts with nothing to show for it apart from a bigger buffer at the end. That clearly poses short-term political challenges, which is why the most irresponsible thing was to go from £30 billion to £10 billion in the first place, because that is really difficult. In short, we need to think about trying to break out of this cycle.

Q9 **Lord Turnbull:** I am interested in your assessment of what the OBR calls dynamic scoring. In my first week of studying economics, we looked at something called the multiplier. Dynamic scoring seems to me a fancy name for the multiplier. You cannot get away from trying to measure the second-round and third-round consequences because they differ from the various leakages in the system and behavioural responses. Others say, "Once the OBR starts doing that, you lose clarity on what the calculation really is". Where do you strike this balance between taking the later-round consequences but still maintaining some clear understanding of how the model is working?

Ben Zaranko: It is worth distinguishing between two things here to make sure we are talking about exactly the same thing, since the OBR has always factored in demand multipliers from government policy. With a big package of tax cuts, it has a set of multipliers that it publishes, which it plugs through the model as it does on spending changes. A more recent development is its attempt to score supply-side effects of policies that might more durably have a growth impact beyond short-term impact on demand, which it assumes fade away quite quickly. This is more about, "Can we get more people back into work by introducing childcare reforms that lead to an increase in labour supply?" or, "Can we do something on planning that leads to more housebuilding or to a greater level of capital stock per worker, which will have an impact on productivity?" The more recent development is getting into the nitty-gritty of Government's efforts to boost the supply side of the economy as well as the usual stuff around aggregate demand multipliers. I will pause there to make sure you are happy with that.

Lord Turnbull: Does that create a bias that, under pressure from the Treasury, you follow up the positives? As you said, in addition to the leakages, the behavioural reactions might be positive but you might not be equally rigorous where they are negative.

Ben Zaranko: There is absolutely an issue here about symmetry, where the way this process works is that departments might send proposals to the OBR and say, "Look at all our fantastic policies we have that are going to boost growth", and the OBR takes those and builds in positive impacts on growth. To take a more recent example, it might judge that the Government's Employment Rights Bill could harm aspects of the labour market. It should build that in as well as any benefits to labour force participation from a back-to-work scheme for people on disability benefits, for example. You need to be symmetric, or you will end up making the forecast biased in one direction.

Lord Turnbull: Are they symmetric?

Ben Zaranko: They would like to be. It is hard to know from the outside what the OBR has access to. I could imagine departments or No. 10 being more reticent where they have something planned that is likely to do a bit of economic damage compared to when they have something which they think is shiny and growth-enhancing. It is very difficult to judge from the outside how that works. This relates to the point I made earlier about only scoring things that are sufficiently large because the OBR is resource-constrained and cannot do everything. If we end up arguing about 1,000 tiny measures, it is a waste of everyone's time in the grand scheme of things. But if the Government put in a few big and—what they view as—growth-enhancing policies and do lots of smaller things that weigh on growth, whether it is through various different regulations or bits they bring in, you again might end up with a bit of a skew in how this feeds through. It is a relatively new process between the OBR, Treasury and the departments, so there is scope to iron out and improve this. That is why it is a useful thing for the committee to focus on.

Helen Miller: It is worth distinguishing between the two reasons you might want to do a dynamic scoring exercise. The first is to help the Government judge policies. When doing a policy, you should think about the full set of effects, not just their direct costs and the behavioural responses that affect the tax base but also the broader supply-side impacts. That can help you decide whether you want to do that policy or not. That should always happen, and hopefully the Treasury do that. Maybe having the OBR think about these things makes the evidence base a bit more rigorous or shines a light on matters, but that should happen regardless of the forecasting process.

Secondly, there is an issue about whether accounting for the supply-side effects can help the OBR improve the forecast. On that basis, it is difficult for two reasons. As we heard earlier, there is huge forecasting uncertainty. Some policies might be important and could have big effects compared to the size of the policy, but they could be immaterial relative to the uncertainty in the forecast. It does not mean you should not do them; it just means they are not big enough to move the forecast. I worry that there are things that are good and should be done but now are seen as less exciting because they do not move the macro forecast enough.

You have to think about the baseline, which has an assumption about productivity growth. You might reasonably think that part of the reason why productivity will grow over time is because every Government might do things that are better. To have dynamic scoring, you have to work out what you are comparing it to: what would the world have been had you not done this policy? Again, it is hard to know what the baseline is in some cases. Where we can improve the forecast, good: let us do that and let us account for it symmetrically the way that Ben talked about. It is a problem if you score only the upside and not the downside.

I worry that we lose the wood for the trees. We—by we, I mean politicians—get so focused on whether it can be scored in the OBR. That is one thing you might care about, and I can see the attraction for a Government if they can score something positively. There will be a whole bunch of policies that are not material enough to move the forecast, but nevertheless you should think about their supply-side effects, and you might still want to do them. It would be helpful in discussions to disentangle those two different things that you want to do.

Lord Lamont of Lerwick: Does that argument apply equally to expenditure and taxation? Is the analysis the same on both?

Ben Zaranko: I think so. The OBR has been criticised from both sides. It has been criticised by some for underestimating the returns to tax reforms or tax cuts in driving economic dynamism and, on the other side, it has been accused of underestimating the returns to certain types of spending programmes—or, conversely, underestimating the damage from certain types of cuts to spending programmes.

Lord Lamont of Lerwick: Sorry, perhaps I worded it wrongly. Is the way the Treasury operates even-handed between expenditure and taxation in this analysis?

Ben Zaranko: That is a good question. Both have featured in recent years. We have had, for example, reforms to corporation tax that have ended up being scored as growth friendly. Then we had childcare spending reforms that were also seen as growth-friendly under the same Government. To some extent, that will reflect a little the political preferences of the day. It is a separate question aside from dynamic scoring about tax and spending and how they are treated by the OBR, which can create problems. That is separate to this issue at hand.

Helen Miller: Ideally, you want to treat them even-handedly. With tax, there are a smaller number of instruments the Government have. There is a set of taxes, and we have evidence based on what happens if you move this tax up or down. There are only so many things you can do. But in spending, there are countless numbers of policies that you could do. So when there is a childcare policy that is marginal and where there is some evidence, Governments and Treasury think about the supply-side impact. This is what I mean by the baseline. There could be tonnes of policies that a given department does, and they change a bit what they do every year. At what point is that change big enough that it has a supply-side effect? If you add up all the changes that have supply-side effects, it is much harder to even conceptualise how it would look to measure that.

Again, what is the exact baseline? What would spending by a department be in five years' time? What is it now? What is the shape of that due to the supply-side? It is very hard to do, which is why we should not over-calibrate to ask, "Can you take a particular marginal project and run it through the OBR's model and get a supply-side effect?" Sometimes you can, and sometimes that will help with the forecasting, but often it is not the appropriate place to put it through the model. You should think not just about the marginal spend but also, "Here is the spending we are doing in an area. What is that doing to the supply-side of our economy? Could we do better for a given set of political goals?" We should not over-calibrate to that particularly narrow exercise about whether it improves the forecast.

Ben Zaranko: To put it slightly differently in terms of spending, presumably the DWP has always tried to get people who are currently out of work back into work. The MoD has always tried to create good defence jobs and support the British defence industry. Those are not new things. If the Government announce extra defence spending, it is harder to think whether that is additional relative to what we have done for the past however long. It gets a bit conceptually difficult to know what the OBR should build in. That is a good point on tax versus spending, because tax is often a deviation from quite clear baseline of: tax was going to be 25%, and now it is going to be 23%. On spending, it is a little harder to judge. I suspect that gets murkier inside the bowels of the OBR forecast generation machine.

The Chair: We have a vote coming up in about two minutes, so I am going to try to squeeze Lord Razzall's question in before that.

Q10 **Lord Razzall:** Before I ask my question, I just want to say how appropriate it is that you are appearing three days after the death of Lord Taverne at 97 years old. He was the founder and first director of the Institute for Fiscal Studies.

My question is about the OBR and how many forecasts it should be giving. There is an argument that it should be producing only one forecast a year, and I noticed with interest that, not only does it seem to be doing more than one forecast a year, but it seems to be telling the press about productivity statements a month before the Budget. Ought it to say less and do more, or do more and say less?

Ben Zaranko: I am not going to comment on the leaks, and I do not think we can be 100% certain that they have come from the OBR; they could have come from the Treasury.

The question of one versus two forecasts is a good one. To do it justice, it might take us uncomfortably close to the vote some members have to head to. I will make a few high-level points and then I will let Helen come in. There is no optimal number of forecasts. Why not three a year? Why not four a year? Is every six months right? One strange thing about the way we currently do things is that we do not do them at equally spaced intervals. We typically have one in March and one in November, so we have a long stint in between. That is one oddity of the current system and we could talk about changing that. Two forecasts per year is standard as international best practice. It is something the UK has done for 50 years. It is worth reflecting on why it is now seen as an issue, and it takes us back to the conversation on minimal headroom, excessive policy volatility, and excessive focus on—

Lord Razzall: Excessive leaks in between as well.

Ben Zaranko: That does not help with the speculation issue. There is a good case that the Government should be making big tax and spending decisions only once every year. Twice a year gives too much incentive to fine-tune, fiddle, and try to seek positive headlines. You then end up with the tension of having one policy-making fiscal event every year while having two forecasts. What happens if, at that second forecast, I happen to be on track to miss my rules? Do I respond or wait until the next event?

The Treasury has built in a rather elegant mechanism for managing that by having the in-between fiscal events—what would probably be the spring forecast—operating the rule as a range. That is not set to come into action until 2027, which is peculiar, but it eventually might be one way to manage the tension. The other blunt option would be to scrap the second forecast entirely. Helen and I would agree that it is an overly blunt instrument which would take information out of the public realm.

Lord Razzall: You would have a lot more leaks, would you not?

Ben Zaranko: There may not be anything official to leak at that point. If you have not produced the forecast, what are you leaking? Leaks aside, there is a question on the right level of frequency. Two a year seems to strike a good balance to me. It is good to have the internal mechanisms through which these forecasts emerge constantly moving. You might get nasty surprises if you visit things less frequently, but there are arguments in both directions.

Helen Miller: I agree with Ben on all that but want to highlight two things. We only need one fiscal event a year. Unless something extraordinary happens, one is more than enough. Therefore, it is a question of how you do the second thing. It is worth thinking about the timing of the second forecast. When we had a pre-Budget report back in the autumn and a Budget in the spring, it was, "Here is new information in the run-up to the Budget". We now have the Budget in the autumn, a spring forecast that comes quickly afterwards, and then a long gap. Thinking about that second forecast, do you want it at the halfway mark as an update or do you want it as a pre-Budget event close to the Budget? The timing of it is actually quite important.

Lord Razzall: So the timing of the second one might be looked at.

Helen Miller: I would keep a second one, but it is worth discussing when it happens.

The Chair: In connection with that, if the OBR hypothetically wanted to make revisions to its productivity, for example, do you think it should be done at a different point than on the eve of the Budget? Should it be plugged in earlier on in the annual cycle or does it not make a difference?

Helen Miller: Good question. One issue is that if you announced it earlier, the Government would know it was coming and you would have lots of speculation. It relates to timing. If it did it in the spring forecast, the Government would probably feel the urge to respond to it immediately because of the big gap to the fiscal event. If that first forecast was closer to the Budget you could do it then as a, "Here is some information for the world; in three months we will address it in the Budget". It depends on the timing of that second forecast. Of course, the Government get to know about it somewhat in advance of the Budget day. You do not want to leave a huge gap between a potential big change in the forecast and the moment at which you want to take policy action.

The Chair: Would you like to try to beat the voting bell, Lord Lamont?

Q11 **Lord Lamont of Lerwick:** There is one way I could do that. The first part of my question was going to be: does the OBR's work help us hold the Government to account? We have debated that already quite sufficiently, so I will cut the question in half.

Does the OBR have the right mandate? Is it scrutinising the right things and communicating its result in the right way? Should more emphasis not be placed on the report on sustainability of debt? I know it is difficult for the OBR but that is fundamentally important when taking a longer-term view. The July forecast by the OBR quite rightly got a lot of publicity because the numbers were so horrific. By and large, this has not had the attention it should have and the reasons why the figures were so horrific have not penetrated public consciousness.

Helen Miller: It is right that the Government set out what they want to do with policy overall and the OBR then evaluates whether the Government are meeting their own mandate and rules. The OBR is not setting policy or adjudicating whether policy is good or bad. It is just saying, "Given your own policy, are you meeting that"? That is the right framework as opposed to saying the OBR should decide what the policy or rules should be. It is right that that is for politicians to choose.

On communication, I absolutely agree with you. It does some great reports outside fiscal events on fiscal risks. Its risk register is brilliant. Its sustainability report is very good. It is a shame that they do not get more attention; it would be nice if Governments gave them some more attention and flagged issues. One of the big information jobs the OBR does is put together lots of important information, making it transparently available so we can all know about it.

The OBR does a pretty good job of communicating. It is not perfect and everyone could be better, but it is trying to communicate uncertainty. It is trying to communicate risks around forecasts and things that are coming in the future. It is not perfect but it is trying to communicate a pretty complex set of things holistically and sensibly.

Lord Lamont of Lerwick: Is the sustainability report not particularly important and not getting the attention it deserves?

Helen Miller: It is particularly important; it gets more attention sometimes than at other points in time. I am not sure how you make the Government pay more attention to it. We read it and pay attention to it.

Lord Lamont of Lerwick: The public pay attention to the headroom but much less attention to the figures around sustainability.

Ben Zaranko: There are a few things we could try to do about that. I am not advocating they should but, if the Government moved to one forecast a year, you could try to use the vacated date to have a robust parliamentary debate about some sustainability issues. You could try to give it more prominence.

There is a question about communication as well as questions about communicating uncertainty, making greater use of fan charts, and trying to de-emphasise point estimates of some things a little. That is challenging in practice.

One thing that came up in the external review of the OBR, which I want to say concluded late last year or early this year, was a suggestion that it tries to come up with a slightly simpler and easier-to-understand long-term sustainability metric. One might be the fiscal tightening that is needed to get you towards debt stabilising primary balance, or the tightening you need every decade in order to offset expected debt pressures and things like that. You could try to summarise it in one number and give that more prominence in its reporting as well as the headroom number. To a large extent, the OBR has to do what is asked of it. It has a limited ability to control what is given the most emphasis and focus, and what is put at the front and centre of its analysis. That is something I would like to see it do more thinking on. It is aware of the issue.

Q12 **Lord Liddle:** My question is the Andy Haldane one: should the Treasury take back control of economic forecasting? What are the arguments on either side on that?

Helen Miller: In my view, it is good that the OBR does a forecast that is separate from the Treasury forecast. The Treasury doing a forecast is marking its own homework, and the risk is that it lacks credibility because people will not believe it has done a forecast independent of what is in its own interest. It might build in too much optimism because it wants things to turn out a certain way; that was the argument for taking it out of the Treasury. It is not a binary option. We have a system where the OBR does the forecast. There are countries in which the Treasury equivalents do a forecast and an external fiscal council does a second forecast: a dual forecast model. The US has this model.

Ben Zaranko: Sweden is another one.

Helen Miller: The Government have to explain why their model is different. France and Germany have this comply or explain model, so there are worlds in which you have dual forecasts. It is not a case of the OBR or the Treasury. You could have two in principle but there are problems in just having the Treasury and not the OBR.

The downside of the OBR is partly resources; there are more resources in the Treasury than the OBR. You might have some duplication of effort because the Treasury is trying to guess what the OBR might say, and it might be harder for policymakers to plan as they do not know what the OBR is going to say.

In our model, it is important to have a good relationship between the Treasury and the OBR so there are no bad surprises over what the OBR model or forecast is spitting out. Even if you have the forecast sitting with the OBR, which is good for credibility and external validity, having a good relationship with the experts in the Treasury is important.

Ben Zaranko: The best argument for bringing it back into the Treasury, which featured in the Andy Haldane article I think you are alluding to, is that by taking macro forecasting out of the Treasury, the Treasury may lose some macroeconomic thinking and expertise and it may be downgraded in internal importance. I do not feel able to judge that from the outside but could imagine how that could be the case.

Previously, it was too easy for Governments to put their thumb on the scales and play with things like the productivity assumption to try to get the numbers they wanted. There are good arguments for taking it off them and giving it to the OBR: it creates a different set of issues which we have been talking about today. You solve one set of problems and you create a new set of problems, and the next generation will have to live with those. The big problem is that we have a system that places too much weight on the OBR's central point estimate. We should move away from that rather than throw the baby out with the bathwater and move back to politically motivated macro forecasting.

Lord Liddle: Does the absence of economic forecasting skills in the Treasury mean it is unable to give good policy advice on specific policy measures?

Ben Zaranko: I do not feel able to judge that as I have not been in the room when the Treasury is giving policy advice.

Helen Miller: I am not in the room but there are two different things. You can have experts on areas of policy and those experts can think about the mechanical effects of a policy, and the longer-run more general equilibrium macroeconomic effects of a policy, without being the person who can write down the overall macroeconomic model. The Treasury needs people who can look at the effect of policies, and I see no evidence that it does not have those people. In principle, I do not see why the OBR and others cannot take that and translate it into how you aggregate all these effects and put them into the whole economy model. It is possible that, if the people in the Treasury do not do enough of that aggregation themselves, then they are missing something, but I would not over-calibrate to that. You can look at a lot of things in a slightly narrower way than the entire economy.

Q13 **The Chair:** Because of your extreme efficiency in answering, we have reached our final question. One of the popular criticisms of the OBR is that it constrains the Government. We have talked about this in passing in the last few questions. To what extent do you think the OBR acts in a way that does constrain? That may be its job; it should be providing public interest-oriented constraints. Is there a sense in which there are unintended constraints that the system has developed over time that are not necessarily in the public interest, or is the OBR's constraining function exactly what it should be doing?

Helen Miller: That is a great question. You are absolutely right; a reason to have an independent fiscal council is partly to add some constraints on the Government. Importantly, it is the Government of the day who choose the overall constraints. The Government come in and adjust the charter. They say, "Here are the constraints we want to constrain ourselves with" and the OBR marks their homework. The fact that the OBR is saying, "You have hit a constraint" means the Government have set a constraint and hit it. In that sense, it is working as planned. The fact that we are hitting the constraints means that Governments are choosing to run things right up against what they can manage within their rules.

Is it more constraining than it should be? To pick up on one example from earlier, we talked about dynamic scoring. It has always done it to some degree, but the extent to which it is doing it is relatively new. Therefore, we are still working through what it looks like.

There is a concern that it is producing a funny constraint where the Government want to put policies together that are big enough to get over some hurdle, or they are choosing policies not because they are the best but because of the OBR. It is not the OBR's fault as they are choices the Government are making but, once the OBR opens the door to these things, the Government respond to it. That is not me saying, "Let's scrap all dynamic scoring", but it goes back to our earlier conversation about what you want to use it for. Given that the Government are running things so close to their own imposed constraints, you have every margin coming into play and the Government are trying to get things across the line like dynamic scoring. That might be an unintended side effect of changing the Government's behaviour.

Q14 **Lord Turnbull:** Is this another manifestation of small headroom? It is looking to the outside world like the OBR is telling the Government what to do all the time because the Government respond quite quickly. They have to because they do not have much headroom. If we solved the headroom problem then it would become clearer that the OBR is not setting policy but is validating it and keeping its integrity. While they are running on a very short reign, it looks as though the OBR is driving things when it really should be the Government.

Helen Miller: That is absolutely right. When you are running fiscal policy so close to your own rules, you are running it with such a fine margin that completely normal forecast changes can buffet you. Therefore, you are in a position where what the OBR says is going to matter because you are running so close to your own constraints. If you had a £30 billion, £40 billion, or £50 billion buffer then things would move around. It would not be worth arguing over whether the forecast would be £1 billion higher or lower because it would not matter. It is running things that are tight.

Lord Agnew of Oulton: Lord Turnbull mentioned that it feels like the OBR is telling the Government what to do; I do not agree. The Government seem to fail to make a case for their position. If they want to disagree with the OBR's position then they are perfectly at liberty to do so, but they tend to shoot the messenger. Would you agree with that?

Ben Zaranko: It is nuanced. It is true that the Government can choose to deviate from the OBR if they want to. In our framework or legislation, there is nothing to stop the Government from presenting and explaining to the world that, "The OBR says we are going to be missing these targets by this much, but we think it is underweighting the importance of our growth measures. We think XYZ will have more impact than it does. Here is the forecast we have produced which shows us meeting the rules".

The interesting question is why Governments have felt unable or unwilling to do so, and it is perhaps because they think the OBR's forecast might be viewed as more credible than theirs. They think it might be taken unkindly by those who lend the Government money, who might think it is populated by too much wishful thinking.

A lot of the criticism of the OBR is wide of the mark—it is often motivated by wishful thinking that particular policy measures or pet projects would have greater impacts. The OBR does what is asked of it. There are some murky grey areas where we can quibble over the particulars, but it is policy choices, particularly around headroom and the design of fiscal rules, that have got us here and it is policy choices that will get us away from here.

I can see why it looks like the OBR's productivity judgment is going to force the Government to do XYZ. That is a slight misunderstanding of why we are here. Ultimately, we would be in a better place if we were not operating with such minimal headroom against pass/fail rules and entirely setting our store by those. We need to break out of that model, which might ease pressure on the OBR as well, which comes up in the political discussion.

Helen Miller: On a smaller point, and on a tangent, the debate has become focused on what the OBR does and tells the public. It has been a really good force for getting more information into the public arena, but it is a pretty small team. A lot of the work is happening in the rest of government. The Government have the ability to put out information and explain things to the public, including politicians, who can explain why they are doing something.

Thinking more mundanely, a good innovation was that we had policy costing notes coming out of HMRC after 2010. For a while, they were brilliant and gave you lots of information: "Here is a tax policy and this is what we have assumed about behavioural responses". They have gone from being a good innovation to useless. It is nothing to do with the OBR; it is completely to do with the Government deciding what information to put out. Everyone thinks that the OBR is bigger and more powerful than it is, and a lot of what is happening is within the Civil Service and the Government. Therefore, it is within the Government's remit to put out different information to explain what they are doing, their choices or policies, and how they are costed. A lot of focus is on the OBR because it hands over the marking of the homework, but there is a lot the Government have complete control over.

Ben Zaranko: A lot of our ability to criticise things the OBR does comes from its transparency and the fact that it lays it all out, particularly upon request. If you ask the OBR to publish more detail on how it has reached a judgment, it tends to do so in a way that would not be true if it was the Treasury, HMRC or DWP. That transparency helps, and there is nothing to stop HMRC going, "We use a different elasticity and therefore get this different impact". It has chosen not to do so and that is important.

The Chair: Are there any other comments or questions from colleagues? No. Helen and Ben, thank you so much, and thank you for beating our colleagues in the main Chamber who are currently about to vote. The meeting is concluded.