

**Impact case study (REF3b)**

<p><b>Institution:</b> University of Oxford</p>
<p><b>Unit of Assessment:</b> 18 - Economics and Econometrics</p>
<p><b>Title of case study:</b>          Advising on the design, development and implementation of the UK Office for Budgetary Responsibility</p>
<p><b>1. Summary of the impact</b> (indicative maximum 100 words)          In 2010, the new Conservative government established the Office for Budgetary Responsibility (OBR) to provide independent and authoritative analysis of the UK's public finances. The economic case for an independent body to monitor fiscal policy was based on research by Professor Simon Wren-Lewis and his co-authors into fiscal policy rules and optimal debt policy. This research has provided important inputs to policymakers' thinking about fiscal councils, both in the UK and overseas. Work by Professor Wren-Lewis has strongly influenced and shaped the design and subsequent development of the UK's Office for Budgetary Responsibility.</p>
<p><b>2. Underpinning research</b> (indicative maximum 500 words)          Professor Wren-Lewis' research on the interaction between fiscal and monetary policy, fiscal policy rules, and optimal debt policy, dates back to 2000. Since joining Oxford University in January 2007 as Professor of Economics and Fellow of Merton College, Wren-Lewis has greatly extended this work and undertaken fundamental research on the role of independent fiscal monitoring bodies and the structure of such bodies.</p> <p>Wren-Lewis's work on fiscal councils is underpinned by research undertaken with his co-authors Kirsanova (Glasgow) and Leith (Glasgow) on monetary and fiscal policy interaction and optimal debt policy. This earlier research analyses the causes of deficit bias and demonstrates why fiscal rules on their own may not be sufficient to combat deficit bias [R2]. Subsequent work extends and deepens this analysis to consider countercyclical fiscal policy and optimal debt dynamics, both inside and outside a monetary union [R3, R4, R5]. This research shows why the application of fiscal rules on their own, are unlikely to be successful in controlling government debt. Simple rules are seriously sub-optimal, while better but more complex rules are much easier to fudge.</p> <p>Building on this, Wren-Lewis' research then goes on to establish the case for an independent fiscal monitoring body as a useful complement to fiscal rules, by publically warning when those rules are being circumvented, and also by sanctioning occasions when it makes sense to break those rules. An independent fiscal council to monitor public finances was first proposed specifically, in 2007, by Kirsanova, Leith and Wren-Lewis [R2]. In subsequent work, Wren-Lewis focused on the structure and role of fiscal councils. Some commentators have drawn parallels between the role of fiscal councils and that of independent central banks. Wren-Lewis demonstrates that simple analogies between inflation bias and deficit bias can be misleading and offers two arguments for the form of delegation to differ between monetary and fiscal policy [R6]. The first is that informational problems play a much greater role in explaining deficit bias than is the case for inflation bias, in which case an independent advisory body may be sufficient to correct the problem. The second is that there was much less consensus about the objectives of long term debt policy compared to monetary policy. In 2011, this led to a comprehensive survey and analysis of existing fiscal councils; an examination of the role fiscal councils should take with respect to forecasting, policy analysis and debt objectives; and a consideration of to what extent the characteristics of the institutions can be related to the potential causes of deficit bias, and what relationship they have to fiscal rules [R1].</p>

### 3. References to the research (indicative maximum of six references)

**R1]** Calmfors, L and Wren-Lewis, S (2011), “What Should Fiscal Councils Do?”, *Economic Policy*, 26, pp 649-695.

**R2]** Kirsanova, T, Leith, C and Wren-Lewis, S (2007), “Optimal Debt Policy, and an Institutional Proposal to help in its Implementation”, *European Economy Economic Papers No 275*, pp.269-296 April.

**R3]** \*\*Kirsanova, T, Leith, C, Wren-Lewis, S (2009), “Monetary and Fiscal Policy Interaction: The Current Consensus Assignment in the Light of Recent Developments”, *Economic Journal*, 119 482-496

**R4]** \*\*Kirsanova, T and Wren-Lewis, S (2012), “Optimal Fiscal Feedback on Debt in an Economy with Nominal Rigidities”, *Economic Journal*, 122, , 559, pp 238-

**R5]** \*\*Leith, C and Wren-Lewis, S (2011), “Discretionary Policy in a Monetary Union with Sovereign Debt”, *European Economic Review*, 55,1, pp 93-117

**R6]** Wren-Lewis, S (2013), “Comparing the Delegation of Monetary and Fiscal Policy”. In George Kopits (ed), *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*, Oxford University Press, Oxford. (Previously published as Oxford University Department of Economics Discussion paper 540, March 2011)

Research quality:

*Economic Journal* is a leading general-interest journal and the UK’s top economics journal. It was rated as “4\*” by the ESRC-RES review of UK Economics and is classed as “AA” in the Combes-Linnemer (2010) ranking.

*Economic Policy* is a policy orientated journal focusing on current and emerging policy topics and subjecting them to an analysis that is both rigorous and accessibly presented. It is classed as ‘B’ in the Combes-Linnemer (2010) ranking,

*European Economic Review* is a leading general-interest journal and is classed as “AA” in the Combes-Linnemer (2010) ranking.

\*\* denotes publication returned as part of REF 2014

#### Research Grants:

- Oct 2005-Sept 2008: ESRC Research Grant - World Economy and Finance Programme. “Reinstating Fiscal Policy as a Stabilisation Device” (PI: Leith; Co-I: Wren-Lewis), £147K.
- Nov 2008-Oct 2011: ESRC Research Grant: “New directions in monetary and fiscal policy analysis at the macroeconomic level”, (PI: Leith; Co-I: Wren-Lewis) £178K.

Outputs from these grants have been rated as 'outstanding' by all referees for the ESRC.

### 4. Details of the impact (indicative maximum 750 words)

In June 2008, Professor Wren Lewis presented research on optimal fiscal policy and fiscal rules at a research workshop organised by the Centre for Economic Policy Research, which was attended by members of George Osborne’s private office **[section 5: C1]**. In September 2008, a Conservative Party economic policy document “Reconstruction – Plan for a Strong Economy” proposed the establishment of the Office for Budget Responsibility (OBR), citing Kirsanova, Leith

and Wren-Lewis (2007) [R2] and drawing directly from their proposals for a fiscal council to combat 'deficit bias' [C2]. Subsequently, Wren-Lewis and his co-authors presented their research to the Cabinet Office and the Treasury and had informal discussions with members of George Osborne's private office. When the Conservative party came to power in May 2010, the OBR was established on an interim basis as a non-statutory body, and in March 2011, the OBR became a statutory body.

In July 2010, Wren-Lewis was called as an expert witness to give oral evidence before the Treasury Select Committee for the formation of the OBR on a statutory basis. Wren-Lewis' earlier research and proposal for a fiscal council was noted in the minutes [C3, Formal Minutes, q84]. Drawing on his research on the role and structure of fiscal councils [R1]), Professor Wren Lewis argued in his evidence to the Select Committee that the board of the proposed OBR should include independent non-executive members as well as executive members [C3, Formal Minutes, q88]. On 21 June 2011, two non-executive members were appointed to the OBR. These were not included in the interim OBR, but were recommended by the Treasury Committee for the statutory OBR.

In March 2011, the Budget Responsibility and National Audit Act 2011 established the OBR as a statutory body. Wren-Lewis was appointed to the seven-member panel of the OBR comprised of outside experts "to help develop and scrutinise its work programme and methods", a move indicative of the influence of Wren-Lewis' research on the subject of fiscal councils [C4]. Wren-Lewis' recent work on the comparative functions of fiscal councils has also influenced the operation of the OBR itself. In the Ken Dixon Lecture at the University of York on 13 June 2011, the current director of the OBR, Robert Chote drew heavily on the analysis by Calmfors and Wren-Lewis [R1] in setting out the justification for fiscal councils and in comparing of the UK's OBR with fiscal councils in other countries [C5, p.3]. Since its establishment, the OBR has had a major impact on UK fiscal policy. For example, in November 2011, the OBR revised down its forecast for potential output, which led the Chancellor in his Autumn Statement to announce plans for additional future austerity to ensure he met his fiscal targets [C6].

The impact of Wren-Lewis' work in this area has extended beyond the UK. A conference on Independent Fiscal Institutions (Budapest, June 2010) reviewed the experiences of fiscal councils worldwide, and Wren-Lewis' presentation to the conference drew important distinctions between types of fiscal council and the extent to which different designs tackle different problems of fiscal policymaking [C7]. In April 2011, the research on the role of fiscal councils was presented at the 3<sup>rd</sup> Annual Meeting of OECD Parliamentary Budget Officials on 29 April 2011 [C8]. In addition, Wren-Lewis has held informal discussions with interested political representatives in other countries, such as Ireland and Slovakia. He has since joined the Advisory Panel of the Slovak Council for Budget Responsibility [C9].

Wren-Lewis maintains a webpage on fiscal councils

([http://www.economics.ox.ac.uk/members/simon.wren-lewis/fc/Fiscal\\_Councils.htm](http://www.economics.ox.ac.uk/members/simon.wren-lewis/fc/Fiscal_Councils.htm)). The webpage is designed to be an easily accessible account of what fiscal councils are trying to achieve, and, as such, it has proved a useful source of information and analysis on fiscal councils for policymakers. The webpage has specifically been referred to by UK policymakers while drawing up legislation to put the OBR on a statutory basis (for example, [C3] footnotes 11 and 12). A summary of Calmfors and Wren-Lewis (2001) [R1] on the role of fiscal councils was made available on VoxEU (<http://www.voxeu.g/index.php?q=node/6369>) a website supported by the EU to provide research-

based policy advice and commentary for economists in governments, international organisations, academia and the private sector as well as journalists specializing in economics, finance and business [C10].

##### 5. Sources to corroborate the impact (indicative maximum of 10 references)

**C1]** Who Will Guard the Guardians? The Case for Fiscal Councils , CEPR meeting 19 June 2008. (<http://www.cepr.org/active/meetings/viewmeeting.php?meetno=1703>)

**C2]** The Conservative Party economic policy document *Reconstruction – our plan for a strong economy*. The document can be found at [http://www.conservatives.com/News/News\\_stories/2008/09/Calling\\_time\\_on\\_browns\\_age\\_of\\_irresponsibility.aspx](http://www.conservatives.com/News/News_stories/2008/09/Calling_time_on_browns_age_of_irresponsibility.aspx). “Optimal debt policy, and an institutional proposal to help in its implementation”, Kirsanova, Leith and Wren-Lewis, 2006 is cited on page 8.

**C3]** The Treasury Select Committee Fourth Report on the OBR contains the minutes of Simon Wren-Lewis’ oral evidence to the Committee, as well as citations of his fiscal councils webpage and a discussion of his oral evidence. The website for the Report is <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/385/385.pdf>

**C4]** The press release for Simon Wren-Lewis’ appointment to the OBR expert panel can be found at [http://budgetresponsibility.independent.gov.uk/wordpress/docs/obr\\_expert\\_advisory\\_panel\\_pn\\_23\\_032011.pdf](http://budgetresponsibility.independent.gov.uk/wordpress/docs/obr_expert_advisory_panel_pn_23_032011.pdf)

**C5]** Robert Chote’s “The Office for Budget Responsibility – can we make a difference?” Ken Dixon lecture, University of York, June 2011 <http://budgetresponsibility.independent.gov.uk/ken-dixon-lecture-at-the-university-of-york/> .

**C6]** HM Treasury, Autumn Statement 2011 (November 2011) <https://www.gov.uk/government/news/autumn-statement-2011--3>

**C7]** Webpage for the Conference on Independent Fiscal Institutions, Fiscal Council, Budapest, Hungary, March 2010. <http://blog-pfm.imf.org/pfmblog/2010/06/the-role-of-independent-fiscal-institutions-in-fiscal-management-the-perspective-from-an-international.html>

**C8]** Webpage for the 3<sup>rd</sup> Annual meeting of the OECD Parliamentary Budget Officials, April 2011 [http://www.oecd.org/document/61/0,3746,en\\_2649\\_34119\\_47720893\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/61/0,3746,en_2649_34119_47720893_1_1_1_1,00.html)  
 The webpage’s list of justifications for fiscal councils was cited by the Treasury Committee Report on the OBR and its description of fiscal councils in operation overseas is cited in the Annex of the Treasury Committee Report and in Annex I of the Parliamentary Standard Note SN/EP/5657 on 15 November 2010 regarding the interim OBR.

**C9]** Webpage for the Advisory Panel of the Slovak Council for Budgetary Responsibility <http://www.rozpocovarada.sk/eng/rozpocet/173/advisory-panel>

**C10]** VoxEU: <http://www.voxeu.g/index.php?q=node/6369>