British Politics (2023) 18:254–278
https://doi.org/10.1057/s41293-022-00204-z

ORIGINAL ARTICLE

Technocratic economic governance and the politics of UK fiscal rules

Ben Clift[1]

Accepted: 22 February 2022 / Published online: 9 March 2022

Abstract

This exploration of UK fiscal rules and the establishment of an independent UK fiscal watchdog focuses on the practical enactment of rules-based fiscal policy to analyse the politics of technocratic economic governance. Analysing UK macroeconomic policy rules and their operation unearths numerous dimensions of the politics of technocratic fiscal policy-making. Firstly, policy rules are marshalled for partisan purposes. Secondly, a politics of economic ideas surrounds the invention, revision and interpretation of fiscal rules. Thirdly, technocratic economic governance entails a 'politics of method', selecting methodological approaches necessarily built on particular political economic assumptions. Finally, a 'politics of numbers' sees politicians cooking the books to present their economic record favourably against fiscal yardsticks. Successive governments have altered UK fiscal rules, informed by different political economic principles. The Office for Budget Responsibility (OBR) sees itself as a technocratic and apolitical institution, yet its operational work entails contrasting accounts of the economy and policy. The scale of discretion and judgement inherent in operating fiscal rules is under-appreciated. This article finds technocratic economic governance to be a much more social and political process than many advocates of economic rules-based policy acknowledge. It engenders new forms of distinctive fiscal politics within elite statecraft and expert technocracy.

Keywords UK fiscal policy · Technocratic economic governance · Fiscal rules · Office for Budget Responsibility (OBR) · Political economy · Constructivism

✉ Ben Clift
B.M.Clift@warwick.ac.uk

[1] Department of Politics and International Studies, University of Warwick, Coventry, UK

> [S]pending goes to the heart of the role of the state … No government will ever delegate that to some bunch of technocrats. (Lord Macpherson, Permanent Secretary to the Treasury 2005–2016)

Introduction: the multi-faceted politics of rules-based fiscal policy

A perennial puzzle of liberal political economy frames this exploration of the politics of technocratic economic governance. Down the centuries, authorities have constructed institutional restraints and expert oversight to bolster economic credibility and curb policy autonomy. In mediaeval times, such regimes prevented debasing the currency. In the late twentieth and early twenty-first centuries, governments introduced economic policy rules codifying sound economic management to supposedly lock in governmental fiscal discipline, reassuring electorates and financial markets. Economic policy-makers exhibit an apparent compulsion to hem themselves in, yet this is tethered to a more powerful impulse to escape these self-imposed shackles. After all, those self-same governments, even ones committed to fiscal rectitude, periodically circumvent rules and ignore expert overseers of fiscal discipline.

As Lord Macpherson, former Permanent Secretary to the Treasury, notes, ‘There’s a sweet spot where very briefly fiscal rules constrain behaviour. But there’s always a point when the pain of staying within a fiscal rule becomes too great. The revealed preference of successive governments is you change the rule, or you suspend the rule.’[1] Fiscal rules have been flouted repeatedly, and altered by governments and supranational authorities. The standard rationales, be it public choice’s ‘time inconsistency’ concerns addressed through rules (Kydland and Prescott 1977), Streeck’s ‘fiscal consolidation state’ binding governments and ‘decoupling’ economic management from democratic politics (2014), or Burnham’s depoliticisation thesis with regimes enshrining commitments to fiscal discipline (1999, 2001), fail to fully explain the introduction or capture the operation of fiscal rules.

One prominent interpretation is that macroeconomic policy rules are needed to assuage skittish international bond market participants. Thus, fiscal rules supposedly bolster financial market credibility and reduce borrowing costs. Yet this relationship is far from clear-cut. Rommerskirchen argues that the ‘putative effect of fiscal rules on bond yields’ is poorly understood, remaining ‘an empirical blind spot’ due to problematic foundations of many studies, and their inconclusive findings (2015, p. 837).

Making an important distinction between ‘*de jure* fiscal rules’ as codified on paper, and the reality of ‘*de facto*’ fiscal rules which goes to the heart of practical rule enactment central to this article, Rommerskirchen finds that ‘the impact of fiscal rules on sovereign risk premia, if it exists, is not constant but contingent on, inter alia, the financial risk climate’ (2015, pp. 842, 844). Indicating the complexity and uncertainty of this relationship, UK governments have repeatedly breached fiscal

[1] Interview with Lord Macpherson, Permanent Secretary to the Treasury 2005–2016, 10th July 2019.

targets and changed rules since the Global Financial Crisis (GFC), yet borrowing costs have not risen in response. Fiscal credibility, it seems, has many influencing factors, with rule observance per se not necessarily centrally important. The drivers and motivations routinely offered in the political economy literature to explain rules-based economic regimes struggle to account for all this. Constructivist political economy, we argue, helps make better sense of the complex politics of fiscal rules, and of technocratic economic governance.

This article analyses the establishment of fiscal rules, and independent fiscal adjudication. Independent fiscal institutions (IFIs) have spread since the 1990s, especially following the GFC, with the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) prominent advocates for these 'sound' fiscal institutions. They advise that fiscal targets should be stable and enduring (IMF 2013, 2016; OECD 2017), and IFIs should oversee medium-term cyclically adjusted fiscal rules frameworks (Von Trapp et al. 2016). IFIs and fiscal rules have thus come to play a significant role in shaping economic policy possibilities.

Britain is selected as a relatively early adopter of fiscal rules. As the comparative fiscal governance literature underlines, the make-up of fiscal watchdogs reflects the context of their establishment (Hallerberg et al. 2009; Viney and Poole 2019). Britain's Office for Budget Responsibility (OBR), unusually amongst IFIs, has sole responsibility for producing the official economic forecast, leaving the Treasury reliant upon it. According to former Director Robert Chote; 'the OBR's remit reflects the fact that the Treasury is more powerful in the UK than finance ministries in many other countries and that in the past Chancellors have exploited their informational advantage over outsiders to justify over-optimistic forecasts and to move the goalposts of their fiscal rules'. The OBR aims to increase the transparency surrounding fiscal policy-making, focusing exclusively on announced government policy, and prioritising fiscal sustainability by independently assessing the likelihood of fiscal targets being met. It is debarred from 'giving policy advice and commenting on the merits or otherwise of specific measures'.[2]

The UK case is deployed to achieve the article's wider aim of analysing the politics of technocratic economic governance. Those advocating rules-based macroeconomic policy as a solution to 'deficit bias' problems (Kydland and Prescott 1977) envisage rules enhancing governmental fiscal responsibility. Increasing the transparency surrounding fiscal policy-making also supposedly strengthens credibility and reassures financial markets (Ban 2016; Best 2019; Viney and Poole 2019). Analysing the practical enactment of UK fiscal rules, this account interrogates these claims, asking how far such regimes bind governments to the mast of fiscal rectitude.

This article finds a yawning gap between the theory and the practice of technocratic economic governance (see also Best 2021). Many accounts presume sacrosanct rules, mechanistically administered. Yet this misconstrues the character of fiscal rules regimes, whose operation entails discretion and judgement

[2] Interview with Robert Chote, 27th April 2021.

by practitioners.[3] Furthermore, enacting technocratic economic governance inevitably involves making contestable and sometimes arbitrary political economic assumptions. The fiscal rules literature also under-emphasises the changeability of rules, and indeed the macroeconomic thinking that informs them.

Our analysis underscores the multiple dimensions of politics inherent in macroeconomic policy rules through exploration of the introduction and content of fiscal rules, their operationalization, and oversight by fiscal watchdogs. Looking at how architects design fiscal rules, and how practitioners engage in fiscal oversight, this analysis uses elite interviews and primary documents to inhabit the lived-in debates involved in enacting technocratic economic governance. We find that the advent of fiscal rules and IFIs engender new forms of contested fiscal politics and elite statecraft. This politics may be unobtrusive, but remains burgeoningly present. This article thus uses the UK case to delineate the multi-faceted politics at the heart of technocratic economic governance.

We identify four distinct (but overlapping) dimensions of *how* technocratic fiscal governance and IFIs like the OBR are imbricated in politics. Firstly, despite narrowing participation in fiscal policy-making, fiscal rules continue to be marshalled and altered for partisan purposes. Secondly, fiscal rules reflect particular principles of political economy, leading to a politics of economic ideas surrounding the invention, revision and interpretation of rules regimes. Thirdly, for technocratic economic governance institutions tasked with operating and applying fiscal rules, their monitoring and oversight entails a 'politics of economic method'. Choices about which techniques to use and what modelling parameters to set are far from self-evident, with specific methodological approaches built on particular political economic assumptions. This is an important aspect of the judgement, discretion and intuition inherent in macroeconomic policy rules regimes. Finally, there is a politics of numbers where politicians manipulate economic statistics and governments perform 'scorecard artistry' to present their economic record favourably against fiscal yardsticks. As this indicates, the degree of fiscal discipline exerted by fiscal rules may be modest at best. Fiscal rules do not sit imperiously above politics and society. Rather, the devising of economic policy rules 'continues to interact with that wider social world' (Best 2020, p. 626). Enacting fiscal rules, and technocratic economic governance, is a more contingent social, and political process than many advocates of rules-based economic policy acknowledge.

The first section provides a constructivist theoretical grounding for analysing the politics of fiscal rules and technocratic economic governance. The second section explores how different accounts—depoliticisation, consolidation state, public choice and monetarism—have understood the political economy of macroeconomic policy rules. It points towards elements that these interpretations overlook or understate. Turning to the empirics of the UK's fiscal governance regime, the third section considers the introduction and evolution of New Labour's fiscal rules after 1997. The fourth section explores the establishment of the OBR from 2010 onwards, and the

[3] Interviews with Professor Steve Nickell, Professor Sir Charles Bean, Andy King and Robert Chote—all present or former OBR Budget Responsibility Committee members.

Coalition then Conservative Governments' construction, enactment and frequent alteration of fiscal rules. A final section returns to our puzzle, and reconsiders what the empirics imply for understanding rules-based economic policy and technocratic economic governance.

The constructivist political economy of fiscal rules

This section sets out and connects some of the core elements of constructivist political economy analysing the ideational dynamics of economic policy-making. It shows how this approach can enhance understanding of the practical enactment of technocratic economic governance, and the politics of fiscal rules regimes. As the fiscal governance literature has noted, fiscal rules and their introduction need to be understood in their political and institutional context (Hallerberg et al. 2009). Constructivism adds ideational context to this list—focusing on how actors 'make sense' of their role, institutional practices, and their interests within an historically specific 'meaning context' (see Hay 2008; Béland and Cox 2011; Schmidt 2008). Constructivist political economy foregrounds how 'economic ideas provide agents with an interpretive framework, which describes and accounts for the workings of the economy by defining its constitutive elements and "proper" (and therefore "improper") interrelations' (Blyth 2002, p. 11). In this way, economic ideas are integral to 'constituting the legitimate boundaries of policy-making' (Abdelal et al. 2010, p. 10). This interpretive framework provides 'guideposts for interpreting economic actions', redefining 'the terms of sound economic behaviour' (Best 2010, p. 203). Fiscal rule authorship and revision can in this light be understood as attempts to fix meaning attached to particular fiscal outcomes or stances. Fiscal rules, and IFIs thus seek to shape the politics of fiscal rectitude (Sinclair 2000; Clift and Tomlinson 2004).

A second core contribution of constructivism is foregrounding the *contested* nature of economic ideas (Abdelal et al. 2010; Blyth 2002; Best 2010, 2019, 2020, 2021; Hay 2016; Clift 2018). This draws our attention to the spectrum of respectable fiscal policy opinion, spreading more widely than is often appreciated, a range which has expanded since the GFC. An array of leading macroeconomists proffer a variety of views on the size of fiscal multipliers, on the merits of counter-cyclical fiscal activism, debt-financed public investment, living with or paying down national debt, and other key fiscal issues. This illustrates the 'indeterminacy of economic theory as a guide to policy' (Kirshner 2003). At one end of this variegated fiscal spectrum is Alesina et al.'s expansionary fiscal contraction thesis, inspired by New Classical Macroeconomics (NCM) and resting on a profoundly anti-statist view of fiscal politics. This assumes that the public sector can do only harm, always impeding a (more efficient) private sector (see Alesina and Giavazzi 2013; Dellepiane-Avellaneda 2015).

At the spectrum's other end, Summers et al. advance the secular stagnation thesis highlighting scarring and hysteresis effects. This sees active macroeconomic and fiscal policy as counter-cyclical stabilisation tools essential in mitigating non-linear fragilities (DeLong and Summers 2012; Summers 2014; IMF 2008). Mainstream fiscal policy thinking thus covers a spectrum from NCM to New Keynesian and even some traditional Keynesian economic ideas. These different views on the state's appropriate role, and the equilibrating properties of markets, peek out from behind technocratic economic governance's apolitical façade.

Bringing the importance of understanding ideas in specific historical and institutional contexts together with the contested nature of economic ideas, constructivist analysis underlines how economic orthodoxy and fiscal frameworks are deeply historically contingent. It follows that technocratic economic governance regimes evolve along with their intellectual climate. Thus, fiscal rules are inscriptions of particular constructions of 'sound' policy, defining what is seen to matter for economic policy evaluation (see Clift and Tomlinson 2008). Diachronic analysis demonstrates how the underlying premises of economic policies are always contestable, and prevailing political economic assumptions can and do change, as do the economic regimes that distil specific economic ideas.

This changeability, combined with the variety of mainstream fiscal policy views, changes the context and character of rules-based fiscal governance substantially. Rather than permanence and fixity of fiscal doctrine, and mechanistic administration of technocratically assured guiding policy principles, there is contestation over conceptions of the economy, and of 'sound' policy. IFIs are inextricably imbricated in this politics of economic ideas through their adjudication upon fiscal rules. In this way, constructivism exposes the political underpinnings of technocratic economic governance. For example, the partisan politics of fiscal policy plays out in authoring and enacting rules regimes. Indeed, as the empirical sections below demonstrate, the fiscal philosophy underpinning UK fiscal rules has ebbed and flowed. These evolutions and contestations challenge the view of economic policy as an apolitical and purely technical realm.

One factor fuelling varied interpretations, and contestation over conceptions of the economy and 'sound' policy, is the scale of uncertainty surrounding economic trajectories (Best 2021). Constructivism foregrounds Knightian uncertainty about economic outcomes, and limits to the economy's legibility and knowability. Reflexive forecasting practitioners appreciate these limits of the possible, and the technical shortcomings of their 'science'. As a former OBR chief economist Steve Nickell notes 'Our view about forecasting of interest rates, similarly, exchange rate forecasts, we basically take the market view. Of course, the markets are almost always entirely incorrect, but that's life … it's not something that is really worth getting into'.[4] Constructivists take succour from the Keynesian underlining of uncertainty (see, e.g. Blyth 2002, p. 42; Widmaier 2003), distinguishing between the 'probability calculus' possible in some realms of economics, and 'fluctuating, vague … uncertain knowledge' in others (Davidson 1991, p. 137). This uncertainty surrounding 'our knowledge of the world', especially regarding long run economic developments, means 'there is no scientific basis to form any calculable probability whatever. We simply do not know' (Keynes 1937, pp. 213–214; Best 2021).

[4] Interview with Professor Steve Nickell, 24th September 2019. Similar points made by Lord O'Donnell, former Permanent Secretary to the Treasury and then Cabinet Secretary, interviewed October 20th 2019.

The scale and pervasiveness of uncertainty bedevilling economic analysis became more keenly appreciated following the GFC and more recently Brexit and the COVID-19 pandemic. In November 2016, OBR chairman Robert Chote noted of the unexpectedly prolonged productivity slump, ‘it has been a very unusual period … and nobody knows quite why it is happening’ (Chote 2016). Trend growth rates in advanced economies have durably lowered, especially in the UK, in ways analysts struggle to comprehend (OBR 2017a; Clift and McDaniel 2021). As Nickell put it in 2019 ‘it is still the case that the productivity puzzle remains a puzzle.’[5]

Historical trends no longer deliver reasonable guideposts for UK productivity or growth trajectories (OBR 2017c, pp. 45–49, Chart 3.8). Indeed, even short-run economic data used for fiscal rules adjudication is very imprecise. As Chote notes, ‘the story about what has happened is rewritten really quite dramatically in the statistics … when initial data estimates are published you are dealing with the very early drafts of economic history.’[6] Thus, the source data for making sense of the economy are always imperfect and often subject to large retrospective revisions.[7] Ironically, cyclically adjusted medium-term fiscal rules took centre stage in anchoring fiscal rectitude just when the potential growth and productivity trends needed to assess them became increasingly uncertain and especially difficult to gauge. The GFC’s destabilising after-effects generated additional difficulties ‘measuring’ these elusive economic concepts.

The combined insights of constructivist political economy—uncertainty, contested economic ideas and historical contingency of dominant orthodoxies—inform a final key insight. This considers what Best calls ‘the practical life of economic ideas’ and ‘the messiness and fragility of efforts to translate economic theory into practice’ (Best 2020, p. 599). The transition from abstract notions to concrete operational concepts is a significant, though under-appreciated, site of possible contestation. This new direction for constructivist political economy, applied to technocratic economic governance, draws our attention to the ‘politics of economic method’. IFIs overseeing fiscal rules must grapple with slippery, non-observable economic concepts (such as the real interest rate, or the economy’s supply potential) that are very hard to gauge under conditions of heightened pervasive uncertainties. As OBR Budget Responsibility Committee (BRC) Member Andy King puts it ‘you cannot take judgement out of this [forecasting] process … you may apply judgement at the start of it to say I will use a model that has the following parameters, but that’s a judgement’.[8] Thus, there is inherently an important role for judgement, intuition, and tacit knowledge in putting technocratic economic governance into practice.[9]

[5] Interview with Professor Steve Nickell, 24th September 2019, corroborated in interviews with current and former OBR BRC members Professor Sir Charles Bean, Andy King and Robert Chote.

[6] Interview with Robert Chote, 9th October 2019.

[7] This is terrain the reflexive OBR is mandated to pore over in its annual *Forecast Evaluation Report,* assessing and revisiting past forecasting performance.

[8] Interview with OBR BRC member Andy King, 20th November 2019.

[9] Corroborated by Interviews with Robert Chote, Professor Steve Nickell, Professor Sir Charles Bean—all former OBR BRC members.

For example, the output gap (gauging the slack in the economy) is a non-observable property of economic models crucial to economic forecasting and integral to enacting cyclically adjusted fiscal rules. Others include potential output growth and trend potential productivity (OBR 2013b, pp. 4–5). Gauging each is highly sensitive to contestable assumptions. Altered model assumptions and foundations matter because they can alter, for example, projected impacts of policy on an economy's trajectory. Changed output gap assessments matter because they can entail drastically different policy ramifications and corollaries. Modelling and technique choices of this kind are thus politically salient because they are consequential in shaping the narrative of the economy that bodies like the OBR develop to encase their forecasts.

Output gap determination can use a variety of methods. There is no unproblematic technique, all have drawbacks and they often deliver very different results (OBR 2011, pp. 2–6, 16; OBR 2013b; Murray 2014, pp. i, 39).[10] BRC member Andy King notes 'The output gap is a very key judgement where these days we base it off nine different models.'[11] Former OBR economist Jamie Murray concurs, 'it is very problematic but some judgement has to be taken … the OBR looks at lots of methods … we looked at all of them and made a decision based on the best evidence available at the time.'[12]

A statistical filters approach, one amongst the nine techniques used by the OBR, yields a distinctive growth path because filters build in a priori assumptions that the economy tends towards equilibrium (the so-called end-point problem) (OBR 2011, pp. 18–20). Thus, method choices entail distinct views of the economy, and policy effects. Furthermore, these methodological choices can be, economists (including those at the OBR) acknowledge, somewhat arbitrary. Appreciating the different understandings of the economy and policy at work within these apparently technical choices reveals what is at stake within the politics of economic method, and transforms our understanding of the operation of fiscal rules regimes, and technocratic economic governance.

This perspective alerts us to the subterranean translation processes from fiscal policy positions, with assumptive foundations operating at a high level of abstraction, to their operationalization through particular methods and models, and more concrete, policy-oriented concepts and techniques. Through this lens we see better how fiscal watchdogs' economic forecasting is rooted in underlying political economic assumptions, despite the apolitical, technocratic veneer. OBR forecasts, necessary to adjudicate on fiscal rules, are contingent political artefacts.

A constructivist 'politics of economic ideas' approach, enhanced by a 'politics of economic method' focus, exposes the political underpinnings of technocratic economic governance, and its fiscal analysis. The uncertain post-GFC conjuncture makes these method choices both more challenging and more consequential. Having

[10] Corroborated in interviews with Robert Chote, Professor Steve Nickell, Professor Sir Charles Bean, and Andy King—all present or former OBR BRC members.

[11] Interview with OBR BRC member Andy King, 20th November 2019.

[12] Interview with former OBR economist Jamie Murray, 10th July 2019.

established our approach, we now consider political economy interpretations which seek to explain fiscal rules.

Theorising rules-based economic governance

Burnham's landmark depoliticisation studies identified a particular form of statecraft as the main driver behind rules-based macroeconomic policy-making. He delineated an evolution within economic management 'from politicised to depoliticised state strategies' by the 1990s, accompanying increased capital mobility and more liquid global financial markets. This shift 'from a politicised (discretion-based) system to a depoliticised (rules-based) approach' was designed in part to reassure bond market participants, 'underwriting the government's commitment' to fiscal discipline and low inflation (1999, pp. 42, 45, 47; 2001).

Similarly, Streeck's 'fiscal consolidation state' thesis posits a new fiscal regime in advanced economies—at its fulcrum, financial market credibility is secured through central bank independence alongside IFIs. Streeck identifies a 'decoupling' of economic management from democratic politics: binding rules-based economic governance reassures markets more than parliamentary democracy. IFIs are the guarantors of sound policy and sustainable public finances; 'whether economic policies are 'right' is for the technocratic experts … charged with applying the rules … to determine' (Streeck 2014, pp. 97–164; 2017, p. 154).

Neo-liberal scholarship was an important spur to the 1970s revival of rules-based economic governance. Stahl characterises neo-liberalism as 'de-democratisation' (2020), insulating economic policy from democratic and societal pressures (see also Slobodian 2018). The effects of mass, pluralist, parliamentary politics were considered too destabilising, posing a threat to the market and the economy. Such insulation could take different guises, such as making central banks independent. Public choice's 'Time Inconsistency Model' prioritised eradicating deficit bias through fiscal rules (Kydland and Prescott 1977). The policy corollary of Robert Muth's exacting and unrealistic rational expectations (1961) underpinning the model is that 'governments are seen as fallible, markets are not' (Best 2019, p. 626; 2020, 2021).

For monetarists, rules-based money supply restriction was the key policy lever to reduce inflation. Friedman's policy engineering approach argued that an automatic, fixed money growth rule should supersede discretionary macroeconomic policy (Friedman 1959). Public choice and monetarism mobilised suspicion of inherent deficit bias amongst politicians and electorates to advocate placing economic management 'above politics', envisaged as a realm of 'expert administration within unalterable constraints' (Gamble 1990, p. 154). This view is integral to the political settlement underpinning technocratic economic governance.

Each of these accounts, in their very different ways, identifies the motivation behind fiscal rules as preventing the demos from threatening fiscal probity and economic stability. A government's fiscal stance, within these interpretations, seems to be arrived at according to a set of settled and technocratically assured principles of 'sound' fiscal policy. Yet some correctives are warranted to this partial view of the politics of technocratic economic governance. Firstly, these depictions often discuss fiscal rules as if they are sacrosanct and unchanging. There is a tendency to overstate the fixity of macroeconomic policy rules. Secondly, the application and operation of fiscal rules in these accounts often takes on an automatic and mechanistic character. This is at odds with the judgement, intuition and discretion integral to fiscal evaluation, and the inexact, interim character of the input data. All this is thrown into sharp relief by a 'politics of economic method' lens. Thirdly, fiscal doctrine tends to be invoked in ways that intimate the existence of a single unanswerable body of fiscal policy wisdom. This jars with the politics of economic ideas and the relatively broad spectrum of respectable fiscal thinking outlined above.

These accounts neglect the *contingency* of fiscal rules, and under-appreciate the distinctive ideational contexts surrounding their construction. In particular, fiscal rules become deeply imbricated in partisan politics. More broadly, the limited efficacy of many fiscal rules in securing fiscal discipline does not feature prominently enough. This ignores, amongst other things, Goodhart's Law, which suggests *any* policy target, once it becomes a target, ceases to gauge meaningfully what it was designed to evaluate; any 'observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes' (1984, p. 96). For all these reasons, enacting fiscal rules is a more social and political process than many neo-liberal advocates, in particular, acknowledge.

The politics of UK fiscal rules

New Labour's fiscal rules: 'Prudence with a purpose' … and cooking the books

Fiscal rules are political artefacts and social constructs whose introduction and operation need to be understood in their appropriate ideational context. The incoming New Labour Government's move towards technocratic economic governance in 1997 was driven primarily by a yearning for greater economic credibility. Recalling Burnham (1999, 2001) and Streeck (2017), their economic strategists were convinced that independent bodies overseeing monetary and fiscal policy rules would bolster financial market credibility. Labour's approach in some ways harked back to the public sector borrowing requirement targets used to frame budgetary discussions in the 1970s (see Tomlinson 2017, pp. 64–67). New Labour's 'stability through constrained discretion' (Balls 1998; Balls and O'Donnell 2002) strategy involved establishing a track record on monetary and fiscal stability, within a 'sound' medium-term framework constraining economic policy.

Bank of England independence was the lynchpin. Allied to this was building fiscal credibility by sticking to pledged Conservative spending limits (that leading Tories subsequently admitted they would have breached), and introducing fiscal rules. Nudging in the same technocratic direction as monetary policy, there were efforts to counter suspicions of political manipulation of the fiscal stance presentation. As Lord O'Donnell, then Permanent Secretary to the Treasury recalls, there was talk of establishing a 'fiscal policy committee that might derive some parameters' for 'policing the rules'. Stopping short of that, the National Audit Office (NAO) were tasked to 'audit various assumptions. To be honest, the NAO were not very well equipped to be doing that job.'[13] The NAO's remit was limited to assessing Treasury assumptions, not evaluating whether fiscal rules were met, nor adjudicating on fiscal policy priorities. Imperfection of this oversight mechanism notwithstanding the move was tacit recognition of the significance of the 'politics of economic method'.

The wider global context of New Labour's political economy was later termed the 'Great Complacence' (Engelen et al. 2011). The so-called NICE decade of non-inflationary continuous expansion for advanced economies fed Chancellor Brown's hubristic claims of an end to boom and bust. Central bankers, politicians, and some leading economists believed the secrets of enduring prosperity had been unlocked, the mysteries of depression prevention solved, *provided fiscal prudence was assured.*

Two fiscal rules, adopted by the Chancellor in the 1998 Finance Act, anchored the fiscal framework to assure credibility. They took the form of broad fiscal principles, subject to some interpretive flexibility in their application, rather than numerically specified targets. First, the 'Golden Rule' demonstrated fiscal prudence whilst simultaneously addressing historical UK under-investment. It specified that, over the cycle, the government would borrow only to invest, not fund current spending (Treasury 1998). The second, the sustainable investment rule, pledged that public sector net debt (PSND, i.e. the accumulated borrowings of government) would be held at 'stable and prudent levels' (Treasury 1998; Balls and O'Donnell 2002, p. 167).

The relevant historical context here was the dramatic drop in UK public sector investment since the 1970s. This new fiscal regime was explicitly 'designed to remove the bias against capital spending' within the UK's public expenditure framework (Balls and O'Donnell 2002, pp. 160–161). Reducing capital investment was politically easier, even where the economic rationale may be weak. The Golden Rule therefore incorporated a capital/current spending distinction new to the UK fiscal regime. It thus inscribed a critique of successive past Conservative governments' systemic under-investment.

Turning to the politics of economic ideas behind New Labour's rules, Berry and Lavery's depoliticisation-inspired account sees New Labour macroeconomic thinking as not 'based on a grand economic theory', be it monetarist or Keynesian. Rather, their nuanced interpretation characterises Labour's self-imposed rules as 'a rather artificial demonstration of New Labour's commitment to a neoclassical paradigm' (2017, pp. 258, 259). Understated in this view is that the UK's fiscal rules architects saw them as embodying the 'new growth agenda' and the 'pioneering work of Paul Romer' (Balls and O'Donnell 2002, pp. 29–30; Balls 1998).[14] Thus, an important ideational element of New Labour's rules regime was 'post-neoclassical endogenous growth theory' (Romer 1986; Crafts 1996).

[13] Interview with Lord O'Donnell, former Permanent Secretary to the Treasury and then Cabinet Secretary, October 20th 2019.

[14] Interview with Lord O'Donnell, former Permanent Secretary to the Treasury and then Cabinet Secretary, October 20th 2019.

'New' growth theory challenges a priori neoclassical assumptions of diminishing investment returns, anticipating instead constant or increasing returns (see Crafts 2018). More broadly, it foregrounds 'a much more sophisticated role for governments' in areas including competition policy, corporate governance, regional development and education and training (Balls 1998, p. 116). Unlike the neoclassical view, exogenous technological change may not be the main growth catalyst. 'New' growth theorists identify a wide-ranging government role 'encouraging investment in the broadest sense: not just in machines, but in technology and innovation, skills and infrastructure' (Balls and O'Donnell 2002, pp. 29–30). Thus, Labour's technocratic fiscal rules regime was informed by particular principles of political economy, a distinctive role for the state, and a critique of Conservative economic management priorities.

These fiscal and monetary rules were well received by economic commentators. New Labour accrued credibility and confidence, enabling 'iron' Chancellor Brown to exploit the 'constrained discretion' within their framework. Illustrating the payoffs of this discursive construction of economic rectitude, the 2000 budget ramped up investment and spending on the NHS and other priorities. Upon winning a second term, Brown increased spending further, with no increase in borrowing costs (Clift and Tomlinson 2007).

The fiscal regime's broad principles offered yardsticks to judge the Chancellor's prudence. Yet flexibility within the self-imposed rules framework could be exploited politically. Brown's apparent demonstration of economic rectitude entailed both a politics of numbers and a politics of economic method. To maintain the appearance of fiscal probity whilst increasing spending, in 2005, Brown 're-interpreted' his own fiscal rules, demonstrating the discretion, judgement and interpretation inherent within any economic rules regime (see Batini and Haldane 1999, p. 159; Best 2019, Best 2021).[15]

The uncertainty that constructivist political economy highlights is particularly pronounced regarding the economic cycle's timing. Exploiting the cycle's inherent uncertainty and contestability, Brown retrospectively altered the UK cycle's start from 1997 to 1999 (Treasury 2005; NAO 2005; Berry and Lavery 2017, p. 259). This indicates the significance and policy salience of the politics of economic method, which in turn draws attention to the flexibility and interpretive leeway inherent within fiscal rules regimes.

This reinterpretation afforded latitude to maintain spending whilst still 'meeting' Brown's Golden Rule over the (redefined) cycle. The Treasury's manoeuvre drew adverse comment from the Treasury Select Committee and the Institute for Fiscal Studies amongst other expert observers. Alternative UK cycle assessment techniques, such as statistical filters, showed the Golden Rule breached substantially, and a cycle running from 2003 to 2010 (not 1999–2007) (IFS 2007, p. 2). As Lord O'Donnell, former Permanent Secretary to the Treasury and Cabinet Secretary, notes, gauging the economic cycle is 'a very approximate art. And when you've got

[15] Interviews with Robert Chote, Professor Steve Nickell, Professor Sir Charles Bean, Andy King—all present or former OBR Budget Responsibility Committee members.

those approximations, you are going to have political desire. If we chose that date rather than that date, that generates more revenue for us to use … the bias for the politicians is towards taking certain interpretations that implies things are better.'[16] Thus fiscal rules do not end discretionary policy-making, nor exert the iron fiscal discipline often mooted as their rationale.

Illustrating the importance of both discursively framing the fiscal discussion and the politics of method, Chancellor Brown exploited uncertainty about the UK's trend growth rate, altering it in the 2006 pre-budget report from 2.5 to 2.75%. Trend growth rate assumptions are key to the fiscal forecasting necessary for gauging the fiscal stance and fiscal rules. Whilst not directly altering the forecast (2.5% was used for public finances projections), Brown's growth rate change professed 'prudence' by retaining prior 2.5% projections as a 'cautious' case. Within months, even this 'cautious' assessment looked distinctly over-optimistic (Treasury 2006, p. 191; Treasury Select Committee 2007, pp. 14–15, 17; IFS 2007, p. 2).

There is a pathology of Chancellors overestimating their economic management skills, presuming to buck historical growth trends. As former Permanent Secretary to the Treasury Lord Macpherson recalls 'both following the Lawson Boom of the 1980s and the long period of growth through the 1990s and early 2000s, there had been a tendency to believe that cyclical improvements constituted structural improvements.'[17] Septuagenarian Professor Nickell notes 'governments have been trying to improve the British economy's growth rate for as long as I've been alive, and we're not there'. Hence he remains 'very sceptical about claims that the government are going to raise the British economy's trend growth rate.'[18] Ironically, the shift towards credibility-bolstering technocratic fiscal rules makes these questionable reassessments more consequential in framing the fiscal stance and assessing fiscal sustainability.

New Labour's authorship of their fiscal rules afforded flexibility and discretion in other ways, too. Well-crafted rules regimes can in theory withstand economic shocks, but the GFC's momentous scale placed UK fiscal rules under enormous strain. Reduced tax revenues due to depressed economic activity, and the costs of rescue and counter-cyclical measures saw debt rise to 79% of GDP, and the deficit to 12%. New Labour effectively suspended its fiscal regime, introducing a 'temporary operating rule', pledging 'to set policies to improve the cyclically adjusted current budget each year', targeting balance and getting debt falling as a proportion of GDP 'once the shocks have worked their way through the economy in full' (Treasury 2009, pp. 19, 27, 31, 35–38). This was but the first of many UK fiscal rule amendments, illustrating the latitude for governments enjoying credibility to (re-)construct fiscal yardsticks by which they are judged.

New Labour's institutional innovations reflected an ideational context where their overriding priority was restoring the electorate's trust in Labour's economic management capabilities. Their discursive construction of economic credibility via

[16] Interview with Lord O'Donnell, 23rd October 2019.

[17] Interview with Lord Macpherson, Permanent Secretary to the Treasury 2005–2016, 10th July 2019.

[18] Interview with Professor Steve Nickell, 24th September 2019.

'stability through constrained discretion' (Balls 1998; Balls and O'Donnell 2002) in time afforded government scope to boost public spending and investment on its priorities (see Annesley and Gamble 2004; Clift and Tomlinson 2007). Brown termed this 'prudence with a purpose', yet 'observance' of fiscal rules resulted not from iron fiscal discipline, but from the politics of numbers—manipulating economic statistics. His exploitation of inherently contestable economic constructs (the economic cycle, the trend growth rate) integral to fiscal rules reveals how consequential the politics of economic method can be. Careful crafting of fiscal rules, and their oversight, contained significant wiggle room. When the GFC put the rules under strain, the government simply changed them. New Labour were not tied to the mast as tightly as their careful construction of fiscal rectitude suggested.

The Coalition and the OBR: Beating Labour with a fiscal stick … and still cooking the books

The ideational context surrounding the Conservative/Liberal Democrat coalition's social construction of economic rectitude was a changed fiscal politics. The Conservative (re-)conversion to a hawkish, Gladstonian fiscal stance began in 2009 (Lavery 2019, pp. 111–112). Deteriorating post-crash public finances fuelled the politics of austerity, heralding 2010's shift in UK fiscal philosophy. Lord Macpherson, then Permanent Secretary to the Treasury, recalls 'the country needed a fiscal consolidation plan … Cameron and Osborne were particularly keen on it, so they made the plan a test of the government's credibility … within a couple of weeks of the general election, there were £5 billion of in-year cuts for the year 2010/2011.'[19] The narrative underlying macroeconomic policy changed from Britain's 'crisis of growth' to its 'crisis of debt', seeing high debt as mechanically damaging to growth (Hay 2013; Osborne 2011).

NCM-inspired expansionary fiscal contraction arguments (Alesina and Giavazzi 2013; Dellepiane-Avellaneda 2015) informed Coalition Government thinking. The June 2010 Budget document noted that 'accelerated fiscal consolidation will help keep market interest rates lower for longer, supporting economic recovery' and furthermore the government's 'credible deficit reduction plan' should 'provide businesses with the confidence they need to plan and invest, supporting the necessary recovery in business investment' (Treasury 2010, p. 9). The Treasury highlighted 'wider economic effects' of fiscal consolidation, which 'will tend to boost demand growth, could improve underlying performance of the economy, and could even be sufficiently strong to outweigh the negative effects' (Treasury 2010, p. 19).

Once again, the politics of economic ideas fused with partisan politics within technocratic economic governance. The Conservatives critiqued Labour's record via a fundamental reassessment of the economic orthodoxy underpinning macroeconomic policy. The new fiscal philosophy urged the nation to 'live within its means'. Britain should 'pay its way in the world'. Household finance analogies, which are

[19] Interview with Lord Macpherson, Permanent Secretary to the Treasury 2005–2016, 10th July 2019.

erroneous when applied to the public finances, were trotted out to resonate with electorates uninterested in the technical intricacies of macroeconomic policy (Stanley 2014). As Best points out, regarding the social production of monetary credibility, ‘to be effective, such narratives do not necessarily have to be accurate, but they do have to be widely accepted’ (2019, p. 628). The policy corollaries of these narratives were the harsh public expenditure cuts outlined above. This changed politics of fiscal rectitude was reflected in fresh UK fiscal rules, and a new fiscal watchdog.

There were two aspects to Osborne’s critique of Labour fiscal governance. The first was that New Labour’s fiscal rules regime, predicated on over-optimistic growth forecasts, carried a deficit bias risk. Furthermore, Brown was wont to move the goalposts. Second, New Labour’s mooted fiscal profligacy had supposedly caused the 2008–2009 crash. The Golden Rule’s ‘key failing’ was it was ‘too backward looking’, supposedly allowing fiscal deterioration and profligacy on Labour’s watch (Treasury 2010, pp. 12–13). Implying a Greek-style crisis loomed, the June 2010 Budget document claimed Labour’s fiscal trajectory would ‘put the recovery at risk’ (Treasury 2010, pp. 1, 12, 14).

The Coalition’s economic analysis made bold assumptions about debt’s adverse effects on future growth, and accordingly prioritised fiscal retrenchment. Osborne articulated a new ‘fiscal mandate’, citing the 2010 G20’s focus on ‘growth friendly fiscal consolidation’ (see Blyth 2013; Clift 2018, pp. 128–130). The 2010 rules reflected this new-found emphasis through commitments to secure structural balance by 2015/2016. The debt target pledged falling year-on-year changes in the ratio of PSND to GDP by 2015–2016, a year earlier than Labour had planned. Credibility for this mandate would be enhanced by the newly created independent OBR. The Conservatives had set up a ‘shadow’ OBR, with Sir Alan Budd at its head, in opposition in 2009. This became the interim OBR, still headed by Budd, established in summer 2010 in anticipation of its founding legislation, the *Budget Responsibility and National Audit Act 2011*. The OBR’s creation was a prime example of multiple dimensions of politics *in* fiscal rules. Osborne presented the OBR as an incarnation of his central critique of Labour—in terms of the politics of numbers (Brown’s cooking the books), the politics of economic method (moving the goalposts of the economic cycle), and the politics of economic ideas (‘Labour’s debt crisis’). The first two criticisms were well-founded, whilst the third was specious. As Budd’s replacement as OBR Director, Robert Chote put it bluntly, ‘no sane person would argue that poor management of the public finances directly caused the crisis in 2008–09.’[20] The Conservatives combined and conflated these, construing them as Labour’s economic management problems that the OBR was created to solve. Its creation by the Conservatives in opposition, and the OBR’s imbrication in this partisan fiscal tussle, gives the lie to technocratic governance as apolitical.

The OBR has received limited attention to date in the political economy literature. Berry and Lavery, focusing on depoliticisation and repoliticisation dynamics, analyse its establishment and operation in terms of a ‘profoundly political agenda that underpins institutional reform’. Their nuanced and intricate argument portrays

[20] Interview with Robert Chote 9th October 2019.

the OBR as 'the institutionalisation of austerity' (Berry and Lavery 2017, pp. 256, 259). Others connect the OBR and austerity in more straightforward fashion (see, e.g. Pettifor 2017). Underlining the association between the OBR and austerity is understandable. After all, expansionary austerity arguments and accusations of fiscal irresponsibility dominated Coalition fiscal consolidation discourse at the time of its inception. Similar ideas framed Osborne's new fiscal rules. As a fiscal watchdog, the OBR's core remit is overseeing observance of fiscal rules, assuring sustainable public finances. Prioritising fiscal prudence and highlighting fiscal risks therefore comes with the territory.

Yet drawing too a direct link between the OBR and austerity, as Pettifor does (2017), misreads their remit, and their intellectual autonomy. It also underestimates the scope for fiscal rules regimes to change. The OBR exists to adjudicate on the rules written into the *Charter of Budget Responsibility.* Yet those can and do change (see below), placing greater or lesser emphasis on fiscal consolidation by altering the desired trajectory for deficit and debt. Under each iteration of UK fiscal rules, expansionary fiscal policy would be condoned where the OBR identifies a large output gap. In the realms of the politics of economic method, and the political economic ideas informing OBR modelling and forecasting, their baseline assumptions have always included positive fiscal multipliers, albeit moderate at around 0.5–0.7. An austerity-centric view sees fiscal multipliers as absent, or even negative.

Early on, the OBR debunked austerian claims that Labour's fiscal stance had been profligate or had caused the crisis. Their evaluation of June 2010's 'emergency' budget noted a stable structural deficit consistently around 1% of GDP between 2002 and 2007, standing at 0.4% GDP in 2006–2007, and 0.6% of GDP in 2007–2008 (OBR 2010, p. 91, Chart C6, 104). Their public sector net borrowing (PSNB) fan chart showed a relatively flat line between 2002 and 2007, close to 2% of GDP (OBR 2010, p. 86, Chart C4). When Cameron claimed in March 2013 that the OBR had made it 'absolutely clear' that austerity policies were not responsible for depressed growth, Chote rebuked Cameron. In the OBR's view, consolidation *was* responsible for roughly 1.4% of lower UK growth between 2011 and 2012 (Chote 2013). Thus, the OBR's relationship with the politics of austerity is far from straightforward.

The OBR has autonomy to use whatever models and assumptions it chooses in assessing the public finances.[21] For example, by the mid-to-late 2010s the OBR were affording increasing credence to secular stagnation (Gordon 2016; Summers 2014) and hysteresis accounts of advanced economies (OBR 2017b, p. 35),[22] albeit Andy King noted 'we're not full secular stagnation in that we do think [the economy] will recover.'[23] These are scarcely austerity-centric views, one policy corollary of secular stagnation being more activist fiscal policy (OBR 2017c, pp. 47–48). As OBR Chief Economist Charles Bean put it, 'I'm very amenable to more active use

[21] Interviews with Robert Chote, Professor Steve Nickell, Professor Sir Charles Bean, Andy King—all present or former OBR BRC members.

[22] Interview with Robert Chote, 8th October 2019.

[23] Interview with OBR BRC member Andy King 19th November 2019.

of fiscal policy. It's now very cheap for the government to borrow, so surely this is a time to be doing lots of borrowing and investment in infrastructure … you've got scope to run quite big deficits if you have a framework which is credible for the longer term.'[24] Commentary on macroeconomic responses to COVID further demonstrated the OBR's willingness to endorse extraordinary levels of fiscal activism (OBR 2020a, b).

Prior to the OBR's establishment, many UK Chancellors had engaged in 'politically motivated wishful thinking' (OECD 2020, p. 13), using over-optimistic growth forecasts to assume away tough choices. As Lord Macpherson puts it, 'it was the Chancellor's forecast, so if the Chancellor wanted to believe that the trend rate of growth had improved, it was possible to reflect that in the forecast.'[25] Osborne outlined the OBR's rationale was to "remove [from politicians] the temptation to fiddle the figures by giving up control over the economic and fiscal forecast" (Treasury 2010). Since 2010, the Treasury has been reliant on the OBR for the official forecast. As Chote puts it, 'what is unusual is not that we do a forecast, but that the government no longer does one.'[26]

A striking feature of Coalition and Conservative fiscal rules is their frequent alteration. The debt target moved back to 2016–2017 in December 2014. The fiscal mandate was recodified, the *Charter* rewritten. The high-water mark of Osborne's hawkish fiscal approach, adopted for the 2015 election, required a surplus on headline PSNB by 2019–2020. This rules rewrite also introduced more stringent requirements for annual falls in the ratio of public debt to GDP from 2015 to 2016 onwards. Austerian targets for structural surpluses in normal times and faster debt reduction were politically totemic, but as measures blind to the cycle they were potentially economically harmful (Portes 2015).

The OBR continually expressed scepticism about UK government chances of achieving structural surplus, but the target nevertheless performed its role within partisan fiscal politics. It codified supposedly superior Conservative fiscal rectitude, an impression Labour find perennially hard to overturn. This fiscal politics 'works' even if the economic rationale for structural surpluses is weak (see also Best 2019). It even works if, as the OBR envisaged by November 2016, the headline surplus mandate would be missed by a wide margin (OBR 2016, pp. 199–200).

The changed administration following Brexit saw the *Charter* altered again in October 2016. The May government was not defined by a commitment to austerity, and fiscal targets were relaxed accordingly. Less rigorous rules reflected these changing principles of political economy, more favourable to state activism and intervention. The revised fiscal objective pledged to 'return the public finances to balance at the earliest possible date in the next parliament', anticipated to run 2020–2025. This less exacting 'fiscal mandate' targeted getting the structural deficit (cyclically adjusted PSNB) below 2% of GDP by 2020–2021, and PSND to fall as a proportion of GDP by 2020–2021.

[24] Interview with Professor Sir Charles Bean 21st May 2019.

[25] Interview with Lord Macpherson, Permanent Secretary to the Treasury 2005–2016, 10th July 2019.

[26] Interview with Robert Chote, 8th October 2019.

Turning to the politics of numbers, for all Osborne's critique of Labour book-cooking, Conservative Chancellors were unrelenting in their fiscal manipulations. The OBR consistently noted the 'scorecard artistry' of Osborne's Treasury. Spending commitments were manoeuvred into following years (whilst preventing departments from bringing spending forward) in order that, within specified forecast periods, fiscal targets were notionally hit. For example, in 2013 the Chancellor delayed World Bank payments until the following financial year, and allowed departments to underspend more than normal. This massaged down departmental spending projections, the unusual scale of the underspends being remarked upon wryly by the OBR (OBR 2013a, pp. 93, 128–132). This creative accounting enabled the Chancellor to claim, consistent with earlier commitments, that the deficit was 'just' on a downwards trajectory (Osborne 2013). As Chote put it, 'You can have an astonishing degree of policy fine-tuning to achieve very precise forecast outcomes even though in statistical, or fiscal, or economic terms, it matters not a hoot if a number you care about is £10.5 billion or £10.6 billion.'[27]

Under Chancellor Hammond in 2017, £700m of projected spending moved from 1 year to the next, prompting this exchange with OBR Director Chote in the Treasury Select Committee:

> Chair: Do you think that was done in order to show that the net debt figure did fall, as part of the targets that the Government set themselves?
> Robert Chote: It is not for me to put windows into people's souls, but it seems that might be a plausible explanation. (Treasury Select Committee 2017)

Between 2010 and 2017, UK fiscal rules evolved to become first more austerity-centric, then less so. Meanwhile, Chancellors engaged in 'scorecard artistry', such that impermanence and flexibility were abiding characteristics of UK technocratic economic governance. The actual conduct of policy did not betray the levels of fiscal discipline Osborne espoused. The OBR frequently noted that fiscal targets were often not on course to be met. As Lord Macpherson recalls, when the Government changed fiscal objectives, 'the OBR took great pleasure in saying, this is what you're doing against the revised objective. But then added in, compared to the original objective, you're totally off track … the fact that the OBR was still commenting about the old objective was a reminder to everybody that the Government had changed the goal posts.'[28] Once again, governments were not as tightly bound to the mast of fiscal rectitude as the political economy literature often suggests.

The puzzling political economy of fiscal rules

How should we account for the ongoing prominence of fiscal rules? Public choice and NCM assume that economic policy rules will be unchanging and free from discretion. Their rational expectations underpinnings anticipate that publishing fiscal

27 Interview with Robert Chote, 8th October 2019.

28 Interview with Lord Macpherson, Permanent Secretary to the Treasury 2005–2016, 10th July 2019.

rules will transform outcomes via market actors incorporating these new economic policy parameters into their correct model of the economy. This mechanistic view of political economy is based on a 'very narrow conception of the social', misconceiving the social nature of fiscal rules, and the construction of fiscal credibility (see Best 2019, pp. 626, 633–634; 2020). As we have seen, the real world of fiscal rules is more political and social than such rational expectations accounts admit.

Whether fiscal rules do have an impact on financial market credibility remains 'an empirical blind spot', not least because of the important distinction between '*de jure* fiscal rules' as codified on paper, and the much more complex actual operation of '*de facto*' fiscal rules (Rommerskirchen 2015, p. 837). UK economic credibility was apparently unharmed by breaching fiscal targets, suggesting it is not precise observance that matters—but conveying the general direction of travel towards fiscal probity and debt sustainability that counts. Arguably, financial markets see IFIs as preventing governments straying too far from a fiscally prudent path, even if book-cooking shenanigans and target breaches still occur.

One crucial factor explaining the ongoing prominence of fiscal rules is the partisan politics of fiscal policy, with fiscal regimes crystallising critiques of opponents' economic rectitude. New Labour rules laid bare decades of under-investment, while Osborne's informal structural surplus target was central to Conservative electoral strategy in 2015, designed to paint Labour into a fiscally lax corner. Governments use rules regimes to participate in the social construction of economic credibility, often to denigrate opponents. Evidence from the UK case indicates that the political pay-off from introducing and then 'meeting' fiscal targets was deemed worthwhile by successive governments. This remained true as New Labour's broad principles morphed into Coalition and Conservative numerically specific targets.

Where fiscal rules—for all their impermanence and problematic construction—further assist the Chancellor is in enabling Treasury officials to curtail departmental spending ambitions (Roberts 2010, pp. 52–54). Practitioners note how the existence of rules gives Treasury officials and Chancellors scope to declare departmental spending aspirations beyond the pale within multi-year spending allocation negotiations. Former Permanent Secretary to the Treasury Lord Macpherson notes one rationale behind the introduction of fiscal rules, 'allowing the Treasury to argue that we've got to do this, because we've got this rule.'[29] Lord O'Donnell, another former Permanent Secretary to the Treasury, recalls 'what the Treasury would do is look at the fiscal rules, decide where they wanted to be relative to the fiscal rules. That would then give you a cake number, as it were. Then, you'd allocate it out. So, [the fiscal rules] absolutely influenced how much departments got.'[30]

Thus, a more brute, Lasswellian politics of 'who gets what, when and how?' (1936) helps make sense of the role of fiscal rules within the departmental carve up of the multi-year spending round. Fiscal rules delimiting the spending envelope can confer some limited ability to enhance fiscal discipline. An additional layer

[29] Interview with Lord Macpherson, Permanent Secretary to the Treasury 2005–2016, 10th July 2019.

[30] Interview with Lord O'Donnell, former Permanent Secretary to the Treasury and then Cabinet Secretary, October 20th 2019.

of restraint can be provided with the addition of an independent fiscal watchdog. As Charles Bean puts it, the OBR 'helps strengthen the hand of the civil servants against wishful-thinking Ministers'. With the OBR 'on the other side of the table kicking the tyres' of department spending projections, officials can 'say to their superiors, sorry no we can't put that in, the OBR would never buy it.'[31]

Yet the frequent flouting and changing of the rules detailed in this article amply demonstrate the limited traction in restraining spending that fiscal rules offer Treasury officials and other civil servants. Lord Macpherson remains sceptical of the amount of fiscal discipline fiscal rules impart, since 'the rule is almost retrofitted onto what the government wants to do and thinks it can get away with.' Over the longer term, he doubts the ability of fiscal rules to negate deficit bias and other pressures undermining fiscal responsibility; 'every ten, 20 years, we have some massive blowout. And then, someone gets a grip, and the life of a Treasury official is slightly like Sisyphus, you spend an awful lot of time pushing a boulder up the top of a hill, only for it to fall down all over you.'[32]

Far from anchoring fiscal discipline, as the political economy literature anticipates, the politics of numbers and massaging the figures continued unabated under successive rules regimes. Chancellors' 'observance' of fiscal rules involved manoeuvring spending and taxation commitments, to arrive (sometimes by very circuitous routes) at fiscal positions where formal targets were met. The politics of economic method sees growth projections massaged upwards to assume away fiscal pain.

Consistent with Goodhart's Law (1984; see also Best 2020), so much political capital is sometimes invested by Chancellors in being seen to meet their fiscal targets that enormous time and energy can be spent on cooking the books. It is a pervasive and long-standing feature of UK fiscal policy. The Treasury in the 1960s cooked the books to meet numerical targets and present a favourable view of UK economic policy to the IMF (Clift and Tomlinson 2012). Fiscal fine-tuning, a frowned upon Keynesian throwback, was supposedly superseded by monetary policy stabilisation and inflation targeting (see, e.g. Blanchard et al. 2010). Yet 'scorecard artistry' as a form of fine-tuning endures, its salience flourishing in an era of technocratic fiscal governance. It normally targets medium-term projected totals, rather than current policy settings. Envisaged revenue and spending will often get revised in the interim. Unlike economic management via controlling the sluice gates of aggregate demand, there is often a loose relation to actual economic policy outcomes.

With the advent of the OBR, the *governmental* politics of economic method was curtailed, with some of the old shenanigans (e.g. massaging trend growth rates, tweaking forecast spreadsheets) ruled out. The politics of economic method within OBR forecasting was ongoing, but did not operate to portray UK fiscal policy systematically in a more or less favourable light. Meanwhile, the politics of numbers continued unabated, with 'scorecard artistry' becoming, if anything, a more pressing preoccupation for Treasury officials.

[31] Interview with Professor Sir Charles Bean, 21st May 2019.

[32] Interview with Lord Macpherson, Permanent Secretary to the Treasury 2005–2016, 10th July 2019.

Independent fiscal watchdogs can confer legitimacy on government economic management when confirming that objectives are set to be met. At the same time, the OBR has a track record of puncturing this façade, showing the Chancellor's workings to unearth sharp practices, and highlight shenanigans. As Chote puts it, "Part of our job is to warn people to watch what the conjurer is doing: 'Yes, but look at what he's doing with his other hand'."[33] The OBR diligently points out that such dubious manoeuvres do not change the fundamentals of economic policy stance. Yet most people do not read long OBR reports, and *apparent* fiscal rule observance—a headline claim or a line in a budget speech—is what 'counts' politically for economic credibility. The politics of economic method is inevitably ongoing within how IFIs do their work. The politics of numbers also endures, even with the advent of independent fiscal bodies. Carefully crafting IFI remits is in this light an important site of politics, with fiscal watchdogs' prying eyes pointed in particular directions.

Conclusion

This article has analysed the political economy of technocratic economic governance through an exploration of the establishment and amendment of UK fiscal rules regimes and the bodies that oversee them. The impermanence and changeability of fiscal rules regimes are an abiding characteristic, in the UK case at least. To make sense of frequent fiscal rule alterations, we need to understand how technocratic economic governance is saturated with multi-faceted politics.

The pursuit of economic credibility cannot fully explain our puzzle of why, time and again, governments introduce fiscal rules only to break or circumvent them. Frequent rules changes surely suggest a law of diminishing credibility returns. Financial markets, after all, are under no illusions about how hard and fast UK fiscal targets really are. Rather, we understand the puzzle better if we see technocratic economic governance as a social process, and a site of partisan politics. Fiscal rules and their enactment evolve in particular ideational contexts, reflecting dominant but changeable ideas of 'sound' fiscal policy. There has been an ebb and flow in the theoretical anchors of fiscal rules, first new growth theory under Labour, then a march towards NCM, followed by a partial retreat from austerity under the Coalition and Conservatives.

The enactment of fiscal rules reveals additional dimensions of their politics. Medium-term economic forecasting is far from a mechanical process, as revealed by a politics of economic method lens. The inevitability of a politics of technocratic economic governance resides in this fact. Forecasting methods and techniques, whilst presented in technical and formalistic manner, in fact constitute key sites where choices made can reflect different economic worldviews—distilled in economic modelling assumptions. Even though bodies like the OBR see themselves as technocratic institutions, in their operational work OBR economists deal in contrasting normatively informed accounts of the economy and policy.

[33] Interview with Robert Chote, 8th October 2019.

The contingency and impermanence of fiscal rules were underlined by the fact that, despite repeated Chancellors' pledges to legislate new fiscal rules, two of the UK's three key fiscal rules, specified in the 2017 *Charter*, had elapsed by 2021. As OBR Director Richard Hughes put it, 'The UK has effectively operated without a fiscal framework since the pandemic struck' (Hughes 2021). The UK framework had an independent fiscal watchdog, but lacked any numerically specified debt or deficit targets for the OBR to oversee.

OBR pleas for fresh fiscal rules were finally answered when, accompanying the October 2021 budget, the Treasury's fiscal mandate was revised to codify the Chancellor's fiscal objectives over the next 3 years. The key fiscal targets became; 'to have public sector net debt (excluding the Bank of England) as a percentage of GDP falling by the third year of the rolling forecast period', a 'target to balance the current budget by the third year of the rolling forecast period', and a 'target to ensure that public sector net investment does not exceed 3% of GDP on average over the rolling forecast period' (Treasury 2021). These new rolling 3-year targets heralded something of a shift back towards broad fiscal principles reminiscent of the New Labour era.

Yet, *at their inception*, it was not clear how much political capital the government would choose to invest in meeting its new rules in a post-COVID, post-Brexit era. Early omens were not good. OBR Director Richard Hughes pointed out that the government was on track to meet its fiscal mandate (that underlying debt falls as a % of GDP by 2024–2025) by 'the slimmest of margins' (0.6% of GDP), which would easily be wiped out by 1% lower GDP. As Hughes put it, 'this is the second smallest margin that any Chancellor has ever had when setting a new set of rules – and all of the previous ones were broken.' Given inflationary, interest rate and other uncertainties, Hughes anticipated 'another white-knuckle ride over the remainder of this parliament' (Hughes 2021). Such is the puzzling political economy of fiscal rules.

Funding The author gratefully acknowledges the support of the Leverhulme Trust Major Research Fellowship (MRF-2017-063) which enabled the fieldwork and research on which this article is based to be undertaken.

References

Abdelal, R., M. Blyth, and C. Parsons. 2010. *Constructing the International Economy*. Ithaca: Cornell Studies in Political Economy.

Alesina, A., and F. Giavazzi, eds. 2013. *Fiscal Policy After the Financial Crisis*. Chicago: University of Chicago Press.

Annesley, C., and A. Gamble. 2004. Economic and Welfare Policy. In *Governing as New Labour: Policy and Politics Under Blair*, ed. S. Ludlam and M. Smith, 144–160. Basingstoke: Macmillan.

Balls, E. 1998. Open Macroeconomics in an Open Economy. *Scottish Journal of Political Economy* 45 (2): 113–132.

Balls, E., and G. O'Donnell. 2002. *Reforming Britain's Economic and Financial Policy: Towards Greater Economic Stability*. London: Palgrave.

Ban, C. 2016. *Ruling Ideas: How Global Neoliberalism Goes Local*. Oxford: Oxford University Press.

Batini, N., and A. Haldane. 1999. Forward-Looking Rules for Monetary Policy. In *Monetary Policy Rules*, ed. J.B. Taylor, 157–202. Chicago: University of Chicago Press.

Béland, D., and R.H. Cox. 2011. Introduction: Ideas and Politics. In *Ideas and Politics in Social Science Research*, ed. D. Béland and R.H. Cox. Oxford: Oxford University Press.
Berry, C., and S. Lavery. 2017. Towards a Political Economy of Depoliticisation Strategies: Help to Buy, The Office of Budgetary Responsibility, and the UK Growth Model. In *Anti-politics, Depoliticisation and Governance*, ed. P. Fawcett, et al., 246–265. Oxford: Oxford University Press.
Best, J. 2010. Bringing Power Back. In: IMF's Constructivist Strategy in Critical Perspective. In *Constructing the International Economy*, ed. R. Abdelal, M. Blyth, and C. Parsons, 194–210. Ithaca: Cornell University Press.
Best, J. 2019. The Inflation Game: Targets, Practices and the Social Production of Monetary Credibility. *New Political Economy* 24 (5): 623–640.
Best, J. 2020. The Quiet Failures of Early Neoliberalism: From Rational Expectations to Keynesianism in Reverse. *Review of International Studies* 46 (5): 594–612.
Best, J. 2021. Varieties of Ignorance in Neoliberal Policy: Or the Possibilities and Perils of Wishful Economic Thinking. *Review of International Political Economy*. https://doi.org/10.1080/09692290.2021.1888144.
Blanchard, O.J., M.G. Dell'Ariccia, and M.P. Mauro. 2010. *Rethinking Macro Policy*. IMF Staff Position Note SPN/10/03. International Monetary Fund.
Blyth, M. 2002. *Great Transformations*. Cambridge: Cambridge University Press.
Blyth, M. 2013. *Austerity: The History of a Dangerous Idea*. Oxford: Oxford University Press.
Burnham, P. 1999. The Politics of Economic Management in the 1990s. *New Political Economy* 4 (1): 37–53.
Burnham, P. 2001. New Labour and the Politics of Depoliticisation. *The British Journal of Politics and International Relations* 3 (2): 127–149.
Chote, R. 2013. Letter to the Prime Minister, March 2013 (Office for Budget Responsibility).
Chote, R. 2016. Evidence to the Treasury Select Committee, 30 November. http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/autumn-statement-2016/oral/43955.html. Accessed 6 May 2021.
Clift, B. 2018. *The IMF and the Politics of Austerity in the Wake of the Global Financial Crisis*. Oxford: Oxford University Press.
Clift, B., and S. McDaniel. 2021. Bringing the Supply Side Back in to Growth Models Analysis: The UK Model of Capitalism and the Productivity Puzzle. *British Journal of Politics and International Relations*. https://doi.org/10.1177/13691481211044638.
Clift, B., and J. Tomlinson. 2004. Fiscal Policy and Capital Mobility: The Construction of Economic Policy Rectitude in Britain and France. *New Political Economy* 9 (4): 515–537.
Clift, B., and J. Tomlinson. 2007. Credible Keynesianism? New Labour Macroeconomic Policy and the Political Economy of Coarse Tuning. *British Journal of Political Science* 37: 47–69.
Clift, B., and J. Tomlinson. 2008. Whatever Happened to the Balance of Payments 'problem'? The Contingent (Re)construction of British Economic Performance Assessment. *British Journal of Politics and International Relations* 10 (4): 607–629.
Clift, B., and J. Tomlinson. 2012. When Rules Started to Rule: The IMF, Neo-liberal Economic Ideas, and Economic Policy Change in Britain. *Review of International Political Economy* 19 (3): 477–500.
Crafts, N. 1996. 'Post-neoclassical endogenous growth theory': What are Its Policy Implications? *Oxford Review of Economic Policy* 12 (2): 30–47.
Crafts, N. 2018. *Forging Ahead, Falling Behind and Fighting Back: British Economic Growth from the Industrial Revolution to the Financial Crisis*. Cambridge: Cambridge University Press.
Davidson, P. 1991. Is Probability Theory Relevant for Uncertainty? A Post Keynesian Perspective. *Journal of Economic Perspectives* 5 (1): 129–143.
Dellepiane-Avellaneda, S. 2015. The Political Power of Economic Ideas: The Case of 'expansionary fiscal contractions.' *British Journal of Politics and International Relations* 17 (3): 391–418.
DeLong, J.B., and L.H. Summers. 2012. Fiscal Policy in a Depressed Economy. *Brookings Papers on Economic Activity* 2012 (1): 233–297.
Engelen, E., I. Erturk, J. Froud, S. Johal, L. Leaver, M. Moran, A. Nilsson, and K. Williams. 2011. *After the Great Complacence: Financial Crisis and the Politics of Reform*. Oxford: Oxford University Press.
Friedman, M. 1959. The Demand for Money: Some Theoretical and Empirical Results. *Journal of Political Economy* 67 (4): 327–351.
G20. 2010. Communiqué from the Toronto Summit, June 26–27.
Gamble, A. 1990. *Britain in Decline*. Basingstoke: Macmillan.

Goodhart, C. 1984. Problems of Monetary Management: The U.K. Experience. In *Monetary Theory and Practice*, ed. C. Goodhart, 91–121. Basingstoke: Macmillan.
Gordon, R.J. 2016. *The Rise and Fall of American growth*. Princeton: Princeton University Press.
Hallerberg, M., R.R. Strauch, and J. Von Hagen. 2009. *Fiscal Governance in Europe*. Cambridge: Cambridge University Press.
Hay, C. 2008. Constructivist Institutionalism. In *The Oxford Handbook of Political Institutions*, ed. R.A. Rhodes, S.A. Binder, and B.A. Rockman, 56–74. Oxford: Oxford University Press.
Hay, C. 2013. Treating the Symptom Not the Condition: Crisis Definition, Deficit Reduction and the Search for a New British Growth Model. *British Journal of Politics and International Relations* 15 (1): 23–37.
Hay, C. 2016. Good in a Crisis: The Ontological Institutionalism of Social Constructivism. *New Political Economy* 21 (6): 520–535.
Hughes, R. 2021. The Director's Speaking Notes on the October EFO. https://obr.uk/download/economic-and-fiscal-outlook-speaking-notes-october-2021/. Accessed 27 Oct 2021.
IMF. 2008. In *Fiscal Policy for the Crisis, SPN/08/01*, ed. A. Spilimbergo, S. Symansky, O. Blanchard, and C. Cottarelli. Washington, DC: IMF.
IMF. 2013. *IMF Policy Paper: Reassessing the Role and Modalities of Fiscal Policy in Advanced Economies*. Washington, DC: International Monetary Fund.
IMF. 2016. *Fiscal Councils: Rationale and Effectiveness.* IMF Working Paper 16/86. Washington, DC: International Monetary Fund.
Institute for Fiscal Studies. 2007. *The IFS Green Budget*. London: IFS.
Keynes, J.M. 1937. The General Theory of Employment. *The Quarterly Journal of Economics* 51 (2): 209–223.
Kirshner, J. 2003. The Inescapable Politics of Money. In *Monetary Orders: Ambiguous Economics, Ubiquitous Politics*, ed. J. Kirshner. Ithaca: Cornell University Press.
Kydland, F., and E. Prescott. 1977. Rules Rather than Discretion: The Inconsistency of Optimal Plans. *Journal of Political Economy* 85 (3): 473–491.
Lasswell, H. 1936. *Politics: Who Gets What, When, How*. New York: Whittlesey House.
Lavery, S. 2019. *British Capitalism After the Crisis*. Berlin: Springer.
Murray, J. 2014. *Output Gap Measurement: Judgement and Uncertainty.* OBR Working Paper 5. London: OBR.
Muth, J.F. 1961. Rational Expectations and the Theory of Price Movements. *Econometrica* 29 (3): 315–336.
National Audit Office. 2005. *Audit of Assumptions for the 2005 Pre-budget Report*. London: The Stationery Office.
OBR. 2010. *Budget Forecast: June 2010.*
OBR. 2011. *Estimating the Output Gap: Briefing Paper No. 2*. London: OBR.
OBR. 2013a. *Economic and Financial Outlook Economic and Financial Outlook*, March.
OBR. 2013b. *The Macroeconomic Model: Briefing Paper No. 5*. London: OBR.
OBR. 2016. *Economic and Financial Outlook Economic and Financial Outlook*, November.
OBR. 2017a. *Fiscal Risks Report*. London: OBR.
OBR. 2017b. *Forecast Evaluation Report*, October.
OBR. 2017c. *Economic and Financial Outlook Economic and Financial Outlook*, November.
OBR. 2020a. *Economic and Financial Outlook Economic and Financial Outlook*, March.
OBR. 2020b. *Economic and Financial Outlook Economic and Financial Outlook*, November.
OECD. 2017. *Designing Effective Independent Fiscal Institutions*. Paris: OECD.
OECD. 2020. *OECD Independent Fiscal Institutions Review: Office for Budget Responsibility (OBR) of the United Kingdom*. London: Her Majesty's Stationery Office.
Osborne, G. 2011. Autumn Forecast Statement by the Chancellor of the Exchequer, 29 November 2011, 136/11. http://www.hm-treasury.gov.uk/press_136_11.htm. Accessed 30 Aug 2012.
Osborne, G. 2013. Budget 2013: Chancellor's Statement. https://www.gov.uk/government/speeches/budget-2013-chancellors-statement. Accessed 7 April 2021
Pettifor, A. 2017. Evidence to the Treasury Select Committee, November 2017. https://www.annpettifor.com/2017/11/uk-budget-2017-and-obr-forecast-for-british-economy-prime-evidence-to-treasury-select-committee/. Accessed 19 July 2019.
Portes, J. 2015. Evidence to Treasury Committee on 2015 Summer Budget 15 July 2015. Oral Evidence: Summer Budget 2015, Wednesday 15 July 2015 HC 315.

Roberts, A. 2010. *The Logic of Discipline: Global Capitalism and the Architecture of Government*. Oxford: Oxford University Press.
Romer, P.M. 1986. Increasing Returns and Long-Run Growth. *Journal of Political Economy* 94 (5): 1002–1037.
Rommerskirchen, C. 2015. Fiscal Rules, Fiscal Outcomes and Financial Market Behaviour. *European Journal of Political Research* 54 (4): 836–847.
Schmidt, V. 2008. Discursive Institutionalism: The Explanatory Power of Ideas and Discourse. *Annual Review of Political Science* 11: 303–326.
Sinclair, T.J. 2000. Deficit Discourse: The Social Construction of Fiscal Rectitude. In *Globalization and its Critics*, ed. R. Germain, 185–203. Basingstoke: Palgrave Macmillan.
Slobodian, Q. 2018. *The Globalists*. Harvard: Harvard University Press.
Stahl, R. 2020. From Depoliticisation to Dedemocratisation: Revisiting the Neoliberal Turn in Macroeconomics. *New Political Economy* 26 (3): 406–421.
Stanley, L. 2014. 'We're reaping what we sowed': Everyday Crisis Narratives and Acquiescence to the Age of Austerity. *New Political Economy* 19 (6): 895–917.
Streeck, W. 2014. *Buying Time: The Delayed Crisis of Democratic Capitalism*. London: Verso Books.
Streeck, W. 2017. A New Regime: The Consolidation State. In *Reconfiguring European States in Crisis*, ed. D. King and P. Le Galès, 139–157. Oxford: Oxford University Press.
Summers, L.H. 2014. US Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound. *Business Economists* 49 (2): 65–73.
Tomlinson, J. 2017. *Managing the Economy, Managing the People: Narratives of Economic Life in Britain from Beveridge to Brexit*. Oxford: Oxford University Press.
Treasury. 1998. *Financial Statement and Budget Report*, March. London: HMSO.
Treasury. 2005. *HM Treasury: Departmental Report.* Cm 6540, June 2005.
Treasury. 2006. *Pre-budget Report* (December 2006) Cm 6984. HM Treasury. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/272403/6984.pdf. Accessed 6 May 2021.
Treasury. 2009. *Budget 2009 Building Britain's Future.* HC 407. London: HMSO.
Treasury. 2010. *Budget 2010.* HC 61. London: HMSO.
Treasury. 2021. Charter for Fiscal Responsibility: Autumn 2021 Update. https://www.gov.uk/government/publications/charter-for-budget-responsibility-autumn-2021-update. Accessed 27 Oct 2021.
Treasury Select Committee. 2007. *House of Commons Treasury Committee.* The 2006 Pre-budget Report HC 115. London: Stationary Office.
Treasury Select Committee. 2017. Evidence to the Treasury Select Committee, 30 November 2017, Oral Evidence: The Budget Autumn 2017, HC 600.-----
Viney, C., and T. Poole. 2019. Independent Fiscal Institutions. In *The Cambridge Companion to Comparative Constitutional Law*, ed. R. Masterman and R. Schütze, 441–470. Cambridge: Cambridge University Press.
Von Trapp, L., I. Lienert, and J. Wehner. 2016. Principles for Independent Fiscal Institutions and Case Studies. *OECD Journal on Budgeting* 15 (2): 9–24.
Widmaier, W. 2003. The Keynesian Bases of a Constructivist Theory of the International Political Economy. *Millennium: Journal of International Studies* 32 (1): 87–107.