

## 28 October 2025 - The UK's fiscal framework - Oral evidence

Economic Affairs Committee

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Witnesses:

- Helen Miller, Director at Institute for Fiscal Studies (IFS)
- Ben Zaranko, Associate Director at Institute for Fiscal Studies (IFS)

The Economic Affairs Committee held its first evidence session in the inquiry into the UK's fiscal framework. The witnesses were Helen Miller, Director of the Institute for Fiscal Studies (IFS), and Ben Zaranko, Associate Director of the IFS.

Helen Miller began by outlining the value of having a fiscal framework. She explained that while frameworks have always existed, since 1997 the UK has had a codified system with written rules and mandates. This shift has made fiscal management more transparent and accountable. She stressed that transparency allows for public and parliamentary scrutiny, and that governments benefit from being open about their fiscal targets and constraints. While public finances today are weak, with high debt and low growth, she noted that the transparency introduced by formal frameworks—alongside institutions like the OBR—has significantly improved public understanding of fiscal conditions.

Miller said fiscal frameworks are crucial both for sustainability and transparency, the latter reinforcing accountability and credibility. Ben Zaranko added that more than 100 countries now have formal fiscal rules, reflecting their value. He linked their origins to central bank independence—governments “tying their hands” to achieve better long-term outcomes. Fiscal rules combat “deficit bias,” a tendency for governments to spend and borrow excessively due to electoral or departmental pressures. Zaranko also noted their signalling role: they reassure markets and foster internal discipline within Cabinets, acting as collective constraints on spending demands.

The Committee turned to the bond market's reaction to fiscal rules. Miller said market sensitivity is not due to rules themselves but to current conditions—high debt, quantitative tightening, and reduced gilt demand. Fiscal rules merely heighten attention to these realities. Zaranko agreed, noting that bond market movements are fundamentally responses to borrowing needs and macroeconomic conditions; fiscal rules provide signals about those fundamentals rather than driving them.

Lord Burns raised concerns that fiscal rules encourage short-termism at the expense of long-term investment. Miller agreed that short-term fiscal horizons (three to five years) create incentives to cut capital projects when rules tighten. This, she said, harms productivity and long-term planning. Zaranko added that the current rules are less biased against investment than in the past but still distort policy choices. He gave the example of corporation tax full expensing: initially temporary because it was costly within the fiscal scorecard window. Longer-term thinking, he

said, is vital but difficult to enforce because politicians promise to act in the distant future but rarely do.

Discussion turned to the terminology of “rules” versus “targets.” Burns queried whether “rules” implied excessive rigidity. Zaranko referred to economist Xavier Debrun’s “trilemma”: rules cannot be simultaneously simple, flexible, and binding. Different countries vary—Germany has legal debt brakes, while New Zealand follows broad fiscal principles. Miller observed that the UK’s system, centred on a “fiscal mandate,” is inherently flexible since Chancellors can change it at will.

Lord Turnbull asked whether fiscal rules could either correct or worsen short-term decision-making. Zaranko said the current framework distinguishes between current and capital spending more clearly than before but political choices still dominate outcomes.

Lord Blackwell explored perverse effects of the fiscal rules. Zaranko identified several: an overemphasis on OBR “scoring,” encouraging policies with measurable economic impacts at the expense of smaller or innovative reforms; the rolling nature of targets, allowing governments to promise implausible future tightening; and the tendency to operate with minimal “headroom,” treating forecast variations as “money to spend.” Miller added that officials spend excessive time gaming OBR scoring rather than designing the best policy, and that debate often centres on whether the government “could” borrow rather than whether it “should.”

The Committee discussed fixed versus rolling targets. Zaranko said fixed dates increase credibility but reduce flexibility in crises. Escape clauses can help but complicate communication. He felt the current three-year rolling targets strike a reasonable balance but warned that implausibly tight future spending projections have undermined credibility. Miller added that too-frequent rule changes damage trust, even if flexibility is necessary. Zaranko noted that constant “chopping and changing” has weakened market confidence, leading investors to demand proof rather than promises.

On potential reform, Zaranko argued the UK should eventually move beyond rigid, pass/fail numerical rules to a broader assessment of fiscal health, such as a “traffic light” system combining multiple indicators. Miller agreed, saying the fixation on “headroom” has distorted debate. She emphasised that any such system should be defined by the government of the day, not technocrats, with the OBR responsible for measurement. Both warned that while Rachel Reeves was right to maintain her rules now, future frameworks should evolve toward a more holistic model.

Lord Liddle suggested that weak economic growth, not the rules, is the real fiscal problem. Miller agreed that poor growth underpins fiscal challenges and that boosting growth would ease debt burdens more than austerity could. However, she cautioned that even a growth-focused government must still manage borrowing responsibly.

Lord Agnew asked about MPs’ understanding of fiscal constraints. Zaranko said there is a “common pool problem”: every MP rationally argues for their own spending priorities, leading collectively to overspending. He pointed out that Britain now spends an extra 2% of national income on debt interest—about £60 billion annually—compared to past decades. Combined

with demographic pressures, defence increases, and health spending, this leaves limited fiscal space. Miller added that the election debate failed to address these trade-offs honestly.

Lord Lamont questioned whether tight fiscal “headroom” drives instability and speculation. Miller agreed, saying the government’s very narrow margin against its own rules fuels constant market chatter. Past Chancellors maintained larger buffers, but both Jeremy Hunt and Rachel Reeves reduced them to precarious levels. This undermines stability and deters investment. Zaranko added that high interest rate volatility has worsened this, creating a “bad equilibrium” that policymakers must escape by rebuilding buffers.

Lord Turnbull raised “dynamic scoring.” Zaranko explained that the OBR has always modelled demand multipliers but now also estimates supply-side impacts (e.g., labour participation, productivity). He warned that departments may highlight only positive impacts, risking asymmetry. Miller agreed that dynamic scoring is useful but limited: many policies have long-term benefits too small to shift macro forecasts. She cautioned against focusing solely on what the OBR can “score,” as this narrows debate. Both noted that taxation changes are easier to measure than spending policies, which complicates even-handed treatment.

Lord Razzall questioned whether the OBR should produce fewer forecasts. Zaranko said two per year (as per international norms) is appropriate, but the UK’s uneven timing—March and November—creates problems. He argued for one annual fiscal event, with the second forecast serving as an update rather than a policymaking moment. Miller agreed, suggesting that the spring forecast should be re-timed to improve coordination and reduce leaks.

Lord Lamont asked whether the OBR’s focus should shift more toward long-term debt sustainability. Miller said it already produces excellent reports that deserve more attention, while Zaranko suggested that Parliament could use the OBR’s second forecast slot for sustainability debates. He supported developing simpler long-term metrics and emphasised the need to improve communication about uncertainty.

Lord Liddle asked whether the Treasury should regain forecasting control. Both witnesses opposed this. Miller said OBR independence prevents governments “marking their own homework.” She noted that some countries operate dual forecasts (e.g. France, Germany, Sweden, the US), but removing independence would damage credibility. Zaranko acknowledged that outsourcing forecasting may have eroded macroeconomic expertise in the Treasury, but this was a smaller problem than the loss of credibility that would result from bringing forecasts back under ministerial control.

In conclusion, the Chair asked whether the OBR unduly constrains the government. Miller said its role is inherently constraining, as governments choose the rules by which they are held accountable. Problems arise only because recent governments have run such tight margins. Dynamic scoring has also encouraged political behaviour changes, but this reflects government choices, not OBR overreach. Turnbull noted that small headroom makes it appear the OBR dictates policy; Miller agreed, saying larger buffers would reduce this effect. Agnew added that governments sometimes “shoot the messenger” instead of explaining their disagreements with the OBR. Zaranko concluded that ministers could depart from OBR forecasts if they justified it credibly, but they hesitate because markets view the OBR’s numbers as more trustworthy.