

Policy Brief

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An independent watchdog, or a pup on a leash: how effective is the UK's Office for Budget Responsibility?

In mid May this year, less than a week after the Coalition government came to power in the United Kingdom, the Chancellor George Osborne created the Office for Budget Responsibility (OBR). The new organisation's role is to assess public finances and the economy, and have direct control over the Budget forecasts and the decisions that underpin the official projections.

The Chancellor announced that the OBR, as an independent organisation to be established in legislation, would hold the government 'to account for promises made to the British people' and help the country 'avoid the soaring taxes and higher interest rates that a debt crisis would lead to'.

With Britain facing many years of public spending cuts, the Coalition is seeking to depoliticise its decisions where it can. And it wants investors to be assured of Britain's credit worthiness, and that the fiscal crises in nearby Portugal, Ireland, Italy and Greece are no indication of what is to come in the UK.

Also, it was hoped that creating the OBR would put an end to cries that government budgets are based on over-optimistic assumptions about growth, and taxing and spending.

Sir Alan Budd, the inaugural chair of the OBR, stated that while he can't guarantee getting the forecasts right, he does guarantee 'the independence and integrity' of the OBR's work.

However, not everyone is convinced, and from the outset there have been doubts about whether the OBR could be impartial. Under the control of the executive, not the parliament, would the OBR be able to take the politics out of the economics? Or would it be beholden to its political master?

It didn't take long for some of the OBR's work to be questioned on exactly this point. In the lead up to June's Emergency Budget, the OBR came under fire. Its employment forecasts, in particular for private sector jobs growth, were seen to be too rosy. And the figures were released early, after a Treasury document painting a much bleaker jobs picture was leaked to the media.

It transpired that the office did adjust its numbers a week before the Budget. But while Treasury confirmed that the OBR made 'methodological changes' to its forecasting, it denied that it put any pressure on the OBR to produce more positive data.

More questions about possible political interference were asked when Sir Alan left the OBR soon after, to return to the private sector. But rather than this move being further evidence of the OBR's 'failure', Treasury has emphasised Sir Alan only ever had a three-month contract, and it was always his intention to leave once the initial job of the Emergency Budget was done.

However, in such circumstances perception can be reality, damaging the OBR's credibility and potentially undermining its ability to increase confidence in the government's accounts, and in Britain as a place to invest.

In response, a series of changes will be introduced to strengthen the OBR's independence from both the Chancellor and Treasury. MPs on the cross-party Treasury Select Committee will be able to veto the

Chancellor's candidate for the position of chairman. In addition, the OBR will shift from within the four walls of the Treasury, and be staffed with its own employees, not Treasury secondees as is the case now.

While it is inevitable that taxing and spending decisions will always have a political element, the government's attempts to bring greater independence to fiscal policy, and more credibility to its books, are to be lauded. And despite the controversies, there is strong support for the organisation, and in particular the role it has played in ensuring that growth assumptions are more in line with consensus forecasts than in the past.

The next test for the OBR will be the Comprehensive Spending Review in October, which will lay out in detail the government's spending plans for the coming years. It's an opportunity for the OBR to be what the government wants it to be, and what the country needs it to be – an independent, impartial spending watchdog, not influenced by political pressures.

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