Funding the Future

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The New Economics Foundation has issued a new report today:

NEW ECONOMICS FOUNDATION

CALLING TIME

REPLACING THE FISCAL RULES WITH FISCAL REFEREES

The title really undersells this. I rarely unambiguously say something needs reading: I do say that about this. The authors are Frank van Lerven, Alfie Stirling and Lydia Prieg. They have done a great job in assembling evidence about the current state of the economy, and even more so about the relationship between the national debt and interest rates - where data completely contradicts much of what economics claims. Their plotting of the failure of the UK's fiscal rules is almost amusing. Look at the charts, if nothing else.

But where they really score is in the bit I really did not expect to appreciate, which is in their recommendation for moving on beyond fiscal rules. I worry that some of their proposed structure would be open to capture, but what they suggest is that there should be what they term 'fiscal referees' whose job it will be to determine whether economic policy is working to best social benefit.

Saying so they suggest we do not need a fiscal rule. I agree. Instead, they suggest that we need guidelines for action. That's much more sensible, so I agree. And then they suggest that those guidelines, or fiscal principles as they describe them, might look like this:

Box 1. Illustrative examples of a set of fiscal principles

I. General fiscal principles:

a. With debts denominated in its own currency and a floating exchange rate, the UK government's fiscal space is constrained by the availability of resources and idle inputs in the economy.

b. When making decisions regarding its spending, the government should consider the long-term impact of these decisions on society as a whole – both in a strict economic sense and more broadly in terms of the positive benefits that stem from investments in public goods – rather than just on its own debt and deficit.

II. Criteria for meeting these principles:

a. The UK government shall not borrow in excess of the availability of resources and idle input of the economy, such that nominal aggregate demand outstrips the productive capacity of the economy.

b. The UK government shall not under-borrow when there are clear available resources and idle inputs in the economy, such that nominal aggregate demand is permitted to fall and the productive capacity of the economy wane.

III. Secondary legislation or commonly agreed positions for meeting whether criteria are satisfied:

c. Methods and metrics to assess whether principles and criteria are being met would include monitoring inflation, output gap and productive capacity, balance sheet position of the private sector, the current account deficit, balance sheet of the Bank of England, interest rates, PSNW, green finance gap, etc.

I hope I will be forgiven for suggesting that is modern monetary theory in practice, because it very clearly is. But it's also really very good, and a very valuable contribution to debate. If we had fiscal referees debating such issues we would see better economic policymaking as a result. That has to be a win.

This is the best report from the New Economics Foundation for years.