

# LABOUR'S FISCAL CREDIBILITY RULE

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- ▶ **Labour will close the deficit on day-to-day spending over five years**
- ▶ **Labour make sure government debt is falling at the end of five years**
- ▶ **Labour will borrow only to invest**
- When the Monetary Policy Committee decides that monetary policy cannot operate (the “zero-lower bound”), the Rule as a whole is suspended so that fiscal policy can support the economy. Only the MPC can make this decision
- In addition, we will legislate so Office for Budget Responsibility reports to Parliament, not Treasury.

## Detailed Briefing

- Following discussions with world-leading macroeconomists and the Shadow Cabinet we have decided to adopt a Fiscal Credibility Rule which will underpin Labour’s fiscal position.
- Labour believe that, in the medium to long term, governments should not need to borrow to fund their day-to-day spending. While there are exceptional times when shocks from the private sector mean that government has to step in to help, everybody knows that if you’re putting the rent on the credit card month after month, things needs to change.

**And that is why we would commit to always eliminating the deficit on current spending in five years, as part of a strategy to target balance on current spending after a rolling, five-year period.**

- It is essential for our future prosperity that we retain the ability to borrow for investing in capital projects which over time will pay for themselves. Labour recognises the need for investment which raises the growth rate of our economy by increasing productivity as well as stimulating demand in the short term.

**And that is why our target for eliminating the deficit excludes investment.**

- And because we want to ensure that the Government’s debt is set on a sustainable path, we will commit to ensuring that, at the end of every Parliament, Government debt as a proportion of trend GDP is lower than it was at the start.
- We will reserve the right, for as long as monetary policy is unable to undertake its usual role due to the lower bound, suspend our targets so that monetary and fiscal policy can work together.
- Rather than an arbitrary cut off for GDP forecasts, we will give the Bank of England’s Monetary Policy Committee the authority to suspend the rule in the circumstances when it is clear that fiscal policy needs to work together with monetary policy to get the economy moving again.

**And to oversee all this we will make sure that the Office for Budget Responsibility is genuinely independent, reporting to Parliament rather than the Treasury.**