

EMBARGOED UNTIL 10pm SATURDAY FEBRUARY 13th 2010.

PREAMBLE

We are passing through unprecedented economic times. With an election looming, it is desirable to build a consensus on core principles of macro-economic management. In the spirit of trying to build a cross-party consensus, a group of leading independent-minded economists and policy-makers have issued the following statement on UK fiscal policy. They each sign in a personal capacity and do not represent the views of the institutions for which they work or political party to which they belong.

STATEMENT

It is now clear that the UK economy entered the recession with a large structural budget deficit.

As a result the UK's budget deficit is now the largest in our peacetime history and amongst the largest in the developed world.

In these circumstances a credible medium-term fiscal consolidation plan would make a sustainable recovery more likely.

In the absence of a credible plan, there is a risk that a loss of confidence in the UK's economic policy framework will contribute to higher long-term interest rates and /or currency instability, which could undermine the recovery.

In order to minimise this risk and support a sustainable recovery, the next Government should set out a detailed plan to reduce the structural budget deficit more quickly than set out in the 2009 Pre-Budget Report.

The exact timing of measures should be sensitive to developments in the economy, particularly the fragility of the recovery. However, in order to be credible, the Government's goal should be to eliminate the structural current budget deficit over the course of a Parliament, and there is a compelling case, all else equal, for the first measures beginning to take effect in the 2010-11 fiscal year.

The bulk of this fiscal consolidation should be borne by reductions in government spending, but that process should be mindful of its impact on society's more vulnerable groups. Tax increases should be broad-based and minimise damaging increases in marginal tax rates on employment and investment.

In order to restore trust in the fiscal framework, the Government should also introduce more independence into the generation of fiscal forecasts and the scrutiny of the Government's performance against its stated fiscal goals.

Signed

Orazio Attanasio, UCL

Tim Besley, LSE

Roger Bootle, Capital Economics

Sir Howard Davies, LSE

Lord Meghnad Desai, House of Lords

Charles Goodhart, LSE

Albert Marcet, LSE

Costas Meghir, UCL

John Muellbauer, Nuffield College, Oxford

David Newbery, Cambridge University

Hashem Pesaran, Cambridge University

Christopher Pissarides, LSE

Danny Quah, LSE

Ken Rogoff, Harvard University

Bridget Rosewell, GLA and Volterra Consulting

Thomas Sargent, New York University

Anne Sibert, Birkbeck College, University of London

Lord Andrew Turnbull, House of Lords

Sir John Vickers, Oxford University

Michael Wickens, University of York and Cardiff Business School