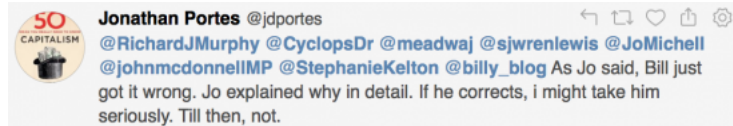


## Labour's fiscal rule is much worse than the headlines s...

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The response from commentators (Jo Michell, Jonathan Portes, retweeted by Simon Wren-Lewis) on Twitter to the ongoing [debate on Labour's fiscal rule that I sparked](#) has been to say that the likes of Bill Mitchell and I, who have responded to them, have not understood what the



this:

So, let me avoid doubt and [reproduce the rule in full](#) as Labour has published it (and I have no clue who actually wrote this version):

The defence is that the headlines are wrong, although they are highlighted, and are what it is clearly intended people read and understand.

Instead, we are meant to note that:

- \* If the Bank of England is so kind the rule can be suspended. In other words, the Bank and not the government is left in charge of economic policy, even when they have no hope of using monetary policy;
- \* The five years rule does not mean five years: it always means five years hence. In other words, this is a policy for 'never, never': Labour never has to balance the books because it always says it will do so in five years time. This reminds me of St Augustine's prayer that God make him chaste, but not yet. It's pure rhetorical nonsense, in other words if read in this way (as we are apparently meant to do). I am not a fan of disingenuous claims;
- \* And the reason why we must do this is that 'the credit card will be maxed out' if Labour does not do so. Or to put it kindly, the household analogy for macro is adopted in its entirety and the fallacy of composition that it embraces is accepted, lock, stock and barrel;
- \* Despite this debt will always be falling as a part of GDP, but how is not explained;

\* And borrowing for investment is outside this book balancing exercise, except it clearly is not because total debt has to fall in proportion to GDP, meaning that in all likelihood a current surplus has to be run: after all, how else might this be guaranteed?

I accept the criticism that I, at least, did not read the full horror of the rule into what I wrote. That's because I could not believe that the accredited authors really meant it to be as bad as it is.

But apparently they do.

So I point out that it is much worse when read literally and in full than if just the headlines are noted as a summary of the whole.