

Labour's fiscal credibility rule, again

Published: January 16, 2026, 5:49 pm

I am aware that Simon Wren-Lewis has written a new piece on Labour's Fiscal Credibility Rule [for the New Statesman](#). As usual, I fundamentally disagree with him, but a response will take more time than I have this morning, and will have to follow.

[Howard Reed](#) wrote a good comment on the piece though on Facebook and offers what might be called a middle ground view. I thought it worth sharing:

Very interesting discussion of Labour's fiscal credibility rule by Simon Wren-Lewis. This is a topic that James Meadway and Richard Murphy among others, have written about intelligently in recent months. My own view (FWIW) is:

- the Labour FCR is better than any previous attempts at such a rule (e.g. the current rules drawn up by Osborne, the New Labour rules, the 1980s MTFS, etc)*
- my preference would be for a very loose rule which effectively just says "govt debt should not be allowed to grow explosively" and - linked to this - "govt debt should be reduced when financing debt becomes an unacceptable burden". In other words focus on debt, not deficits. Note also that financing costs are extremely low at the moment - suggesting significant room for expansion*
- Having said that, I accept James's arguments that the FCR doesn't unduly constraint a Corbyn govt's freedom of fiscal manoeuvre (particularly if a wide definition of 'investment spending') is used*
- running persistent deficits doesn't necessarily increase debt/GDP as this depends on the inflation rate and the growth rate of real GDP. If we accept a higher equilibrium inflation rate, or we can get higher growth, then the economy can run persistent deficits without increasing debt/GDP.*
- I think the dichotomy Simon presents between using interest rates vs taxes for macroeconomic management is misplaced; a combination of both works best (and in fact this was the pre-monetarist paradigm used in 1945-1976 or thereabouts; fiscal policy for demand management with monetary policy in a supporting role).*

Thoughts welcome!

The floor is yours....