Funding the Future

Fisking the FT on fiscal rules

Published: January 15, 2026, 3:06 pm

There was a deeply depressing editorial in the Financial Times published overnight on the subject of Sajid Javid and Boris Johnson abandoning George Osborne's fiscal rule that current government spending should be funded by taxation. As they said:

[T]here is one important difference between the two approaches. Mr Osborne stressed his commitment to fiscal credibility and a framework for keeping the public finances on a sustainable path. Mr Johnson appears to have little concern for rules. His pitch for the next election is based on eye-catching promises on health and crime with scant attention paid to the state of the government coffers.

The FT's logic has to be discerned from a number of comments, as the piece is not very well written. Start with this:

Yet the government has little capacity under its current rules to spend even slightly more. The fiscal "headroom" left by the previous chancellor, Philip Hammond, has already been spent by Mr Javid on funding for health and the police.

Continue with the claim that:

This all means the government is reaching the point where tax receipts no longer cover day-to-day spending on public services.

And note that they approvingly state:

Reducing this "current budget deficit" to zero was a key Conservative goal before Mr Johnson took over. This was achieved in the last fiscal year but, over the past five months, the current deficit has begun to rise again as the economy has weakened.

Grudgingly they suggest that:

There is room to debate whether borrowing to invest in infrastructure – which creates an asset to match the debt – should be treated as outside the normal constraints on spending. Economists are increasingly calling on the British government to take a *“whole balance sheet” approach to the public finances, in which the government would consider both the resources it owns as well as the debt it owes.*

But they immediately dismiss that argument, suggesting:

Yet the Treasury should not borrow to fund public services when Britain is close to full employment. Instead, services should be funded by the taxes paid by workers and businesses.

Their conclusion is:

Mr Osborne does not deserve the final word on fiscal rules. But if the government wishes to break with the approach of previous chancellors, it should set out a new framework. Investors concerned by the Johnson government’s indifference to playing by the rules – whether they are legal or parliamentary convention – should be given no further reason for doubt.

Regular readers of this blog will know that I have little time for rules of this sort.

The argument that there is an absolute rule suggests that

Gc = T

Where Gc is current government spending and T is current tax yield. This is matched by a suggestion that

Gi = âˆ†B

Where Gi is government investment and âˆ†B is the change in government borrowing in a period.

I suggest that these two formulas represent a crassly chosen book-keeping constraint chosen by those with no understanding of the macroeconomic consequences of government behaviour.

The truth is that there is a formula worth noting when it comes to government spending, which is

G = T + âˆ†B + âˆ†M

Where G is total government spending and âˆ†M is the change in government-created money in a period. It should be said, however, that this formula is not a constraint. It is instead an identity: a statement of what is true, come what may. As a result it cannot constrain: it is simply what is the case.

Instead, the choice to be made is to be found somewhere else entirely. There are two of them to be made. One is in the definition of what is full employment.

Very obviously we are nowhere near full employment at this point in time. We have an economy where people are seriously underpaid. We have low productivity. And we have very large numbers of people in vulnerable employment or intensely marginal self-employment. To claim that this is full employment, as the FT does, is an act of self-delusion. The capacity for growth in real employment is very significant in the UK. In other words, there is no constraint in this area, and absolutely every reason why the government should want to act to stimulate improvement in the employment market, which additional spending would do.

The second choice is with regard to inflation. Here the issue is what rate we want, and what rate the economy will tolerate. A 2% rate is entirely arbitrary: there is no proven reason why it needs to be that rate. In any event, ignoring capital asset price inflation whilst imposing this constraint has created the most enormous disparities in wealth in this country which need to be corrected by income inflation. So, whilst there is an inflation constraint it is very unlikely that we are near it.

But, and this is my key point, if there is to be a fiscal rule then it is simply stated, and is that a government should maximise employment for those who want it at levels of income sufficient to sustain those in work whilst managing inflationary impact.

That is a fiscal rule. What the FT proposes is actually a monetary one. The FT can't even spot the difference.