

The FT has decided to embrace fiscal policy, but it nee...

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The [FT argued in an editorial](#) published yesterday that:

For four decades, monetary policy has been the dominant instrument of macroeconomic policy and central banks the queens of macroeconomic policy. That era should have ended years ago. It should have ended for the same reason that reliance on fiscal policy did in the 1970s: the world has changed.

It is hard to argue with the FT's logic when it is so obviously correct, at this level. But there are issues to raise with what they had to say, nonetheless.

First, of course the FT is right to challenge the three orthodoxies of the last 40 years, which they consider to be 'the dominance of monetary policy; the objective of low and stable inflation; and the central role of independent central banks'. Each has been destructive. They have led to over financialisation, unnecessary austerity and the undermining of a central role of democratic governments, which is economic control of their currencies and economies.

But, the question is why it has taken so long for the FT to realise this? The FT should have known this in 2010. How come it has taken the onset of the 2020s for such a position to be reached? The FT offers no explanation. Nor does it offer any apology for its own failing: it was, after all, a strong supporter of the policies it is now criticising long after it was obvious that they were time expired.

For example, its argument that monetary policy could not now work in the event of a downturn - because the scope to cut rates by 5% no longer exists - is something that's been true for so long now that it provides the FT editorial team with no cover. And its realisation that the social and economic consequences of fiscal policy are better than those of monetary comes with no statement of regret for being on the wrong side of the issue for so long, but are worth noting nonetheless:

Yet there are deeper reasons for rediscovering fiscal policy. The most important is that its side-effects are less bad. Monetary policy works via expansion and contraction of

credit, via shifts in asset prices, and via the quantity of a relevant monetary aggregate. The first has generated destabilising credit bubbles. The second can create significant economic distortions. Central banks have lost faith in the last.

And the old paranoia of the FT - that government's are subject to market whims - prevails when they say:

Fiscal policy avoids these very real dangers. The danger it creates is that governments may cease to be creditworthy. But real interest rates are now close to zero or negative. Nominal 30-year government bonds are yielding between 0.2 per cent in Germany and 2.3 per cent in Italy. One has to be desperately pessimistic to imagine that borrowing at such rates is going to create worrying sustainability problems.

It really is time that the FT did two things. The first is to note that QE shattered this idea for good. The second is that modern monetary theory explains why.

But most important is that the FT still cannot get its head around the fact that fiscal policy is not just another variant on delivering the low inflation objective of monetary policy. So it focuses on using VAT as an anti-inflation tool and argues for fiscal neutrality in its use. Almost as an aside it notes the importance of public investment in fiscal policy, and nods in the direction of what it calls the 'energy transition', saying that:

Investments should not be turned on and off and so should not be part of stabilisation policy. But, when real interest rates are so low, it makes sense for governments to borrow, in order to invest. Indeed, lenders are essentially begging them to do so.

This, though, makes no sense unless the FT can begin going to appreciate the three key objectives of fiscal policy. These are, first, to create effective full employment for all who want it at living wages, at least. We are a very long way from this goal at present.

Second, it is to effect the social, industrial and economic policy of the government. Fiscal policy is utterly different from monetary policy. It expects a government that intervenes to achieve its goals.

And then, and last, is inflation considered an issue, and that is for the good reason that until full employment at living wages is achieved it is not an issue, as the last decade has proved.

The FT gets nowhere near recognising these fundamental differences between monetary and fiscal policy. It concludes its argument by saying:

The revival of fiscal policy has to be thought-through, in terms of its objectives and modalities. But ours is a new world. It is folly to cling to the old one.

I agree with the sentiment. But the FT has to also realise just what that means. And it has to appreciate that this means it has to support a fundamentally different economic

role for government to that which it has promoted for 40 years.

I argued for this different role in my book 'The Courageous State', which is coming up for being a decade old now. The FT needs to get its head around the logic I put forward then. In essence I explained that a government that embraces monetary policy does, when seeing a problem walk away from it, saying that the market will solve it. A government embracing fiscal policy accepts that many problems require the government to solve them.

This is not, then, just an issue of economic policy. Fiscal policy is a wholly different philosophy for government. I am looking forward to the FT acknowledging that fact.