

There is no point in further fiscal rules when the only...

Published: January 13, 2026, 4:18 pm

The financial media is moving into pre-budget comment mode this morning. [According to the FT:](#)

Rishi Sunak will have to raise taxes, bend his fiscal rules or do both if he wants to meet public expectations of an end to austerity, according to a report by the Resolution Foundation.

The think-tank said the chancellor would otherwise have no leeway to increase day-to-day spending on public services, even if he benefited from a modest improvement in the outlook for the public finances and pushed back the date at which the government aims to balance the current budget.

There really is only one appropriate response to that, which is that the time has come to abandon such rules. There are a number of very good reasons for thinking this appropriate.

The first is that no one has ever found a fiscal rule that works.

Second, all fiscal rule have as a result been bent, abused or just ignored in that case.

Third, this very strongly suggests that they do not serve an economic role of any real value.

Fourth, this also makes clear that at most they are exercises in political expediency.

Fifth, and most importantly, this expediency is the result of the use of a false economics when creating such rules.

What is the false economics? It is, of course, the use of the household analogy. That is the pretence that a government with its own central bank and own currency and with the ability to issue its debt solely or almost entirely in its own currency can, despite these facts, fail to pay its debt when as a matter of fact that cannot be true: such a government can always issue currency to pay its debt. As a result its debt is never a

burden on it.

But this false economics is worse than that. Such a government actually has no debt in the strict sense: what it has done is create currency and has provided an interest bearing depository for it. The so-called debt is not a burden on future generations; it is instead private wealth that some in future generations will be more than pleased to inherit. There may be debate on the equitable nature of that inheritance, but to pretend that this private wealth is a burden on future generations is absurd.

And yet, implicit in all fiscal rules is the idea that this most secure form of private wealth, beloved of savers since the time of Jane Austen (in whose novels it frequently features), should be eliminated. Or at least it should be restricted in supply. And that is always to stop the private sector being 'crowded out' by it. In other words, the aim is to stop the efficient government being so good at what it does that the private sector should be given a chance to compete.

Except we've done that for decades. And it hasn't worked. The private sector does not step up to the mark.

And that is why fiscal rules don't work. They try to deliver opportunity for the private sector to do things it cannot do, or does not want to do, or does not think worth doing, but which are needed nonetheless.

Fiscal rules are about holding back funding for the state for what needs to be done when the result is nothing is done. No wonder they fail. And they're, in any case, based on economic thinking that is simply wrong because they presume finance is the issue.

Finance is not the constraint in macroeconomics. Money is always available in a country like the UK. Inflation is, instead, the constraint whilst full employment is the goal. But holding back available finance is like imposing rationing on a country where all can be plentifully fed for the sake of encouraging the production of food of types that no one wants. It's that absurd.

Our new Chancellor should not try to find a new fiscal rule. He should have an economic rule instead. He should target full employment at low inflation. Only government spending can deliver that. Turn it on.