

Fiscal rules, fiscal space and fiscal choice: the mumbo...

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I have posted three new items to the glossary this morning, all in time for tomorrow's budget. They are on:

- * Fiscal rules
- * Fiscal choices
- * Fiscal space

All of these are part of the mumbo-jumbo of budget day, and all are complete nonsense.

As I explain in more detail below, there are no such things as fiscal rules. There are only fiscal choices. As such fiscal space is simply the spending the Chancellor can make without embarrassing his or herself by breaking their own meaningless rule.

In more detail the entries are as follows, with some similarities having to appear within them:

Fiscal rules

There are no such things as fiscal rules. There are instead fiscal choices.

However, many politicians, and most especially those who have responsibility for the finances of a jurisdiction, often claim that such rules exist. Those politicians create what they described as fiscal rules to justify the fiscal choices that they have made with regard to the macroeconomic options that are available to them.

So, for example, they might say that the country for whose finances they are responsible will reduce its ratio of national debt as they define it to GDP over a defined period of time.

Alternatively, they might claim that over a period time they will ensure that the

expenditure of the government for which they are responsible will equal its taxation revenues.

Any politician has the right to suggest that they think such choices are a reasonable course of action for the government of which they are a part to follow, but this does not make them rules that must be followed. Nor are there any such rules that are imposed upon them: they are always a matter of choice.

Even when fiscal rules are elevated to international standards by organisations such as the European Union they still remain a matter of choice that the country that follows them is obliged to do as a consequence of their decision to belong to such an organisation rather than as a matter of any economic standard or law.

Fiscal rules should be seen as a consequence as a narrative that reinforces particular economic choices within the chosen economic framework that a government chooses to follow. They are in this context particularly popular with politicians of neoclassical or neoliberal persuasion because both argue that it is appropriate to restrict the amount of expenditure that a government might undertake, which restriction is a preference of those who follow those narratives. This does not, however, make them an economic necessity. They are always a choice.

Fiscal choices

Politicians like to claim that there are fiscal rules that they must follow. There are, in fact, no such thing as fiscal rules. Every fiscal rule has been created by a politician in an attempt to demonstrate their own supposed competence in managing the economy for which they are responsible.

When, as is often the case, a politician discovers that this supposed demonstration of competence is not possible because outcomes conflict with what they predicted and their rule is at risk of being broken they have a habit of rewriting declare rules to suit the new circumstances that have arisen. They then use this new rule as the basis of their claim to competence in the future even though they have failed to meet their own rules in the past.

All fiscal rules are in that case actually fiscal choices rather than rules. The suggestion by politicians that they have no choice but follow these rules is, in that case, misleading. The reality is that they have chosen to do so. They could just as easily have chosen some other objective instead.

Fiscal space

Fiscal space is the supposed capacity that a government has to increase spending without risking breaking its own fiscal rules or fiscal choices.

Since all fiscal rules are actually fiscal choices and are not in any way binding the

argument that there is fiscal space is almost meaningless.

Fiscal space simply means the amount that a Chancellor thinks he or she might spend without threatening their own credibility. Within the actual economy the term is meaningless.