

Rachel Reeves really should serve the country and not t...

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There is discussion in some of the media as to whether Rachel Reeves yesterday trailed a change in government accounting rules to give her wriggle room within her own, entirely voluntarily imposed, fiscal rule so that she might have more opportunity for state investment.

As [the FT notes](#):

[Citigroup's UK economist has] warned that any change that created scope for extra borrowing for investment needed to be approached with caution.

"Any suggestion of a marked increase in fiscal stimulus in the near term [is] likely to prompt an adverse market reaction," he said.

This is utterly ludicrous. The City is willing to mop up £100 billion of UK government debt to be sold in the next year as a consequence of the quantitative tightening programme, effectively increasing financial risk within the financial services sector whilst also reducing the money supply to keep interest rates high, but the idea that the UK government might use funds the City might save with it for creative purposes is considered outlandish and unacceptable.

I have three observations.

First, end quantitative tightening. Sell new bonds instead to fund the investment we need.

Second, reform the arbitrary rules for government debt which consider only one side of the government balance sheet and not what funds are used for. This is absurd accounting by economists that is intended solely to constrain government activity. It does not reflect anything like reality, as I have said for years.

Third, abolish fiscal rules should be abolished, and Reeves should manage what is actually happening in the economy. As Keynes said:

Anything we can actually do we can afford.

Achieving that goal is what matters, not some arbitrary fiscal rule.

Rachel Reeves really should learn some real-world economics. And that, if necessary, requires telling the City its money is not needed because the government can always make its own.