

There are no such things as fiscal rules

Published: January 13, 2026, 12:22 am

Fiscal rules are works of fiction. They are as made up as fairy tales are, and yet the Chancellor is asking us to believe that she should manage the economy by complying with them. Why is she so deeply misguided whilst taking us for fools?

<https://www.youtube.com/watch?v=aYI-x0Y5SJE?si=F4tlqhEZy3S3fdX>

The audio version is refusing to embed properly in this post, and [so is available on this link instead.](#)

This is the transcript:

There are no such things as fiscal rules.

I know that Rachel Reeves is obsessed with the idea that she must comply with her fiscal rule - and the important word in what I've just said is that it's her fiscal rule because no one else has one.

Literally before 1997, such things as fiscal rules were not heard of in economic discussion.

They did not exist.

They were a non-event.

Nobody was constrained by them.

I cannot emphasise this point enough. They were made up by Ed Balls and Gordon Brown when Labour was elected in 1997 as a way to supposedly emphasise to financial

markets that Labour was not going to be irresponsible with public money, as they saw it.

This was the supposed reputation of Labour governments in the period after the Second World War.

It was claimed that Harold Wilson's governments from 1964 to 1970, and then the Wilson - Callahan governments from 1974 to 1979, had been reckless with public money - in particular when Denis Healey had supposedly gone to the IMF to ask for a loan to bail out the Bank of England, which by the way never happened because we did neither need it nor was the loan never granted. But as a consequence, this symbolic gesture of a fiscal rule was created to supposedly pacify the City of London. And like all symbolic gestures, this one has become a millstone around every Chancellor's neck ever since.

Let's be clear, what has happened since then.

There have been no less than five major changes to the fiscal rules since 1997.

From that time when Gordon Brown first introduced these things until 2010, when Labour ceased to be in office after 13 years in government, Gordon Brown's rules were the thing that we followed until they were effectively abandoned in 2008 when the global financial crisis happened. But even they had more than one version.

The first one was called the Golden Rule. It was claimed that in the Golden Rule, the budget would balance over a budget cycle. Quite what balance meant and what a budget cycle meant were slightly nebulous. To put it nicely, everything was supposedly going to work out fine in the end, but when the end was, was actually redefined by Gordon Brown several times during that period.

It didn't work. We ended up with a global financial crisis. If you want evidence that the fiscal rules of that period did not work, then that crisis was it.

We then got George Osborne coming into office in 2010, and his claim was that he would create a Charter for Budget Responsibility, out of which the Office for Budget Responsibility was created. And the claim was that we had something called a structural fiscal deficit. This was a long-term inability to make the books balance because we were habitually spending more than we generated by way of tax, and it was this that Osborne claimed he would eliminate.

In practice, he didn't eliminate this so-called structural deficit for two good reasons. One was there is no such thing as a structural deficit. There's simply a difference between income and expenditure, and the reasons for the difference in income and expenditure change over time, and none of them can be described as structural.

And secondly, whenever he set a target, it became very obvious that he wasn't going to

achieve it, so it was revised almost every year from 2010 to 2015. There was no rule in reality as a consequence.

Then Osborne was consigned to history, and from 2015 to 2019, in the aftermath of the collapse of David Cameron's administration and the arrival of Theresa May, we got a new rule, and this one was that we were going to run a budget surplus.

That didn't work. Brexit put paid to that. There was no chance after the Brexit vote that we would ever run a budget surplus. And the rule that supposedly operated from 2015 to 2019 failed as badly as had those of Gordon Brown and George Osborne as the previous Tory Chancellor.

So Philip Hammond came and went, as did Theresa May, and he was replaced by Sajid Javid as Chancellor when Boris Johnson became Prime Minister, and he created an entirely different fiscal rule. This one was an investment-led rule. Supposedly there was to be a 3% cap on investment each year. In other words, only 3% of GDP could be invested by government and the current budget - the difference between income and expenditure for routine regular payments - would balance. That didn't work either. Why? Because Covid came along in 2020 and blew everything apart, and therefore there was no rule left.

And in 2022, we did of course, get the fiasco of Liz Truss when there was no fiscal rule for a few weeks, and her government failed, but not because of the absence of a fiscal rule. Her government failed because the Bank of England killed it by announcing a quantitative tightening at the same time as she announced her disastrous budget in September 2022, and the two together created a budget meltdown. Of the two, in fact, I would blame the Bank of England more.

But we then go on, and we have yet another chancellor who comes up with a fiscal rule, and this is the one that still exists. Quite bizarrely, we have carried on with it even though there's been a change of administration from the Tories to Labour. And the plan now is that over a five year period - as we are back to the longer term, which Gordon Brown once introduced a long time ago - over a five-year period of time, the budget should balance. That's now the requirement. And right now, Rachel Reeves is absolutely unable to prove how her budget will balance over a five-year period. And remember, it's a rolling five-year period, so she's never comparing like with like, but she can't prove that, and therefore her fiscal rule is also failing.

Let's be clear about this.

The history of fiscal rules is dire.

They haven't worked.

They haven't contributed to good budget management.

They have created confusion because they're continuously revised.

They have led to chancellors lying to us incessantly about how they're going to do one thing and then mysteriously revise it within months because they can't achieve their own goals.

And what we end up with is a situation where we are just getting economic nonsense fed to us through the media whilst we end up with the farce of Rachel Reeves saying that people must be punished if they are in poverty because she has to balance her fiscal rule.

We've already had pensioners harmed by the Winter Fuel allowance being withdrawn.

Now we're going to see Personal Independence Payments capped as a consequence of this, and as a result, some people will lose thousands of pounds a year when they are already in poverty and have extra costs because they have disabilities, which impose those additional costs upon them.

All of that just to balance a spreadsheet, which cannot balance because fiscal rules have never worked.

We do have to stand back and say this is not the way to manage government finances. In fact, this is not the way to manage an economy.

If you were going to manage an economy, you would not start with the finances. If you manage a company, you don't start with the cash flow. You don't start with the bank account. What you start with is what are we going to sell? Why are we going to sell it? Who are we going to sell it to? Why will they want to buy it? How will we persuade them to buy it? Will it be of any benefit to them? Will they come back and buy any more? Will this create resilience in our company? Will we, therefore, be able to offer long-term opportunities to people? Will we have a basis for investment? Will we have an opportunity that will continue into the future?

Those are the things that you ask if you run a company, and I know because I've done it.

If you run a country, you should be asking remarkably similar things.

What can we do for the benefit of this country to ensure that its people have long-term prosperity?

How can we ensure that this country can be defended against the threats that might arise against it?

How can we guarantee that those who are at greatest risk in this country are protected from the uncertainties that surround their lives, which ensures, as a result, that they

can survive and do better than that and even prosper to some degree?

What are we going to do to manage inequalities?

How are we going to create the environment in which enough people will have enough money to ensure that there will be reasons to invest?

I could go on and on and on, but those questions are about reality.

They are about real things, real people, real activities, things that must be done if people are to live well.

You'd never, ever start with cash.

When you look at government or when you look at finances in a company, you instead look at what you want to achieve. And whilst we continue to have Chancellors whose only concern is with cash flow, we will have inept management of the UK Treasury and we will have inept management of government economic policy, and we will have inept management of our whole economy.

As a consequence, that's what Rachel Reeves is delivering because she maintains that she has a fiscal rule, and she will ensure that she complies with it even though it's impossible for her to do so. She will fail. I guarantee you that as surely as I can promise that the sun will come up tomorrow morning because both of those things are certainties.

So why is she doing this?

Because she has that millstone around her neck, created by Gordon Brown, and she has the second millstone around her neck, created by George Osborne, which is the Office for Budget Responsibility. The combination of fiscal rules and the Office for Budget Responsibility has destroyed all ideas that exist around competent economic management in the UK, at least with regard to government. And as a consequence, we are ending up in the mess we're in.

So where would I go? I would abolish the Office for Budget Responsibility. It has no purpose. It's just a function within the Treasury. It is no more than that. To pretend that this group of people who sit in one room in the Treasury building are somehow dominating the whole of economic policy for the UK is quite absurd. They aren't, and they will get their work wrong, as we know they have always done.

And I would abolish fiscal rules, and I would instead say, I'm going to manage the UK economy so that it is resilient to threats so that the people of the UK are protected from harm; the people of the UK have opportunity and that we are going to create an environment where there is demand so that we can create the investment for the things that will sustain us in the long term.

That would be a real economic policy.

Balancing the books is not.

Rachel Reeves needs to start understanding economics and stop thinking like a bookkeeper.