

Fiscal rules

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Introduction

This is one of a series of posts on this blog which summarise my thinking on some key economic issues about which I am often asked questions. All the posts of this type can be found [using this link](#).

The significance of fiscal rules

Fiscal rules matter because they are said to bind governments, shaping what they can spend and what they must cut. They are presented as if they are laws of nature rather than human inventions. That makes them dangerous. They give the impression that democracy is powerless in the face of supposedly technical necessities. It is precisely because these so-called rules are political choices disguised as economic imperatives that I have often challenged them.

My key ideas

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Fiscal rules are arbitrary inventions by governments. Governments make them, change them, abandon them, choose them to suit their own agendas. The fact that no rule survives unaltered over time demonstrates that they are not genuine constraints but rhetorical devices.

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Fiscal rules obstruct necessary change. By limiting borrowing or constraining deficits or debt, they prevent investment in essential areas — health, education, infrastructure, the green transition — and enforce austerity even when conditions demand public action.

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Fiscal rules rest on forecasts that are always wrong. Because we cannot reliably predict growth, inflation or tax revenue years ahead, rules built on those projections provide

cover for austerity decisions more than guidance for wise policy.

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A defensible fiscal rule would look very different. It would accept that sovereign issuers of currency cannot run out of money. It would focus on real constraints — availability of labour, skills, materials — allow counter-cyclical spending in downturns, and preserve essential services and investment.

Why this matters

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Fiscal rules undermine democracy. When ministers say “the rule requires us to do this”, they hide behind technicality rather than admitting that it is their political decision.

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Fiscal rules distort priorities. They push debate toward debt ratios and deficit limits rather than toward outcomes like wellbeing, resilience, equality, or environmental sustainability.

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Fiscal rules embed austerity. Because they present spending constraints as inevitable, they legitimise cuts to public services, benefiting powerful interests and undermining social cohesion.

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Fiscal rules reinforce flawed economic narratives. They promote the household analogy — the false belief that governments must balance books like families — and ignore that governments issue currency. They mislead by treating monetary constraints as fundamental when the real constraint is resources.

Implications

There are a number of implications of this thinking.

Firstly, existing fiscal rules should be abandoned. They are arbitrary, misleading, and harmful.

Secondly, governments should adopt frameworks based on resource use and outcomes, not fixed numeric constraints. The right question is not “can we afford it?” but “do we have the people and resources to do this?”

Thirdly, freeing policy from rigid rules would allow bold investment in public services, infrastructure, and the green transition. That would reduce inequality, build resilience,

and improve lives.

Fourthly, it would restore honesty in politics. Fiscal choices would become visible as political decisions, not hidden behind rules. Democracy would be strengthened.

Conclusion

Fiscal rules are not binding laws — they are political theatre. To reclaim democracy and effective public policy, we must drop them and instead confront the real trade-offs governments face in deploying resources wisely.

Reading list

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There are no such things as fiscal rules

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Why fiscal rules stop change

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Fiscal rules are as flexible as rubber bands

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Abandoning fiscal rules is the price of preserving democracy

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All forecasts are wrong

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The fiscal rules we need

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What would a good fiscal rule look like?

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***The Courageous State* (book)**

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***The Joy of Tax* (book)**

Glossary links

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Deficits and the national debt

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Fiscal policy

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National debt