

New glossary entry: balanced budgets

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A *balanced budget* is a fiscal position in which government spending equals government revenue over a defined period. It is often presented as a mark of prudence or responsibility. In reality, treating balanced budgets as an objective in their own right is one of the most persistent errors in modern macroeconomic policy.

First, a balanced budget is not an economic goal; it is an accounting outcome. Whether a government runs a deficit or surplus depends on the behaviour of the rest of the economy. If households and firms want to save more than they invest, the government must run a deficit to sustain demand. This is the logic of sectoral balances that I have written about many times on Funding the Future: one sector's surplus is another's deficit. Trying to force balance ignores this reality.

Second, balanced budgets are pro-cyclical. When a recession hits, tax revenues fall, and social security spending rises automatically. These automatic stabilisers protect households and prevent collapse in demand. If a government insists on balancing its budget in such circumstances, it must cut spending or raise taxes when the economy is weakest. That deepens the downturn, raises unemployment, and ultimately increases long-term fiscal costs.

Third, balanced budgets are meaningless for currency-issuing governments. The UK government cannot run out of sterling any more than the Bank of England can. The constraint on spending is inflation and resource availability, not the financial balance on the Treasury's accounts. Insisting on balance confuses real economic limits with arbitrary financial targets.

Fourth, the fetish for balanced budgets hides political choices. It is used to justify austerity, underinvestment, and attacks on public services. When Rachel Reeves or her predecessors claim that fiscal rules require cuts, they are choosing to prioritise a financial metric over public well-being. The result is deteriorating infrastructure, weakened health and education systems, and stagnant living standards.

Fifth, history shows that balanced budgets are rare in growing economies. Governments

typically run deficits during downturns and surpluses during booms. The objective should be stability over the cycle, not balance in every year. The real question is whether public spending supports sustainable prosperity – maintaining the five forms of capital that underpin a caring economy.

Finally, balanced budgets are neither virtuous nor sinful. They are sometimes appropriate and sometimes not. What matters is the purpose of fiscal policy: full employment, price stability, environmental sustainability, and social well-being. When balanced budgets help achieve those goals, they are useful. When they obstruct them, they should be abandoned.

Balanced budgets are a tool, not a moral test. Treating them as an economic commandment is another way neoliberal policy constrains democratic choice and undermines the politics of care that our economy urgently needs.