

Should we forget the rules?

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Economic policy today is dominated by rules: deficit limits, debt targets, inflation targets, and interest rate rules. But what if these rules are the problem, not the solution?

In this video, I argue that these rules were designed to constrain government, not serve society. Instead of starting with arbitrary limits, we should begin with what people actually need: healthcare, education, housing, and a sustainable economy.

This means rethinking the role of tax, interest rates, and the state itself.

It's time to ask a fundamental question: should rules come before people?

<https://www.youtube.com/watch?v=u5SdrEnksVk?si=gf3zTTxWhdCHaNDH>

This is the audio version:

https://www.podbean.com/player-v2/?i=i5crp-1a7f592-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

I want to suggest something to you that is quite radical in economic terms. I want to suggest we should forget the rules.

What am I talking about? Fiscal rules, deficit rules, debt targets, inflation targets, and monetary rules. All of these have been created by neoliberal economists, and they're treated as sacred by people like Chancellors of the Exchequer and economic commentators, but they are not the economic necessity that they're made out to be. These rules were written for one purpose, and that was to constrain government. I don't believe we should be following them. It's time to forget the rules.

In most of life, we state our goals first when we're thinking about action. We then create rules which are designed to help achieve our goals. But economics has done the reverse. It starts with deficit limits and spending caps, and inflation targets and interest rate rules, and only then does it ask what society wants, let alone what it can afford. This makes no sense at all. It's time to throw away these rules and start again in the way that we think about the economy.

Governments are bound at present by fiscal rules; debt-to-GDP targets dominate debate. Central banks fixate on inflation targets and nothing else. Fully funded spending rules demand that the government always sell debt to cover deficits. Economic policy is constrained before goals are discussed as a result.

This is what neoliberalism is all about. Its intention is to limit the role of government, and these rules are designed to achieve that outcome. They limit what government can do. They restrict investment in public services. They delay spending on the climate transition. They justify austerity and downturns, and they narrow democratic economic choice.

I am opposed to all of those things. Governments are uniquely capable of large-scale action.

Only governments can fund universal healthcare.

Only governments can provide mass education.

Only governments can stabilise economies in crises.

Only governments can organise the long-term transition to manage climate change that we know we need.

This is the proper role of government, and when we look at those proper roles, we have to ask the question: what kind of society do we want?

Do we want better healthcare outcomes?

Do we want accessible and properly funded education for everybody from cradle to grave, or at least until they've done their PhD?

A fairer distribution of income and wealth? Isn't that important?

And do we want a sustainable economy and full employment?

If we do, this requires a different way of economic thinking.

These rules won't work for us. We have to start the other way around. We have to start by saying: what is it that society requires if we are going to live well? Then we have to identify the labour and skills that are needed to deliver those outcomes and the infrastructure and materials that are necessary for that purpose. Only then should we be considering the finance required to mobilise these resources.

Then once we've done that, we have to consider something else, but it comes this far down the list. We have to consider the inflationary consequences of putting these resources to use. And if we've decided that these things are what we want and they are our priorities as a society, we then have to decide how to manage the inflationary consequences that arise as a result.

The job there is one for taxation. Tax is not primarily about funding spending. We know that. Tax withdraws excess spending power from the economy, and it does so to control inflation. That is the reason why we have to withdraw excess spending power from the economy. If achieving our goals for society puts excess spending power into the economy, tax has to bring it back, and in the process reshape incentives and behaviour and support macroeconomic stability. If, therefore, to achieve our goals, we need more tax, we shouldn't say it's not possible; we say it has to be done because that's the consequence of achieving the goal of more healthcare, more education, more climate transition, or whatever else it is that we need, more housing or whatever.

This is a proper decision-making process. We start with reality. We end up with how to manage the finances. This is what a useful rule would look like, but it isn't what we've got.

Let me give you another example where a rule does not work at present. We have an interest rate rule that sets a target. The target is related to inflation. We don't set interest rates because of the financial consequences that they have for the economy as a whole. We set them with regard to the supposed impact that interest rates have on inflation, even though there's little evidence that inflation is effectively controlled by varying interest rates.

The reality is that interest rates should be used to steer financial flows. They should be used to ensure that money goes to where it's best needed. They should be directed at creating productive investment and removing money from speculation. There should be a policy that encourages productive investment by small businesses, for example. There should be support for housing that people live in. There should be funding for public services and infrastructure. All of these things are influenced by interest rate policy, but all of them are ignored at present.

We should be using the power that the government has to set interest rates, not to control inflation, which is the job that taxation has to do, but to run the economy without artificial limits, whilst trying to achieve the role that we want for resources to deliver within our democracy.

Markets cannot by themselves deliver that. We know that. Forty-five years of market hegemony have proved that markets have delivered poor outcomes. It is time for the rules to change to reflect that fact.

Policy space has been deliberately narrowed to date. That has to end. We have to decide the outcomes that societies need, identify the real resources required, and then design the institutions to mobilise them.

The Bank of England needs reform as a result.

We need to use fiscal and monetary tools pragmatically.

We need to judge policy by the outcomes we get, not by the rules that we use, in other words.

Rules can be useful coordination tools, but they must be adaptable. They should enable progress. They should not prevent necessary action. Economics is meant to serve society. That is what functional finance says, but we've got an economics that doesn't allow that.

We now need to ask some questions.

Are fiscal rules helping society, or are they preventing solutions to real problems?

Should democratic goals come first? I've already discussed what they might be.

Please tell me what you think in the comments. This is important. This is where the core of our economic debate should now be. What do we want from the economy that we live in? This is an occasion when you can tell us, and that will influence our future thinking.

If you think this is a debate worth taking part in, please like this video, subscribe to our channel, join the conversation, and share what we're saying here, because the more people involved, the better things will be.