

## Richard Murphy's View on...Fiscal Rules.

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*The second of this series was published this morning, and is on fiscal rules, a topic that has been discussed on this blog for a long time.*

*A PDF version is available [here](#).*

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### ***Richard Murphy's Views On... Fiscal Rules***

***This post is one of an ongoing series explaining Richard Murphy's views on significant topics in economics, political economy, politics, taxation, and accounting. It should be read as such, as an overview of a position developed across many years of writing and analysis, and not as a comprehensive treatment. Where more detail is required, the reading list at the foot of this post is a good starting point.***

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Few topics in contemporary British economic debate attract more sustained criticism from Richard Murphy than fiscal rules. For the better part of three decades, successive Chancellors of the Exchequer have reached for these self-imposed constraints as proof of their financial seriousness. Richard Murphy's view is simple and consistent: fiscal rules are not laws of economics. They are political inventions, dressed up as economic necessities, and they have caused serious and ongoing harm to public services, living standards, and democratic accountability.

### ***What Are Fiscal Rules — and What Are They Not?***

Richard Murphy's starting point is definitional. Fiscal rules are restrictions on government spending and borrowing that governments impose upon themselves. They are not statutory obligations. They are not laws of nature. They are guidelines invented

by a Chancellor, shaped to suit a particular political moment, and routinely rewritten or abandoned when they prove inconvenient.

The history of UK fiscal rules bears this out. Gordon Brown introduced the first set in 1997, motivated largely by a desire to demonstrate that an incoming Labour government would be financially responsible. Since then, the UK has had nine distinct sets of fiscal rules across Labour and Conservative administrations. Not one has survived intact. Chancellors have changed them, suspended them in crises, and quietly redrawn the parameters when targets looked likely to be missed. This is not, Richard argues, the behaviour of a mechanism that is genuinely constraining; it is the behaviour of a rhetorical device. As he has put it, fiscal rules are as flexible as rubber bands.

The corollary matters enormously: if fiscal rules are endlessly malleable, they cannot be the principled framework their proponents claim. The Office for Budget Responsibility (OBR), created in 2010 by George Osborne, has reinforced this theatre. Richard is sharply critical of the OBR, arguing that it exists not to give independent economic guidance but to enforce the fiscal rules that successive Chancellors have already decided upon, rules premised on the idea that the government must always balance its books, always borrow from the City, and always constrain public expenditure to satisfy financial markets.

### ***The Household Analogy – and Why It Is Wrong***

At the heart of Richard Murphy's critique is a rejection of the household analogy that underpins fiscal rules: the idea that a government, like a family, must not spend more than it earns. This analogy is, in his view, not just misleading but fundamentally false.

The UK government issues its own currency. It has its own central bank. It cannot, in any meaningful sense, run out of money in the way a household or a business can. The real constraint on government spending is not monetary, it is the availability of real resources: labour, skills, materials, and productive capacity. A government that ignores spare capacity in the economy and instead imposes austerity in the name of balancing an arbitrary ratio is not being responsible. It is being economically illiterate.

This matters because fiscal rules are built not just on the household analogy but on economic forecasts that are, as Richard frequently observes, always wrong. The OBR and the Bank of England produce projections five years into the future that have the appearance of precision, stated to one or two decimal places, but are in reality informed guesses. Chancellors then use those guesses to justify decisions about present spending, cutting public services today on the basis of a forecast that may be entirely mistaken. The result is that austerity is imposed not because the economy requires it, but because a spreadsheet has been set up in a particular way.

### ***The Political Function of Fiscal Rules***

Richard Murphy's analysis goes beyond the technical. He argues that fiscal rules serve a clear political function: they maintain the status quo and prevent transformative change. The aim for Conservative governments has been to shrink the state. The aim for Labour governments has been to appease financial markets and the media. Fiscal rules, whichever party creates them, achieve both of these ends simultaneously by presenting the impossibility of progressive policy as an economic given rather than a political choice.

This is why Richard describes fiscal rules as political straitjackets designed to stop change. Every Chancellor since Brown has used them to limit public spending, block investment in the green transition, and enforce a version of permanent austerity. The consequences are visible: an NHS under sustained pressure, schools without adequate resources, a housing crisis deepened by decades of underinvestment, stagnant wages, and rising inequality. These are not the results of bad luck or global circumstance alone. They are, in significant part, the results of fiscal choices that fiscal rules have made politically impossible to reverse.

The link to democracy is also direct. By presenting spending constraints as inevitable technical facts, fiscal rules give the impression that elected governments are powerless in the face of economic necessity. Richard Murphy regards this as corrosive. It removes real decisions from democratic accountability and transfers them to forecasting bodies, financial markets, and institutional conventions. Government ministers are stripped of meaningful power to respond to the genuine needs of the people they represent.

### ***Rachel Reeves and the Continuity of Error***

Richard Murphy has been a consistent and vocal critic of Rachel Reeves's fiscal framework. He has noted that her current rules are in all substantive respects identical to those proposed by John McDonnell under the previous Labour leadership and to those maintained by Jeremy Hunt: a commitment not to borrow for current spending, and to reduce national debt as a share of GDP over a five-year period. That these identical rules can be endorsed across such supposedly different political positions reveals, in Richard's view, how far fiscal conservatism has colonised British economic thinking.

He is particularly critical of the way in which Reeves's rigid adherence to these rules has produced predictable and damaging outcomes. Because the rules are public and the Chancellor's likely responses to changing circumstances are therefore known in advance, financial markets can and do anticipate those responses, often in ways that make meeting the rules harder, not easier. The rigidity of the framework undermines the flexibility that competent economic management requires. When the IMF and others forecast declining UK growth, Richard's argument is that the cause is not external misfortune, but an economic policy framework designed to prevent the investment that could have changed that trajectory.

Reeves's spending review of 2025 illustrated the point. While announcing large capital expenditure figures stretching into the distant future, the review delivered real-terms cuts across most non-protected departments, with departments outside defence and the NHS facing reductions of around 1.3% in real terms. The conclusion Richard drew was unambiguous: despite the rhetoric of investment and stability, this was austerity continued under another name.

### ***What a Genuine Fiscal Rule Would Look Like***

Richard Murphy does not argue that government should spend without discipline or purpose. His argument is that the wrong things are being measured. A genuine fiscal rule, in his view, would be outcome-based rather than ratio-based. It would set targets that reflect real economic and social goals:

- \* full employment,
- \* the elimination of child poverty,
- \* adequate educational provision, and
- \* a managed and properly resourced transition to a low-carbon economy.

These are the things a government should be held accountable for delivering. Instead, we measure debt-to-GDP ratios and current account balances — targets that are at best proxies for wellbeing, and at worst active obstacles to it.

A defensible fiscal framework would also accept the monetary reality: that a sovereign government issuing its own currency is not revenue-constrained in the way a household or local authority is. It is resource-constrained. The question is not whether the government can afford to spend, but whether the real economy has the capacity to absorb that spending without generating inflation. That is the discipline that matters. Everything else is theatre.

The existing rules should, in Richard Murphy's view, be abandoned. In their place, the government should focus on counter-cyclical spending, investing more when the economy underperforms and moderating when it overheats, and on maintaining the public services and infrastructure that underpin private sector productivity. The goal of economic policy is not a ratio. It is the well-being of the people that the economy is supposed to serve.

### ***Reading List***

The following posts from the Funding the Future blog provide further detail on Richard Murphy's thinking on fiscal rules. They are drawn from across several years of writing and are arranged in reverse chronological order.

**[Fiscal rules](#) – 29 September 2025**

**[All forecasts are wrong](#) – 18 September 2025**

**[Why fiscal rules stop change](#) – 8 September 2025**

**[Fiscal rules are as flexible as rubber bands](#) – 14 July 2025**

**[Is it time to abolish the OBR?](#) – 4 December 2025**

**[It's austerity from Reeves](#) – 11 June 2025**

**[What would a good fiscal rule look like?](#) – 13 November 2024**

**[The fiscal rules we need](#) – 18 October 2024**

**[It's not been a good week for fiscal rules](#) – 9 March 2024**

**[Of 'fiscal rules' and 'fiscal headroom' and other such fantastic things](#) – 15 February 2024**

**[Rachel Reeves' fiscal rule is the same as John McDonnell's and Jeremy Hunt's](#) – 21 March 2024**

**[Fiscal rules, fiscal space and fiscal choice](#) – 14 March 2023**