My View On .... Fiscal Rules

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The Richard J Murphy YouTube Channel

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My View on …

Fiscal Rules

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This post is one of an ongoing series explaining my 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.

The whole View On series [is available here.](#)

Introduction

Few topics in contemporary British economic debate attract more sustained criticism from me 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.

My 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 in the UK, and wherever else they have been tried.

What Are Fiscal Rules — and What Are They Not?

My 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, rendering them largely meaningless in the grand scheme of macroeconomic management.

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 at least 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, I would argue, the behaviour of a mechanism that is genuinely constraining; it is the behaviour of a rhetorical device. As I have put it, fiscal rules are at least 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. I am 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, borrow from the City, and constrain public expenditure to satisfy the demands financial markets.

The Household Analogy — and Why It Is Wrong

At the heart of my critique is a rejection of the household analogy that underpins fiscal rules. This is the idea that a government, like a family, must not spend more than it earns. This analogy is, in my 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, productive capacity and the constraints imposed by the demand for environmental sustainability. 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 I frequently observe, 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, at best. 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, and too often, wholly inappropriately.

The Political Function of Fiscal Rules

My analysis goes beyond the technical. I argue that fiscal rules serve a clear political function: they maintain the status quo and deliberately 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, have achieved both of these ends simultaneously by presenting the impossibility of progressive policy as an economic given rather than as a political choice.

This is why I describe 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 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, rising inequality and the unaddressed consequences both domestic and international of climate change. 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, but not practically, 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. I regard 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

I have been a consistent and vocal critic of Rachel Reeves’s fiscal framework. I have 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 my view, how far fiscal conservatism has colonised British economic thinking.

I am 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, my 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 I drew was unambiguous: despite the rhetoric of investment and stability, this was austerity continued under another name.

We await to see what Reeves’ successor will do.

What a Genuine Fiscal Rule Would Look Like

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

* 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 my view, be abandoned. In their place, the government should focus on counter-cyclical spending by 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 wellbeing of the people the economy is supposed to serve.

Answering the Sceptics

The most persistent objection to this analysis is that without fiscal rules, governments will spend irresponsibly, accumulating debt until financial markets lose confidence and a crisis follows. This argument sounds plausible but rests on two assumptions that do not hold. The first is that the level of government debt is the primary cause of financial crises in countries with their own currency. It is not. The 2008 crisis originated in unregulated private financial markets, not in government borrowing. The second is that financial markets are reliable judges of economic health. They are not. Markets are capable of being wrong for sustained periods, as the histories of the eurozone, Japan, and the United Kingdom itself repeatedly demonstrate.

A related objection is that the Office for Budget Responsibility provides the independent oversight that fiscal rules need in order to function. I have already set out my scepticism about this claim. The OBR was created to give authority to a framework already decided upon, not to assess that framework independently. Its forecasts carry the appearance of precision but are produced by models that cannot anticipate structural shifts in the economy, and that consistently miss their targets. Treating OBR projections as constraints on democratic decision-making is not prudent fiscal management. It is a category error.

Some argue that I am proposing, in effect, to allow governments to spend without limit, creating inflation that will destroy the living standards of the people fiscal rules are meant to protect. This is a misrepresentation of my position. The constraint I identify is not monetary but real: what limits government spending is the availability of labour, skills, materials, and productive capacity, within the limits of environmental sustainability. A government that spends in excess of what the real economy can absorb will generate inflation. That is precisely why counter-cyclical fiscal management involves spending more when the economy is operating below capacity and moderating when it is not.

Finally, there are those who argue that other countries operate fiscal rules without the damaging consequences I describe, which implies the problem is one of poor design rather than the rules themselves. The evidence does not support this conclusion. Every country that has adopted fiscal rules has, when pressed, bent, rewritten, or suspended them. The EU Stability and Growth Pact, which mandated strict limits on deficits and debt, was suspended by the countries that designed it within a few years of its introduction, then reformed, then suspended again during the pandemic. The rules were not vindicated by this history. They were revealed, once more, as political theatre unable to survive contact with the real economy.

Reading List

The following posts from the Funding the Future blog provide further detail on my thinking on fiscal rules. They are drawn from across several years of writing.

Post	Date	What it covers
Fiscal rules	29 September 2025	A general introduction to fiscal rules, explaining what they are, why governments adopt them, and why they have invariably failed to constrain government spending in practice.
All forecasts are wrong	18 September 2025	Argues that the economic forecasts on which fiscal rules depend are structurally unreliable, making any framework built on five-year projections unsound from the outset.
Why fiscal rules stop change		

8 September 2025

Explains how fiscal rules function as political straitjackets, preventing governments from pursuing the investment and redistribution that electoral majorities vote for.

[Fiscal rules are as flexible as rubber bands]

14 July 2025

Surveys the nine distinct sets of UK fiscal rules adopted since 1997, all of which were rewritten or abandoned, revealing them as political rhetoric rather than binding economic constraints.

[Is it time to abolish the OBR?]

4 December 2025

Questions whether the Office for Budget Responsibility, created to enforce fiscal rules rather than assess them independently, serves any useful democratic purpose.

[It’s austerity from Reeves]

11 June 2025

Analyses the 2025 spending review and concludes that, despite the language of investment and stability, it delivered real-terms cuts across most unprotected departments.

[What would a good fiscal rule look like?]

13 November 2024

Proposes outcome-based fiscal targets focused on full employment, the elimination of child poverty, and the green transition, rather than arbitrary debt-to-GDP ratios.

[The fiscal rules we need]

18 October 2024

Sets out an alternative fiscal framework grounded in the monetary reality of a currency-issuing government, focusing on real resource constraints rather than accounting ratios.

[It’s not been a good week for fiscal rules]

9 March 2024

Reviews a period in which fiscal rules came under simultaneous pressure across several countries, illustrating their political rather than technical character.

[Of ‘fiscal rules’ and ‘fiscal headroom’ and other such fantastic things]

15 February 2024

Deconstructs the language of fiscal conservatism and argues that concepts such as fiscal headroom obscure rather than clarify economic decision-making.

[Rachel Reeves’ fiscal rule is the same as John McDonnell’s and Jeremy Hunt’s]

21 March 2024

Demonstrates that Labour’s fiscal framework is indistinguishable from that of its Conservative and previous Labour predecessors, revealing a cross-party consensus for austerity.

[Fiscal rules, fiscal space and fiscal choice]

14 March 2023

Argues that what politicians call fiscal space is in reality a political choice, and that a currency-issuing government faces no monetary constraint on its capacity to spend.