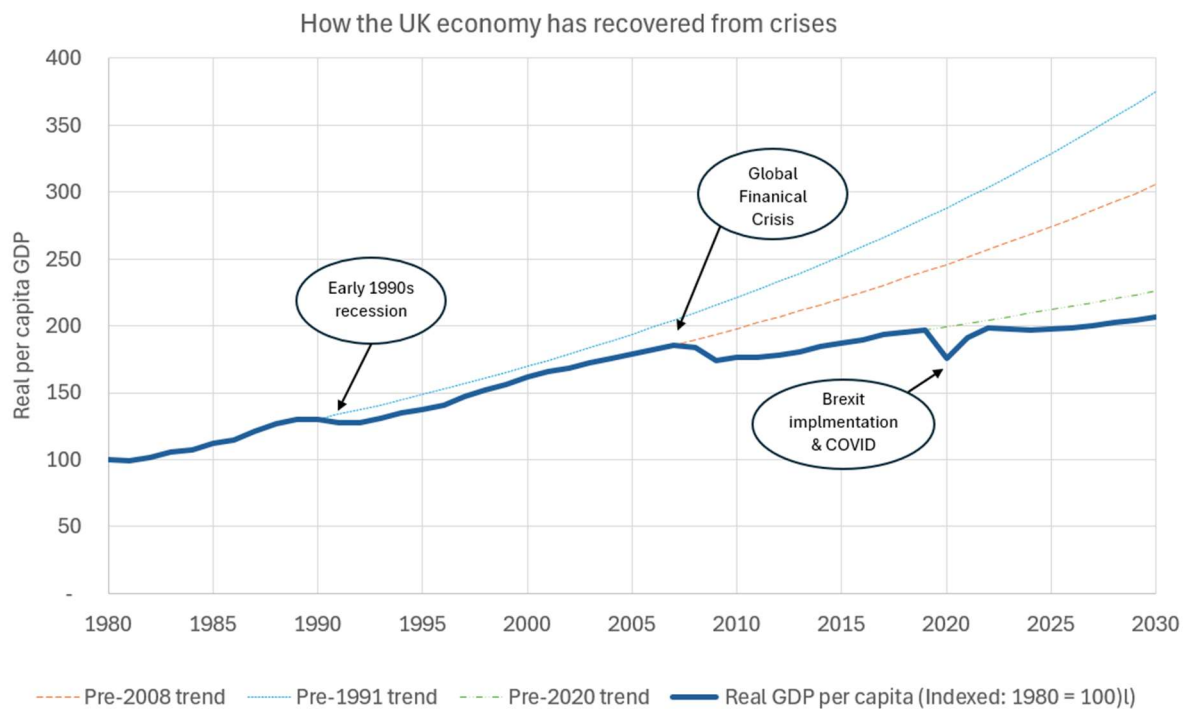


Section 1: Executive summary

UK economic growth has been in long-term decline and has repeatedly failed to bounce back from crises. Unless we assume that further crises and policy blunders are unlikely, this is a serious problem for the future of the UK: we need to be sure that our policy choices will not turn a temporary shock into a permanent weakening.



Source: IMF WEO database; 99% analysis

The government's ability to spend – and hence to deliver economic stimulus or social renewal in response to such shocks – is tightly constrained by its current fiscal rules. This submission explores the question: *given that economic renewal is essential, can we afford to stick to those rules?*

Our conclusion is that we cannot: the current fiscal rules will prevent renewal or recovery from shocks and should be replaced with a new framework which enables the government to take full responsibility for fiscal policy. Such a framework will enable government to drive national renewal with support from key institutions such as the Bank of England:

- The current rules – or any of the same type (static, debt-focussed) – will prevent national renewal (section 2);
- We need, and could have, a dynamic, growth-focussed approach which enables the government to act purposefully in the national interest (section 3);
- This will require us to rewire key institutions (section 4).

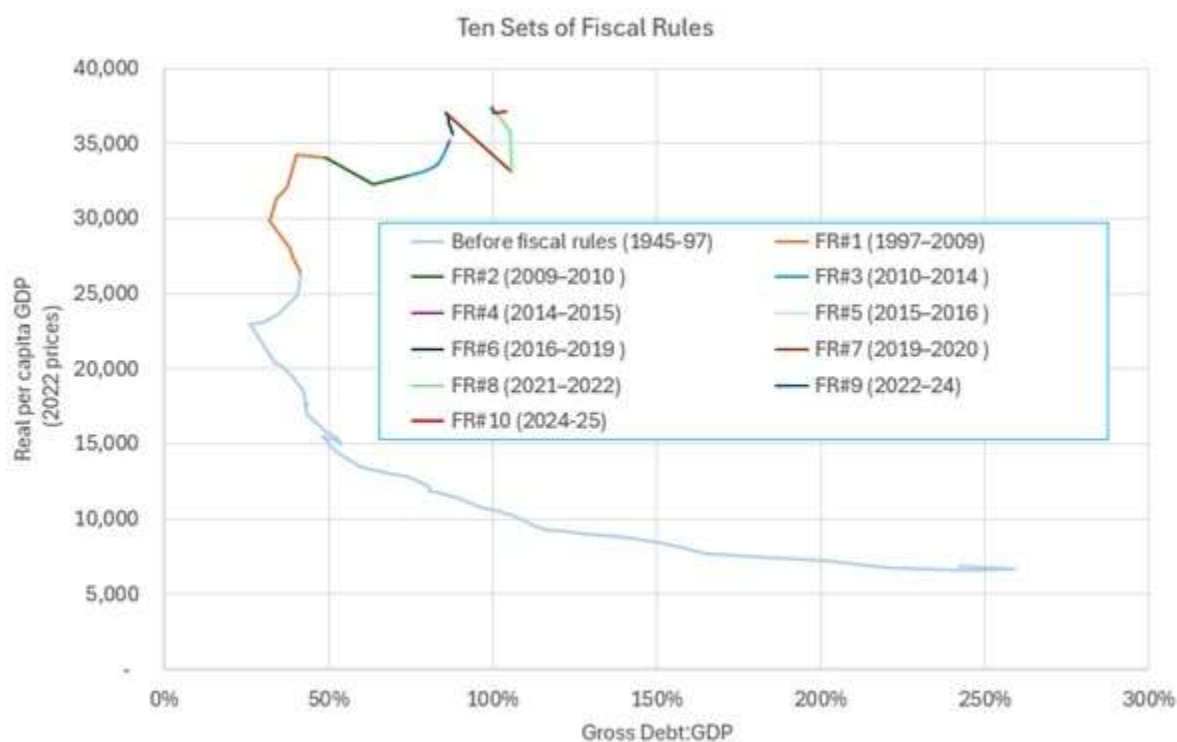
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Section 2: Static debt-focussed rules prevent renewal

The evidence from the UK's economic history is that:

- We have already had ten sets of supposedly 'immutable' debt-focussed fiscal rules and the results have been consistently poorer than before we had such rules;
- Even in principle, the idea of static rules is implausible;
- Debt-focussed rules will be self-defeating;
- Sticking to the current fiscal rules would be an abdication of governmental responsibility.

As the chart below indicates, we have already had ten sets of 'immutable' fiscal rules and the results have been consistently poorer than in the pre-rules era.

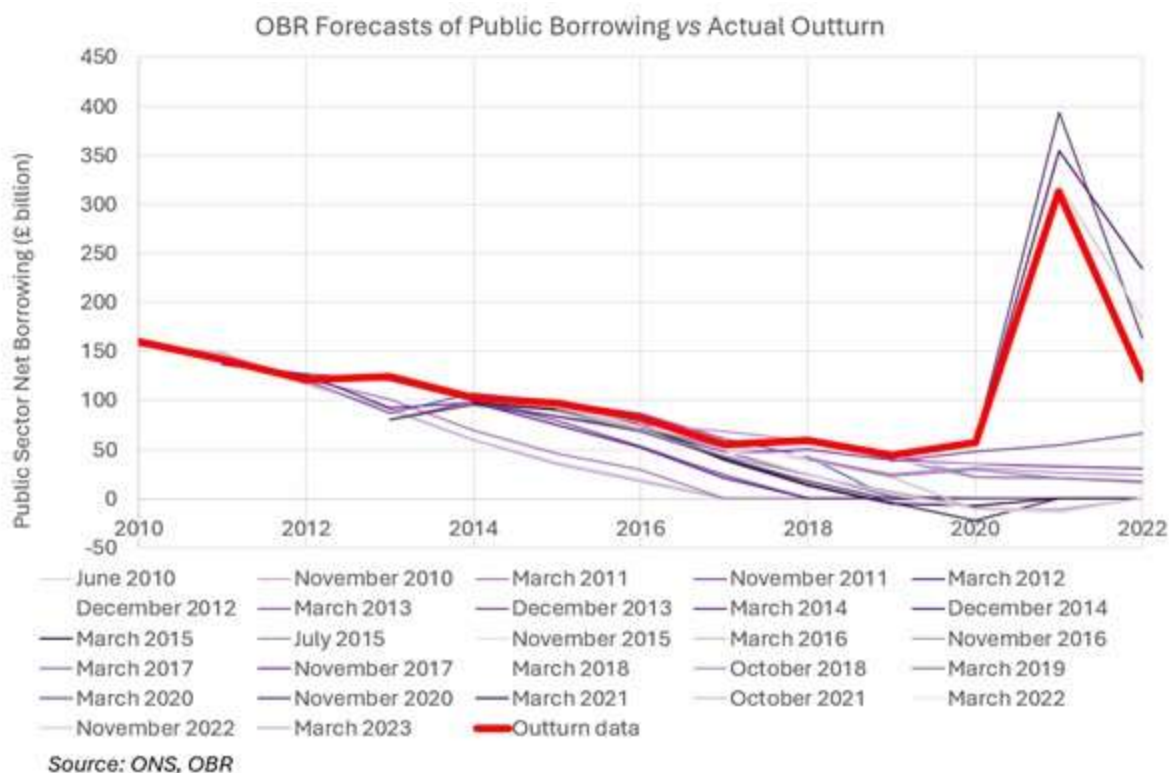


Source: Bank of England, IMF, IFG; 99% analysis

In practice, the fiscal rules have *not* helped reduce the ratio of debt:GDP, they have *not* helped drive growth, and they have *not* been immutable in the face of shocks.

Even in principle, the idea of static rules is implausible for two reasons: 1) to give a realistic answer to the question of how much government should responsibly spend, they would need to take account of real-world factors such as whether the economy is growing or in recession, whether unemployment is high or low, whether we are at peace or at war, etc; and 2) they would need accurate forecasts. The rules consider only fiscal data and ignore the wider real-world data on the issues listed above that they would need. And the forecasts on which they depend are not reliable. The chart below shows the OBR's analysis of its own forecasts.

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In several cases, the size of the error is greater than the actual borrowing itself – a forecast with over 100% error is not practically useful. A second issue is that under austerity, when the government was reducing its borrowing year on year, the OBR forecasts were consistently over-optimistic. But when, during COVID, government borrowing unexpectedly shot up, the OBR forecast was over-pessimistic. There are reasons to believe this is a systematic pattern: a result of the way in which the OBR assesses the impact of government spending.

Most fundamentally, the OBR’s analysis confirms that *the Chancellor’s headroom is the difference between two unreliable numbers*: the amount that the fiscal rules say the government *should* borrow and the amount that the OBR forecasts it *will* borrow.

Constraining economic policy according to the amount of ‘headroom’ calculated in this unreliable way makes no sense. As the International Monetary Fund (IMF) told the *Financial Times*¹ (FT),

*“The fund wants to stop the constant public speculation on fiscal ‘headroom’ and likely tax increases that it thinks is responsible for poor decisions taken in government. IMF officials note that **no other country is so obsessed with small movements in its public finances.**”*

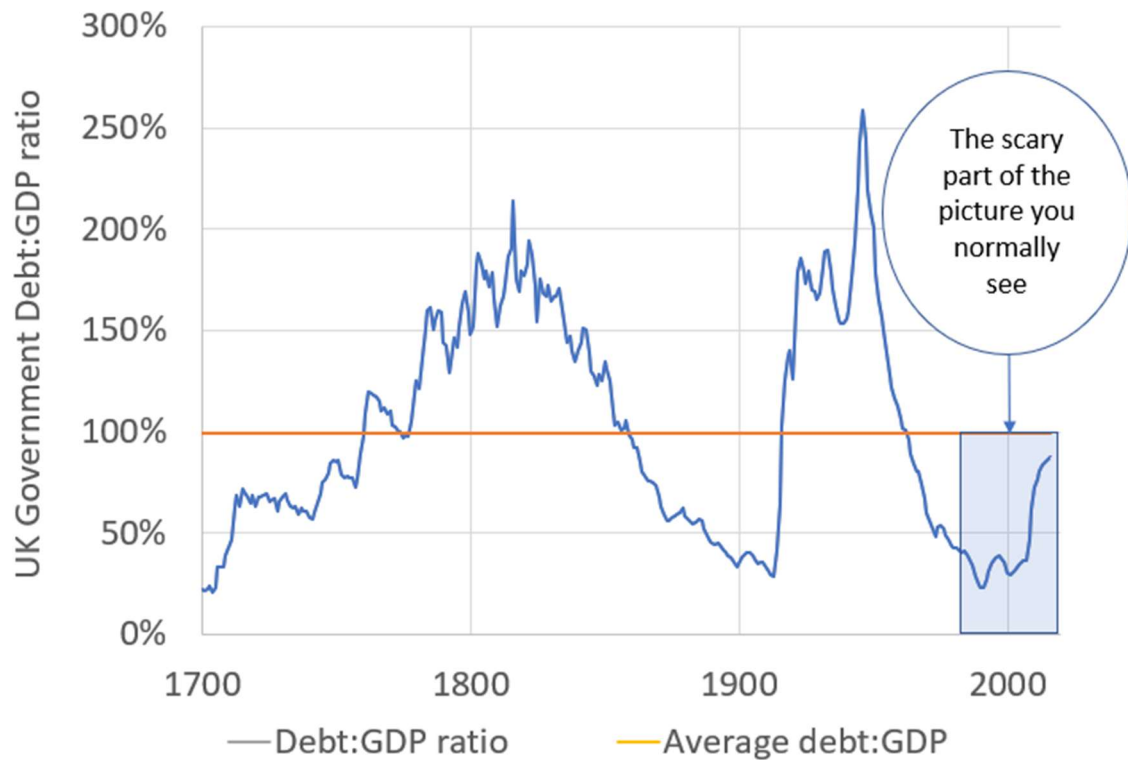
This critique is not specific to the details of the current set of fiscal rules: any debt-focussed rules will be self-defeating: they solve an imaginary problem, the danger of our debt spiralling out of control in 70 years’ time, at the expense of fixing a real one: our

¹ (Parker, Borrett, & Giles, 2025)

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long-run decline in economic growth and its impact on public finances, household finances and our social contract as a nation.

The argument for debt-focussed rules is based on the fact that our debt is close to 100% of GDP; but that is merely the average level since records began; it is not ‘dangerously high.’

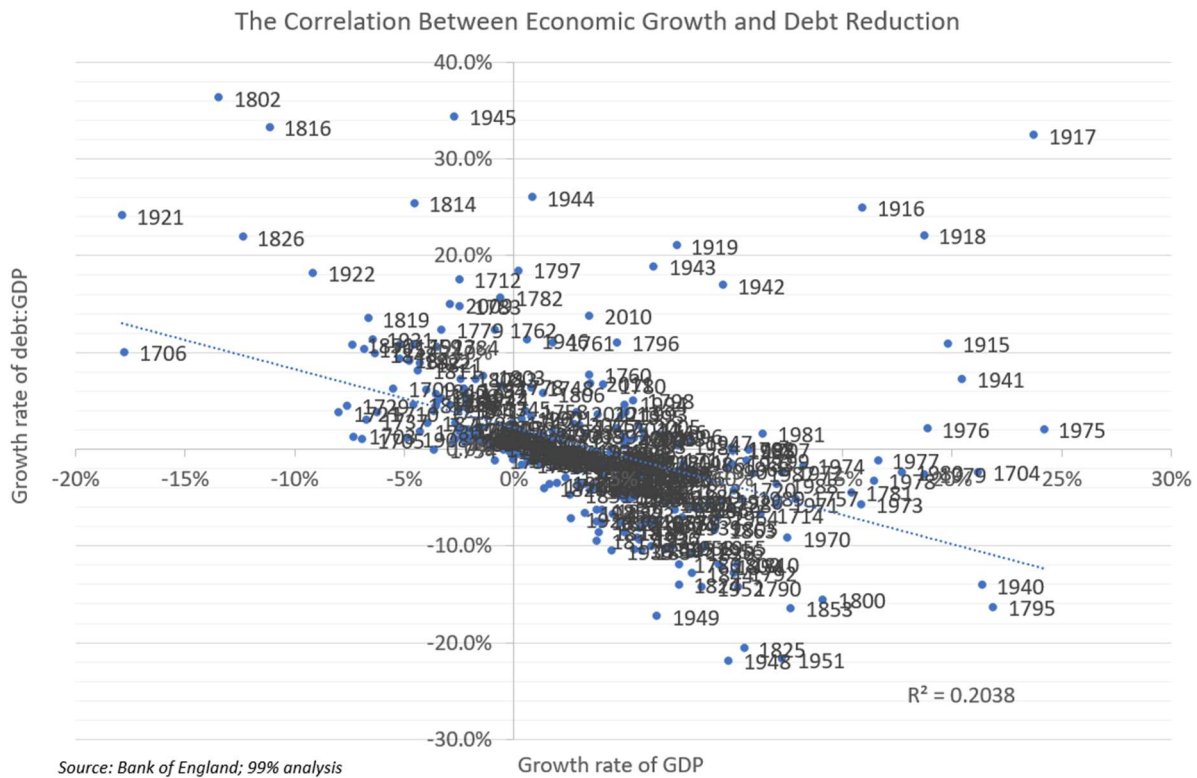


Source: Bank of England; The 99% Organisation

Furthermore, the mathematics of debt sustainability² shows that our debt will spiral upwards *only if we repeatedly allow growth to fall below interest rates*. The mathematical analysis is confirmed by the data: never in the last 300-years have we seen debt:GDP fall without robust growth in nominal GDP.

² (Thomas, Golden Delusions, 2024)

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Debt-focussed rules at a time of economic weakness constrain economic stimulus and make strong growth far more difficult to achieve. For this reason, they have been self-defeating.

Given the need for increased growth and the evidence above, it is clear that sticking to the current fiscal rules would be an abdication of governmental responsibility.

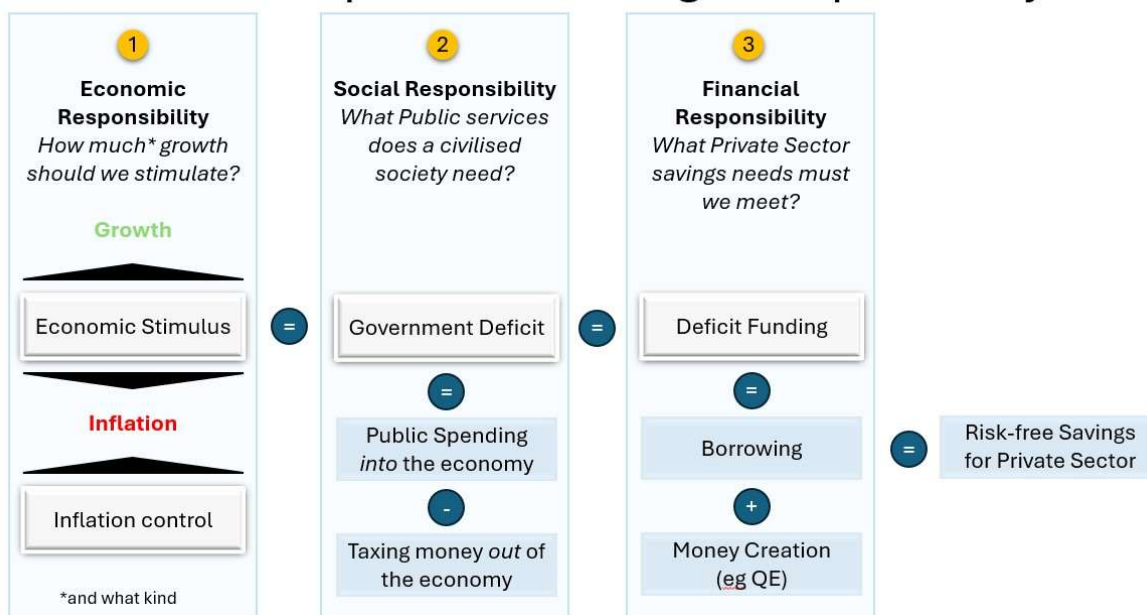
Section 3: A dynamic and responsible approach

Taking responsibility means acting to prevent national failure in the next few years rather than trying to reduce debt (from its 300-year average) over the next 50. This means that we need to take responsibility for the state of the economy and how it serves UK citizens, by:

- Stimulating healthy economic growth, driven by sound investment;
- Spending enough to retain a first-world standard of services, and taxing enough to prevent runaway inflation; and
- Borrowing enough to meet the private sector’s need for risk-free savings.

A dynamic, growth-focussed framework for such dynamic fiscal rules is illustrated below.

Three Perspectives on Budget Responsibility



Such a proposed framework is more complex – and requires more strategic thinking than the current set of rules – but that complexity and need for strategic thinking exists in the real world: *ignoring it does not decrease its importance.*

As H L Mencken wrote, “*there is always a well-known solution to every human problem – neat, plausible, and wrong.*” The current fiscal rules are such a solution: they are neat, plausible and wrong. We cannot afford to stick with them.

Section 4: We must rewire our key institutions

Many of our key institutions have become wired for regress, as summarised in the table below.

Institution	Issues	Behaviour
Bank of England	Has a remit to prevent inflation going above 2% and only one tool to use	Raises interest rates even when it knows that will harm the investment and fail to address inflation ³
H M Treasury	“The Treasury View” is essentially market fundamentalist	It opposes government investment on the grounds it ‘crowds out’ private investment – even when private investment is in decline.
OBR	Was set up by George Osborne to give cover for his goal of shrinking the state	Calls out illusory risks of debt default in 70 years but does not call out real immediate risks of both public and private slumps in

³ (Hinchcliffe, 2022)

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		investment and their impact on UK citizens
Home Office	Has been given a brief to minimise immigration	Does not join up with other government policies, eg to staff the NHS or care homes
Business management	We now have two generations of CEO who have never managed in a strongly-growing economy	It is safe for them to invest in cost-cutting, but risky to expand capacity – so they don't

This combination of behaviours means that even initiatives which would be good for the economy, good for wages and unemployment and good for the environment⁴ could trigger a Liz Truss-like effect.

Our analysis⁵ shows that Truss failed so quickly (she would have failed slowly anyway) because of her failure to address institutional wiring, particularly the inevitable response of the Bank of England to an inflationary Budget. In the absence of a change to its remit, that response was automatic, not a reflection of excessive borrowing. The former President of the Federal Reserve Bank of Minneapolis confirms that analysis: Narayana Kocherlakota⁶ wrote,

“The precipitous fall of former UK Prime Minister Liz Truss’s government has been widely credited to the objective discipline of financial markets. Her misguided policies, the logic goes, elicited such a negative reaction that she had no choice but to backtrack and resign. I see a very different story. Markets didn’t oust Truss; the Bank of England did.”

To succeed, it will be necessary to rewire⁷ these institutions so that they support democratic mandates for economic renewal in a joined-up way. This is not trivial, but it is vital.

Conclusion

The current set of fiscal rules is a self-defeating solution to the wrong problem. The need for economic renewal has not been greater since 1946. The physical and material challenges then were greater than now⁸, but Attlee was not constrained by the type of fiscal rules we have in place today. If he had been, we would not have enjoyed the Golden Age of Capitalism (the most successful period of our economic history) and we would not today have an NHS and a welfare state.

There is an alternative way to manage the economy, as Attlee showed. We should take it.

⁴ (Thomas, Re-wiring for Progress, 2024)

⁵ (Gomez & Thomas, 2024)

⁶ (Kocherlakota, 2022)

⁷ (Pettifor, 2025)

⁸ (The 99% Organisation, 2025)

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