

Government surpluses destroy private wealth, as a matte...

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John McDonnell correctly [said this weekend](#) that running a surplus on the government's budget makes no sense.

He is right. [In a clear indication that he understands sectoral balances he said:](#)

There is an economic illiteracy about this. If you have a surplus in that sense you are actually taking capacity out of the economy.

Let me elaborate a little. What a government surplus means is that the government is not borrowing anymore: it is repaying debt.

There are two consequences of this. The first is that because government debt is a private asset its repayment necessarily reduces private wealth. You cannot interpret this any other way: it is a fact.

And if the process goes on for too long cash is cancelled: in fact, we would have no money left and there would be no functioning economy.

The reality is that government debt is the basis for private wealth.

And that government money has been the foundation on which the the rise of capitalism has been built.

So, if you want to ensure the economy has cash it needs to function and you want growing stocks of private wealth the last thing you do is run a government surplus.

And John McDonnell did make that clear. And he was right to do so.

PS There is, of course, more on this in [The Joy of Tax](#).