

John McDonnell: analysis of a speech

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It is only fair I look at what John McDonnell [said in his speech today](#), having said [we do more than a new fiscal rule earlier this morning](#).

In fairness to John, we did get that. If I can summarise what I read into what was said (and if I ignore some unfortunate references to credit cards and balanced budgets that I would really have rather not seen because of the continuing suggestion that there is some link between the economies of a household and state that is just wrong) then I think there are four messages.

The first is Labour will borrow to invest.

The second is that Labour will balance current spending with revenue in 'normal times'.

The third is that we are not in normal times at present and as a result monetary policy does not work and so there is no choice but use fiscal policy and so run a deficit if the economy is to be kick started again.

Fourth, options one and three are both designed to stimulate growth that will increase tax revenues meaning that in combination they should result in debt as a proportion of GDP reducing not in absolute terms necessarily, but as a proportion of GDP and so in terms of affordability over a rolling five year period.

So the question is whether or not this is credible? Of secondary consequence may be whether it is different from what Labour has said before.

I think it is credible. That though is because, [as I explained this morning](#) (and as, entirely coincidentally this morning, [Paul Mason does here](#)) the multiplier on government spending is often, and always right now, greater than one. John McDonnell did not say that, but it was wholly implicit in what he says and I really hope he builds on [the messaging of that as I suggested today](#).

I also think it wholly credible to set out different plans for the current situation and for occasions when monetary policy might work. This was welcome: it shows an openness

to change that was refreshing and breaks the rigidity of many past rules (and Osborne's Fiscal Charter) that are inevitably liabilities the moment they are announced.

I can then say there is a plan in here, which is what I could not find in [Dan Jarvis' speech yesterday](#).

What, however, then needs to be developed is the idea of industrial policy which John McDonnell is regularly teasing at, but which needs clearer explanation. The assumption that there is government and there is business and that ne'er shall the two overlap has to be shattered, for good. The speech began that. It needs to go further: we live in a mixed economy and that needs to be said loud and clear.

I admit I retain my worry about the 'normal times' current balance for the reason noted earlier today but think they are so far in the future I will not get stressed for now.

Is this plan like what went before then? I suggest it isn't, for three reasons.

First, the goals on growth are clearer.

Second, the implicit economic logic of spending to stimulate growth is clearer and rationally based within a Keynesian framework.

And third there is less reverence for the state / business divide and much more emphasis on partnership. When there is a need state assistance to reorientate from financial services that is vital.

I did not get all I wanted. Why should I have done? But I wanted more than a fiscal rule and that's what I got. I guess I should accept that.