

John McDonnell's 'fiscal rule': a final note

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I see that the debate on what John McDonnell and James Meadway claim to be a fiscal rule is not going away. Another iteration appeared on the [Socialist Economics Bulletin](#) today.

Someone I have never heard of called Tom O'Leary (I make the point solely to say I have no idea who he is, whether I have ever met him, and whether he has any qualifications to comment, or not) has put forward an argument that revolves around these points:

- * I am ignorant (but that goes without saying these days if you don't support Jeremy Corbyn)
- * The rule exists
- * The rule will never require austerity on current spending
- * There is no limit on investment spending under the rule
- * Tax revenues can always be raised by closing the tax gap without other economic consequences
- * There is 'an identity' which if believed would lead a person to fail economics A level on the relationships between consumption, investment, the government spending and next exports.

Let's take (1) as read: I can't be bothered to argue.

On (2), this is untrue: as James Meadway has said at the zero bound, which today's moves from the Bank of England have confirmed will go on for a very long time, the rule does not apply. It's always been a charade.

(3) remains absurd: the Corbyn plan os for extra investment of maybe £50 billion a year, by no means all funded by government. Total government spend is £700 billion. Deficits exceed £70 billion. Now I concede some of that is existing investment, but the point is that no government has since 2008 balanced current spend with tax revenues

despite the economy growing. So *prima facie* doing so is a) hard and b) quite likely to require that tax revenues exceed current spend sometimes. So to dismiss my argument is wrong is absurd. But it is also an unnecessary constraint: why impose a limit on current spending but none on investment (which brings us to point 4)? The actual and undoubted implication is that the McDonnell rule would let us build hospitals but not staff them, which is absurd.

And as to 4, of course there is a limit to investment: the economy has a capacity. To pretend otherwise is just wrong.

And then to point 5. I suggest O'Leary reads *The Joy of Tax* and the explanation of what tax is for and how it should be used. O'Leary is still very obviously living in the era where it was thought tax funded government spending when in truth it does not: it is the factor that balances the macro economy to ensure we do not have inflation whilst delivering social purpose. So yes, I definitely want the tax gap closed but to right now to pull the funds in question out of the economy to run a surplus as O'Leary suggests should be done would be recessionary, so beat the tax gap by all means (please) but re-inject the funds to create social worth. The alternative would be very bad news in a recessionary environment.

And then 'that identity' which is dismissed as nonsense. That's called national income accounting. That's no oddity; it's taught (I hope) to just about all economics students and with good reason.

So the claims made are all ridiculous, but the sting is in the tail. take this claim:

But eliminating poverty cannot be achieved by increasing NHS spending (Government Consumption). Poverty could be eliminated by a very substantial increase in investment, led by public investment. This should create high wage, high skill jobs. It reduces the Government's outlays on poverty and increases the Government's tax revenues. This is what McDonnell means by eliminating the deficit on current spending. It is not cuts, but investment.

Just think on that for a moment: no current government spending eases poverty. Scrap benefits then. And the old age pension. And why bother with state education when just building the schools will do to provide all the opportunity people need to break out of their economic situations? And in the NHS no amount of current spending to ensure people can live full lives in the communities of which they are a part helps poverty, just new waiting rooms do?

This opposition to what I have said is all getting rather silly.

But it does suggest that what Danny Blanchflower and I have been saying, that there is no economics policy on display from Jeremy Corbyn is justified. Which is deeply depressing. There was a move in the right direction last summer, and even that's been

abandoned.

I'm happy to talk to John, James and anyone whenever they want. But for heaven's sake the policy has to be based on:

- * Honesty
- * Credibility
- * Meeting need in accordance with the principles of the left.

If not, why bother?