

Funding the Future

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I despair of John McDonnell and Labour's economic policy. As they [Guardian](#) reports today:

John McDonnell has sought to reposition Labour as the party of fiscal discipline and competence, using a speech ahead of next week's autumn statement to contrast the government's "failed" austerity approach with his own party's focus on investment.

Public spending did not mean a haphazard approach to the public finances, the shadow chancellor said in a wide-ranging speech.

"There are no easy options," McDonnell said of a planned Labour approach. "There is no proverbial magic money tree."

There was more of the same yesterday: the fiscal conservative message is one that Labour is clearly trying to send out. The only trouble with it is that it is fundamentally wrong.

First, of course it is right to condemn austerity but the reality is that government deficits are not, to large degree, matters within their control. I have explained [this time and again](#) within the context of the sectoral balances. What these show is that if the consumers, business and the overseas sector are determined, between them, to save (as has been the case for the UK for many years) then as a matter of fact the government will, as the borrower of last resort run a deficit. And the UK government has no choice but be borrower of last resort: it is the creator of our currency and so this is its job.

Second, deficits need not mean borrowing. As a matter of fact £60 billion of this year's deficit (which is budgeted to be all of it, but which will in practice just be most of it) will be subject to Quantitative Easing during this year. In other words the government will repurchase most of the debt it creates this year [meaning it will, in effect be cancelled](#).

Which proves the third flaw in John McDonnell's logic. There is, as a matter of fact, a magic money tree. Except there is nothing magic about it. Nor is it a tree. It is instead a simple matter of fact that all money is created costlessly by a process of lending and again, as a matter of fact, the government is able to do this itself via the Bank of

England, which it owns and de facto controls. I am not saying that doing so is not without consequences: we know they exist but. But to deny economic fact must either be the result of ignorance or political choice.

And fourth, we can run fiscal deficits without risk (as we are now), without inflation and without piling debt on future generations who first of all can QE it and second will simply roll it over anyway, as all previous generations have done because this debt is the essential core of the money supply that keeps the economy revolving.

John McDonnell should not be ignorant on these issues. The two previous links were to blogs written when he and Jeremy Corbyn were well aware that the press were calling me the author of Corbynomics. The articles in question may, therefore, have helped Corbyn be elected. And they quite clearly say that what McDonnell is arguing now is wrong. I also am quite sure that James Meadway, his senior economic adviser, who was until not long ago at the New Economics Foundation, knows that McDonnell's argument is not just a bit wrong, but fundamentally flawed in almost every way.

So, there is no excuse for ignorance.

In that case there is only political choice. And what is clear is John McDonnell has decided to play the role of a fiscal conservative who buys the argument that the economy is equivalent to a household even though it is obviously contrary to what the economy needs and contrary to the interests of the people of this country.

Bizarrely it's also impossible to achieve and deliver his logic of new investment from borrowing considered outside the fiscal cycle if he imposes the constraint he has committed himself to: he will simply create hospitals he cannot afford to staff at the rate he is going.

All of which suggests that he is offering economic policy as socially destructive and economically poor as his opponents and is doing so by political choice. Candidly, on this basis you vote as well vote Tory as for Corbyn's Labour. You'd get the same economic policy either way. And that's a disaster for the UK.

When, I wonder, will we ever see a credible opposition again?