

The paradox at the heart of Labour's economic policy

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Annelise Dodds had [two deeply conflicted comments to make in her Mais lecture](#) last night.

She said:

A responsible approach to government debt is also critical here. George Osborne made debt reduction a major driver of his economic policy and the rationale for stark reductions in government spending, yet debt increased from £1 trillion to £1.8 trillion between May 2010 and February 2020. In the eleven months since then, it has risen to £2.1 trillion.

And she said:

The Bank's quantitative easing measures — on a scale that has seen asset holdings double in the last year, and its balance sheet set to represent half the stock of the UK's total outstanding debt — are, clearly, within its mandate, and consistent with the Bank's symmetrical inflation target.

It is not possible that the government owns half of its own gilts in issue and that the national debt can be £2.1 trillion, including those gilts. The government cannot owe itself money. As a matter of fact, it does not.

So, to premise future fiscal economic policy on the condition that debt be managed is absurd: it has been managed and the mechanism to manage it in the future has been created, tried and tested.

I agree that there is a matter of £800 billion on central bank reserve accounts to manage, but since they are now essential for market liquidity no one should be dreaming of seeking to pay them down.

So, the premise that debt is important is wrong. And yet Dodds said:

Before the onset of the current crisis, the IFS provided a useful analysis of fiscal rules

and how they might most appropriately be set. It suggested a rolling, forward-looking target of current budget balance which allows the government to borrow for additional investment spend when interest rates are low, and which provides flexibility during times of economic shock. The IFS suggested that in a crisis scenario, a so-called “fiscal anchor” could be set to “limit the amount of permanent tax cuts or further increases in day-to-day spending that is announced.

A balanced current budget is only offered by a government that believes that it should not intervene in the economy because markets know best, and which believes that it actually intervening makes things worse. There is literally no other reason for such a policy, most especially when its consequence is to deny the money supply any growing economy needs barring an increase in private debt, which is the real cancer in the economy that we have.

I sincerely hope Labour does not think these things. But if it does not then it has to act differently. But the signs are not good that it will. And that is troubling.