

Rachel Reeves' fiscal rule is the same as John McDonn...

Published: January 12, 2026, 9:49 pm

In 2018, I [wrote a blog post](#) making clear that I profoundly disagreed with the fiscal rule that was proposed at that time by John McDonnell, when he was shadow Labour Chancellor.

You will not find that fiscal rule on a Labour website anymore, but I happened to screenshot it . This is what it said:



- Labour will close the deficit on day-to-day spending over five years
- Labour make sure government debt is falling at the end of five years
- Labour will borrow only to invest
 - When the Monetary Policy Committee decides that monetary policy cannot operate (the "zero-lower bound"), the Rule as a whole is suspended so that fiscal policy can support the economy. Only the MPC can make this decision
 - In addition, we will legislate so Office for Budget Responsibility reports to Parliament, not Treasury.

Detailed Briefing

- Following discussions with world-leading macroeconomists and the Shadow Cabinet we have decided to adopt a Fiscal Credibility Rule which will underpin Labour's fiscal position.
- Labour believes that, in the medium to long term, governments should not need to borrow to fund their day-to-day spending. While there are exceptional times when shocks from the private sector mean that government has to step in to help, everybody knows that if you're putting the rent on the credit card month after month, things needs to change.

And that is why we would commit to always eliminating the deficit on current spending in five years, as part of a strategy to target balance on current spending after a rolling, five-year period.

- It is essential for our future prosperity that we retain the ability to borrow for investing in capital projects which over time will pay for themselves. Labour recognises the need for investment which raises the growth rate of our economy by increasing productivity as well as stimulating demand in the short term.

And that is why our target for eliminating the deficit excludes investment.

- And because we want to ensure that the Government's debt is set on a sustainable path, we will commit to ensuring that, at the end of every Parliament, Government debt as a proportion of trend GDP is lower than it was at the start.
- We will reserve the right, for as long as monetary policy is unable to undertake its usual role due to the lower bound, suspend our targets so that monetary and fiscal policy can work together.
- Rather than an arbitrary cut off for GDP forecasts, we will give the Bank of England's Monetary Policy Committee the authority to suspend the rule in the circumstances when it is clear that fiscal policy needs to work together with monetary policy to get the economy moving again.

And to oversee all this we will make sure that the Office for Budget Responsibility is genuinely independent, reporting to Parliament rather than the Treasury.

A few sensible, and admittedly sensible, words on what happens in a crisis and when interest rates are at the zero bound apart, you literally could not put a fag paper between what is said there and what Rachel Reeves is saying now or, come to that, what Jeremy Hunt says. The commitment is to:

- Match current expenditure with taxation revenue.
- Borrow only to fund investment.
- Cut the deficit as a proportion of GDP over a five year period.

These three commitments are exactly what Rachael Reeves is saying now, which guarantee us austerity.

I stress, they also offered austerity when John McDonnell endorsed these words in 2018, when he even referred to a crass credit card analogy in the process of doing so.

Why make the point now? There are three good reasons for doing so.

First, this shows that John MacDonnell was nothing like the left-winger that he claimed to be. He was as captured by neoliberal thinking on these issues as Hunt and Reeves are. That is why I could never have worked with him.

Second, this shows that Labour has really not changed, and will not when in office. Austerity is its core belief. It is a fundamentally neoliberal party, and has been for thirty years now. Nothing is going to change.

Third, what that makes clear is that there is no viable political option now being offered by the two main political parties to the vast majority of people in this country who want the needs of the people of this country to be met above all else. None of the politicians leading those parties think that is the job that they will ever be asked to do. They see their role as being to deliver growth even if, as we know, that almost entirely benefits the already wealthy. They are, as a consequence, of no use to our society and we have to now look elsewhere for answers.