

# Rachel Reeves would make a mess of any household's fi...

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I have published this video this morning. In it I note Rachel Reeves keeps saying that we should manage the economy as if it were a household. That is completely wrong. But if it were true, the decisions she is making would end up destroying the finances of any household, she's making such a mess of things.

<https://www.youtube.com/watch?v=HXReEN0Tk4A>

The audio version of this video is here:

[https://www.podbean.com/player-v2/?i=3vmxj-16a54ed-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo\\_link=episode\\_page&btn-skin=ff6d00](https://www.podbean.com/player-v2/?i=3vmxj-16a54ed-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00)

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The transcript is:

No one would run a household the way that Rachel Reeves is trying to run the country.

Rachel Reeves likes to say that she learned economics at her mother's kitchen table, where she watched her, apparently, ticking off the entries in the bank account to make sure that every penny had been accounted for, which is fine, but that is not the job of a Chancellor of the Exchequer.

And nor is it the job of a Chancellor of the Exchequer to run a government like a household because a government can create its own money and a household can't. They are fundamentally different.

But let's just suppose for a moment that the government was run like a household. I [read a really interesting blog](#)

on this recently by a chap called Chris Dillow, who I've followed on Twitter for years. He's been an economist I think for more than 40 years now and he writes a blog called Stumbling and Mumbling. Many people will not know about it. I've read it for a long time and I'd recommend it even though he's a Marxist, and I'm not, because reading a Marxist is quite good for your education on occasions.

But Chris made a really good point, and that is that some of the decisions that Rachel Reeves and the Labour Party are making would never be made by a sensible household. She isn't even keeping to her basic rule that she should run the economy as if it was a household.

Let me give two examples and both of them were made by Chris, but I've made the points elsewhere in my time as well. The first is the use of the private finance initiative to fund things like the proposed new Thames crossing. This £9 billion project is apparently going to be outsourced to the private sector so that the government doesn't have to borrow the funds in question.

I've already mentioned the insanity of this in another video, which we'll link below. But, as Chris points out, the insanity is actually also true if you look at this from a household perspective. It's rather like, as he points out, a household that looks at a mortgage deal, and sees that it offers a great deal for five years, and an appalling one for the next fifty years, and would take that option anyway, because its planning horizon is only five years, and it really doesn't care about what happens over the rest of the period during which it's got to make the repayments owing.

And that's what this deal is like. The whole reason that Rachel Reeves will take a PFI deal is precisely because, she's Chancellor, and let's be candid, her expected period in office is unlikely to be longer than five years, so she's taking a deal that will make her look good while she is Chancellor, and she's quite indifferent to what happens thereafter.

But households aren't like that. Actually, households do look at the whole pattern of payment that they are expected to make. And most of the time, most households, I'm not saying all, but most of the time, most households, and at least all competent households, will not take a worse deal overall because they get a short upfront benefit. Instead, they'll balance the whole equation. But she isn't doing that. And as a consequence, She's proving to be a very bad household manager.

And this is also true with regard to another Labour policy. That Labour policy is on nationalisation.

The net cost of a government borrowing at present is about 1%. In other words, the government's cost of borrowing is only a little over 1 percent more than the rate of inflation inside the economy, give or take. It moves slightly, but around that, that's the average. And if that's the case at present, all that a company that the government

wants to nationalise has to make is more than a 1 per cent real rate of return on their investment at present.

Even the water companies have done that until very recently. The rail companies do, by and large, make a profit. So too do electricity companies, they make much more than that.

So, the government could take these essential national utilities, into state ownership as a consequence, at absolutely no real cost to the Exchequer at all, because the cost of borrowing to buy these companies at fair value would be less than the rate of return that they could provide to the government as a consequence through the payment of dividends arising as a result of their activities.

Buying them would therefore result in the transfer of an asset making a good return on investment, which return would more than cover the cost of the interest that the government would pay on the sums that it would issue in terms of new bonds to buy out the shareholders of those businesses.

Why wouldn't it therefore do that? Who knows? If a household could issue bonds to buy investments that would pay a return greater than the cost of paying interest on the bond in question, it would be mad not to buy the investment. I mean that quite literally. Mad! And the government is in that position with regard to these industries.

It could buy these companies that provide not just a rate of return to the government if they were to be owned by it, but also create a public good that would be a benefit to everyone and which would be better managed under state control. And yet it won't do that. That's madness. It is most certainly not running the government like a rational household would do.

So why is Rachel Rees not following her own mandate that she must run the government as if it is a household? She isn't with regard to using PFI, which is economic madness and a form of borrowing that would make no sense to any household. And she isn't with regard to nationalisation, which would make total sense to any household because they could make a return from it. As could the current UK government.

I simply do not know what she's doing. But what I am sure of is that Chris Dillow is right. Rachel Reeves is not running the UK government like she would run a good household. And that should worry us.

I make it clear, I don't believe in the household analogy. But if she's going to use it, she should at least follow it. And she's not even doing that.