

Is Reeves going to get things wrong?

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Rachel Reeves' record as Chancellor has not been good. Today provides her with another opportunity to get everything wrong.

https://www.youtube.com/watch?v=WJZvj_kNUC0?si=kQI7u5AJ5kFBiiD3

This is the audio version:

https://www.podbean.com/player-v2/?i=nnv8x-18d1a8a-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Rachel Reeves is going to deliver her spending review today, and I'm worried about it because, as with most things where Rachel Reeves is involved, I fear that she's going to get this fundamentally wrong.

The real priority within a spending review is to balance the economy.

My concern is that Rachel Reeves is going to balance her books, and the point is, those two things are fundamentally different, and that needs explanation in advance of anything that she has to say later on today.

If we're talking about balancing the economy, what we're talking about is trying to

deliver the best possible outcomes for everybody in the jurisdiction for which a government is responsible, in this case, of course, the UK.

So what we're trying to look for is economic health and stability. And that might be represented by full employment, some growth and low inflation. And it's a combination that can be created. It's a Keynesian approach towards economic management, admittedly, and it tries to balance the economy around the fact that inflation is the balancing number, and unemployment is not.

So the state tries to increase taxes when economic activity is too high, and reduce them when it is too low, and as a consequence, either withdraws funds from the economy when there's a threat of overheating, and therefore of inflation arising, or injects funds by way of reducing taxation, when there's a risk that the economy will go into underemployment and therefore not deliver most of what people want.

Now let's compare this with balancing the books. If you balance the books, the government's only priority - and this appears to be Rachel Reeve's only priority - is in actually getting the government's fiscal arithmetic right. In other words, that income equals expenditure, or income equals expenditure after allowing for a fixed amount of investment. And that is the wrong priority, because it doesn't actually result in an economic stimulus of any sort at all.

Nor does it prioritise increasing incomes.

Nor does it prioritise increasing investment.

Nor does it prioritise all the other objectives that a government should have on behalf of the people in the country that it governs.

There is nothing in there about climate change.

There's nothing in there about health or education, or anything else.

The only real priority is book balancing, and that represents an obsession with deficits and debts, an obsession which is, in itself, unhealthy because there is actually nothing wrong with running a deficit.

In fact, we need to run deficits in the UK every year because if we have a government that is setting a target of roughly 2% inflation, and total UK GDP is around £2.8 trillion, then we need coming on for £60 billion of extra money every year simply to catch up with ourselves to keep money in circulation sufficiently to cover for the fact that we have inflation.

A deficit is therefore always required by a government that says it will tolerate inflation, as a matter of fact, and this obsession with deficits is therefore unhealthy.

But it's also unhealthy because the focus of every single decision that the government then makes is negative. It's always about how do we cut, and not about how do we fulfil? It's as if the role of the government is to say no when it should be to say yes.

So, where are the risks in each of these two policies? Clearly, the risk inside what I suggest - balancing the economy - is that you might overstimulate the economy and end up with inflation as a result.

There is that risk. I accept it. A certain degree of caution is necessary, and that does require careful management of, in particular, the supply of labour. But that also means that there has to be careful management of the supply of skilled labour because labour by itself is an insufficient term here.

What we want are people who are skilled to work at the higher levels that greater degrees of investment demand.

And so, what we need is integrated thinking to make a balanced economy work, something that appears to be beyond the reach of the Treasury or government altogether at present. And if that was to be the case, this task of balancing the economy would, in my opinion, be achievable.

If, on the other hand, we have a government that is dedicated to balancing its books as Labour appears to be, then the great risk is that we will massively underachieve the potential of the economy.

By the government withdrawing from possible activity on all occasions, what it is doing is failing to put people into employment, failing to spend on what is necessary, failing to meet people's hopes, failing to provide the liquidity that the economy requires to keep functioning at the level of which it is capable, failing to deliver the investment that is required to create the growth that the government says it wants.

That is the risk of book balancing.

Which of those two policies would I prefer that she focused on? Clearly, the one that has opportunity present within it, and that is balancing the economy.

Why would you choose to set out to fail, which is what balancing the books is bound to do when you have the opportunity, now you've reached government, of setting out to deliver for the people who put their hope in you? I wish I knew, but Labour has made the wrong choice.