

Rachel Reeves will get it all wrong today

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Rachel Reeves will present the Spring Statement as if she's delivering stability.

The Office for Budget Responsibility will offer forecasts.

Markets will be reassured.

But the economics will be wrong.

In this video, I explain why fiscal rules, headroom, and the household budget myth are political theatre, not economic reality. Governments that issue their own currency are not revenue-constrained; they are resource-constrained.

If Britain wants growth, resilience, and functioning public services, we need investment, redistribution, and the politics of care, and not stability theatre designed to please bond markets.

This is Funding the Future economics.

<https://www.youtube.com/watch?v=F6a-K6nVlt0?si=yqVVLFaNGp2oLQCQ>

This is the audio version:

https://www.podbean.com/player-v2/?i=j53di-1a5d6a2-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 hold a fiscal event today. It's her Spring Statement time, and what she's going to be talking about in the House of Commons at lunchtime today will be the new forecast from the Office for Budget Responsibility about what is going to be happening in the UK over the next year or so.

There is one thing that I can guarantee: everything that she says will be wrong.

It will be wrong because events in the Middle East have torn up all the assumptions on which the Office for Budget Responsibility has worked.

It will be wrong because Rachel Reeves will talk about fiscal rules, and a stability dividend, and headroom, and everything will be based upon the household budget myth.

Let's be clear. Britain is being told that economic stability means doing almost nothing. That will be Rachel Reeves' message today, and that's not what she needs to do. We need an active government.

What Rachel Reeves wants is a quiet Spring Statement. The Treasury has been sending out this message to anybody who cares to listen. There will be no tax changes. There will be, apparently, no fiscal surprises. Markets will be reassured as a result, and that is her goal. She's not seeking economic transformation to make your life better anymore. All she's interested in is providing reassurance to markets, and that tells us everything that we need to know about the thinking in the Treasury right now. Markets are the only people who matter to them.

Policy will today be designed to please the bond markets.

Government will be treated like a household.

Political choices will be disguised as necessity.

And neoliberal thinking will go forward, unchanged.

But governments that issue their own currency are not revenue-constrained, whatever Rachel Reeves will say today when she says there is no money left, as I'm sure she will in some way or other during the course of her speech. Governments that issue their own currency are not revenue-constrained in the sense of having to find money. What they are is resource-constrained. They are restricted by the availability of skilled labour, energy, materials, and, of course, climate change, and that is what basic modern monetary economics teaches us.

What will the Office for Budget Responsibility be saying then? Well, we do expect them to cut their growth forecasts. They were already miserable at only a little over 1%. We expect them to be cut to below 1%, a rate of growth which frankly makes no difference to anyone.

And remember, they don't talk about the distribution of that growth, so most of it will, as ever, go to the wealthy, and you will see, probably, precisely nothing.

The Office for Budget Responsibility will predict that low productivity will continue within our economy, and that is because they expect investment to remain weak, whilst living standards will, of course, stagnate as a consequence, and none of this is the result of bad luck. It is the result of underinvestment, rentier economics that exists to simply extract wealth from the economy, housing failure, poor health that follows from that, and austerity. But most of all, it is because of our failure to redistribute wealth from those who have it to those who need it, so that they might kickstart the economy and the multiplier effects that their spending would give rise to.

Policy created all our problems. Policy indecision and indifference to the needs of people is what has brought us to this point. A change of policy could solve all our problems, but Rachel Reeves is not going to be offering us that.

Instead, she will be talking about fiscal rules, which are, of course, entirely arbitrary, and she actually even makes them up and therefore marks her own homework on whether she will meet them or not.

She will declare that she will run a budget surplus by 2029, and that means that she will be taking money out of the economy and not injecting it into the economy, which is an act of reckless folly when we clearly need government money to keep the economy going right now.

She will be declaring that debt will be falling as a share of GDP come 2029, but first of all, she can't know whether that's true or not because we have no idea what will be happening between now and 2029, except for the fact that Keir Starmer will almost certainly not be Prime Minister, and therefore she will not be Chancellor of the Exchequer. There will, in fact, be no economic basis for what is being said by these fiscal rules, and that's because all of them ignore real-world needs and real-world circumstances. The budget is already being blown apart over this last weekend because the government is going to have to spend money on evacuating people from Dubai and elsewhere, for example.

So these rules are just political theatre; they are not economics. They just ignore the need for investment in climate transition, public services and infrastructure.

And remember the basic accounting, a government deficit equals a private surplus. That is what the sectoral balances, which I've talked about here often, mean. There must be a process whereby a deficit is always balanced by a surplus, and thankfully, if we have government deficits, we, the private sector, are in surplus, meaning we're better off as a result.

Surpluses on the part of the government drain money from the economy. That is what

Rachel Reeves wants, and what will the consequence be? Stagnation. That's what she's heading for, and what she's doing, therefore, is imposing austerity yet again.

She's asking us to borrow instead of the government, and that is unsustainable. We know that we should not be doing this. If we just understand the accounting of the national government, we'd know that this is folly.

And remember, so too, is it folly to talk about something called headroom. This is a fiction. Headroom is the amount of money that Rachel Reeves supposedly has to play with because she set a rule and, at present, it looks as though she might meet it. That's all headroom means. It isn't a real number; you can't see it, you'll never be able to measure it properly, it's just a comparison between two figures on a spreadsheet, which are meaningless because they're both about things that might happen in the future, and there are too many assumptions implicit in the forecast produced by the Office for Budget Responsibility which will be wrong. For example, if we have a war, everything changes overnight.

So all of this is ridiculously inappropriate. Headroom is nonsense. What we actually need is not some headroom of supposedly available money as if the government is constrained by whatever it can get from the private sector, when in fact every single penny of government spending is created out of money put into the system by the Bank of England on the government's instruction. What we actually need are schools, hospitals, railways, workers with skills, materials, and the political will to put them to use because the pressures are real.

Let's be clear. Whilst Rachel Reeves will want to talk about money just to keep markets happy, out in the real world, out of the window, which is just there in this room where I'm talking right now, there is a need for special educational needs funding. There is a need, in all probability, for additional defence spending. There is a cost-of-living crisis. There is a problem with local government because it is in a state of collapse. These aren't problems that can be avoided. These aren't problems that she can cover by claiming she's just got a headroom, which she isn't going to use. These are responsibilities she has to meet, and I guarantee there will be no commitment by her to do that today.

This is where the politics of care should begin. That isn't something she even knows she needs to think about, and let's face facts.

Stability without investment means decline. This is a core idea on this channel. Unless we invest, we cannot hope to be in a continuing good position, and we aren't investing enough.

That's why we have NHS waiting lists.

That's why we have housing shortages.

That's why we have crumbling infrastructure on the roads and in so many other environments all around us.

That's why we have underpaid public workers.

Pretending that fiscal caution will fix any of this is just fantasy. It's like refusing to repair a leaking roof to please the bank manager. It doesn't work. The building then falls down, and the bank manager's mortgage can't be repaid.

The real alternative is for the government to talk about the fact that it can and does create money when it spends.

It does need to talk about the fact that tax controls inflation and tackles inequality.

It does need to talk about the fact that the government has got the capacity to invest in green energy housing and transport, if only we can mobilise the skills because they probably already exist.

The real issue is that the government needs to restore local government capacity and not just for social care, but also for housing, for special educational needs and local facilities like libraries and parks and all of that with one goal, which is local job creation.

This is not radical. It is how modern monetary economies really work. This is about what we really need, and this matters now in particular.

We face rising global uncertainty.

We face a major energy price risk yet again because of events happening beyond our shores.

We face an urgent climate transition which we are not funding.

We face a social security system which is under strain, because of ridiculous rules and penal systems that are imposed upon people quite unnecessarily.

In uncertain times, resilience matters. Resilience requires investment. Resilience requires care. Fiscal rules prevent resilience. Fiscal rules create constraints. But it is resilience that we need, which is why everything that Rachel Reeves says today is going to be so wrong.

Britain does not need stability theatre. It needs economic honesty. We must reject the household budget myth. We must abandon arbitrary fiscal rules, and we must invest in people, infrastructure, and care because that is how we build a future worth funding.

Will we get that today? Not a hope.

We will be back later on today to talk about what she really said. Please look for our video, which we'll be putting out after her speech, and check me out on Jeremy Vine this lunchtime, talking in his studio on what Rachel Reeves has said immediately after she sits down. Sometime after one o'clock, then.

But let's be under no illusions. Rachel Reeves is going to fail us, yet again, today.

Poll

[poll id="339"]