Funding the Future

I had some hopes. John Healy has shattered them

Published: July 22, 2026, 6:23 am

John Healey's appointment as Chancellor surprised many people, me included. The biggest reason for surprise was that he has no record as an economic thinker.

As I noted on Monday evening, he might have spent time in the Treasury under Tony Blair and Gordon Brown, but since then he has shown little interest in the issue until he quit as defence secretary over funding.

That absence of thought matters. I described him in that same article as "a man to perpetuate the status quo." That's what people who have not thought do: they note the rules, and work within them.

Now we know that this is what Healey, backed by Burnham, who reiterated his commitment to fiscal rules yesterday, will do. That is because he made a speech at the Treasury yesterday in which, according to the FT:

He declared that "fiscal control is the first duty of any Chancellor".

He then added:

"It is the fiscal credibility that gets us economic stability, growth and national security."

The statement attracted remarkably little comment. It appeared well down in the FT article. It was noted as if it were simply a statement of fact. It is, however, nothing of the sort. In those few words, Healy revealed his assumptions about how economies work, and every one of those assumptions is open to challenge, not least because they both define much of modern British economic policy, and explain why it has failed.

The opening claim was that fiscal control is the first duty of a Chancellor. The obvious question to ask is, why? That is not a rhetorical question. Instead, it is because I think that a Chancellor's first responsibility is to create a prosperous, resilient and fair economy.

After all, why should controlling the government's finances be considered more important than maintaining full employment? Or ensuring the delivery of decent public services? Or tackling climate change? Or investing in the country’s future?

Managing the public finances is one of the tools available to achieve those objectives, but it cannot be the objective itself. Confusing an instrument of delivery with the purpose of activity has become one of the defining characteristics of Treasury thinking. And that confusion has consequences, because once fiscal control becomes the goal rather than the means, every other ambition the government might have is subordinated to it. To open your description of the job you plan to do with a category error is quite something, but Healey managed it.

Healey then went on to claim that fiscal credibility creates economic stability. Again, the question is why? There is good reason for asking. Economic instability has many causes. Of late, the UK has endured banking crises, energy shocks, Brexit, supply chain disruption and pandemics. None of these arose because government borrowing was too high. None arose because a fiscal rule designed to deliver fiscal credibility had failed. That is because economic stability does not depend on such rules. It does, instead, depend upon secure energy supplies, functioning financial markets focused on delivering working capital for the economy and not speculative finance, productive investment, resilient infrastructure, effective public institutions and social cohesion. Fiscal policy contributes to that stability, but it most definitely does not determine it. Once more, in that case, Healey's claim was wrong.

Then Healey went on to argue that fiscal credibility produces growth. Behind that simple statement lies an entire economic philosophy.

The assumption is that if government demonstrates fiscal restraint, financial markets become more confident. Interest rates then remain lower, and private businesses invest more as a result. The claim is that growth then follows. This is simply another version of what is called the Treasury View. It rests upon the belief that government borrowing crowds out private investment.

The evidence to support this claim is not encouraging.

That is partly because this View is based on the belief that there is a finite pool of money in the economy and the government competes for use of that limited resource with the private sector. That might have had some basis in truth a century ago when the country used the Gold Stanrd to limit the money supply, but it does nothing remotely like that now. Instead, as we know, banks do not lend because someone else has first deposited savings with them. They create money whenever they make loans. The stock of loanable funds is not fixed. Businesses do not invest because the government has borrowed a little less. They invest because they expect customers to buy what they produce. Reducing public borrowing does not conjure those customers into existence.

The whole intellectual foundation for this View is based on an outdated falsehood, in turn based on the mistaken belief once held by the UK Treasury that government activity must be constrained by limiting the money supply, in turn based on the mistaken belief that individuals always know best how to spend and invest because there are no communal goals or public goods

The reality is the opposite of the beliefs implicit in the Treasury View. Public investment frequently does create the customers that the private sector seeks. Investment in transport, education, housing, research, healthcare and energy systems expands productive capacity while increasing demand. It creates profitable opportunities that encourage private firms to invest alongside the public sector. Far from crowding private investment out, government investment often crowds it in.

This is not just theory. Britain has already tested the Treasury View, which is the foundation of austerity. Following the financial crisis, governments pursued fiscal restraint for much of the period after 2010. If the orthodox theory were correct, business investment should have surged as government stepped back. Instead, productivity stagnated. Business investment remained weak. Infrastructure deteriorated. Economic growth disappointed year after year. The promised private-sector renaissance never appeared.

So, let me come to Healey's final claim, which is, in many ways, the most curious. He said fiscal credibility delivers national security.

The implication seems to be that stronger growth enables higher defence spending. But even if that is true, it does not explain why defence spending is so often treated as though it should simply be a fixed percentage of GDP.

If GDP rises because house prices increase, creating more transaction income, or because the City of London enjoys another profitable year, does Britain suddenly require more warships? And if GDP falls during a recession, are we somehow less safe than we were the week before?

National security should begin with strategy. What threats does Britain face? What capabilities are required to meet those threats? What investment is needed in defence, intelligence, cyber security, energy resilience, food security, scientific research, infrastructure and public health? Only after answering those questions should government decide what resources are required. Strategy should determine expenditure. A ratio derived from GDP is merely a convenient accounting convention, and they are rarely of any use to anyone but managers with limited imagination and little strategic ability.

The relationship between growth and security also runs in the opposite direction to that implied by Healey. Investment in resilient infrastructure strengthens the economy. Investment in education raises productivity. Investment in research creates new industries. Investment in secure energy systems reduces vulnerability while supporting economic activity. Security often creates growth. Growth does not automatically create security.

The real significance of Healey's statement is therefore not just what it says about one politician, important as that is right now. It reveals how deeply embedded Treasury thinking has become within British politics. Ideas that are, in reality, contestable economic theories are now presented as unquestionable common sense.

Fiscal control comes first. Fiscal credibility creates growth. Growth creates security. Defence should be measured as a share of GDP. Each proposition reflects a political choice about how we should organise our economy, but none of them does in any way represents an economic law, let alone a fact.

That matters, most especially because Britain desperately needs a different conversation, and Healey's suggestion represents a brazen attempt to close that opportunity down.

The question we should be asking is not whether governments are sufficiently fiscally disciplined, but whether they are creating the conditions in which people can flourish.

Success should not be measured by compliance with arbitrary financial rules. It should be judged by whether governments deliver decent housing, secure energy, productive investment, high-quality public services, environmental sustainability and genuine economic resilience.

Those are the outcomes that matter. Fiscal policy should serve them. A Chancellor who begins by treating fiscal control as an end in itself has, before a single decision is made, already confused the map for the territory, and that always leads to economic and political failure, a situation with which we have become all too familiar.

I had some hopes for Andy Burnham. John Healy has shattered them. More of the same is the same hard gruel he is going to supply.