Funding the Future

John Healey is setting out to fail

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John Healey began his first speech as Chancellor by making four big claims.

He said:

* fiscal control is the first duty of any Chancellor,
* fiscal credibility delivers economic stability,
* fiscal credibility creates growth, and
* growth delivers national security.

Those ideas sound reassuring, but what if every one of them is wrong?

In this video, I explain why those four assumptions have already failed Britain before and why, if John Healey governs on the basis of them, he is likely to fail as Chancellor as well.

I argue that:

* putting fiscal control ahead of outcomes means confusing accounting with economic management.
* Stability depends on far more than government finances.
* Growth comes from investment, innovation and confidence, not from shrinking the state in pursuit of Treasury orthodoxy.
* And national security is created by real capabilities around energy security, infrastructure, education, research, and resilience, and not by assuming defence spending should simply rise with GDP.

Healey did not put forward new ideas. He repeated the same Treasury thinking that has dominated British economic policy for decades. His claims represent the thinking that has delivered weak growth, crumbling public services, underinvestment and stagnant living standards. Repeating those ideas, yet again, will not produce a different result.

If Britain is to prosper, we need a Chancellor who measures success by the outcomes government delivers, not by applying arbitrary fiscal targets. Until that changes, we risk repeating the same mistakes while expecting different results, and Einstein quite correctly once called that a definition of madness.

https://www.youtube.com/watch?v=cAfh3cKxf2E?si=jozxLKpdKsVgBcvP

This is the audio version:

https://www.podbean.com/player-v2/?i=dgxtm-1b1a7d8-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition for this video is available here.

This is the transcript:

John Healey is the new Chancellor of the Exchequer of the UK, appointed by Andy Burnham on Monday, and as far as I can see, he is a man on a mission to fail. He made his first speech as Chancellor this week. He made it to his team in the Treasury, and very small parts of it got broadcast and commented upon in the media. But in what he had to say, he made four assumptions about his job that nobody else has questioned, but I will.

In this video, I'm going to say he got everything wrong. He said fiscal control is the first duty of any Chancellor, and I don't agree. And then he said fiscal credibility delivers stability, growth, and security, and again, I don't agree. The media treated all these claims as obvious common sense, but in truth, they're a chain of dubious economic assumptions, all of which require deep scrutiny. And that's what I'm going to do in this video.

The first assumption that John Healey made was that fiscal control is his first priority. But why? That's the question I'm going to ask. This is a man who thinks that he's an accountant or maybe even a bookkeeper. Nothing wrong with either of those roles, but he's just become Chancellor of the Exchequer. His role is not to be an accountant. He can rely on others to do that. His role is to be a finance director, somebody who ensures that the government can deliver. It is not to make sure that the books balance.

So, why is he saying that controlling government finances is his first duty when that comes way down the list?

Why isn't he talking about the more important things that he should be enabling through fiscal policy?

Why isn't he talking about full employment or rising living standards?

Why isn't he talking about tackling climate change or rebuilding infrastructure?

Why isn't he talking about building the homes that people in this country need?

None of those came up on his list of priorities. Balancing the books did.

He's got the ordering wrong. Governments and Chancellors of the Exchequer should be judged on the outcomes they deliver, but he isn't. He is talking about prioritising a tool, not an outcome. And in that case, he's confusing the map with the territory. He has got his job priority wrong, and that is seriously worrying.

His second assumption was that fiscal restraint creates stability, and this is just nonsense. Stability depends upon much more than public finance, and all the crises we've had of late have arisen from something other than a breakdown in financial or fiscal stability.

Energy shocks did not come from excess government borrowing. Financial crises like that in 2008 did not come from government borrowing. They came from excess private borrowing.

And Brexit was not caused by government borrowing either, nor, come to that, was a pandemic.

Stability requires resilience across the whole economy. So why is he claiming that fiscal restraint is what creates stability when there is quite simply no evidence that it does? He's wrong, and that assumption is also wrong, and he shouldn't have been talking about it.

John Healey's third assumption was that fiscal credibility creates growth. This is the old Treasury View. The Treasury View was created in the 1920s and 1930s in the UK. And it is wrong because it was based upon the gold standard. The gold standard limited the amount of money in the UK to the amount of gold that we supposedly had in the vaults of the Bank of England. But that has not been a constraint since 1931, when we left the gold standard. And most certainly since 1971, when the USA did, taking the whole of the world with it out of this old order.

That therefore is not a view that should be presented as a reason for fiscal credibility creating growth now. There is no competition between the state and private sectors for the creation of money. And how do we know that? It's because the crowding out story has always failed.

We know that the government creates money when it spends, and we know that the banks in this country create money when they lend. The Bank of England has said so and has done so since 2014. So, why doesn't our new Chancellor of the Exchequer say that?

There is no competition for money. If we need money in this country for constructive purposes to buy things that this economy can deliver, we can always have the money in question. Therefore, the whole basis of this claim, that fiscal credibility, which in these terms means a shrinking government, creates the opportunity for private sector growth is just wrong.

And we also know that because it hasn't worked out in practice, and we know that in reality, that's because private businesses have been given every opportunity, including all the funds created by quantitative easing, to invest since 2010, and they haven't. But at the same time, what we also know is that public investment has been kept in short supply, and as a consequence of that, we've had a shortage of education, health, transport, and a green transition. And they all create demand, value, growth, and spending. And so, in fact, government spending actually crowds in investment by creating the customers who want to spend with the private sector, giving them the reason to invest. John Healey got his logic wrong, and that's really worrying. If he's going to get something as basic as this wrong, what else will he get wrong in the future?

Let's look at his fourth assumption then, because this one is very specific and as wrong as the rest.

He claimed that growth creates national security in the UK. Now we know that John Healey has been focused upon defence for the last six years or so, as Shadow Defence Secretary for Keir Starmer before Labour won the 2024 general election, and as Defence Secretary since then, until he resigned because he wanted more money from the Treasury, of which he's now in charge.

This is a man obsessed with defence in that case. But why should he think that growth creates the prospect of national security? This makes no sense at all because security depends upon real capabilities and growth cannot guarantee that they exist.

So, let's just look at this particular question in more depth because it seems worthwhile given the obsession with defence spending which is now pervading not just the UK, but the whole of Europe.

NATO measures defence spending as a percentage of GDP. But as a matter of fact, threats are not measured that way. So, to measure the quality of the spend in proportion to GDP makes no sense.

Does a bigger economy mean that we automatically need more tanks? I don't think it does.

Does a recession make Britain safer because we would then require smaller defence spending, because that's what this claim implies? Surely not.

Doesn't strategy always determine the right level of defence spending, and not some arbitrary ratio, which is what John Healey and NATO are all talking about?

In other words, this does not make sense, and anyway security creates growth as often as the reverse. And security is a much bigger issue than defence.

Energy security supports business investment.

Good infrastructure creates security because we then have systems that could survive a situation of stress as a conflict would create, but it also raises productivity.

Education strengthens the economy and defence because we then have trained people.

Scientific research creates new industries, and they can stimulate defence initiatives.

Security is then the foundation of growth. But Healey doesn't seem to get any of this. He wants to spend on the whiz-bangs first and worry about the economy second. He's got that wrong. And anyway, without all these things to defend, why do we need the weaponry anyway? That's the question people in this country will ask, which it seems John Healey is not.

So, if he's got all these assumptions wrong, what should he be doing to be credible? Credibility is not about pleasing financial markets. That is what John Healey thinks, but he's wrong because financial markets are dependent upon the government: the government is not dependent upon financial markets. Financial markets need government bonds to operate. Credibility is then about delivering public purpose and not keeping market operators happy.

Credibility means full employment and stable prices.

It means resilient public services and investment in infrastructure.

It means tackling climate change and making sure that people feel safe in their homes for the long term.

It means creating confidence in society.

That is what real credibility means. That is what John Healey should have been talking about, but he didn't. And this shows how seriously he has misunderstood his job. In fact, he defined his job in the way that George Osborne might have done in 2010, and look what happened to him, oh, and all those Chancellors that followed him.

Do you remember Philip Hammond? Do you remember Kwasi Kwarteng? Do you remember Rishi Sunak, who went on to become Prime Minister? All these people failed, as did Rachel Reeves, and John Healey is going to fail in the same way because he's using the same ideas as they did in exactly the same fashion. And you cannot succeed where others have failed by repeating their ideas. That is the definition of madness, as Einstein once put it.

So, the real problem we face is with Treasury ideology. Healey's statements reflect orthodox Treasury thinking. These assumptions are treated as unquestionable truths, but they aren't. They've been wrong in some cases for more than a century, and all of them are political choices and not economic laws.

Westminster rarely challenges these frameworks, nor does the mainstream media, but that is Britain's real problem. We have no thinking going on about economics in this country. We are not short of money. We are short of ideas, and that's why this channel exists. That's why we are doing what Westminster won't.

So, we need better questions. John Healey should be challenged.

He should be asked: Why is fiscal control the first priority?

Why do you assume government crowds out growth?

Why are you assuming that security can be supplied in proportion to our national income?

And why are you basing your assumptions upon a Treasury view that is very obviously failed?

These are the conversations we now need in the UK. These are the challenges that John Healey needs to face. My concern is that unless we focus on outcomes, we are going to carry on discussing these silly rules that only reinforce failure, and that is the last thing that we need.

That's my opinion. You may disagree with it. If you do, there's a poll down below. Let us have your comments. Please share this video. Please like it. Please subscribe to the channel. Ring that bell because that means you get notifications about every single video we produce. And at the same time, if you'd like to buy Tom and me coffee, that would be great because creating these videos costs money and we rely upon your support.

Poll

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