

Economically illiterate

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The Guardian published a piece by the head of the audit commission this weekend. He is Steve Bundred and his piece was called [‘We've had years of growth - so let's not be afraid of cuts.’](#)

There's just one problem with his argument — which is we need cuts in government spending now — and that is that it is utterly economically illiterate. There are numerous reasons.

First, at a time when demands on civil servants will be very high indeed why risk alienating them by refusing any pay rises? Suppose a 2% rise was given. Given that no more than half government spending is on wages that would cost £5 billion. Slap minimum tax rates on those earning £100,000 a year or more — all of whom could easily afford to pay more tax and all of whom are the greatest beneficiaries of the bank bail out (after all, it was their savings that were protected) and the problem is solved.

But that's the pragmatic view. The absolutely appropriate Keynesian one is that whilst unemployment is rising (and it is) the only correct course of action by the government is to spend. The prevailing consensus that cuts are the only agenda in town is simply wrong. The reality is that since the 1930s government borrowing has (war time apart) has always fallen when we had governments genuinely committed to spending and always risen when the reverse has been true.

[Will Hutton](#) knows this:

Obviously Britain cannot run deficits of 12% of GDP indefinitely - but cutting them aggressively in a world of debt minimisers will prompt a depression. The correct policy is three-pronged. The government must spend and borrow radically until the downward phase stabilises - but in such a way that spending commitments can then be radically reduced in stabler times. New banks need to be created and old banks broken up to deliver more competition, more credit flows to business and less systemic risk.

I put it another way in a piece I wrote last week:

There are only two plausible reactions by government in the case of a recession. One is to behave as if government is a business or household facing tough times, and cut costs to suit falling income. That, I state quite emphatically and categorically, is the wrong reaction.

The other possible reaction is the right one. This is to spend our way out of recession. I know that sounds counter-intuitive. Of course it is true that an individual, family or company should when faced with reduced income reduce their spending to match. However, the fact is that countries are just not the same as companies, families or individuals.

Thatcher thought the country was a grocer's shop. She was wrong. Bundred is in her school and he is wrong.

There will be a time for cuts, of course. that is why real spending now must be on investment. That is why we need a Green New Deal. But the last thing we need are people saying cuts are the only option, because that way guarantees just one thing, and that is recession.

Small minds cannot see this; ergo you can guess what i think of Steve Bundred's mind.