

Martin Wolf - Spare Britain the policy hair shirt

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I've just noted [Brendan Barber saying](#):

Sometimes the responsibility to speak "truth to power" is pressing, no matter how much those in power claim to be acting on common-sense consensus - and this is one of those moments.

Martin Wolf has risen to the challenge in the FT. He's written, [echoing sentiment expressed on this blog](#):

The UK should tighten fiscal and monetary policy now, in the depths of a slump. That, in essence, is what the Organisation for Economic Co-operation and Development calls for in its latest Economic Outlook. I wonder what John Maynard Keynes would have written in response. It would have been savage, I imagine.

As he notes:

The OECD argues: "A weak fiscal position and the risk of significant increases in bond yields make further fiscal consolidation essential. The fragile state of the economy should be weighed against the need to maintain credibility when deciding the initial pace of consolidation, but a concrete and far-reaching consolidation plan needs to be announced upfront." Furthermore, monetary tightening should begin no later than the fourth quarter of this year, with rates rising to 3.5 per cent by the end of 2011.

And as he says in response:

Let us translate this proposal into ordinary language: "If you are unwilling to starve yourself when desperately ill, nobody will believe you would adopt a sensible diet when well." But might it not make sense to get better first?

It's highly recommended you read all his logic that follows, but as he concludes:

The OECD seems to take the view that the only big risk is a loss of fiscal and monetary “credibility”. It is not. The other and — in my view, more serious — risk is that the economy flounders for years. If that happened, eliminating the fiscal deficit would be very hard.

If, as the OECD and Britain’s coalition government believe, fiscal tightening must be accelerated, the corollary is ultra-loose monetary policy, until recovery is established. If, alternatively, monetary policy is ineffective, as it may be, fiscal tightening should be announced, but implementation should be postponed until recovery is secure.

I have now lost faith in the view that giving the markets what we think they may want in future — even though they show little sign of insisting on it now — should be the ruling idea in policy. So now should the OECD.

This is what has to be said.

There is an incipient madness creeping over the entire media, fuelled by the inappropriate demands of the markets that Wolf notes , saying austerity is the only way forward.

It is if we want a depression and all that has historically followed from them.

But there is an alternative, as Wolf makes clear. And there are, as he again makes clear, much higher priorities than keeping markets that don't know or understand what they want happy. The alternative is the way of Keynes. And as Wolf notes:

Yes, [mine] is a Keynesian argument. But this is a Keynesian situation.