

The ConDem's cute: an economic and political suicide...

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The ConDems have said in the [first line of their coalition declaration](#) that:

The parties agree that deficit reduction and continuing to ensure economic recovery is the most urgent issue facing Britain.

Will Hutton is no more convinced of the merit of this than I am. As [he said this weekend](#) :

Managing the aftermath of the banking crisis will define the coalition government. Weekend reading for all the new economic ministers should be chapter 14 in Carmen Reinhart and Kenneth Rogoff's new book This Time is Different. The two economists set out in unambiguous terms what the experience after credit crunches has been in dozens of countries over the past 100 years. Essentially, there are profound losses of output and employment, drops in asset prices and increases in public debt that dwarf any costs of the bank bailout. But what we are living through is different and far more worrying; the aftermath of a global crisis in which many countries are wrestling with the consequences of unravelling the legacy of indebtedness with crooked banks. It is new territory. Old assumptions about [economic policy](#) have to be challenged.

But not in the coalition, it seems. What is worrying is that the Tories are still wedded to the old-time religion of the minimal state. Of course budget deficits have to be cut, but this is not 1976 or 1993. After a credit crunch there is a "new normal". Companies and households focus on cutting their debts; banks reduce their lending. In this world changes in public borrowing have incredibly powerful positive and negative effects. The scale of the reductions now contemplated within one parliament might make sense if the rest of the world was booming and if the economy was reasonably balanced. In today's circumstances, they are close to an economic and political suicide note.

The geography of where spending cuts will fall should alone make the coalition stop and think. In many parts of the country the private sector is on its knees; the public sector is the only employer. In the West Midlands private sector jobs have fallen by 60,000 and public sector jobs jumped by 120,000 over the past 10 years. In most areas of the

country outside London and the south, around three quarters of the new jobs have come from the public sector. Stop this in the aftermath of a credit crunch and you have a recipe for social disaster.

Deficit reduction should start, but the government must declare that if the economy wobbles, it will act fast to boost it, not blindly plough on with deficit reduction. It is an exercise in expectation management. Business is not ideological. It wants orders — and couldn't give two hoots about the small or big state when its back is against the wall.

The reason is obvious to all who have an inkling of the proven truth of Keynesian economics, as the [Observer leader writer clearly has](#):

All of the main parties fought the election recognising the need to bring public finances under control. But only the Conservatives preferred immediate, harsh austerity to a more staged withdrawal of government props to the economy. There are good reasons to reject the Tory approach. Britain's creditors demand fiscal discipline, but not national sado-masochism. Honesty over the exact scale and timetable for cuts is more important than instant and aggressive implementation, which could stifle demand in the economy and trigger a lapse back into recession.

I fear not recession, but depression. Not just a tough time, but a bloodbath.

As [I wrote last year](#), and I will repeat again, making cuts in the public sector makes no sense until those leaving a job have a private sector job to go to. That is not the case when there are already 2.5 million unemployed.

But it's that folly that Osborne and the ConDems are embracing.

I'm worried. You should be worried. Someone you know is going to lose their job, soon, and have no chance of getting another one.