

Funding the Future

Article URL

Published: January 12, 2026, 5:53 pm

As [the FT notes](#):

Bad economic news bombarded the Treasury on Monday as [new International Monetary Fund forecasts](#) cast doubt on the chancellor's deficit reduction plan, while near-term indicators suggested the recovery was losing the little momentum it had.

The IMF judged that Britain's economy had less capacity to grow quickly over the next few years than the government had hoped, slowing the reduction in borrowing to the point where it comes within a whisker of [missing George Osborne's main fiscal target](#).

They added more bad news after that, but let's stick to the IMF for the moment.

The message is clear - Osborne has set out his stall based on the objective that the deficit should be cut and a downward projection for debt should have been established before the next general election. It was a simple criteria for success or failure. He chose it for that reason. And it already looks certain that he won;t succeed in meeting it.

Osborne's plan required growth - not least massive growth in tax revenues from an economy he thought would boom as he pulled back the state.

But it's not. The reaction to his spending cuts is as any good Keynesian would have predicted: companies and consumers alike are cutting their spending in the face of the very real prospect of hardship that these cuts foretell, including the risk of loss of income, unemployment and having to make payment for services that they reasonably expected the state to supply. This is the [paradox of thrift](#): the rational attempt by consumers and companies to save in the face of attacks on their income and future ability to earn results in a loss of real economic activity, a reduction in income for all, and an inevitable failure on the part of government to realise its objective of reducing its own deficit. That is why, inevitably, George Osborne is not meeting its target.

The downside is that the IMF seems to think that the best reaction to this will be more cuts or tax increases, and that's the exact opposite of what is required.

Will they ever learn, or do we have to sink into oblivion first?