

The road to ruin is paved with balanced budgets

Published: January 13, 2026, 7:07 am

It is quite extraordinary that one of the key proposals to come out of yesterday's meeting between Merkel and Sarkozy was a demand that Eurozone countries put balanced budget legislation in place by 2012.

Balanced budgets are, of course, designed to constrain government activity. They're not an economic policy: they're a right wing political policy that says a government may not borrow to fund its activities.

So, unlike business, which borrows extensively to fund investment, and unlike households, the vast majority of whom could not ever acquire a home without borrowing, government is not allowed to borrow under these proposals even if it were appropriate for the government to do so to fund programmes that can supply considerable future benefit to the people of its country.

So, hospitals must be paid for up front. And so must schools. And roads. And all other infrastructure.

More than that, if the market fails to supply a enough demand to create full employment (as is the case now) then such a move would ban the government from intervening to create demand even though it is known that the only way to get out of the resulting recessionary downward spiral is for the government to intervene and stimulate demand until recovery occurs - when rightly it should pull back and repay its debts. In effect these laws would outlaw the only proven mechanism for defeating recession as created by Keynes in the 1930s.

To describe the measures as economic insanity is in the circumstances being kind to them.

It's easy to see the logic behind such proposals though. All hospitals must be private in future if this is to happen; and so will all road building be privately funded. Education will now be under the control of the private sector and run for its benefit. Whilst if there are unemployed, so what? It keeps wage rates down for the benefit of business.

This law would then be designed for three purposes. The first is to make sure that privatisation across Europe is guaranteed. The second is to advance the interests of the banks who will profit enormously from that process because there is so much more money to be made by funding infrastructure privately than through government (which in itself is the clearest measure of the inefficiency of the proposal and the massive likely cost to the taxpayer of doing it) and finally it's designed to shift yet more of the resources of Europe to the rich.

Which is why it has to be vehemently opposed.