

The Telegraph realises the mess we're in - and begins t...

Published: January 15, 2026, 3:22 am

There was a [rather surprising article in the Telegraph this morning](#) that supports my hypothesis that the economic narrative is changing. It was by Jeremy Warner, who has been hard into cuts and the austerity programme and firmly pro-Conservative to date as far as I can recall from what I've read by him. Because quoting is necessary for my argument I am going to do so at liberty.

The the tune has changed is obvious from this, stressing that I am not always showing the cuts I have made:

UK government bond yields have fallen to historic lows the depths of which even six months ago would scarcely have been believable — less than 2.5pc on ten year gilts. Those of us who have been calling the top of the bull market in bonds for the best part of the last two years are left with egg on our faces. I'm hardly alone. Step forward Bill Gross, John Paulson, Jim Rogers and a litany of other self styled market "experts".

And those who got it right? Well I hate to pay him the complement, but among others Paul Krugman, whose religiously preached Keynesian analysis of the crisis has, in this regard at least, been spot on.

You read that right: a "we've got to live in fear of the markets" man admits he's been wrong all along. He continues:

So why is this happening? Why is it that despite ever more mountainous government debt, investors want to keep buying into the non-eurozone version of it? ... [T]he single most important factor that underlies all this is that when householders, businesses and the financial sector aren't spending and investing, a savings surplus accumulates which has to go somewhere. In the search for safe havens, it goes first and foremost into government debt, where it is used to provide the demand which the private sector has decided to remove. When governments attempt to reduce their demand for debt, as is beginning to happen at the moment with fiscal austerity programmes, you get a self feeding pressure of excess demand on limited supply, and yields fall even further.

Note that: first there is a demand for bonds - and no one is going to run away from them. Second, governments should stimulate demand (Keynes all over) and when they don't, by choice yields fall - which is happening now. Why? Let the man go on:

What these yields are pointing to then, is a depression. In such an environment, corporate profits will suffer and insolvencies will rise. Equity markets suffer accordingly.

Yes, that's what he's saying: he's saying the government is choosing to put us into recession, even though as he notes the government is paying record lows for his money. And note his cynicism here:

George Osborne, the Chancellor, likes to see this phenomenon as a vote of confidence in his deficit reduction strategy. Unfortunately, that's only part of the story. As I say, they've had similar yields in Japan for years now, with no sign of a credible deficit reduction strategy in sight and public debt spiralling up towards 250pc of GDP.

Unfortunately, low gilt yields are more indicative of impaired private sector demand than they are of Government resolve. What the economy appears to need, and I really do hesitate to say this, is a good old fashioned bout of inflation, but then we've already got that in the UK, and to perpetuate might seem only to replace one problem with another. Yet there are few more effective ways of eroding the doomsday machine of excessive debt.

Oh boy, the man also buys my argument for inflation.

Believe me - on a day which is deeply depressing for the left, after a week I've found quite hard, this is sure sign that the right are losing the economic argument hands down and that we on the left are winning it.

They're conceding defeat on the right. And if that happens then two things happen. Either Osborne does the most massive U turn - which will secure Tories power for time to come (heaven forbid, and actually unlikely - U turn governments are rarely forgiven on the economy) or he'll refuse and be swept from office for good.

But things are changing, I'm sure.

Hat tip: Nick Shaxson