

Funding the Future

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The IMF's new director is warning the world that universal austerity will not work. Coordinated action to encourage growth is needed, she says.

The UN agency responsible for trade and development, UNCTAD, has issued its annual economic review and has included in it a stern warning that the economies of countries do not behave in the same way as households, even though right wing economists and politicians from Margaret Thatcher to George Osborne are adamant that they do.

Eminent economists like Krugman and Stiglitz ring their hands in despair.

Leading UK commentators like Martin Wolf and Larry Elliott do likewise.

All of them know that the debate on whether we're now in recession again is almost over: the inevitability of double dip is being conceded.

For those, like me, who have been arguing for a long time that first of all recession was likely and that double dip was inevitable without sustained government intervention this is all rather depressing because we also knew this was not inevitable and as such could have been avoided. It is the poverty of right wing thinking that really believes that the national economy behaves like the corner shop (which few, if any of those who promote this thinking have ever run in any event) that has led us to this mess.

So what now? Well to some extent I have to wait to answer that question as I'm addressing it in my forthcoming book - The Courageous State.

Suffice to say that now we cannot make progress unless it is conceded that neoliberalism is not just broken; it is fundamentally wrong. The belief that markets can provide answers to all problems has led us into this mess, and left us with incapacitated politicians who think there is nothing they can do about it (which is why Osborne persists in doing nothing). No one should dispute markets are powerful tools for delivering real benefit, because they are. My own experience has taught me that. But anyone who thinks they solve all problems suffers three problems.

The first is the evidence does not support their case. Just look around you.

The second is that the theoretical models that support this argument are ludicrously flawed.

The third is that the people who persist in this argument almost all work in secure employment in government Treasuries or universities and have no experience at all of the best in which they place so much faith.

I have that experience. And I know markets are full of people who are as clueless about what will happen next and who are as willing to fly by the seat of their pants as the person setting out to climb a mountain without a map or guide. They're not wrong to do that - it's just what has to happen in a world of uncertainty.

But in that same world of uncertainty (which neoliberals do not think exists) there has also to be firm government action under the direction of politicians who know they have been elected to make decisions. We don't have those politicians right now, and we don't have politicians who are equipped with the right outlook and intellectual understanding to make those decisions.

No wonder we are in a mess.

But there is a way out. And that's the reason for hope.

It's just a shame we have to change the government and neoliberalism first, but we'll do it: don't worry.