

John Plender, explaining why cutting government spendin...

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[John Plender's article in the FT this morning is first rate](#): it is an example of macroeconomic analysis that understands that this is not microeconomics extrapolated. It does this using the fundamental accounting equations that are implicit in any macroeconomic analysis. It would be worth it for the first few paragraphs alone, of which what follows are a taster, but I recommend the whole thing.

In the US election the size of the state is the central, feverishly contested issue. So, too, in the political debate in the UK and Japan, where large overhangs of public sector debt make fiscal retrenchment as much of an imperative as it is in the US. Yet in all three countries a fundamental point is missing from the discussion — namely, that the state is hostage in each case to a corporate sector that poses a huge obstacle to public sector shrinkage.

The background is a subtle shift in the relationship between business and the state. Historically, companies have run fiscal surpluses — that is, saved more than they invest — in recession, while going into deficit when they invest during the recovery. In the US and UK this long-standing pattern has strikingly changed over the past economic cycle. Because of a secular decline in fixed capital investment and a similar secular rise in profit margins to exceptionally high levels, business is continuing to save well into the upturn by investing less than the sum of its retained profits. These business savings surpluses are running at about 6 per cent of gross domestic product in the US and 3 per cent in the UK.

This has important consequences for the “fairness” debate because rising profit margins shrink the share of output that goes to labour and, because the rich own shares, income inequality has increased. The effect has been exacerbated by the winner-takes-all bonus culture.

As you can imagine, his point in what follows is that this is, inevitably, unsustainable. He's right, it is, inevitably, unsustainable. But as he says, unravelling the mess is the hard bit. Politicians shouldn't duck it. The fear is they will.