

## The harmful myth of the balanced budget

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Common sense would have it that balancing a budget makes sense. I guess it all goes back to Dickens and his maxim that if income was £1 then spending £1.025 was a recipe for disaster and 97.5p a platform for happiness (even if it works so much better in pounds, shilling and pence).

The trouble with the maxim is it's, in the long run, true for households (when inflation is adjusted for).

And it's almost never true for economies as a whole, or their governments, as Sam Brittan argues, eloquently, in the FT this morning. [As he puts it:](#)

*I have no doubt Oliver Cromwell could balance the [UK budget](#) with sufficiently draconian measures. But there are such things as conflicts of objectives. The aim of the macroeconomic side of a national budget should be to help balance the economy. George Osborne's comparison, when he took office as chancellor, of the national budget to "every solvent household in the country" was wrong, wrong, wrong. Around the same time Sir Mervyn King, governor of the Bank of England, called for a grand bargain in which lower domestic demand in deficit countries was offset by an increase in domestic demand in the surplus countries. Predictably there was no such bargain and the half- million increase in UK export sector jobs he hoped for did not materialise.*

And, as he rightly notes, [agreeing very much with what I said this week](#), they won't without international cooperation, which is the antithesis of Cameron's intention to stand alone whilst complying with every demand of 'the markets'

Nor will they happen without innovative thinking of the sort [Lord Turner has called for](#). As [he noted](#):

*The crucial mistake was a failure to recognise that debt issued by a nation within a multinational currency zone is quite different from debt issued by a nation which also issues its own currency — it is inherently more susceptible to default risk, it is inherently less likely to be perceived as risk-free.*

Which is why we aren't Greece. And why we don;t need a balanced budget. And why Osborne is wrong: badly wrong.

And which is also why for us QE has worked by simply cancelling debt - something [I have suggested](#) and which I think he implicitly acknowledged has, in effect, happened. I suggest something more radical: make it explicit.

The ground seems to be clearing for radical rethinking on economics. The errors are being acknowledged now: that's the basis for building change. I just hope some serious alternative thinking is embraced. Turner may just be the man to do it.