

The absurdity of austerity, in a nutshell.

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It's been said many times here before now, but it's worth repeating as no one in politics ever seems to notice what [Sam Brittan points out in the FT](#) this morning which is:

The classic elementary introduction to economics by Paul Samuelson used to begin by spotlighting the “fallacy of composition”. That is the belief that what is true at a personal or district level applies to the economy as a whole. Ministers in the present government would gain if they forced themselves to read at least the introduction to that book. You do not have to be a socialist to object to the UK government’s treatment of the economy as if it were a small shop writ large.

He is absolutely right. Let's take a simple example. Suppose the corner shop has two employees and time get tough so it sacks one. It now has one employee left to pay. It has less productive capacity but it is not paying for the excess it deems it does not need.

Now let's look at the state. It has two employees (it's a micro-state I guess, but the figures don't really matter). Times get tough so it applies the small shop owner logic and sacks one. But now that person is unemployed as no one else is hiring as the government is giving out the signal that the economy is having a tough time. So now the state still has two people to pay but is getting the productive capacity of one.

And that, in a nutshell, is the absurdity of a policy of austerity when the fallacy of composition is not understood.

The real answer in a down turn is, of course, for the government to take a person on, give them work and boost the economy so that the private sector thinks it should do the same - and then, and only then, cut the staff the state does not think it needs. And, [as I've shown](#), the cost of hiring in recession is likely to be tiny in real terms, and may be even be negative.

There's [much more on this here](#).