

Why a budget surplus is the last thing we need

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The [FT reports this morning that](#):

George Osborne will proclaim on Thursday that a budget surplus is in sight for the first time since the millennium, raising Tory hopes of significant tax cuts in the next parliament after nearly a decade of austerity.

Oh heaven help us is all I can say. The last thing this country needs right now is a budget surplus.

The trouble with George is he has never studied either economics or accountancy. If he had he would realise that there is no merit in a budget surplus, not least because such a surplus is part of an accounting equation. At the macro (national) level, which is what we're talking about, there are some accounting equations that hold true in economics. One is that the economy does in fact balance. It may well balance at the wrong point with a result that we do not want, but it does balance. And what that means is that if someone is in surplus then someone else is in deficit.

There are not too many variables in this equation either: just the government, consumers (that's you and me), business and trade. So, if the government runs a surplus someone else has to run a deficit. It's pretty obvious really: the books will balance. So, a government surplus is matched by increasing consumer debt, business spending or money flows via trade.

We have remarkably little control over trade. First, we almost invariably run a deficit and secondly we have (unless we suddenly and ruinously begin using interest rates to alter exchange rates) almost no control over that rate so let's treat that as fixed to the extent that it is beyond control. And let's also be aware that such is the state of the Eurozone we should not be looking for much hope from that source - which is our biggest market.

In that case we're looking for a government surplus to be matched by consumer borrowing and business spending on investment.

Now, again, let's deal with the easy one - business spending. This would be on investment of course; we can't imagine they're going to start a free for all in pay rises for anyone but bosses. But as we know, [whilst they're laden high with cash](#) (which right now they lend, in practice, to the government) they appear to have no intention of spending that and worse still [appear clueless as to what they might spend it on](#). There is no hope of them creating a deficit on their budget, and so they will not create one for the government.

In that case we're down to consumers to start borrowing heavily to make the government surplus happen. And you now wonder why George is creating a housing bubble? This is his only hope for creating that surplus that he desires.

But he doesn't just need a bit of a bubble, he wants us to plummet into debt. As Duncan Weldon at the [TUC has long argued](#), George's growth plan in 2010 - was predicated on consumers going into increasing household debt on the basis of their belief that a budget surplus and tax cuts would be just around the corner. Consumers had more sense: they did not believe him and so we got a recession [because they saved instead of spending](#). Now George is back on the same band wagon - with the same tune - selling the same myth but with the added twist that this time he is literally giving the money away through subsidised mortgage lending to try to make it happen.

Will it happen? Well, yes, there is some evidence that consumers are now borrowing more. When consumption is rising and wages are falling that has to be true. And Osborne no doubt hopes that rising house prices will allow this to continue but I very much doubt it. Far from it in fact: consumers are not that stupid and most simply won't be offered the credit from anyone but Wonga this time, and that runs out fast.

In other words - that bubble will burst soon. And with it Osborne's hope of a surplus. All we'll then get is a [Geddes Axe, 1922 style](#) - and we all know what followed that.

And this is utterly absurd. First we do not need a surplus: when the government has control of its currency it can run a deficit equivalent to debt multiplied by the interest rate and stand still - so £30+ billion a year of deficit is balance right now.

Second, as George [has now found the multiplier](#) he should be spending - [as that is the way to clear debt](#).

When, oh when, will we learn?