

## The incredible Ed Balls

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Ed Balls looks like he's going to do it again. For the third year running it looks like he is planning to deliver a disastrous speech on economic policy to the Fabian Society. Why does he do it? Why do they ask him back?

[This time the Guardian says:](#)

*The shadow chancellor, [Ed Balls](#), is to give a binding commitment that a [Labour](#) government will be running a budget surplus by the end of the next parliament, putting himself under severe pressure to deliver big public spending cuts if the party wins the next election.*

The significant move means that Labour will now face the dilemma of either raising taxes after the election or adopting a similar daunting level of cuts in day-to-day departmental spending already proposed by the chancellor, George Osborne.

Last December I wrote a blog on why the last thing this country needed was an economic surplus. It was aimed at George Osborne. Let me reprise the arguments.

What I argued then and what I rep[eat now is 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, always. 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 because we can't imagine they're going to start a free for all in pay rises for anyone but bosses right now. 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 a surplus for the government.

In that case we're down to consumers to start borrowing heavily to make the government surplus happen. I stress, this is the only way this can happen. This is exactly why George Osborne is creating a borrowing bubble right now - and why it seems to be delivering growth. In pure maths terms it has to do so. But what Ed Balls is saying is that he is guaranteeing that this will continue until there is no deficit.

You can't achieve that by cutting. That takes money out of the economy and simply balances it at a lower level than before.

It's hard to do it with tax increases unless - and it's a big unless - they're heavily redistributive, which can work.

So all that can create this balance is increased consumer spending from borrowing and growth - growth which will not be happening because government will be spending less.

What Ed Balls is suggesting is incredible - but I mean that in its literal sense. It is not credible. It just cannot happen. This is plain bad economics. And with it Labour's economic credibility is in tatters.

Why, oh why, does Labour want to fail so badly?