

From 'Cuts won't work' to 'ONLY cuts will work' - the f...

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Jon Cruddas summarises the poverty of Labour's thinking when [writing in the Observer today](#), saying that:

Thursday is a big moment for the renewal of social democracy. The Institute for Public Policy Research's 'The Condition of Britain Report' sets out a plan to tackle our social problems and rebuild society when there is no money to spare. Whoever wins in 2015 there will be more cuts to come.

I added the emphasis.

Cruddas is wrong. So was [Andrew Rawnsley wrong in the same paper when he argued:](#)

Labour needs to be candid about the painful cuts it will have to make. Behind the scenes, Labour's Treasury team has begun to identify how it would squeeze spending to balance the books if the party were to win power.

And, for the record, Ed Balls and Chris Leslie will be wrong if they try to impose this policy on labour in power.

There is one fundamental reason why I can make this statement with such confidence and that is that at the macro (national) level there are some accounting equations that hold true in economics. One is that the economy does, in fact, balance as a matter of fact. It has to: double entry requires it. 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 of the sort Labour says it wants must be matched by increasing consumer debt, business spending or money flows via trade. There is no other way it can happen, as a matter of fact.

The trouble is that creating surpluses in these other areas is going to be hard. First, we have remarkably little control over trade. As most people are aware, 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 our exchange 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. Trade, then, will not be our salvation, whatever we might hope.

In that case we're looking for a government surplus to be matched by either consumer borrowing or by 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 right now a their reticence to spend appears solidly inbuilt to their psyche, and so they will not create a surplus for the government any time soon.

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, when at the TUC, [long argued](#) Osborne'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.

But we all know that warnings are being given everywhere about the fact that this bubble will burst, or at the very best, be deflated gently. There is, therefore no sign of salvation on this front either.

In that case none of the pre-conditions for a government budget surplus exist in the economy and as a consequence there is nothing it can do to create one. It can cut all it likes, but all that will do is make matters worse. People will save more as their safety net is removed. Business will invest less as one of its biggest customers - the

government - indicates it is buying less and trade will still remain beyond control. So whatever cuts are imposed the budget will not balance.

The questions to ask in that case are why Labour does not know this, why it does not acknowledge it and why it is not honest about both facts with the electorate. If it was it could, of course, [propose the alternative economic policy we actually need](#), which is that the government should invest to create the future the country and our economy needs. But because it won't be honest Labour cannot make this case and is instead stuck in a morass where failure is the only sure thing it is offering.

It's really weird that a political party should set out to fail, but Labour is. Why is the question a lot of people should be asking.