

The dead hand of austerity

Published: January 14, 2026, 1:43 am

Paul Krugman had a column in [the New York Times on Saturday](#) that suggested that there is strong evidence to suggest that for every 1% of austerity that is imposed by a government then 1% of capacity is lost in the economy. The argument appears to be compelling.

Now think about this in the UK context. If 1% of austerity really does reduce GDP by 1 percent, then the current government's austerity programme from 2010 to 2015 might have reduced potential output by 6 percent (although I accept that this is arguable). That may equal about £90bn. If the tax share in GDP is 40% then that equals £36bn - enough to reverse all the social security budget and some of the other cuts as well, without having to make additional tax rises.

If only Labour would think in these terms rather than accepting George Osborne's austerity economics we'd face real choice at the next election, and the prospect of retaining incredibly valuable services.

The fact is that the multiplier works, even in reverse. And that is what the evidence shows.