

I despair of the Wonga economy

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The FT tells a story without realising this morning. This combination of stories appeared on one of their emailed news alerts today:

I am sure the juxtaposition was just chance and yet what the two stories have to say is important.

The first is that we have not rebalanced the economy. Financial services remain as important as ever they were. And we know that did not work for us. For all the talk of reform so that we would supposedly become a country of makers again George Osborne has not achieved his goal: the City and its activities remain at the heart of the UK economy now just as they were in 2007 and we remain as vulnerable as ever as a result.

The second story is even more telling though. [This says](#):

The UK's largest companies by market value are sitting on cash piles of £53.3bn, more than two-fifths higher than the amount of net cash they held last year, according to Capita Asset Services.

The report is one of many that tries to estimate how much cash large companies have. The consistent theme is that they are holding more. This is just another repetition of that message, but two things matter about this.

The first is that if big business is holding cash it is not spending it. And if it is not spending it then that money is not in the economy and that means that this cash is not in the economy. As [I have explained many times](#), there are only four drivers of growth: increasing consumer spending, increased business investment, increased net exports and increased government spending. Now we know the government is cutting and export news is bad so the only chance of recovery comes from either increased consumption or increased business investment and what this survey and others show is that the latter isn't happening, so it all comes down to consumption to keep the

economy moving at a time when real incomes are falling. And what that means is that growth is now wholly dependent on people taking on debt they cannot afford. This is the Wonga economy at work.

And yet, secondly, and just as importantly, the FT article makes no mention of this aspect of the story as if the macro-economic implications of this cash pile had not occurred to its compilers or the FT's journalists. It does offer some discussion of which sectors might be investing or not, I admit, but the core element of the story clearly arrives with this comment:

According to the Office for National Statistics, the number of M&A transactions involving UK companies remains historically low, with 76 domestic acquisitions in the first half of the year and 51 overseas companies being bought by UK groups.

The whole concern goes back to the City: it's not that business is not investing in real economic activity, innovation and growth that matters; it's the fact that it is not spending its money buying other businesses to fuel City fees that is the real concern, apparently.

I despair of the FT.

I despair of the lack of understanding.

I despair of the lack of vision in business that sees no use for its cash pile.

I despair that we're imposing cuts on essential services to fuel corporation tax cuts to help these cash piles grow.

I despair that we apparently believe that only business can generate new jobs when it so obviously failing to invest in doing so - and is making new zero hour minimum wage roles at best when it has money available to do so much better.

I despair that despite this the myth is still peddled that all prosperity is generated in the private sector.

I despair that our politicians have not a clue about how to get us out of the mess we're in.

I despair that the alternatives are not being considered.

I despair that when it comes down to it we just see more personal debt advanced to people who already cannot make ends meet as the only answer for our economy.

I despair of our poverty of ambition.

I want for something so much better, and I know I am not alone.

Do you wonder why people feel alienated form politics?