

What I want in 2015: an end to the austerity narrative

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Christmas is over.

And I might still do a review of 2014, but since I am always much more forward than backward looking I am more interested in my 2015 wish list than any appraisal of what did, or did not, work in 2014. With that in mind I have a number of blogs I might write on just what I wish for on 2015.

An end to the narrative of austerity is the first, and over-riding wish because austerity is akin to madness. We have to remember that the austerity narrative did begin with some theory. It was claimed by those who think that the market is the answer to everything that if only the government cut its spending than the private sector would rush into the space that this created within the economy and that the entrepreneurs who would then be liberated by a reduced tax bill would create new products, services, jobs and growth.

The logic was always wrong. First, it assumed that the economy is of fixed size and already at full employment so that because the state employed someone, or used capital, then this meant that resource was necessarily denied to the private sector. That was very obviously wrong in a recessionary environment: since 2008 economies throughout the world have suffered under employment and stagnation coupled with very low costs of capital so that any entrepreneur with any ability who wished to take advantage of a market opportunity has had ample opportunity to do so. The whole logic that the state was denying entrepreneurs an opportunity was completely wrong from the outset.

It was also absurd to think that the economy was of fixed size, although that was necessary assumption for austerity to work. The logic of austerity is based on the theory of the firm, which is that if it is in trouble a firm can get rid of costs (like employees) without worrying about them after they leave as they are no longer on its payroll. But this is not of course true of the state: if someone is made unemployed in the state and there is no alternative work for them they still exist: they still have to be fed, and they still need public services. All that happen is that as a result of their

sacking there is now no productive activity from them to help meet that demand, or pay the tax that makes it possible. So, in the economy as a whole sacking people simply means that there is less income and if there is less income than it inevitably follows there is less tax, more benefits are paid, and the pressure on public services is therefore greater, and the capacity to supply such services is reduced. This also remains true if, as I admit I did not expect, the economy substitutes poorly paid, part-time, insecure and potentially self-employed work for secure, better paid work. In both cases the capacity to supply the services that people need is reduced, the austerity does not work, and never can.

If the theory of austerity has not worked then the practice has been even worse than expected: if the exceptional year of 2009, in the immediate aftermath of the crisis, when the government had little chance to react to the situation, is excluded from consideration then the deficit has hardly been cut since the recession began but one million public sector employees have lost their jobs, with many more yet to do so, and public services have, in a great many areas, been slashed whilst many more are at crisis point. These are not peripheral issues either: it is the NHS, law and order, social services, child protection and many other issues of fundamental importance to the well-being of society that are at breaking point. The police are clearly expecting to be out of their depth soon, if they are not already.

I have said it before, and I will no doubt say it again, but there is only one way round this and that is for the government to spend now. When consumers, business and export markets all refuse to provide the necessary stimulus to the economy that it needs to get things going again then there is only one option left if we are to see a recovery in employment, sustainable growth, public services and, perhaps most importantly, those innovative parts of the UK private sector that do, without doubt, help create a significant part of our well-being, and that is government spending. So, unless the government is willing to borrow at the exceptionally low interest rates that it now can enjoy to invest in infrastructure for the long term and the necessary investment in new enterprises undertaken on a joint venture basis with the government to stimulator long-term economy in areas where there is obvious public need, such as energy technology, new building methods to meet the needs of the twenty first century and health care innovation, or is willing to fund the same activities by literally printing money through a new round of quantitative easing, then we have no hope of getting the economy out of the mess that it is in.

Austerity has failed. But in the wreckage it has created there are the building blocks of the economy we want, the knowledge of how to create it, and the desire to deliver it if only politicians were willing to embrace these issues of investment and practical wealth creation and realise that this is the way in which they can secure their own futures, as well as the safety of democracy and the well-being of the people they are meant to represent.

That's not too much to ask for in 2015, is it?

