

What Osborne forgot to say: austerity does not guarante...

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The way George Osborne tells the austerity story you'd think that it followed automatically that if he imposes austerity by cutting government spending it will automatically follow that the government will balance its books. I think it vital that everyone realise that this does not follow.

I keep coming back to a simple fact which cannot be avoided. This is that there are at the end of the day four components to our national income. They are consumer spending, private sector investment in business and housing, government spending and net trade balances. That's it.

The inevitable and obvious consequence of cutting government spending is, then, that GDP will fall. This has to be pointed out. Fewer people working for a government that does less means that the government generates less wealth for the country. Unambiguously that is what George Osborne is saying he will do over the next five years. He is planning to reduce the wealth generation for which he might be responsible. [As I explained yesterday](#), that is a dogmatic decision and not a logical one, but it is one he is making nonetheless.

What that then means is that if we are to have growth - and the OBR is forecasting growth of between 2 and 2.5% over this five year period - it has to come from some pretty spectacular economic change in performance from elsewhere in the economy. This was the purpose [for sharing this graph from the FT](#), which I also did yesterday:

If GDP is to rise, as is forecast, and the government is to despite that cut its spending and at the same time move into a surplus instead of borrow then the only way that can happen is if households spend more, business invests more and foreigners buy more than now. And that means each of these has to save less - or borrow more - to achieve that and so compensate for the government borrowing less. This is an accounting equation: it has to happen in this way in some combination if growth is to occur and the government is to borrow less.

This morning the [FT notes that worldwide wages are stagnant](#). There appears to be little prospect for change.

And [Gillian Tett in the FT also notes that](#) "It has been lamentably difficult to get private sector investors to fill the infrastructure void".

And [as the Guardian reported last month](#):

Over the third quarter, the trade deficit widened by £900m to £29bn after exports fell by £300m but imports rose by £600m.

The UK recorded its largest ever deficit with Germany in the third quarter, amid a deteriorating economic situation in Europe's largest economy. Meanwhile the UK's surplus with the US was the lowest in almost eight years.

If you can see radical reform on that front, I can't.

So where is this growth coming from? Well, as many have noted, one basis for it is an assumed increase in [UK personal debt to 180% of GDP](#) - higher than before the crash and assumed then to be a major component of it. It is assumed by George Osborne that people will borrow more as their earnings stagnate. But, in 2010 when George made exactly the same assumption he did so on the basis that people would borrow because they would celebrate cuts knowing that tax reductions would follow that would let them repay their borrowings. Paltry tax offers at the end of the next parliament provide no such justification this time - even in George's warped theory. This time he is assuming people will borrow firstly because they cannot make ends meet and secondly, maybe, because the UK house price will continue to rise. That's it. He's on Desperation Street now.

Now you have to decide: that's all the evidence you need to make an informed decision on whether or not business investment, foreign trade and household consumption will fill the gap that George is planning to leave in the economy.

Personally I think there is no chance that will happen: households that realise the safety net is being pulled from under them whilst they are paying the same amount of tax do not increase their spending, let alone their borrowing. That then means there is no incentive for business to invest, and it won't. And since the same basic situation is holding true across many of our export markets there is no hope of salvation there.

All of which means austerity is a programme that is now designed to make us much worse off. The one million public sector workers who will lose their jobs in the next five years will be unemployed. Those who business can no longer employ because of falling demand, which I think likely, will add to that number. And incomes in real terms will continue to fall, especially if, as has happened over the last five years, productivity declines. I cannot see another consequence of this austerity policy.

And what happens in that case to the deficit? It continues. Cuts will not make any difference to that outcome. All we will get is a situation where the government continues to borrow but does so in an economy that is shrinking.

And that's all because the government cannot at the end of the day control whether it is in deficit or not. Its own behaviour is so significant to the economy as a whole (a fact that George Osborne's 'household economy management theory' does not acknowledge) that unlike you and me, if it cuts the impact is invariably seen in the national accounts and as a result growth has to be picked up by others if recession is to be avoided as a result of a massive onslaught on government spending.

So, given the implausibility of increased household consumption, business investment and net exports over the next five years what Osborne set out this week was a plan for a recession, increasing unemployment and a collapse in UK well-being.

And no one seems to be saying so, which baffles me.