

There is no way the deficit will be cleared by 2020

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I gave a talk to Ipswich Quakers and friends last night and whilst doing so said that there was no chance the UK deficit would be cleared during the life of the next parliament whatever any politician says.

The reason is obvious. If the deficit is to be cleared then someone else has to go into deficit instead: that's the way the economy works. Consumers, business, government and overseas finance have always to balance between them. But we have what FT commentators call a '[global savings glut](#)' where consumers with any wealth are stashing cash, and not spending it. Business is not investing as a result as they do not have customers who want to buy, and government austerity is not helping that situation by closing down that part of the market. In the meantime we are running a big trade deficit which has the net effect that people from outside the UK are effectively saving here. In that case a government deficit is inevitable and unavoidable: it is the only way the books can balance.

I see none of these trends changing so dramatically, especially based on Labour or Conservative austerity plans, to change these sectoral balances.

In that case I am certain I am right, [and so too is the IMF](#), which adds some comfort to the prediction. As [the BBC reports](#):

The International Monetary Fund has today highlighted the challenge to be faced by the next government in returning the public finances to balance.

Its new official forecast is for the gap between spending and taxes still to be a deficit of £7bn in 2019-20, compared with the Office for Budget Responsibility's forecast made at the last budget for a surplus of £7bn.

The Guardian has a more interesting explanation though. [As it notes](#):

Britain's reliance on households using loans and credit cards to spur economic growth has put the gradual recovery of the past five years in jeopardy, the International Monetary Fund has warned.

A rise in household debt to one of the highest in the developed world puts the UK on a warning list of countries vulnerable to a credit crunch similar to the one that triggered the 2008 banking crash.

The disturbing message from the IMF comes amid concerns that the world economy has become more vulnerable to financial shocks in the past year.

This, I think, is key. The drive to balance the books (which is a wholly arbitrary and unnecessary goal given the massive demand for UK government bonds in financial markets) will involve the creation of substantial risks by artificially over stimulating parts of the economy, like consumer spending based on credit (which, as my analysis above shows is a pre-requisite of a government surplus occurring) that are actually much more dangerous to UK financial stability than any deficit could ever be.

Austerity is, then, unnecessary. It cannot work. And it creates massive economic risk to achieve a goal that cannot be delivered.

Why, oh why, then is it the cornerstone of this election?