

'7 economists say Osborne's economics make no sense in ...

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A [letter has been published in the Guardian tonight](#) signed by 77 economists that says George Osborne's plan to legislate for budget surpluses makes no sense. I reproduce it below as I'm one of the signatories.

There's [also a Guardian comment article](#).

And if you see some overlap between the letter and [this blog](#) that's not chance: one is based on the other.

The chancellor's plans, announced in his Mansion House speech, for "permanent budget surpluses" are nothing more than an attempt to outmanoeuvre his opponents ([Report, 10 June](#)). They have no basis in economics. Osborne's proposals are not fit for the complexity of a modern 21st-century economy and, as such, they risk a liquidity crisis that could also trigger banking problems, a fall in GDP, a crash, or all three.

Economies rely on the principle of sectoral balancing, which states that sectors of the economy borrow and lend from and to each other, and their surpluses and debts must arithmetically balance out in monetary terms, because every debit has a corresponding credit. In other words, if one sector of the economy lends to another, it must be in debt by the same amount as the borrower is in credit. The economy is always in balance as a result, if just not at the right place. The government's budget position is not independent of the rest of the economy, and if it chooses to try to inflexibly run surpluses, and therefore no longer borrow, the knock-on effect to the rest of the economy will be significant. Households, consumers and businesses may have to borrow more overall, and the risk of a personal debt crisis to rival 2008 could be very real indeed.

These plans tie the government's hands, meaning it won't be able to respond appropriately to constantly evolving economic circumstances, good or bad. The plan actually takes away one of the central purposes of modern government: to deliver a stable economy in which all can prosper. It is irresponsible for the chancellor to take

such risky experiments with the economy to score political points. This policy requires an urgent rethink.

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