

George Osborne says its austerity, whether it busts us ...

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It is [reliably reported](#) that George Osborne will say later today that:

“But the biggest risk is that people think that it’s ‘job done’. Many in our politics encourage this, irresponsibly suggesting that we can just go back to the bad old ways and spend beyond our means for evermore. Though the year is only seven days old, already we hear their predictable calls for billions of pounds more debt-fuelled public spending. They reject all the reforms we propose to deliver better-quality public services for less taxpayers’ money.

“Today I want to issue this warning: unless we finish the job of fixing the public finances, to get Britain back into the black by finally spending less than we borrow, all of the progress we have made together could still easily be reversed.”

He will do so in the context of discussing the risks the UK economy faces in 2016. I have, of course, [already outlined many of these on this blog](#). What is interesting, in a macabre sense, is the problem George Osborne is creating for himself, and so, unfortunately, for the rest of us.

In summary, around the world there is an economic crisis developing because of a shortage of economic demand, a lack of investment by both business and government and a consequent excess of savings amongst those who could otherwise be spending. The latter is true amongst those with sufficient income to save and on the part of some nation states, e.g. Germany, China and Japan. The result of this lack of demand is a recessionary environment.

As I have shown in [my work with Prof Ronen Palan](#), this recessionary environment is exacerbated by a lack of government spending. What I have called 'austerity stress', which is a perceived lack of wellbeing as a result of declining government spending per head of population, will hit in very real terms over this parliament in a way that it did not in the last, because the decline was much smaller and later in that parliament's life. This has a real impact: as government measures to curtail the social safety net increase the need for each person to save individually to manage the perception of that threat

also increases. This increases the inclination to save and induces yet more lack of demand in the economy.

George Osborne's economic policy is, then, designed to exacerbate the obvious downward cyclical trend in the UK and global economy at this point in time. At the precise moment when the economy needs investment more than anything else, in flood defences and onwards, and at a time when we do as a nation not only have the capacity to deliver that investment because there is a shortfall in demand for other goods and services, but also have the means to fund that investment because borrowing costs are, for the government, little above zero per cent in real terms right now, George Osborne is saying he will not make any effort to help the UK economy by undertaking [that essential investment programme](#).

He is instead saying that when demand is weak he will make it weaker.

And that when investment is needed he will not undertake it.

And that at a time when people want to save he will deny them access to the savings product they most want to buy more of, which (collectively) is government bonds.

In other words, what George Osborne will applaud himself today for doing what is the exact opposite of what the UK economy needs and even wants.

And he says he will do that because he thinks it is more important that UK government borrowing must be cut, come what may. In the process he reveals his own lack of understanding of the political economy.

First, he is making clear that he does not understand that the government is the lender, guarantor, and even depositor of last resort. This is not a monetary role it has an option about. This is simply, as a matter of fact, the role any government that is responsible for its own currency has. George Osborne appears to deny this. What his speech makes clear is that he thinks the government can, and will act of its own volition and independent of the actions of all others in the economy. That is an option not available to it. Because it is the creator of money it does not have this option. I explained why, [at length, here](#), so will not do so again.

Second, for the reasons noted in [that same linked piece](#) George Osborne does not seem to realise that if individuals, business and the overseas sector all decide to save in sterling terms then he has no choice but be a borrower. That is because double entry simply requires it: every saver requires a borrower and as the creator of money the government will be that borrower come what may if everyone else saves, and so the option of balancing his books in this situation is not available to George Osborne. All he can do by trying to shrink the economy (which is what cuts do) when everyone else is seeking to save is guarantee that government borrowing will continue but GDP will shrink by more than was necessary.

So, in a nutshell, George Osborne is going to announce today that he has intention of increasing the threats to the UK economy, and say that this is the right thing to do. If that is a long term economic plan it is, I think, the last one that any government should be offering, especially now, when the threats are so big.