

Looking forward to George Osborne's budget

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It is two months until I expect to be sitting in Jeremy Vine's studio discussing George Osborne's budget minutes after he sits down on March 16. I admit I am looking forward to it, although as ever the challenge will be in responding to a speech about which I will know none of the detail because none is published in advance. And on this occasion the challenge may be bigger than usual. After all, what is George Osborne going to say?

In November George Osborne did two things. The first was he offered a view of what he thought a path to growth might be that would permit the cuts in government spending he thinks desirable. Second, he fudged his spending commitments believing that growth would let him do so: more than £20 billion of savings effectively based on growth expectations were committed to plugging spending problems.

And now his assumptions look hopelessly misplaced. Market sentiment has changed radically. The chance of inflation looks remote. Interest rate increases are incredibly unlikely. We know that it is probable that government borrowing will increase this year compared to last, which is a trajectory that is the exact opposite of what George Osborne intended.

But it's not just events that have caught George Osborne out; it's strategy at all sorts of levels that has too. Politically it's very difficult to explain that your new government that is committed to eliminating a deficit as its one and only identifiable economic strategy is not going to come remotely near that objective as things stand. Of course Osborne will have the luxury of saying that it is events elsewhere that have made this inevitable, but that was true for Labour in 2010 and it did not work for them.

And there is the question of whether he will stick to that strategy given, first of all, its inevitable and utterly foreseeable failure and, second, the fact that if he does he will exacerbate all other problems we have because austerity inevitably reduces GDP, with that tendency being exaggerated in a recessionary environment. Justifying doing so will be hard.

Next there is the question of deflation. With oil prices low, and likely to be that way for

some time, and with the likely knock on effects of the blatant exporting of deflationary pressure from China and elsewhere as it uses exchange rates aggressively to maintain domestic employment, the risk of deflation is very high. This is a disaster for those in debt and for investment. Can Osborne really survive that dual pressure for long?

If so, what will he do in the face of that deflation? The obvious logic is that the government should spend, but that's incompatible with austerity. Alternatively he could do QE, but another round of banker gains is not going to appeal politically; or there is People's QE, which would be good. But can Osborne really get away with embracing Corbynomics?

What too of the welfare state? When growth will be far distant on the horizon is it politically possible to demand yet more cuts and not have them seen as pure vindictiveness?

Then add the EU to the mix. Never can such a decision have been so badly timed. Cameron is really not going to have very much to offer on this issue; we all know that. Osborne has to hope fear will hold the UK in Europe. At least on this occasion the fear could be sold with complete conviction. But will a government that voluntarily put us in such a mess really ask for support with similar conviction, especially against a dual background of massive (possibly irreconcilable) division in its own party and of having its own economic policies in tatters all around it? Can such a government win the confidence vote that the referendum might turn out to be? You have to be a decided optimist to be sure.

What else is there? Scotland, if there is Brexit.

And the collapse of the South-East England housing bubble at some point.

Matched by negative equity for many.

And a rush of buy-to-let properties being dumped on the market with a consequent housing crisis.

With the obvious risk of a banking crisis for which the tokenism of the post 2008 reforms have left us very ill prepared.

All of which suggests that many of the recently created, lowly paid, flexible hours, private sector jobs may be nowhere near as durable as was thought and unemployment may rise, with no guarantee that this will mean migrants who took many of these jobs will leave as the scenario in many other states will look no better and may, if the European Central Bank performs as badly as it has over the last few years, be worse.

Alternatively Osborne might pretend that all of this is just a minor blip that will go away. If he follows that route he will suggest a change of course in the face of a storm would be most unwise. That, however, would be the strategy of a man who knew his luck is

nearly over. But maybe, just maybe, that's what he already knows.

The next couple of months will be interesting.

What follows may be worse, whatever Osborne does.