

Austerity is dreadful: now is the time for post-austeri...

Published: January 13, 2026, 3:44 pm

Once there was, supposedly, a 'long term economic plan'. How often were those words spun out by Conservatives? It was said so often we all knew what it supposedly meant. It was said that if the size of government spending was cut, mainly by cuts to benefits, and if only the government's books were balanced whilst, at the same time, cuts to taxation for business and a flexible labour market were created then the UK would not just prosper in the aftermath of the global financial crisis of 2008, but we would all thrive with it.

And now we know that's not true. Don't blame Brexit either. That's just the event that has permitted an acknowledgement of the truth. As the [IFS said yesterday](#), the reality is that there will, for at least thirteen years be stagnant or declining real wages in the UK. As they also pointed out, this may be unprecedented in a century.

So was this an accident? No, of course it wasn't. Some of us argued from the onset of austerity (and before then) that in the face of economic downturn austerity does not work. It can't. That should be obvious to anyone. That is because austerity, by definition, seeks to shrink the size of the government. And government spending is one of the four net contributors to GDP. What that means then is that austerity seeks when the other three parts of GDP are in decline to also shrink the fourth. There is one only one possible outcome of that: we get stuck in the economic doldrums at best or we regress at worst. But growth was never an option austerity could deliver. And what that means is that austerity is not bizarre, it is callous.

And we now know austerity really did work out as badly as predicted by the likes of me.

But too many on the supposed left also accepted the logic of austerity. And that was grossly irresponsible of them.

Surely then the case for austerity should now be dead? You would think so, but [as I noted on Wednesday](#), Philip Hammond's new fiscal rule has three components. First the books will be balanced, but we don't know when. So that's austerity forever. Second, debt as a proportion of GDP will shrink. That's a licence for privatisation. Third, benefits

will be capped. This is a plan for continued shrinking of the state at cost to ordinary people, and the social safety net. What that means is that austerity is not dead in the Conservative Party despite it having resoundingly failed.

That though does not provide anyone else with an excuse to continue with austerity. The duty of all other politicians is instead to oppose it for one simple reason, which is that it does not work. But to oppose it we have to have a new narrative: a new plan if you like. So what is that?

Its based on an essential understanding that the government has a duty to lead the economy. It does not beg favours from the economy. Its role is, instead, to provide the essential underpinnings for prosperity. That comes down to three things. First is delivering clear government: that is the narrative. Second, it's about creating the environment in which all can prosper, which requires a social safety net and a willingness to impose the rules that make that possible. And third government has to provide the money to make the economy go round. It is the government's job to oil the economic motion when banks will not. And it can do that by running deficits when there is less than full employment because that creates no risk of inflation, printing money for investment and ensuring credit is available to those who need it so that growth is not constrained by a shortage of cash in the system, which otherwise happens at times like this and which no one else can make good.

Of course these themes need elaboration and then repetition followed by repetition and then more repetition. But let's make no mistake: there is no room now for austerity economics and for austerity politics in this country. And every politician who cares for the people of this country has a duty to say so.