

A farewell to austerity

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It has taken less than a week for one of the casualties of the election to become apparent. Austerity is over. The long term economic plan of 2015 is as dead as the strength and stability of 2017.

It would be easy to say that Labour's success killed austerity and the pressure within the Conservative party to pull back from cuts is a direct political response to Labour's policy. And I do just that. But it is not a sufficient explanation.

As the FT notes the real explanation is falling incomes. [This is the data](#):

The reality is that people in general can no longer be persuaded that austerity works. It plainly does not. It has imposed real costs.

More than that though, it has imposed specific costs. Nurses, teachers, the police, and so many other key workers people depend upon and value have said that austerity and their consequent penal pay awards has gone far enough and they can take no more. And people agree with them: these key workers are very obviously only saying what is reasonable and justifiable.

And only those most willing to turn a blind eye to suffering cannot have noticed the suffering of those in need of the UK's failing social safety net.

As a result papers are full of stories suggesting that austerity must end. Some may well be coming from the Treasury. Tory back benchers are clearly saying it. [George Osborne is fighting back](#) as if on the frontline a century ago saying that line must be held whatever the cost.

What is not clear is that this call for the end of austerity is based on any better understanding of the economics of all this. The line about [future generations having to pay for this](#) is still trotted out. A blind eye is turned out to the fact that one quarter of UK national debt has been wiped out by QE. And the possibility that government

spending is not poured into a money pit with the funds in question never to be seen again is not challenged.

All that really needs to be said is something very simple. The fact is that government spending is someone else's income: it cannot be otherwise. And not only will some of that spending end up as an asset on the government's books if what is bought is infrastructure, all of it will end up in other people's pockets.

From there some of it will be taxed: around one third will come back in one way or another pretty quickly from the first recipient of the funds.

The vast majority of the rest is spent by them.

Then the recipient of that spend will be taxed. And then they will spend the rest.

And so the cycle goes on.

At worst the spend comes back. It is bound to do so. That is because this is a simple arithmetic progression.

Even if it is saved it may also come back in a different way: UK government bonds underpin UK savings.

But this assumes that the spending is simply neutral: that none of it results in innovation. If the spending is itself spent by the government on investment in the future or, alternatively, the business community responds to the stimulus by investing then we get a multiplier effect. Each pound spent by the government incrementally increases incomes by more than the original spend because the investment it gives rise to increases productivity and so well-being in the economy at large. If that happens (and this is why investment of the sort described in the [Green New Deal is so important](#)) then the spend by the government invariably does result in more being received by it than was originally spent: a share of the growth comes back to the government in the end. Of course, the chance of that happening increases if the government directs the spend into necessary investment in the first place. This is why a National Investment Bank is so important.

The Tories now fear austerity. And so they should. For seven long years they have ripped the economic soul out of this country to feed their dogmatic hatred of government. We have all paid an enormous price for that.

But now we don't have to be timid about the alternative. We have to be clear about why government spending when there is less than full employment works. And to those who say it will burden future generations we have to issue a challenge: if they think leaving future generations a functioning, vibrant economy with enough money within it (for this is what the national debt really is) to make the system go round is disastrous then they have to be told that they really taken leave of their economic sanity.

We've had enough. It is time to say it, loud and clear.