

Don't trust the economic think tanks: there is ample to...

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The big news of the morning is that the economy hit the election headlines yesterday. It hardly featured in 2017. It has already done so this time.

And as Channel 4 showed last night, in a 'compare and contrast' film, what is noticeable are the similarities in policy announcements between the Labour Party and Tories. Both are focussing on investment in infrastructure, and in the North. The difference is scale. The Tories are, broadly speaking, offering an additional £20bn a year. Labour want to spend an additional £50bn or so a year over the promise they have already made. Both would require borrowing. Both recognise that the real interest cost is negative. Both recognise there is no choice. Javid suggested the household analogy still applies. And so too did the economic think tanks.

The latter are my focus. I concentrate on comments in [the Guardian](#). They note Ben Zaranko, a research economist at the Institute for Fiscal Studies saying:

Both parties' plans would represent a sharp change in policy, and Labour's plans are especially ambitious. The key challenge for a government seeking to deliver investment on this scale — particularly in a short timeframe — will be finding worthwhile and viable projects in which to invest.

At which point I took a sharp intake of breath. First, that's because the IFS has said in the past that, quite bizarrely, "they don't do macro" and it has to be said that is true: they don't, and it shows. So they are not out there looking for projects. And nor do they understand this issue. But there again, it's also obvious that whatever macro that they do know is deeply conventional, which is apparent from their next comment:

Shortages in the number of suitably skilled construction workers, a dearth of 'shovel-ready' projects and practical issues relating to delivery will be challenges the next government will need to think carefully about how to overcome.

None of these things is necessarily true, especially with flexible migration policies. Rather, and although it is not said, these are statements of macro faith that the IFS is

regurgitating. That is because most practical macroeconomic forecasting is based on what are called 'general equilibrium' models of the economy. They include some quite extraordinary assumptions, starting with the fact that the economy is in equilibrium at the start of any modelling process and that all available resources are already in gainful use in the economy already, meaning that there is no unemployment because that is what markets guarantee: prices always match supply and demand and so there can be no unemployment because all who want to work are doing so at market determined optimal prices. This logic then feeds back into the macro thinking of those who use such modelling as the basis of their work.

We can see it in the comments of the IFS, which is hard-core neoclassical to the core in its economics. It is assuming that there are no projects to be done, because the market would have already done them if they were viable. And they are assuming there is no spare resource, because, again, the market would have already used them if there were. And so they think that anything that this additional spending might do necessarily squeezes out market activity, which by definition is better than anything the government might be able to do by spending. So, all the government can deliver is debt because else anything worth doing is already in progress. Hence their comments.

This thinking is not only found at the IFS. The Guardian notes James Smith, research director of the Resolution Foundation thinktank, saying:

The economic plans set out by Labour and the Conservative parties today represent a dramatic shift from the narrow debt-driven debate that has dominated the past decade. With the low cost of borrowing, austerity Britain is going to turn into hard-hat Britain whoever wins the next election. This shifts the focus to ensuring that investment delivers real returns, not just higher debt.

So the same theme is found there as well.

The logic, and not the policies, is bankrupt. There is unemployment. There is a Green New Deal to do. And retrofitting double glazing could start any time soon, and is not hard to gear up. Nor is insulation.

And this is what these think tanks completely miss. We are facing the biggest crisis our world has ever faced. The likelihood is that human life on earth is threatened. The scale of response required should put us on a war footing. But the IFS and Resolution Foundation want us to focus on the country's balance sheet instead. It's as if they think we have a choice. A nice, neat, low debt balance sheet or life or the options that they present.

Now I know that is some accountant's choice already. But for the rest of us it's not an option even on the scale of being worthy of consideration. So it's time the think tanks get out from behind their spreadsheets and the models that they clearly do not understand and started looking at the real world. That's a bit of a shock to most

economists. But if they claim to think they'd better start checking their assumptions. Right now almost every one that these two think tanks are using appears to be completely wrong. And that discredits all that they have to say.