

# Let the deficits accumulate: they're exactly what we ne...

Published: January 13, 2026, 6:17 pm

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When I was asked by Jeremy Vine on Radio 2 last week what my reaction to the budget was I said that I thought it a complete disaster because it completely failed to comprehend the scale of the issue facing the country as a result of coronavirus.

It transpires that I was right. According to [Politics Home](#) this morning:

*It's less than a week since Rishi Sunak delivered his first Budget, containing £30bn-worth of measures to help the economy cope with the outbreak, but already they seem hopelessly out of date. The Chancellor is said to be preparing a fresh bailout, with [George Osborne last night urging the Government](#) to underwrite hundreds of billions of pounds-worth of bank loans to firms struggling to cope with the sudden drop-off in their income.*

Both economically and politically, it seems, the UK will be a very different country when it finally emerges from the crisis.

Martin Sandbu, who is, in my opinion, one of the best economic commentators in the UK, [has this to say this morning](#):

*As the enormity of Covid-19's probable economic fallout dawns, governments should prepare themselves for equally yawning gaps in public finances. That should not be a cause for alarm. On the contrary, unless government deficits widen to a scale unprecedented even in the global financial crisis then policy may well be seen to have failed to do its job.*

And as he concluded:

*The containment of the virus is already turning our everyday life upside down. The necessary fiscal remedy may well do the same to many received economic ideas.*

He is right.

What we are facing is unprecedented economic disruption. In the very short term whilst

we try to halt the spread of coronavirus (which [was already too late for me](#)) there are going to be massive supply-side shocks within the economy: temporary closing of businesses, schools and much more will disrupt many supply lines and make us focus solely on those that are by far the most important, such as food, power, water, health care, waste disposal, critical transport and so on. We cannot do without them. Everything else is optional in the short term.

But this is something that can be worked around: once the shock of how to work in this way has settled and minds begin to address the issue how to go forward will become more apparent: supply-side issues will begin to be sorted, even if large numbers of people are ill (and maybe, just maybe, that can be averted).

As important though is the demand side issue. In fact, it may be much more significant. People with no certainty as to future income - and that describes a majority of households in the UK right now - will stop spending. That's what always happens. Cars, white goods, holidays, and all the other 'extras' in life will see demand plummet: car sales in China virtually stopped in February, for example. And this matters because the knock-on effect on incomes is enormous. And this will be where the damage is done to the economy.

This is why Rishi Sunak needs to be back at the Dispatch Box as soon as possible - as I predicted he would need to be last week.

And this is why his measures should include:

- a) Underwriting banks
- b) Underwriting insurance companies
- c) Bank loan repayment holidays
- d) Rent payment holidays
- e) Tax payment holidays
- f) A VAT cut
- g) A universal basic income
- h) Rationing
- i) Price controls

Each can be elaborated, of course.

And let's be clear: this is not Keynesian: the claim that we'll all be Keynesian now will

be heard, but Keynes' relationship with deficit spending was complex, and (to be candid) he did not and could not have comprehended the type of situation we're now in with the type of economy we now have.

This is modern monetary theory in action. All ideas have their time. The world has just realised that the idea that money can be created out of thin air for the public good, and that using that ability to keep people at work is a far more important objective than balancing books, has arrived. There aren't many modern monetary theorists in the world but they're very badly needed right now to explain that this is the only sane route down which we can now travel.