

# Sunak has to show he understands deficits today or he's...

Published: January 12, 2026, 11:31 pm

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It is budget day. Rishi Sunak has the task of delivering what might be the most irrelevant budget I will have ever witnessed, unless he appreciates the economic situation as it really is, and runs with it, accepting that this is his fate,

What do I mean? My suggestion is that unless the government accepts that we are heading for a recession, which is partly of its own creation, and that its sole duty is to now guide the economy out of the mayhem that is coming our way, then all Sunak has to say is inconsequential.

Take an example, but a quite critical one. Sunak will, without doubt, have something to say today about fiscal rules and the level of borrowing that he plans over the coming years. He will seek to frame this with caution, suggesting that this is a matter over which he has some power to decide. And that is simply not true.

As a matter of fact, if (as is likely) the private sector decides to save over the next few years the government has no choice but to borrow. This is a simple equation. As the money creator, and as the borrower of last resort (which as a matter-of-fact a money creating government always is) then if the private sector part of the economy insists on saving then the government has no choice but to borrow whatever that sector wishes to save.

Technically this is described as the sectoral balances. I do not have time to explain this in great detail this morning: [try this link for an explanation](#) I did a while ago.

The sectoral balances are not some theory: they are simply an accounting identity. They say that in the case of a single currency (and for all practical purposes that is what the UK has, in the form of sterling) if one part of the economy, which we will call the private sector wants to save, then another part of the economy, which we will call the government sector, has no choice but borrow, most especially when that government is the creator of the currency in question. This is simply an accounting identity: double-entry will happen. The ramifications are, however, significant.

If, as is likely, people stop spending at present because there is going to be a recession (and that is the unavoidable message from the stock market, the Bank of England, and others), then they will unless their incomes completely crash (which is unlikely in the longer term) save. This is what always happens in a recession. And the result is that the government will run a deficit. How big that deficit might be is not within the government's control: it will be determined by the private sector and its decisions about what it wants to save.

In this circumstance all that the government can do is turn the private sector's decision to save into something that is positive for the economy as a whole. I have already suggested the answer to this: simple changes to the rules on ISAs and pensions could redirect up to £100 billion of savings a year into the Green New Deal at no net tax cost to the UK economy at all. In fact, far from having a cost, the economic activity that this would give rise to would boost the Exchequer, as well as delivering the essential infrastructure that we now need, whilst creating jobs in every constituency, and help repair the intergenerational imbalance within the economy, whilst providing people with secure means of saving, whilst turning disadvantage into advantage for many.

This is the type of lateral thinking that our economy now needs, and which we should be looking for from Sunak today. He needs to show that he can deliver what is required to beat the coronavirus crisis in the short-term. That is things like rent and loan repayment holidays; increased social security payments; emergency funding to small businesses that require help and massive injections into both local authorities and the NHS to make sure that beds are freed to manage this crisis. Those things are necessary. But more important will be the recovery: can we get out of the recession as soon as possible by delivering the type of new economy that we need to face the challenges of the 21st-century? This is what I will be really looking for today. I am expecting to be disappointed on all fronts.