

# Will Sunak recognise he needs to turn the spending taps...

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You can't be sure when history is being written, but it may be this morning. With oil prices down 30%, the FTSE due to open more than 6% down, again, US markets showing all US government borrowing is now costing less than 1% pa and markets in complete fear that credit will fail in oil-related markets, and that this credit crisis will spread, I'd say this might be the day when the great crash of 2020 really begins. If so coronavirus will have caused enormous financial damage even if it transpires that it can still be contained, which I think (and markets clearly think) unlikely.

And this is the week of the first UK budget for well over a year, and the first by Rishi Sunak who has been in post for just a month, meaning that he has had no real time to learn almost anything of the ways of government, let alone the Treasury.

There is a slight personal challenge in all this for me. At about the moment Sunak sits down on Wednesday I will be going live to comment on what he has had to say on the Jeremy Vine Show on BBC Radio 2. I will be up against Mark Littlewood of the Institute for Economic Affairs. I do, at least, always start with the advantage of being the decided moderate in the room.

But what to say? Of course, that depends on what Sunak has announced. Most commentators think he is still going to deliver a conventional, if limited, budget speech. The implication is that he will ignore the impact of Brexit. The OBR will have given it a nod in weak budget forecasts reflecting amongst other things changed migration forecasts, and their growth forecasts will be down, again, but they finished work before coronavirus panic (or is it reality?) broke out. So what they have to say is, already, almost meaningless. The expectation is that he will nod it through.

The broad view is that he will also make a few rather empty sounding gestures on flood defences and capital spending, including hints at environmental spending, all of which can be guaranteed to be far too little, too late and which will send the message to COP26 that the UK does not care unless he gets an autumn budget in before that event and delivers the most radical of plans then.

There will be token gesture tax changes, on corporation tax (long trailed) and entrepreneur's relief, which should have been strangled at birth when Gordon Brown created it, so badly was it designed, as I have pointed out for much longer than most.

And there will be some discussion on emergency funding and a nod that says that in the circumstances the fiscal rules will be hard to apply and a more relaxed attitude will be required for the time being, but the goal still remains that current spending be covered by tax and borrowing will only be for the still quote modest amounts of planned investment this government will want to deliver, however overwhelming the need for action.

This will keep most commentators happy, it would seem. Read the papers and they're almost all saying that Sunak should hold his fire for an autumn budget. But that's absurd. If he has any sense he will ignore such advice. There is good reason for my saying so. By the autumn if he goes with the majority opinion his reputation will have been shattered.

It is not, of course, Sunak's job to fuel panic. He does not then need to use intemperate language this week. Far from it, in fact. But it is his job to manage panic. He is, as the most senior economic representative of what is still one of the most significant financial centres on earth, required to show level headedness in the face of what is going to be happening all around him over the coming weeks and months. And let me assure you, announced changes to entrepreneur's relief are going to have no impact on what is to come. Nor, come to that, is anything that will be said on fiscal rules. If we are, as seems likely, going to be in meltdown then the rules go out of the window.

There is a living ex-chancellor who did manage this situation well: that was Alastair Darling. I have a mass of political differences with Darling that are at this moment irrelevant: he did show a calm head in a crisis. Sunak needs to do more than that: he needs to show a calm head in advance of the real crisis, which has yet to happen. And what he must do is show that he can think his way through what will happen.

He has two choices here. That makes his options easier to choose between. He can either play a role as a victim of the storm, being tossed around with his budget torn to shreds, and saying all will be restored to good order eventually. That would be the neoliberal way, because neoliberals always think the market knows best and will live with its consequences. Or he can behave like the grown up in the room.

That would require something completely different from Sunak, and he would need to set out his plan this week. Miss that chance and things might get much worse. In effect he has to do what might be called a 'Draghi'. As head of the ECB Mario Draghi said in 2012 (if I recall correctly) that he 'would do whatever was necessary' to stabilise the euro. He did not spell out precisely what that was. He did not need to. People just had to believe him. And they did. So it worked. I did not like all he did. But he was the grown-up in the room. He took the lead. The markets followed.

Does Sunak have that ability? I do not know. No one does. But they would have to believe that he will do whatever is necessary. That would mean radical action of the sorts I have already outlined to [maintain personal, corporate and banking solvency](#), because all are going to be under massive threat in coming weeks.

It will mean recognising that the cliff edge will have already arrived for government finances, and that they may well collapse over coming weeks.

And it will mean recognising that this does not matter: government in the UK can carry on regardless and without interruption because we do have a magic money tree, which can produce all the cash the economy needs to keep going. And it must do just that, however big the deficit will be.

Whilst it will also mean that the government must recognise that because this deficit means that the private sector - that's all of us - is going to be moving into the most massive period of saving - which is what always happens when people are fearful, as they are going to be - then it is the job of the government to spend.

That is its duty. Markets are failing. To keep the economy going the government has to react. It is its job to do so. It cannot stop us saving: we will do so whatever the government says or does. And so its job is to run with that reality and compensate for it by not just reluctantly spending what it has to - which is what payments of sick pay from day one of coronavirus quarantining is - but what it needs to - like beginning the programmes required to deliver the Green New Deal - because this is precisely what is now required to keep the economy going. It's also, by happy coincidence, also precisely what the economy wants and needs.

And all the money to deliver it will exist: [I have already explained how the smallest of changes to pension and ISA rules](#) could direct at least £100 billion a year to this productive purpose. That's the agenda for now. This is the joined-up thinking that we need.

Will Sunak do the grown-up thing and come out as the full-blown Keynesian he needs to be this Wednesday, on the one and only occasion he will have to prove that he will be the person for the crisis by delivering a speech that will reveal he fully understands the scale of the issues that he faces? I regret to say that I doubt that he will. I strongly suspect he will well and truly fluff this. But I can live in hope that he will truly understand that what the current situation requires is and that he accepts the role that fate has given to him - to be the Chancellor who could dig us out of the hole we're going to be in if he appreciates now that spending to keep the economy on track is the only thing he can do. Hope is a fine thing. History does not always prove that it has existed in the required quantities.

We are going to be living in interesting times.