

The FT is saying today that "austerity does not w...

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The FT has published the most [extraordinarily confused editorial](#) today. It is on the future direction of macroeconomic policy, and so well within what should be its field of competence. But what has been delivered looks to be the result of heated arguments that have resulted in the most uncomfortable of compromises that makes no sense at all.

The editorial opens well, saying:

Fiscal orthodoxy has changed. Organisations such as the IMF and the OECD have told governments that, with low interest rates seemingly here to stay, the costs of excessive borrowing are much lower for advanced economies than previously thought. The benefits, too, are greater, given the need for governments to take some of the burden off central banks in supporting crisis-hit economies. In these circumstances, the aim of balancing the budget can, at least temporarily, be dropped.

It would be very hard to disagree with a word of that. The FT has understood the predicament we face. And, as they note:

This thinking can command support across the political spectrum.

Their examples are weak, and weakened by their admission that in crises wrong conclusions, based on consensus, can be drawn. As they noted:

That consensus can be wrong was on display after the 2008 financial crisis, when many organisations – including this newspaper – advocated fiscal retrenchment. The facts have changed and economists have, sensibly, changed their minds. Inflation, economic growth and interest rates failed to recover as anticipated after the financial crisis. This not only kept borrowing costs down but demonstrated that cutting spending may have had a bigger negative impact than expected.

So, the FT has admitted that austerity failed. But, in the next paragraph they go on to say:

This is not a reason to abandon the goal of fiscal sustainability.

By which they suggest that the debt obsession should continue. They evidence this by saying:

Governments can, usually, simply roll over their debt stock at reasonable interest rates. There is, however, an ever-present risk that the market will move against governments and the cost of borrowing will rise to such an extent that the choice will be between a painful default or vicious austerity. Keeping a watchful eye on the public finances can prevent societies from ever having to make such a choice.

At this juncture I began to think that, lockdown or not, the FT should get out more.

Have they not noticed that QE has broken the power of bond markets? The dependence on them has simply vapourised. With it control of long term rates has moved from the market to government, whilst control of short term rates is guaranteed to a government notionally owing £800 billion or so on central bank reserve accounts. But the FT still thinks the power rests with the markets. That is pure wishful thinking, and that is never a good basis for economic policy.

But as if one bout of pontification one remove from reality was not enough, they added:

Either way, a looser fiscal approach must not change the role of central banks.

Heaven forbid that the financially powerful be stripped of their illusion of power, even if we now know that central bankers work at the behest of Treasuries and that interest rate policy is dead, if not forever (as I think likely) then at least for a very long time, stretching beyond all current planning horizons, to come.

And what the FT then convincingly proves is that it does not understand the realities of the new fiscal policy that we must have, and on which we are also dependent. They say:

Inflation-targeting central banks should only “print” money to hit their inflation targets and not finance government spending: quantitative easing is justified by low inflation and not high deficits. Interest rates should be set based on the needs of the economy and not finance ministers. UK investors are already questioning whether the Bank of England is simply offsetting government borrowing. Central banks must even more jealously guard their credibility when debts are high. The facts have changed, but not everything else should.

This is so confused. Start with the claim that ‘QE is justified by low inflation and not high deficits.’ Surely, even the most elementary thinking might suggest that maybe low inflation was the result of low demand as a consequence of which high deficits are required to promote economic recovery? In other words, such analysis would note that

in the situation we are in (and the FT has contextualised this argument in this way) the claims made here are the same?

And then wonder why interest rates required by finance ministers are not those required by the economy? Excepting the obvious fact that in current circumstances (again, the only relevant context) rates have hardly changed for a decade, why is it suggested that there might be a difference? Or is the FT simply saying democracy is not to be trusted, joining the ranks of fascists by doing so?

And what is the problem with the Bank funding the deficit? After all, it funds all government spending in the first instance, as a matter of fact. Or is the FT in denial about the reality of the government spending cycle that every informed person now appreciates to be true?

What then is this unchanged thing that does not alter when the facts do? Could it just be the anti-democratic dogma of neoliberalism, which even if does not accord with the facts, or explain them, or indicate a route out of our malaise must, nonetheless, be believed because the interests of the wealthy require its perpetuation? It would seem so.

It's as if the FT was saying 'austerity does not work, long live austerity!'

Actually, that is exactly what they are saying.

It would seem that the oppressors are always with us.