

Funding the Future

Austerity is the cause of the UK's economic malaise: ...

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The FT [has an article this morning](#) with the following headline:

The Big Read UK Budget [+ Add to myFT](#)

UK Budget: why the economy has grown so slowly

Britain's decline relative to other rich nations is rooted in problems both old and new

The evidence is stark:



After 2007 the UK's economic wellbeing collapsed.

Matters did get worse after Brexit: investment collapsed from 2016, but the tipping point was not then. It was the 2008 crisis that created that tipping point.

What created that difference? George Osborne did. He delivered austerity, which was a deliberate attempt to undermine wages and simultaneously withdraw the state from involvement in the economy.

He succeeded in undermining wages. In real terms they have not risen since 2007.

And he destroyed growth. That is for a simple reason. National income can be defined as:

$$GDP = C + G + I + (X - M)$$

Where:

C = End consumption

G = Government spending excluding transfers of income, which are reflected in consumption

I = Investment by both state and private sectors

X = Exports

M = Imports

Of course you can have a policy to deliver austerity but if you do then there are consequences.

First, you hold wages down in real terms, as happens. As a result consumption stalls, and it is the biggest driver of GDP.

Second, government spending stalls. And it has. Ignore that it might be high in proportion to GDP: in comparison with need it has fallen. That is what matters here.

Third, that means there is no market based incentive to invest, and unless government provides alternative investment (and it has not) then overall investment stagnates.

And a stagnating economy imports more because it is other markets that are producing what people want.

None of this is surprising. All is, in fact, glaringly obvious. Some of us have been staying it for a long time. All we have now is the evidence that we have always been right: austerity has strangled the UK economy.

And the thinking of austerity is continuing. We have unnecessarily high interest rates. We have a government still committed to austerity. And as if to make matters worse, the Bank of England wants to do quantitative tightening to withdraw funds from the economy, making investment prospects even more remote.

Danny Blanchflower and I are issuing a paper very soon saying three things:

- * We need a cut in interest rates now
- * We need to end quantitative tightening and instead have a new programme of targeted quantitative easing
- * We need an end to austerity.

Then we might have a chance of tackling the malaise in the UK economy. Carry on as we are and we have no hope at all. It really is as simple as that.