

Austerity does not save money

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I have [published this video](#) this morning. In it, I argue that like almost all economic truths, austerity works in the opposite way to that which most people think. It does not save money. Instead, it prevents the government from creating the money required to deliver what the economy is capable of.

https://youtu.be/AsUiXSfT710?si=AmIFbDu35CNY_nqC

The [video can be viewed here.](#)

The audio version of this video is here:

https://www.podbean.com/player-v2/?i=z4cqm-16850bd-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=3267a3&font-color=&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

It's an economic truth that austerity on the part of the government does not save money.

Most people ask the question, where's all the money that was saved by austerity gone? And the answer is, there is no money saved by austerity, because austerity is not about saving money. Austerity is about refusing to create money, and that's something quite different.

Like so many of the economic truths that I talk about, the truth, in this case, is the opposite of what most people think. That's why economic truths are so hard to deal

with because they appear counterintuitive when you first talk about them.

But let's understand this idea that austerity saves money. The reality is that when a government does austerity, it spends less. Now, that doesn't mean to say that there is more money sitting around because tax does not fund government spending. Tax cancels the impact of government spending once money has been put into the economy, to prevent inflation taking place.

So lower levels of government spending should mean lower levels of taxation, which is why so many politicians are fixated on delivering low levels of public service. But if we have austerity - the sort of thing that George Osborne, Philip Hammond, Rishi Sunak, and now Rachel Reeves are dedicated to - then what happens is that money that should be spent to put resources to use in our economy is not spent.

Let me use an example. Rachel Reeves is not going to pay out roughly £3 billion of winter fuel payment to pensioners as from the winter of 2024/25. That is austerity. She has done this to supposedly balance her books by cutting her spending, but the reality is that she has not saved any tax revenue as a consequence.

What she hasn't done is put that three billion pounds into the economy for people to spend. So, there is less money available. rather than money saved. That is what austerity does.

But when there is less money available, there is, of course, less spending going on in the economy. It's inevitable, isn't it?

If people have £300 less, if they're pensioners, in the coming year, they will probably spend less. £300 less, in a great many cases, because a great many pensioners spend everything they get. So, Rachel Reeves is denying the economy the money that it needs to function, by denying those pensioners that cash, who in turn won't then spend it with whoever they might have done, whether that be an energy company, or their supermarket, or whatever.

So, austerity works by cutting the amount of money in the economy. It's not a saving of tax revenue. There's no little pile of money set aside as a result to spend one day. What austerity does is remove money creation from the government's spending agenda. And as a consequence, we're all worse off. But that was always the plan. And that's why it's wrong.