

Government borrowing is going to increase. It's up to a...

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The indications are that the world is beginning to understand the complete and utter economic mess that will be the lasting legacy of 2026.

Trump and Netanyahu might have created conflict for personal gain, but its cost for everyone else is going to be considerable.

These adjacent headlines were in an FT newsletter this morning:

Economy

UK public sector borrowing hit £12.6bn in March as Iran war strains finances

Higher energy prices stoked by conflict have resulted in higher borrowing costs for government

UK consumer confidence falls to lowest level in more than two years

Higher inflation following Middle East war darkens outlook for spending and economic growth

UK business activity rose more than expected in April

Companies rushed to make purchases amid fears that the Iran war would send prices even higher

What they suggest is that this war is having an almost inevitable reaction on both consumer and business behaviour, with both moving downwards as a result, with the consequence being seen in the state sector through the automatic balancing process required by the sectoral balances (the linked glossary entry explains that these are, if you are unfamiliar with them).

If consumers spend less, as falling confidence suggests is likely, and businesses see a downturn in activity and, as a result, invest less, the unavoidable consequence is that the government will have to borrow more. This is what the sectoral balances suggest is inevitable, and they represent an unbreakable accounting identity that must always hold true, a fact seemingly unknown to almost any Chancellor in history.

This, then, is not something the government can avoid. As a matter of fact, it has to

happen because the savings in question have to be located somewhere, and in this context, the government is the borrower of last resort or, in other words, the entity that must ultimately accept those saved funds via the commercial banking system and the central bank reserve accounts, with them then becoming a liability upon its balance sheet.

There will be much discussion in the media, almost all of it utterly uninformed, about what the government must do as a consequence of this increasing level of state borrowing.

Expect demands for austerity.

Anticipate attacks on social security.

Anti-migrant rhetoric will increase.

Presume that essential services will be described as unaffordable.

Accept the fact that there will be much gnashing of teeth around the rising cost of government interest payments, although nothing will be done to curtail them when there are options available for the government to do so.

But do not anticipate anyone quietly explaining in the mainstream media that if the economy beyond the government decides to save, as will inevitably now be the case giving the rising level of threats the people will feel to their financial security, it is both beholden upon the government to accept their deposits, which then become described as government borrowing, and to manage the resulting situation in the best interest of society at large.

This obvious statement of fact and requirement will be missing from public debate over the coming months. Understanding and explaining this is, then, the foremost task of those who read this blog, because by doing so, each and every one of us can create change in the economic understanding of how the government must face and manage the challenges that now exist.