

## Richard Murphy's Views On...Austerity

Published: June 3, 2026, 6:40 am

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*This post is one of an ongoing series explaining Richard Murphy's views on significant topics in economics, political economy, politics, taxation, and accounting. It should be read as such, as an overview of a position developed across many years of writing and analysis, and not as a comprehensive treatment. Where more detail is required, the reading list at the foot of this post is a good starting point. The whole View On series [is available here.](#)*

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### **What Austerity Is and Where It Came From**

Richard Murphy has written about austerity for more than fifteen years, and his analysis begins with a precise and unflattering definition.

Austerity, in his account, is not a neutral economic instrument but a political narrative, one largely constructed in the United Kingdom by David Cameron and George Osborne following their arrival in government in 2010. The two men inherited record peacetime deficits from the Labour administration that had governed during the global financial crisis of 2008, and they chose to present those deficits as a crisis of public profligacy rather than as the predictable fiscal consequence of a collapse in private sector activity during and after the 2008 global financial crisis.

From that framing, they derived a programme of spending cuts, benefit reductions, and public sector wage restraint that they described as essential, unavoidable, and fiscally responsible.

Richard has consistently argued that every element of that founding narrative was false. The United Kingdom, as a sovereign nation with its own central bank and its own currency, with debts denominated in that currency, could always meet its obligations. There was no credible comparison to be drawn with Greece, which operated inside the eurozone and had surrendered monetary sovereignty, yet George Osborne made it, often. The claim that Britain faced imminent insolvency was, in his view, a deliberate

fiction, one designed to justify a political agenda whose real purpose was the permanent reduction of the state.

Cameron himself articulated this in a 2013 speech, in which he described his ambition for government to be permanently leaner, not just during a period of consolidation but as a structural condition. Austerity was not, Richard argues, a response to necessity. It was a choice dressed as necessity.

### ***The Economic Illiteracy of Austerity***

Beyond the political dishonesty of the austerity narrative, Richard has made a deeper and more technically specific argument: austerity does not work in the way its proponents claim, and in fundamental respects it works in precisely the opposite direction to that which is intended.

The most basic of his objections concerns the claim that austerity saves money. It does not. When a government spends less, it does not set aside a reserve of funds for future use. What it does instead is remove money from the economy that would otherwise have been created by public expenditure. Tax does not fund government spending in the sense that the public is commonly led to believe; rather, taxation cancels the inflationary effect of money that the government has already put into circulation. Lower spending, therefore, means less money in the economy, not more money saved.

A concrete example that Richard has returned to repeatedly is the decision by Chancellor Rachel Reeves to withdraw the winter fuel payment from most pensioners from the winter of 2024/25, a measure she justified as necessary to balance her books. In Richard's analysis, this did not save any tax revenue, and it did not reduce the financial burden on future generations. What it did was remove approximately three billion pounds that pensioners would largely have spent, reducing aggregate demand by at least that sum and contracting the real economy. This is the mechanism of austerity: it diminishes the money supply available to households and businesses, producing weaker economic activity than would otherwise have existed, and doing so in the name of a financial prudence that does not, in monetary terms, actually exist.

The claim that austerity reduces government debt is equally unsupported by the evidence. National debt in the United Kingdom stood at approximately one trillion pounds in 2010, the year in which the austerity programme began. By 2023, it had risen to nearly two and a half trillion pounds, and it has increased to almost £3 trillion since then. On the government's own preferred measure, most of all UK national debt had been accumulated since 2010, the very period in which austerity was supposed to arrest its growth. The programme failed on its own stated terms.

Richard has linked this failure to the work of Carmen Reinhart and Kenneth Rogoff, whose widely cited 2010 paper purported to show that high debt ratios suppressed economic growth; the paper was subsequently shown to contain significant analytical

errors, yet the political class continued to act as though its conclusions remained valid.

### ***The Human and Social Cost***

Richard has been emphatic that austerity is not an abstract fiscal exercise but a programme with direct and measurable consequences for the lives of real people.

The wages of most workers in the United Kingdom have not risen in real terms since 2010.

The reduction in benefit payments, including the introduction of the bedroom tax and other welfare reforms, reduced the incomes of those already at the bottom of the distribution.

Local authority funding was cut so severely that social care in England was hollowed out, reducing support available to some of the most vulnerable members of society.

Public sector workers, including teachers, nurses, and civil servants, experienced sustained real-terms pay cuts that drove experienced staff out of the services they had built their careers in, leaving behind skills gaps that have proved extraordinarily difficult and expensive to address.

The National Health Service absorbed year after year of what Richard describes as real-terms austerity, meaning that even where cash budgets nominally increased, the rate of increase was insufficient to keep pace with inflation, demographic change, and rising demand. The result was the chronic under-capacity that became visible during the Covid pandemic and has not since been remedied. The waiting lists, the staffing crises, the deferred maintenance, and the overworked workforce that the UK witnessed after 2020 are not, in his analysis, simply a consequence of the pandemic itself. They are the product of more than a decade of systematic under-investment. The pandemic made that under-investment visible in an acutely painful way, but it did not create it.

Richard has also connected austerity to the rise of political extremism. When governments strip away public services, weaken social safety nets, and deepen inequality, he argues that people lose faith in democratic institutions and become susceptible to authoritarian narratives that identify scapegoats rather than causes. The anger that the far right has successfully channelled in recent years is not, in his view, irrational. People are angry because they cannot access housing, because public services are degrading around them, and because their real incomes have been stagnant for the better part of a generation. That anger is the predictable result of a deliberate policy choice. Austerity, he has suggested, is the midwife of fascism.

### ***Austerity as Ideology, Not Economics***

At the heart of Richard's critique is the argument that austerity is grounded not in sound economic reasoning but in an ideological commitment to a smaller state and a

particular distribution of economic power.

The household analogy, the comparison between a national government and a family that must live within its means, is the most widely used and most thoroughly misleading device in the austerity toolkit. A household cannot create the currency in which it owes its debts. A sovereign government with its own central bank can. The household analogy therefore systematically misrepresents the nature of public finance and leads directly to policy choices that impoverish the many while protecting and enriching the few.

Richard has also argued that austerity is not simply a Conservative phenomenon. He has been a consistent and at times trenchant critic of the Labour government elected in 2024, which under the leadership of Keir Starmer and the chancellorship of Rachel Reeves has, in his view, continued the austerity tradition while refusing to acknowledge the name.

The decision to cap spending to current fiscal rules, to resist taxation of wealth, and to cut social security rather than fund services adequately represents, in Richard's analysis, not a departure from austerity politics but a continuation of them under a different political label.

The fiscal rules to which Reeves has committed are, in his judgement, a crass guarantee of failing public services, because they treat a government surplus as a virtue and a deficit as a failure, when in reality a deficit is often simply evidence that the government is doing what it should be doing: supporting the economy and society when they need support.

The intellectual foundation of this commitment to austerity is, Richard argues, the false belief that taxes fund government spending. If a government thinks it must first collect money before it can spend it, then it will always behave as though the state is constrained in the way that a household is. It will cut services to balance books, raise taxes on ordinary people rather than on wealth, and refuse the investment that could transform public services and public infrastructure. This is not, Richard insists, a technical misunderstanding that can be corrected by better information. It is an ideologically convenient belief, one that serves the interests of those who benefit from a smaller state and lower taxes on capital, and it is defended with considerable energy by those whose interests it protects.

### ***The Alternative to Austerity***

Richard has consistently argued that austerity is a choice, not an inevitability, and that a sustainable alternative exists. His Taxing Wealth Report 2024 demonstrated that changes to the existing tax system, without introducing any radical new instruments, could release very substantial sums, sufficient, if deployed as the capital required to fund public investment, to transform public services and address the accumulated

damage of more than a decade of under-spending. The report showed that the political insistence on austerity reflects not the financial limits of the state but the political preferences of those who govern it.

In place of austerity, Richard has advocated a programme of investment-led public spending informed by the principles of modern monetary theory:

- \* spending directed towards full employment,
- \* properly funded public services,
- \* a managed transition to a low-carbon economy through a Green New Deal, and
- \* a tax system reformed to bear more fairly on wealth rather than on wages and consumption.

The real constraint on government spending, in his framework, is not financial but physical: the availability of productive resources, skilled workers, and materials in the economy. A government that genuinely wants to serve the public interest should ask what those real resources can produce, then direct its spending accordingly, using taxation to manage inflationary pressure rather than to pre-fund expenditure that the state can, by its sovereign nature, always afford.

Austerity has not delivered what it promised. It:

- \* did not balance the books,
- \* did not reduce the debt,
- \* did not restore growth, and
- \* did not improve public services.

What it delivered instead was a decade and more of stagnation, rising inequality, degraded infrastructure, a weakened NHS, and the political conditions in which extremism flourishes. Richard's view is that this was not an accident but a predictable consequence of a policy whose real purpose was never the fiscal health of the nation but the permanent reduction of the state's capacity to serve the majority of its citizens. The case for austerity was, in his direct formulation, a lie.

### ***Reading List***

- \* ***[“Austerity”](https://www.taxresearch.org.uk/Blog/2023/02/09/austerity/), <https://www.taxresearch.org.uk/Blog/2023/02/09/austerity/>, 9 February 2023.***
- \* ***[“Austerity does not save money”](https://www.taxresearch.org.uk/Blog/2024/07/31/austerity-does-not-save-money/), <https://www.taxresearch.org.uk/Blog/2024/07/31/austerity-does-not-save-mon>***

ey/, 31 July 2024.

\* [\*\*“Austerity is the midwife of fascism”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2025/09/03/austerity-is-the-midwife-of-fascism/>, 3 September 2025.

\* [\*\*“Austerity is hitting hard - and it will get worse”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2023/01/12/austerity-is-hitting-hard-and-it-will-get-worse/>, 12 January 2023.

\* [\*\*“Austerity cannot help us now”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2026/04/12/austerity-cannot-help-us-now/>, 12 April 2026.

\* [\*\*“Austerity is not caring”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2025/07/20/austerity-is-not-caring/>, 20 July 2025.

\* [\*\*“Labour’s plan for Britain is austerity piled high”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2023/12/03/labours-plan-for-britain-is-austerity-piled-high/>, 3 December 2023.

\* [\*\*“The last thing this Labour government needs to deliver is austerity”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2024/07/05/the-last-thing-this-labour-government-needs-to-deliver-is-austerity/>, 5 July 2024.

\* [\*\*“Rachel Reeves is a truly reactionary Chancellor”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2025/11/28/rachel-reeves-is-a-truly-reactionary-chancellor/>, 28 November 2025.

\* [\*\*“It’s austerity from Reeves”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2025/06/11/its-austerity-from-reeves/>, 11 June 2025.

\* [\*\*“Government deficits are not failure”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2026/03/06/government-deficits-are-not-failure/>, 6 March 2026.

\* [\*\*“Condemning ourselves to decline”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2026/02/23/condemning-ourselves-to-decline/>, 23 February 2026.

\* [\*\*“The launch of the Taxing Wealth Report 2024”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2024/04/05/the-launch-of-the-taxing-wealth-report-2024/>, 5 April 2024.

\* [\*\*“Why are government services going down the pan despite high taxation?”\*\*](#),

<https://www.taxresearch.org.uk/Blog/2024/02/29/why-are-government-services-going-down-the-pan-despite-high-taxation/>, 29 February 2024.

\* [\*\*“Reeves is going to do austerity next week”\*\*](#)

**<https://www.taxresearch.org.uk/Blog/2025/03/20/reeves-is-going-to-do-austerity-next-week/>, 20 March 2025.**

\* **[“Does the UK government have a debt problem right now?”](https://www.taxresearch.org.uk/Blog/2025/03/21/does-the-uk-government-have-a-debt-problem-right-now-no-except-for-the-self-imposed-one-created-by-the-bank-of-england/)**,  
**<https://www.taxresearch.org.uk/Blog/2025/03/21/does-the-uk-government-have-a-debt-problem-right-now-no-except-for-the-self-imposed-one-created-by-the-bank-of-england/>, 21 March 2025.**

\* **[“The alternative budget we need: the video”](https://www.taxresearch.org.uk/Blog/2025/11/26/the-alternative-budget-we-need-the-video/)**,  
**<https://www.taxresearch.org.uk/Blog/2025/11/26/the-alternative-budget-we-need-the-video/>, 26 November 2025.**

\* **[“Austerity is a con: the failings of capitalism have been hijacked to attack social security”](https://www.taxresearch.org.uk/Blog/2013/12/13/austerity-is-a-con-the-failings-of-capitalism-have-been-hijacked-to-attack-social-security/)**,  
**<https://www.taxresearch.org.uk/Blog/2013/12/13/austerity-is-a-con-the-failings-of-capitalism-have-been-hijacked-to-attack-social-security/>, 13 December 2013.**