

Inflation - the reality hits home

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The December [inflation figures are out](#), and are bad. At 3.7% the number is bigger than expected.

But then stand back a minute. As the Guardian notes (above link) if you exclude increases in indirect taxation the figure is just 2%. and if you excluded the impact of the 2.5% VAT increase that has just been introduced for the rest of the coming year, as will be necessary, the figure will probably remain within the target level set for inflation.

So what we are facing is a situation where inflation has been increased as a result of government policy - yes, both Labour and Conservative - and now we are seeing the City bringing pressure to bear upon the Bank of England to push down inflation, even though they also wanted the VAT increase to rebalance the government's budget.

At the same time, their chosen policy instrument, an increase in bank base rates, will have no impact whatsoever on this inflation. When inflation is caused by a combination of government policy domestically and international raw material price rises (fuelled by City-based speculation) downward pressure on consumption is irrelevant. That downward pressure already exists because in the current environment of substantial involuntary unemployment, which can only rise, there is already real downward pressure on net household income that will already achieve this consumption orientated goal without further pressure being brought to bear by increasing interest rates.

The simple truth is that the knee-jerk reaction of neoliberal economists in the face of inflation to demand that interest rates be increased is on this occasion wholly inappropriate, as has so often been the case with neo-liberal prescriptions. What we are actually facing is a situation where, like it or not, real incomes in the UK may be under pressure because of a fundamental rebalancing of the overall economic equation within the world economy, where income shifts to the far east and the Indian subcontinent and away from Europe. In overall global economic terms this may be welcome, but if there is a reaction within the UK which sees ordinary consumers penalised for something that is entirely beyond their means to rectify through altering

their pattern of consumption the consequence is that we will, inevitably, see an exacerbation of the fall in household income, and the creation of the environment for a double dip recession, which will inevitably follow.

The right reaction to this situation is to ask what we can do to restore our income, and not what we can do to restore the value of our currency, which is a matter of secondary importance.

We can of course enhance our income. We can get people back to work, in the short term by government spending, which will pay for itself through increased tax revenues, and in the long term from the stimulus that this will supply to the private sector which would otherwise not grow. We can also ensure that funds invested in pension funds are put to real economic use by demanding that at least 25% of all contributions be used to create investment in new income generating opportunities in the UK economy as a condition of the grant of tax relief on those contributions. That will put £20 billion a year into the UK economy. And we can use green quantitative easing to start a programme of investment in the Green New Deal - in itself capable of generating hundreds of thousands of new jobs in the United Kingdom and paying for itself through the creation of long-term energy sustainability which supports the value of our currency by reducing our dependence upon imports.

But all this requires a government with foresight and a willingness to commit our economy to a long-term vision of prosperity based upon the work people in this country can do for themselves. Instead we have a government that worries about the value of rate of return on short-term cash savings. It is that impoverishment of thought that cripples us.

I was in discussion with a shadow minister this morning. As he said to me, whether or not Labour gets back into office is not dependent on detailed plans for micromanagement of particular issues. It is dependent upon it having a meta-narrative that explains why a different economy is possible. That is the policy goal. And he is right on this occasion.

But will the Bank of England listen?