

Funding the Future

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I have woken early ahead of a long day of meetings that will allow little time for anything else, let alone blogging. A little early morning (for him, late evening) tweeting with Prof David (Danny) Blanchflower, once of the Monetary Policy Committee, started the day.

Danny has rightly pointed to concern that the Baltic Dry Index of world cargo rates is at a record low and the MPC and Treasury seem not to have noticed. This has been [highlighted by Danish container shipping giant Maersk](#) reporting a massive drop in its profits with a forecast of worse to come.

It was a theme I addressed in a meeting in the City yesterday when I asked where the zombie debt that has financed the construction of over capacity in the shipping sector over the last few years is located: banks, somewhere, are exposed to it and at some point are going to have to recognise it.

The key point there is 'at some point'. In shipping, fracking and some other areas I suspect that as much window dressing as possible is being done on debt provisioning in banks, something that remains a possibility at present but which will become much harder in a couple of years as rules on loss recognition change in IFRS accounting.

Why do I suspect that there is a real desire to avoid loss recognition? For that my inspiration comes from an unlikely source. I don't often give much time to [Allister Heath at The Telegraph](#), largely because his world view and mine are not close, but he says this morning:

[No] developed nation today could possibly tolerate another wholesale banking crisis and proper, blood and guts recession. We are too fragile, fiscally as well as psychologically. Our economies, cultures and polities are still paying a heavy price for the Great Recession; another collapse, especially were it to be accompanied by a fresh banking bailout by the taxpayer, would trigger a cataclysmic, uncontrollable backlash.

Before adding:

The public, whose faith in elites and the private sector was rattled after 2007-09, would simply not wear it. Its anger would be so explosive, so-all encompassing that it would

threaten the very survival of free trade, of globalisation and of the market-based economy. There would be calls for wage and price controls, punitive, ultra-progressive taxes, a war on the City and arbitrary jail sentences.

Three thoughts. First the paranoia is apparent: the elite are under siege.

Second, if capitalism is based on profit and loss then Heath, a market fundamentalist if ever there was one, has just gone into denial on the economic system in which he has so much faith by suggesting its downside risk cannot be tolerated.

Third, Heath has no answers: all he can do is hope central banks can delay the fateful day when current crises have to be recognised, even though he simultaneously criticises the money printing he recognises this will inevitably entail.

We have to ask then, is that the plan? Will there be as much denial as possible for as long as possible to pretend that the good ship capitalism as it has developed is really doing just fine even though the reality is the exact opposite? I think that likely exactly because of the paranoia that Heath reveals.

The difficulty for him is that no amount of paranoia and no amount of window dressing is going to prevent three things becoming obvious. The first is that business has no clue what to do now. Not only is it not paying its tax, it's not contributing to society by investing in job creating either at present. The age of capitalist innovation appears to be over: we have moved to rentier capitalism.

Second, people can't afford to spend because demographic change at a time when politicians have overly promoted the concept of individual care has meant people now believe they have no choice but save. The supposed liberating impact of market based provision for care services we once thought communal is destroying market demand for almost anything else.

Third, in that case anger on the part of many might be the expression of reasonable frustration that they have been sold market based nonsense for so long.

But the market, rigged as it is, will I think seek to defer recognition of that reality for as long as it possibly can, and Danny is right that the Bank of England and Treasury will go along with that deception, pretending we live in a parallel universe where all is rosy, for as long as possible.

It will only work for so long. I make no prediction about what will happen then and I certainly would not want extremism of the sort that Heath predicts. But radical change is inevitable. Better to face that reality and plan for it than stick heads in the sand as a panicking Allister Heath is doing.