

How to make sure that the next Global Financial Crisis ...

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Every now and again a comment turns up on the blog that I hang on to because I feel unable to answer it at the time I first read it. This one, [from John D](#) was one of those. I owe him an apology: it has been around for a couple weeks:

Richard — a general question not specifically related to this particular topic.

For the past several years, your overall analysis of the various component parts of the UK economy (and from other informed contributors) has been highly critical, and rightfully so. Pretty much all the indicators are relentlessly heading in the wrong direction. So how long do you think this can continue before we experience a total melt-down?

The government will of course take short-term measures in an attempt to maintain a semblance of stability but, as it appears to have no in-depth understanding of the underlying fault-lines, the wheels should start falling off the cart sooner rather than later — accelerated by the rocky road to Brexit. If the analyses articulated here are in the main correct, then logically and inevitably the house of cards will collapse any time soon (apologies for the mixed metaphors).

Yet, similar to the run-up to the last GFC, the markets are fairly buoyant, oil prices are rising, unemployment is 'relatively' stable (albeit the official stats are misleading) and there's effectively zero inflation, etc.

Taking into account the myriad variables against a back-drop of international political uncertainty, with the possible exception of China, one wonders how long this scenario can be sustained? It seems to be defying the law of gravity.

And if so, the next question is — what can the general population do to protect itself? One's general observation suggests that most people (i.e. those fortunate enough to be in work and/or with some savings/assets) aren't the least bit concerned and continue to go about their daily business as if everything is hunky-dory. Are they sleep-walking into a nightmare scenario?

Just asking!

The answer to the question can be made in a number of ways. One is to simply say John is right: we are indeed sleep-walking to the next Global Financial Crisis (GFC) and that this is bound to happen. Since the history of capitalism is a series of such shocks there is nothing surprising or contentious about saying this: it is a simple fact that it is true.

The second thing to observe is that people must know this: the pattern is far too ingrained for those with any experience not to have noticed it. What is more, we have always sleep-walked into these things. We have simply not learned how to avoid them. That said, human beings, who are at the same time capable of being both deeply fatalistic ('there is nothing we can do about it') and optimistic ('this time it will be different') appear able to live with the reality of this cycle and the pain it causes.

I suggest there are two reasons for that. Most live with the hope that those who suffer most will not be them, and statistically that will be true: the hope is not entirely irrational. Second, the reality is that most people live much more in the moment than economics, with its obsession with time, appreciates. Whether that be by suppressing the reality beyond the moment (as many do) or because we actually enjoy those real moments of pleasure that are capable of punctuating most of our days if we are willing to look for and count them in ways that an economics obsessed with money does not, then they also survive. This is in our nature: let's not ignore it.

Third the real question is, of course, not the inevitability of the next GFC, but when it will happen. The honest answer is I know this no better than anyone else. I am also aware that there are those who think I have forecast eleven of the last three downturns. I accept that because I believe that the current structures of our economy, and the beliefs that underpin it, are systemically flawed I tend to read coming crises into situations more readily than I would if I believed that prevailing mainstream economics did actually have something useful to say on how to manage our situation and if I believed the structures we have in place might work. In fact even that is a statement of optimism: I should say that given that the only structure we have in place is an independent central bank that has one tool, which is management of the interest rate that is wholly inoperative, and another in the form of QE that it can no longer use because of its destructive impact on inequality, that we have no structures in place that can work to manage the situation we are in. Accumulating debt is driving us to a bubble. We have no apparent way to stop it. And the bubble will burst.

Can ordinary people do anything about it? Yes, they can. They can move savings out of stock markets and corporate bonds. They can save in traditional safe assets, although I have no love of gold. They could clear short-term debts that could be recalled. Long term ones might as well be left in place: I am not expecting serious deflation. And they may want to think about taking any measures that they can to survive periods of instability. I did have a stockpile of food in the summer of 2008 because of what I thought was coming and because I thought there was a real risk of cash point machines

not working. Going hungry is daft when some things do have very long sell-by dates.

Beyond that, what can be done? Practically at an individual level, remarkably little. I have to be honest about that. By definition that has to be true when systemic failure is likely. Even though it is obvious that we face multiple crises (trade war; Trump; Brexit; inflated stock markets; over-extended and still vulnerable banks; excessive personal debt levels; migration; continued global warming; inequality; a skills shortage, and more) nothing an individual can do can change that. And there appears to be nothing that our governments appear willing or able to do to address the issues either. They have neither the intellectual firepower or the will to seek to change the direction of the global political economy. Another GFC is, then, inevitable. The only questions are when and what triggers it? I don't know for sure but I suspect that the answer is a market crash and soon. I suspect the trigger will be small. It could be the final withdrawal of QE stimulus, or an attempt to reverse it. It could be the impact of net share buybacks reducing in the US. It could be trade. It is unlikely to be Brexit, but it does not help. The real crisis such as migration and warming will not be the cause: markets exist in the moment and ignore such things.

All of that could make anyone feel powerless. At some levels that is exactly what I feel. And I promise you there are mornings when I feel just like that. Then the coffee kicks in and I become like everyone else; a person living in the moment. I've not got into mindfulness precisely because I have always been into mindfulness. I value enormously the swift I saw last night, because they are so rare this summer. And the unexpected and warm hug with a friend recently, which is still leaving a glow. Or just the sparrow sitting in my garden at this moment drinking from the dog's bowl that is out there because he's spending half his day lazing in the sun right now. These things matter.

But so too does writing matter for me. If we're going to have a crisis, and by now you will realise I think we will, then preparing for it seems pretty important as far as I am concerned. Physically little may be possible. That may be true financially as well, for many. But what we have to recall is that in 2008 the crisis went to waste. After a brief Keynesian moment when there was a real prospect of the impact of October 2008 being contained almost the whole world turned to austerity, and a wanton tale of destruction of value ensued. If there is one thing we can do it is to say 'never again'.

Having meta-narratives that explain why we do not need to suffer this again is vital this time. This is why modern monetary understanding is so important: it explains economics the way it actually is and if it is understood that takes the fear out of a crisis.

But modern monetary understanding is not enough. We need to say that this time we will not increase inequality and act only to save the interests of those with most wealth. This time we will act for all. That's what my message in the Joy of Tax was: we can reorganise the economy for the sake of all people and tax is one of the best ways of doing that. And this time (genuinely in contrast to the last, and I will say largely because of the work of tax justice campaigners) we can achieve that goal because we

can now track income and wealth in tax havens and we do know that country-by-country reporting can make global corporations accountable locally if only we have the will to deliver it. Neither was available a decade ago. This time, then, the money cannot run away.

What is more, now we know that we have to do a Green New Deal. It is not just the only way anyone in this country still knows of to create jobs in every constituency simultaneously, it is also what the planet needs.

And by exporting that idea one of the aims should be to create jobs where people are, and want to be, in the world. Almost no one really wants to permanently migrate in the world. Place is inherently important to us humans. It is why so many of us die within relatively few miles of where we were born. And most of us are entirely happy about that. So creating jobs where people are has to be the way to solve the world's migration crisis.

But these things require big thinking.

The remarkable thing about big thinking is that anyone can do it. Anyone can partake in it. Anyone can discuss it. Anyone can find some aspect of it that they can make their own. And no one will know it all, so we are all in the same boat of not knowing everything. Of not understanding it all. Of not being able to articulate every aspect of it. But still sharing the common aim of aspiring to something better, and believing that possible.

What is more, this is the only way change happens.

On Saturday I was talking to a friend about an amazing man called Jack Ray. Jack was my mentor as a teenager. I won't bore you with the whole story. But Jack saw in me a boy who wanted to change the world, even then. He told me to be a poet. He gave me a liking for poetry that I still have. And then he told me if I could not be a poet (and I don't think I'll ever succeed at that) that I should write. He warned me against being a politician, although he was well aware of my interest in the subject. He made a simple observation: he said that politicians follow other people's ideas. Poets, he thought, summarised people's visions better than anyone else. But, he said, writers came next. He put novelists ahead of applied writers, like me. But he still told me to write. And write I have. That's Jack's fault. He died in 2013, aged 95, but I'll never forget him. We last spoke three weeks before he passed away.

So let me offer my advice. I'm now older than Jack was when I first met him. My suggestion is read, write, think, and act on what you learn. That is how we get ready for the next time. And that is how next time does not go to waste.