

When economic irrationality might literally become the ...

Published: January 13, 2026, 12:59 pm

I have always felt conflicted by the HS2 rail plan. An excessively complex railway designed for speed and as a consequence accessible for pricing reasons to a very limited part of the population who will gain as a consequence relatively small amounts of time whose economic benefit is hard to justify has always appeared to me to be in conflict with the need to upgrade so many local railways in ways that can actually provide much greater environmental gain. At the planning level I do, as a result, have a little difficulty criticising all aspects of yesterday's decision on this issue by the government. What I am, however, certain about is that the reason for it being made is entirely wrong.

The HS2 route to Sheffield and Leeds is not being cancelled for technical reasons. What is more, climate change has almost certainly increased the economic case for it being built. However, it ran foul of Treasury dogma.

As Rishi Sunak announced in October, the Treasury now has a new fiscal rule. The aim is to eliminate borrowing for day to day spending, and to limit borrowing for capital expenditure to 3% whilst reducing the overall debt to GDP ratio. The inevitable consequence is capital rationing for projects that might otherwise meet every condition for viability. I have little doubt that this rule is the real reason why HS2 has been cancelled. Spending on the scale that HS2 requires (and it is big) threatened Sunak's rule, and when it comes down to the conflict between meeting people's needs, tackling transport issues, dealing with the environmental crisis, or making rational economic appraisal as opposed to complying with a politician's artificially imposed economic rule will the latter always come first.

Why did Leeds suffer? Simply because it was the easiest bit to lop off the plan. Candidly I doubt that there was anything more rational to this than that. Something had to go to keep Sunak happy, and Leeds paid the price despite all the effort that has been made to promote it as a major regional hub.

The really disturbing aspect of this is its irrationality. The government can at present borrow at net negative real interest rates. The real capital cost of investment is, as a

consequence, inconsequential to the government's borrowing cost. In that case finding a financial case against taking HS2 to Leeds would have been very hard. Despite that the massively risky political decision to cancel was taken simply because despite the very obvious massive appetite for government debt that exists in financial markets the government believes that its borrowing crowds out private investment when there is no evidence that this is true. It also believes that borrowing must be repaid when, again, over a period of more than 300 years there is persistent evidence that there has never been reason to repay debt, or demand for the government to do so.

There was, in that case, no justification for the political risk that Boris Johnson took yesterday except for his need to pacify those in the Treasury who persist in pursuing economic policy based on beliefs that are obviously contrary to evidence, let alone the well-being of the people of this country.

If this causes temporary embarrassment to Boris Johnson I am not worried. However, as anyone who knows anything about the climate crisis realises, the process of both mitigating its impact and then adapting to the demands that it will make will require significant public investment. There is no way around this. That is where yesterday's precedent is worrying.

In the future, if we are told that the choice is between human life on earth or meeting an arbitrary and irrational rule set by Treasury politicians the current likelihood is that the Treasury will decide that life on earth is worth less than meeting their rule set for reasons that no one can possibly explain. And when economic irrationality might literally become the biggest threat to human life we all need to worry.