

Is the government conspiring to create inflation?

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In my regular column for [The National](#) in Scotland, published yesterday, I put forward a hypothesis about the government's attitude towards inflation.

Much of the argument in the article about the current state of inflation and why I think it is temporary will be familiar to readers here, and so I will not repeat it. However, I did add a twist, which is an idea that I have been musing upon for a few days. This is that the government is doing nothing to really ease inflation. Worse, it may actually be stoking inflation in pursuit of its own policy agenda.

I am aware that this might sound a bit like a conspiracy theory. It may also credit the government with more ability than it is reasonable to suggest it enjoys, but there are a number of reasons why I think that this argument may be appropriate.

As I noted in The National when discussing current causes of inflation:

The increase in energy prices is a matter ultimately under the control of the government because they set the price caps. So too are train prices government controlled, as are increases in local taxation. Come to that, so too are interest rates government controlled, and as a consequence the cost of mortgages is heavily influenced by the government, and that in turn has a significant impact on rents payable. Add all this influence up and the government appears to be doing little or nothing to constrain these price increases that it could influence. Even where it is suggesting that it might provide help, for example with energy costs, the measures that it will take appear designed to sustain high reported levels of inflation when other options it could have chosen would have cut the absolute price we have to pay, and so reduced the rate of inflation, which would have reduced the pressure on interest rates.

My point is that there are significant parts of inflation that can be heavily influenced by government policy. For example, I have no doubt that if the government so chose it could have limited energy price inflation for domestic households by reducing the increase in the energy price cap. It could then have provided loans direct to energy companies to spread energy costs over time instead of using the complicated

mechanisms it is chosen to utilise which will reflect the full energy price increase in current inflation calculations, as far as I can see.

The government could also, if it had been so inclined, have reduced rates of duty on fuel prices at present because its VAT take from the same source is rising. It could quite easily balance these two taxes to produce an overall tax neutral situation for itself. This could have mitigated inflation.

It could also have changed the rules with regard to rail fare price increases now that the entire railway network is under its control.

Given that local authority taxation is included in the calculation of inflation indices and overall levels of local authority taxation in the UK are set to rise by about six per cent, prior to energy discounts, it would also have been very easy for the government to have used a very limited amount of quantitative easing to mitigate such tax increases and thereby reduce inflationary pressure.

In addition, and quite importantly, the government could have also made it very clear to the Bank of England that it did not think that interest rate rises were appropriate at present when there is absolutely no causal link between current inflationary pressures and interest rates, and downward pressure on demand is already high from externally imposed price increases meaning that demand reduction should not be on the Bank of England's agenda.

I am not suggesting for a moment that these measures would have removed all the short-term inflationary pressure that was created during the course of the autumn, which is now working through the economy. Some of those pressures are real, and if there was to be war in Ukraine then they would increase. But if, as the government says, inflation is a matter of priority to it, what I am suggesting is that there are very many more ways in which the government could in the current situation mitigate that inflationary pressure than by simply relying upon the imposition of a further form of inflationary price rise, which is exactly what interest rate increases represent. Quite specifically, as I note above, regulatory and fiscal changes could have a much more direct and relevant impact.

So, why wouldn't the government want to reduce inflationary pressure? As I noted in the National:

I am left with the uncomfortable impression that the government is doing very little to really control inflation and might even want it. That's because it wants to increase interest rates, which benefits the City of London, and the well off. Vitally, it also wants to use high interest rates as an excuse to impose austerity, which still seems to be at the heart of the Conservative project. And, of course, the government wants to push down real wage rates, because that favours the employers it serves.

I am not necessarily suggesting that the existence of evidence necessarily proves a conspiracy. That can, just as easily, indicate that there has been a cock up. However, whilst it is possible to think that this government is entirely incompetent, there are clear signs to the contrary when it is acting in pursuit of its wholly inappropriate social and economic goals. The promotion of inflation might very much suit those goals at present. The possibility that there is a conspiracy has to be taken seriously.