

Sunak's bailout package was a massive bung to the energ...

Published: January 12, 2026, 8:59 pm

I tweeted [this thread this morning](#):

As I made clear yesterday, the package of measures introduced yesterday by Chancellor Rishi Sunak failed to address the inflation issues he needed to address at this moment. What I did not address was whether it was inflationary in itself.

There are suggestions being made, e.g. by Sky economist Ed Conway, that putting money in people's pockets is inherently inflationary by giving people money. I have to suggest that this is to misunderstand the current situation and what these measures do.

Whilst it is true that the £400 paid to be paid to every household this year looks as if it will increase available disposable incomes in some cases, the simple fact is that the current fuel price inflation is not going to be matched by handouts in any case.

The reality is nothing the Chancellor has done will do more than help people settle bills. I suggest that's inadequate because it does nothing to tackle the cause of the problem, which is exploitation by energy companies, which is what is creating the already existing inflation.

What is more, since the cash to be provided only helps settle the excessive and exploitative demands that they have made, and does not in any case provide an excess of funds to then be spent on other goods, it is hard to see how this package is inherently inflationary in itself.

What this package does is let people pay the prices set by energy companies and regulators. Since millions of households could not have done so at all without this aid, and others could only have done so by crushing other spending, inflation is not the economic consequence.

Instead the economic consequences are threefold. First, the debt leverage that would have gone onto private households is reduced, being replaced by government money creation, which is the right alternative. Households are saved by the government as a result.

Second, to some degree other spending that would have had to be eliminated to pay energy bills is maintained as a result. More people will be able to eat properly as a result. And some parts of the economy that might have been crushed e.g. hospitality, might survive.

To this extent, this whole package can be seen as anti-recessionary in tone. It's not a stimulus though, it's merely holding the line.

Third, the funding is a direct subsidy to the energy companies, who even get a quite extraordinary climate change defeating package of oil and gas subsidies thrown in for good measure. They are the only real winners from this - because literally all the money paid out will end up with them.

So the economic impact is not measured at the household level - where at best debt, poverty and homelessness is avoided, but the opportunity for new inflation driving consumption is not created as the subsidy is less than the fuel price increase.

Instead the consequence has to be measured by looking at what the energy companies do with the subsidy they are now effectively picking up from consumers now able to reward them for the exploitative prices they are imposing.

There are three things energy companies can do. They can invest more. I actually think that very unlikely to happen. Oil majors don't really do green whatever they say, and the North Sea has no long term future.

Or they can sit in the cash, but why would they do that? Or they can pay it out as dividends and share buy backs, which we know is what is happening. That inflates their share price, rewards their executives for their assault in society and increases inequality.

And please don't tell me this is good for pensions because even pension funds have decidedly skewed ownership with bias to the wealthy.

In other words, when this logic works through what we get is the government subsidy working straight through the economy to benefit the already wealthy whilst those hard up continue to just get by, at best. That's the net result of this.

The question then is whether or not that is inflationary and the answer is that of course it is. It fuels the prices of the goods only the wealthy, in the main, but but which are in inflation indices, like second hand cars, and fripperies. And those prices do trickle down.

What should the answer to that be? Glaringly obviously it would be to tax wealth more. That was the necessary part of yesterday's package that was not there. Well, that, and the missing excess profits tax on banks as they gain from interest rate rises.

Sunak helped his friends in the energy traders, energy companies and banks yesterday, and most missed any additional tax charge.

What he did not do was help small business. They will remain badly hit by energy costs for which they will get no help at all. That will drive inflation, because his failure to cut energy costs themselves will mean businesses passing on excess prices to consumers, or go bust.

So, Sunak did fuel inflation yesterday but not by the subsidies given, but by giving them in the wrong way, and by allowing all the gains to flow to energy companies, who will increase inequality as a result.

Economically this was in that case a very poor package. It leaves too much inflation in place. The benefit of the subsidy to households flows straight to those creating this crisis, and the risk of recession driven by small business failure was not addressed.

Sunak needs to do better. As in 2020, I think we will be seeing him back at the Despatch Box again soon.