

Funding the Future

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I have just posted this long, but I think fairly important, [thread to Twitter](#):

Some people might have noticed that I disagreed the Bank of England's decision to increase interest rates yesterday. It was completely irresponsible, but what happens now? Let me offer some opinion on that and a comprehensive plan to get us through this mess. A thread.....

I have already discussed what the Bank of England (BoE) got wrong, [here](#), in case you're not familiar with it. I predict a disaster in that thread, but how big a disaster?

The BoE is already saying inflation is going to reach 13%. They say unemployment will double, which means there are going to be a lot of corporate bankruptcies. And they say there will be a recession. They also say they're very sorry for the pain this will impose.

But let's move beyond the guff and their crocodile tears. What will actually happen? It will certainly be nothing like the BoE are suggesting, because they have a very limited imagination.

The reality is that this situation will change very rapidly precisely because the number of people unable to pay their bills is going to escalate very rapidly. It is already thought that nearly 6 million people are struggling with bills. Many more will soon.

The impact of this will become apparent quite quickly. People can't borrow much more. Their savings are already depleted or gone. The pawn shops will be overflowing soon. The consequence is clear. Debts are simply not going to be paid this autumn.

People know how to play this game. They pay part of a bill. They rotate who they pay. They let the debts rise slowly across all the people they owe. So it will take time before the scale of this crisis becomes apparent, but as this autumn progresses the reality will become clear.

That will be especially true as Christmas approaches. Faced with the choice between impossible bills to pay or buying their children Christmas presents, the kids are going to win. So in October or November the debt crisis is going to get much worse.

When it does energy companies, water companies, councils, landlords, banks and other lenders and telecoms companies will all be hit hard by rising unpaid debts. The question is, how will they react?

The answer is that quite soon none of them are going to be able to react as we might normally expect. Water companies can't cut off supply. The rest could try to recover their money, but very rapidly it is going to become apparent that they can try, but it will be hopeless.

For example, landlords who evict will discover that the only available new tenant was in default with their last landlord. Banks who try to recover properties from those not paying mortgages will rapidly appreciate that they will be flooding the market with unsaleable properties.

At that point the banks will realise that recovering their debts, including those owing by defaulting landlords, will deliver a full-scale banking crisis that might make 2008 look like a picnic in comparison as the threat of a collapse in the property market looms.

Meanwhile, for energy companies, the problem will be leaving people in the cold without the means to cook. And telecoms companies who cut off services will cut people off from all access to help. Neither is a good look these days.

Each of these companies could try to act in their own self interests, but if they do they will find they will make it impossible for other businesses to then be paid. Attempts at uncoordinated debt recovery by them this autumn will look like a circular firing squad, quite soon.

By Christmas then, if not before, all these companies are going to be in trouble with people unable to pay them, and will have almost nothing they will be able to do about it without pushing people into impossible poverty. Ethically, they're going to be in a hard place.

What will they do in the face of maybe 20% or more of their customers being able to pay their bills, as is likely? My prediction is that they are going to yell, and scream and shout. They will demand government support. I have no doubt about that.

But before addressing what support they might get let me note that they will not be the only people yelling, screaming and shouting by then. Some of those unable to pay will be doing so as well. I am not alone in thinking so. Martin Lewis expects this. So does Jo Maugham.

The biggest civil unrest in decades is likely this autumn. Not all angry people are not

going to sit quietly at home, fretting in silence when they realise what is happening to them is being done deliberately. They are going to take to the streets.

I also very strongly suspect that non-payment will be organised. Campaigns on this issue are already beginning. These could be politically motivated. Some from left and right will try to use them for that purpose. But I think they will be real grass root campaigns.

I expect the Tories to try ugly responses to such campaigns, but I cannot see a lot of sympathy for the government from the police and even the armed forces when they too will be struggling with their bills. The government will not be able to hold out against this many people.

Let me add a third dimension to this which has to also be in the mix if all the crises we are going to face are to be understood.

Once the summer holidays are over people will be cutting their spending as fast as they can because of the crisis they know they are facing. The consequence will be for the leisure sector, hospitality and retail, all of whom are going to see their sales fall.

The recession we're going to face is not going to be created by people not paying their bills. It will instead be created by the collapse in retail and leisure-related businesses that will fail by the thousands as this year and 2023 go on.

There will be bad news for those made redundant in those sectors: there will be no new jobs to find. No one invests in new employees in a recession if they can avoid it. We are going to face seriously rising unemployment.

I cannot stress this next point enough: the evidence is very clear that unemployment is much worse for an economy than inflation. It destroys livelihoods, hope and wellbeing to a much greater extent than inflation, which just hits savings.

I do not doubt inflation hurts, but unemployment goes to the very core of a person. It is much worse. And many are going to suffer it unless something is done.

My summary of all this? We're where Rishi Sunak was when he gave his first ever budget in which he mentioned his first Covid measures. Except he was hopelessly unprepared for what was to come when he spoke in early March 2020. As badly prepared as either he or Liz Truss are now.

What is needed then is a real plan to deal with this. I stress, I am not saying I have all the answers now, because I have not. But I have some.

The first thing that the government is going to have to do is ensure that all people enjoy Universal Basic Services. A home with water, electricity, gas and broadband is a basic need of life. The government has to guarantee that people will have them through

this crisis.

So, bans on evictions for non-payment of rent should be introduced. The same should be true for mortgages: repossessions for non-payment will be necessary. There should be no ifs and no buts: this is essential.

And just as it is illegal to cut off the supply of water to a household, so too should it be illegal to cut off the supply of electricity, gas and broadband, even if bills are paid late.

The chance that we should have social crises arising because the Governor of the Bank of England has decided that the debt crisis in this country should be suffered by those least able to afford it should be averted: people must be allowed to live.

There is, though, the risk of moral hazard in this. That risk is that everyone might decide not to pay, whether they can or not. That cannot happen, so whilst Universal Basic Services must exist, those wanting to use them must be required to prove their need to use this service.

The idea should be open to all though, although those on benefits should not need to give further data on income based on the fact that their incomes will already be known. For everyone else, this data will be required, as will details of outgoings be needed for everyone involved.

Once this data is established (and this must be done as simply as possible) then an agreed maximum payment per month must be fixed, and be fairly and appropriately split between all those due to be paid.

The government could and should administer that payment scheme. So, the person in the scheme should make one payment to the government and the government should then pay those they owe for them. In effect, this is a creditor's voluntary insolvency arrangement on a massive scale.

Importantly, this scheme has to be mandatory. In other words, anyone owed money by those in this scheme will have no choice but accept the payment that they as all that will ever be paid. It will not be an option for them.

And just to be clear, the amounts not paid will have to be written off: there will be no accumulating debt left behind which landlords and others might then use to evict tenants once this crisis is over. The payments made will cancel the full liabilities owing.

What about the companies owed money? They will say this is grossly unfair. But, let's be honest, nothing about what is happening here is fair. War is not fair. The actions of the Bank of England are not fair. The UN Secretary General says that the energy companies are screwing us.

And let's give a mention to the banks, who are going to profit massively from the

additional interest payments due to them as a result of the increase on the interest rate on the funds they have technically deposited with the BoE as a result of the operation of QE.

To put that extra bank profit in context: they cannot make less than £14 billion extra profit next year as a result of the gains handed to them directly by the BoE. That's not fair. So let's not shed too many tears for them.

But, some companies will still complain and want support. And I think if they can make a case for it - on a case by case basis for companies of this size - they should get it. But the price should be that they hand over a share of their business for all the support they get.

There should be no handouts, grants or loans. If these businesses are under-capitalised to manage the losses which all large companies should be robust enough to withstand then they must pay the price for wanting the additional capital that they will demand from the government.

The price of that additional capital should be a part sale of their company to the state - and at a distressed price. Alternatively, these bastions of capitalism should go off to the financial markets to raise the money they need.

I make an exception for small landlords. There would be those with a few properties, at most. In their case I see reasons why the government may need to provide more help in the event of them receiving lower rental payments whilst having higher borrowing costs.

However, again, these landlords would have gone into property to profit, and must know loss is a risk as a result. So, they could be supported, but only at the price of handing over part of the value of their portfolio to the government, secured by a mortgage on their properties.

I see a reason for not pushing landlords out of businesses right now because that could only cause chaos. I see no reason for generosity to landlords either.

A final thought. What about those retail and leisure businesses that will suffer? They will need support in the form of loans and government stakes in their businesses. Yes, we are back to the Covid era, but this time this has to be done properly with cases considered on their merits.

In 2020 Sunak just handed out money. I have no desire to see that again. So, instead, there has to be a proper loan scheme and the option of taking significant stakes in larger businesses has to be considered as an alternative instead. There must be no 'something for nothing'.

Do all this and the economy and, most importantly, the people in it might survive the

next couple of years. That's why this plan is worth considering.

There will, of course, be a cost though. Actually, there will be a number. First, the BoE has to stop rate rises, and then reverse them.

It also has to stop any plans it has to reverse QE which it has said it will begin doing in September. That would be calamitous right now.

Instead, the BoE has to presume that it might be on call to do more QE, but this time to create funds for investment in an economy that will be in desperate need of funding to restore well-being and to create jobs.

The government could, of course, run deficits to pay for that new investment that it must deliver over the next coupled of years to make sure that people stay at work in the UK and our plans to become more energy efficient are delivered. It could simply run an overdraft at the BoE to do this.

Alternatively, it could provide savers with a safe place for their funds by offering new savings products at competitive interest rates to fund the Green New Deal we need. Or it could use QE as a backstop.

But what we do not want is the BoE undermining these possibilities with the type of reckless policy it has been pursuing to date. So it will have to be brought under control. An emergency demands it.

The emergency will demand something else. This is that there be higher taxes on the wealthiest and highest earners, because the impact of all of this will pass them by and they may well even gain from the crisis we are in.

It is vital that in the process of providing support for the most vulnerable in society, as will be necessary over the next few years, we do not increase the divisions in our society by increasing inequality.

As a result those best able to pay - including banks and energy companies and those on high earnings and with high wealth - should be expected to pay more tax. That is what happens in crises. It is an indication of pulling together. However the details are for another time.

What I have outlined here is a plan for survival that is required in the face of enormous and even unprecedented stress in our society. It could work. The principles are clear. The risks from providing state support are minimised. No one is allowed to profit.

Could we do this? Yes, we could. Should we do it? I think we will have no choice but do so. When should we do it? The plan is required now. That's where the problem is: no one is talking about anything like this. And that is why we might be in big trouble.