

## A recovery plan for the UK economy

Published: January 13, 2026, 8:48 am

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I [posted this twitter thread from Danny Blanchflower and myself](#) this morning:

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As I mentioned last evening, @d\_blanchflower and I talked last night about what we would do this morning if we had, by some weird process, been appointed Governor of the Bank of England and Chancellor overnight. Here are some big ideas, in a thread. More will follow....

I stress, neither of us are looking for jobs, but imagining the responsibilities of these posts helps focus the mind when discussing policy issues. We had a serious discussion, and a lot of ideas.

First, we decided to agree what our strategy was. Two days ago we might have still been in the mood to defend the pound. But after the fiascos of the last two days - including the £65bn bailout for pension funds and the mortgage market meltdown we were no longer so sure.

So, we moved on from a policy of 'Protect the pound' to one of 'Protect the people, their homes, their children, their pensions, and public services', or 'Protect people' for short. Getting off the gold standard really helped in the 1930s. Changing the goalposts now would have the same effect.

This changed the way we looked at issues. So we immediately relaxed some of the assumptions that we think the Bank of England might prioritise at present. So we decided we would not stop the pound from falling to parity with the dollar, or try to keep inflation to 2%.

As a result we decided to just let the pound float. That might be inflationary, and maybe it will not: it's very hard to tell. But we decided it was not worth sacrificing the well-being of people to keep the value of the pound above \$1, which is a financial vanity project.

Then we agreed that the 2% inflation is purely arbitrary. It is simply a number that was chosen by the Bank of New Zealand, way back. 4% could be used just as easily, and the consequence was that we might be able to keep interest rates lower, and so ensure people stayed in their homes. We thought homes were the priority.

A lot of other issues were debated, like the desirability of protecting and expanding support for public services - which has to mean decent pay rises for those working in them since paying people is the biggest cost in all these services.

And, as we agreed, if you want to expand the economy when consumer confidence is at rock bottom (as it is right now, being at the lowest level since records begin in 1974) just about the only thing a government can do is spend more on providing more of its own services.

So, supporting those services rather than cutting them became a priority.

But, the obvious question is, how would we fund this? First of all, by keeping the already planned deficit in place, and probably expanding it as noted to support public services.

And we'd also keep the energy support package in place - although with some additional measures to ensure the best off do not benefit, as noted below.

Then we'd cancel the tax cuts for the wealthy. And we'd also put corporation tax up, as previously planned. But, we would also increase tax reliefs for investment, job creation and training. With a higher tax rate these are worth more, and so change behaviour more effectively.

We would also have a bigger windfall tax on energy companies. The situation demands it.

And we would reinstate the bankers' bonus cap: good regulation demands that we should do so.

We would then align capital gains tax rates with income tax rates, because right now the wealthy need to make their fair contribution to society and they aren't.

And to make sure that the energy cost support being paid to the wealthy was recovered from those who do not need it we would add at least five new bands to the top of the council tax system. The absurd cap on these bills has to go, and this is the time to do it.

We would encourage similar measures in devolved countries so that expensive properties are taxed a great deal more than now right across the UK.

It was tempting to look at inheritance tax, but the answer is not yet to that one: it is too complicated.

However, it would be easy to both reinstate the 45% tax rate and introduce national insurance at the full rate paid by those with earnings up to £50,000 for those earning above £80,000, which we think would be fair.

And we stress, fairness as well as revenue are the focus of these measures: this package has to be seen to be redistributive.

So, how to achieve that goal for the people who need support?

First, the full pension and benefits upgrades due next year should be paid. The triple lock should be protected.

Second, the £20 cut to universal credit should be restored.

We would also look at an addition child allowance, but we also think all children should be treated equally: they too have their rights and discrimination should not impact them. So we think every child at a state school should have a free breakfast and lunch if they want it, and free summer school too.

There is proven education and social advantage to these schemes to help children.

What then? There are, of course, interest rate issues to look at. We agreed that the key issue which spooked markets was that Kwarteng and the Bank between them asked for more money than had ever been proposed before.

The absolute first thing to do would be to make clear that there would never be anything remotely close to a 6% Bank of England base rate, whenever the markets might think, because that would crash the mortgage market and that is utterly unacceptable.

Then the markets need to be addressed. The combined deficit announced and quantitative tightening (reversing QE) package announced last week came to around £300 billion. This was well beyond any sum previously sought in a year. Of course markets were spooked. So what would we do?

First, we'd have the Bank of England cancel the quantitative tightening programme. It's just not going to happen anyway, so that needs to be said now.

And then we agreed the amount of debt to be issued was still too much for the markets if we wanted to keep interest rates down so that people could stay in their homes. How to address this? By reducing the value of bonds to be issued, of course.

This could be done very easily. If we had our way the Treasury would be issuing new Energy Bonds on Monday. We might do £10 billion of these a week for teen weeks . And each Friday we'd have the Bank of England buy the whole lot back from the financial markets.

This is quantitative easing (QE), of course, and unashamedly so. We have a national emergency. We proved in 2009, 2020 and 2021 that QE is needed to address crises. We'd do it again.

The £100 billion is the approximate cost of the energy support package - hence the name of the bonds.

And for those who say no one else has done anything like this, the US Federal Reserve has been buying mortgage securities precisely so that people can stay in their homes, which is what this programme we propose is also all about.

We are guessing £100bn is sufficient, together with the end of QT, to take all the stress out of the bond market. They were already expecting to buy up to £100 billion of bonds next year to cover deficits anyway: that's all we would also be asking them to do after these changes.

By now, in effect we would have neutered Kwarteng's mess. As a result we would suggest cuts in future interest rates to be our aim. And we'd say having the functioning economy that this would permit would be decidedly preferable to one with housing, employment and economic crises.

We'd even suggest cautious growth might happen. This would come from extra government spending. Consumer markets will only follow when people have the confidence government is on their side again. That's another reason for supporting those public services again now.

Doing all this would take the stress out of millions of people's lives, keep mortgage markets under control and (maybe) reduced inflationary pressure whilst significantly increasing the chance of growing tax yields.

We stress, this is the short-term agenda. There would be much more to do, including green investment programmes, restructuring some aspects of the Bank of England's reserves operations, looking more fundamentally at the Bank of England mandate and more tax reform.

But we think that the markets, the country, and people living in fear need to realise that there is a way out of where we are now if only people and not inflation or interest rate targets were made the priority of policy. So the aim of this package is to reignite some confidence.

We think it would do that and provide a platform for change in the economy. That's why we're putting this out now.