

Our government is at economic war with us

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I [posted this thread](#) on Twitter this morning:

There are warnings in many newspapers this morning that suggest Sunak and Hunt have agreed tax rises right across the board in what is described as an attempt to fill the budget 'black hole'. Alongside austerity these tax rises will be a disaster. A thread on what we should do.....

The UK is heading for a recession. A cost of living crisis created by externally created inflation, whether it be Putin's war or post-Covid supply chain disruption, is the primary cause of that recession. Almost none of it has been created domestically.

That inflation is a temporary phenomenon. Analysis published by the Bank of England suggests that to be the case. We might have inflation of 10% now, but that will fade rapidly.

For a detailed explanation of why this is the case see [this blog post of mine](#) that uses Bank of England data. The key takeaway is easy to understand.

Once the impact of Putin's war becomes limited in the calculation of inflation (which it will be by mid-2023, because by then inflation calculation will compare post-Putin war prices with post-Putin war prices) then inflation might be no more than 3%.

In other words, the Bank of England already know that the mathematics of inflation calculation - which are very crude in that they simply compare prices one year with prices the previous year - guarantees inflation is going to fall in 2023.

This does not mean prices are going to fall. That will not happen. It just means that they will not be increasing nearly as fast as they are now. Unless we have another pandemic or war, that is almost guaranteed.

In that case let's deal with the obvious policy consequences of this fact (since in economic forecasting terms this is as close to a fact as anything can be). That consequence is that no interest rate rises from the Bank of England are required now.

Interest rate increases are an immensely crude measure, given the nice sounding description of monetary policy by economists. Their only use is to stop inflation created by excess wage increases in an economy that in turn drive up inflation.

It is presumed that they work by increasing the cost of borrowing which in turn reduces the amount people have to spend which then puts pressure on businesses to reduce prices as demand for their goods and services falls due to people having less to spend.

It's generally accepted that this policy takes up to two years to have an impact. Market interest rates and people's behaviour takes time to react to official interest rate rises. So, in the short term this policy is pretty useless.

In that case a policy of steadily increasing interest rates, using the excuse that the previous rate rise has not stopped inflation increases, is ridiculous. A rate rise one month will not have impact a few weeks later. So, the Bank of England's policy on this is crazy.

But that policy failure goes much deeper than the failure to get the delivery right. The inflation that we have in this country is not being driven by excessive wage rises. And there is not excess demand as a result driving up wage rises, and so inflation.

The problem in this country is excessive prices driven up by international factors over which we have no control with people then having insufficient income to meet the resulting impact on their cost of living. This is not the type of inflation interest rate rises can address.

This type of inflation is beyond our control. Even pushing up interest rates to increase the exchange rate of the pound fails in this case: the price increases are too big.

It seems that the Bank of England has not noticed any of this. It is pushing up interest rates anyway. The result is that they are taking purchasing power away from households already unable to make ends meet due to price increases.

The Bank of England is, in other words, intent on crushing the ability of households to spend when their ability to spend has already been crushed by inflation and by pay rises that do not in any way compensate for the increase in the cost of living.

If you want to know where the UK recession is being created you should, in that case, look first to the Bank of England. They are doing their utmost to make life impossible for people in this country. They are creating our recession.

However, given that the Bank is already well set on delivering its goal of a deep

recession, what should the government be doing? Economics is quite clear. First, interest rate rises should first of all be stopped, and then reversed.

The government can order the Bank of England to reduce interest rates. It has the necessary powers. So called Bank of England independence is a veneer or charade. They must ultimately do what the government wants. The government should want reduced interest rates, now.

Second, there are a number of economic rules that it is well known that a government must follow when facing a recession. All have one goal, and that is to increase spending power, because it's a shortage of spending power that creates recessions.

So, first, you cut interest rates for all the reasons already noted and because doing so increases spending power, which is what we are short of.

Second, you cut taxes when facing a recession, and most especially do so for the lowest paid as they suffer most from any shortage of spending power that a recession creates.

Third, you increase government spending because that is the only component of national income that any government can control, and in any case all the others will be falling in a recession, so it is the only one that can turn the situation around.

Fourth, you work to increase the pay of those who cannot make ends meet so that they have the ability to spend more and so begin to turn the recession around.

These are the general rules. In the UK's current case there are a couple of twists to add. The first of these is that because of our gross inequality you could tax the wealthiest (top 5%) more to redistribute income to those who will spend and not save.

The second is that you might want to specifically direct spending to a) keep people wanting to work in essential services and b) to deliver better healthcare as nothing improves productivity faster in the economy and c) to invest in sustainability.

I make the point to make clear decisions on priorities have to be made.

Why are decisions on priorities required? Three reasons, as usual. First, money in the right place turns things around quickest. Second, to politically signal that things have changed. Third, because funding has to be considered.

Cutting taxes overall and increasing spending in a recession is essential. It is the way the government injects money into the economy to get it going again. Without this deficit spending recessions get worse, not better.

Our government is planning to do the exact opposite. It is planning to increase taxes and cut spending on top of increased interest rates. That is because it is obsessed with not borrowing. On top of BoE interest rate rises Downing Street is intent on making

recession much worse.

When the reckoning on the recession to come is made Sunak and Hunt, along with Andrew Bailey at the Bank of England, will be seen as the architects of the economic despair that will happen over the next few years, wholly unnecessarily.

But let's deal with that 'black hole' that the government claims exists which they say must be filled with austerity and tax increases.

There is no black hole. There never are holes in government funding. It is impossible for the UK government to not have the money it needs to spend because its bank, the Bank of England, ultimately creates all the money that we use.

To pretend that there is a black hole of unfunded spending the government cannot pay for is in that case to lie. There is no other word for it. Ignorance is the only excuse. And no one in charge of the economy can surely be unaware that our money is made by the Bank of England?

My guess is that maybe £80 billion might be required by my policy. Where to find it then?

The simple answer is to let the Bank of England create it. This is, in effect, quantitative easing. This could be done: the reason for doing so is to say that the energy price crisis requires it. The problem is solved immediately in that case. There is no black hole left.

Alternatively, ask the markets for it as borrowing. Given that the BoE is planning to sell £80bn of the government bonds it owns as a result of QE back to the markets over the next few months in an attempt to push interest rates up we know that market capacity for £80bn exists.

So, the government should simply tell the Bank of England not to sell those bonds and the Treasury should sell new bonds to fund the deficit instead. Again, the black hole disappeared, immediately.

Quote literally, the so-called funding crisis that we face can be solved as simply as the last few tweets imply. There is no issue or stress that we face that requires anyone to say we have a black hole or need austerity.

So why is that message being sent out? I have to conclude the government wants a recession, And it wants to cover that desire up by creating divisions in society. That is why Braverman is at the Home Office.

This is also why racism is being fuelled, very strongly. The aim is to blame migrants for the recession and the inability to provide public services with the goal of distracting attention from the actual economic policy, which is deliberate destruction of public services.

Why deliberately destroy public services? So they can be privatised to deliver gain to a few, of course.

Why is a recession, plus a racist diversion, needed to do that? To grind people down to the point where they are so indifferent to politics and the abuse of democracy that they will accept anything, of course.

The aim is the destruction of the state as we have known it. The goal is a fascist state. How else can policy so bad, and so deliberately so, be explained? Our government is at war with us. There must be a reason. It can only be for their gain at cost to the rest of us.

None of this need happen. I do not dispute that we are in an economic mess. But it is soluble. It is not hard to see how. And the government intends to make it very much worse.

My serious hope is that opposition politicians will see what is happening. If they don't, our descent into fascism will happen. I am fearful. I can't pretend otherwise. ENDS