

# Funding the Future

## Cheap money will be back again - by 2024, at the latest

https://www.taxresearch.org.uk/Blog/2022/12/05/cheap-money-will-be-back-again-by-2024-at-the-late

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There is an article in the FT this morning Ruchir Sharma, who is the chair of Rockefeller International, [in which he claims](#) that in the current world of rising interest rates:

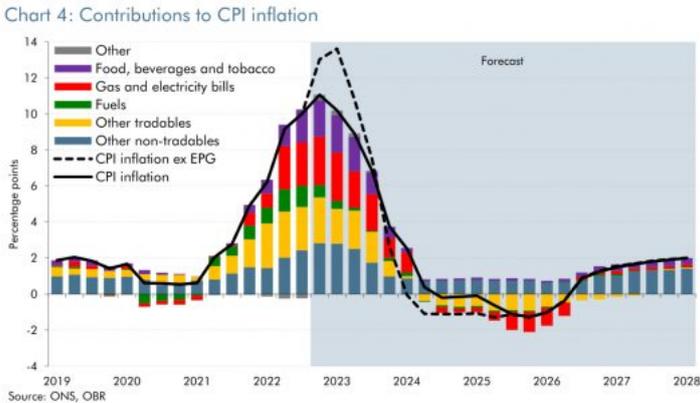
*Markets will reward discipline. ... Only now, discipline has a stricter meaning. Whether it is the US running up trillions in liabilities for Medicare and social security or Europe shovelling out energy subsidies, even superpowers are ill advised to borrow as if money were still free. In the new tight money era, markets can turn swiftly against free spenders, no matter how rich.*

In the article Sharma suggests three things. The first is that the era of cheap money has gone.

The second is that bond vigilantes are not back.

However, third, market discipline on overspending governments is here to stay.

Politely, this is deluded thinking, which I know from just one chart. This is the Office for Budget Responsibility inflation forecast issued with the November Autumn Statement:



Of course this is a forecast and so of course it is wrong. But it also reflects three things. One is that inflation always returns to the mean after a peak, and usually remarkably quickly. That is especially true when, as on this occasion, the inflation is due in large

part to a single exogenous shock.

Second, we are already seeing declining inflation in the USA and real indicators of decline in things like gas prices and shipping costs. That fall in inflation is going to happen.

Third, this chart happens to agree with Bank of England thinking, which coincidentally makes their policy of raising interest rates so very obviously wrong since it is apparent that these rate rises are not needed.

But, most tellingly, if inflation goes negative, as forecast, how is any government, anywhere, going to let its central bank persist with very high real interest rates whose only consequence by then will be to crush the lifeblood out of any economy? That is simply not going to happen. Instead, interest rates are going to tumble as politicians demand monetary policy support for government efforts to promote economic recovery in the wake of wholly unnecessary recessions created by central bankers who have no idea how inflation works or what causes it.

The likes of Ruchir Sharma might wish the era of cheap money to be over. After all, their organisations exist to assist the ever upward flow of wealth in society, and high real interest rates greatly aid this process. The reality is, however, that falling interest rates are going to happen in 2023 and with inflation disappearing rates are likely to tumble in 2024. I doubt they will go below 1% again, but with deflation likely rates of well below 2% are very likely, and even essential.

Markets should enjoy their moment of thinking they have power. It is not going to last.

The real challenge is in creating the thinking that will ensure it never happens again. Modern monetary theory makes clear that these rates are not necessary. No wonder markets hate that thinking. The bigger issue is, why don't supposedly progressive politicians like it? What is it that they are frightened of?