

We need inflation-matching pay rises

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

I am so bored of hearing politicians saying that the country is being held to ransom by trade unions whose pay demands cannot be afforded when that is not true. A thread.....

I accept that many unions are at present making pay demands that exceed the rate of inflation. Given the state of our public services there are good reasons for them to do so. But those same unions are also settling for inflation-matching pay rises, so let's consider them here.

What we have had in the UK are two overlapping inflationary shocks. One resulted from the reopening from Covid. The other was caused by the war in Ukraine. The Bank of England agree that these were the causes of inflation. Let's not look further then when we don't need to do so.

Let's also remember that inflation is simply a measure of price changes from one year to the next. It's no more sophisticated than that. This means that once the impact of these shocks is more than 12 months in the past their impact falls out of the inflation calculation.

Looking at this month's small inflation fall, from 11.1% to 10.7%, we can begin to see this happening. Some of the effects of the post-Covid price increases are beginning to fall out of the inflation calculation. As a result the rate fell.

As we get past the anniversary of the war in Ukraine this will become much more marked. Inflation will tumble in 2023 unless there is another, as yet unknown, inflationary shock about to beset us. I think that unlikely.

So too do the Office for Budget Responsibility. They think inflation will have disappeared, and even turn negative, in 2024 and 2025 as oil and gas prices fall, as

they already are. There is in that case nothing contentious about what I am suggesting here.

Instead what is so utterly bizarre are three things. The first is that the Bank of England thinks it must still raise interest rates. It never needed to raise these rates at all to beat the externally created inflation we have suffered. It certainly need not raise them any more.

Despite this the Bank of England will raise rates today. They are fighting a war on inflation which need not happen as it will go away anyway. They are, in the process, making matters massively worse for us all by increasing the price of money.

Second, the current pay disputes that the government is pursuing with such vigour make no sense at all. Not only is it totally normal for pay to catch up with inflation in situations like the one we are in, as the IMF has shown in recent research, but the quicker it does so the better.

That's partly because the catching-up process almost never seems to be inflationary in itself, as the IMF has shown, and it's also because unless pay does catch up inflation of the type we are now suffering can cause a recession because people can't afford new, higher, prices.

Refusing to give inflation-matching pay rises does in that case mean that we go into recession. Giving inflation-matching pay rises prevents that, and does not create inflation. That's a pretty big thing to achieve.

Third, this is completely affordable. The reason is staring us in the face. Inflation does, by itself, pay for these pay rises. The simple fact is that if there is 10% price inflation and 10% wage inflation then the revenues from the three big taxes go up by at least 10% as well.

In fact, the increase can be by more than that if tax allowances are fixed, as they have been right now. That provides maybe £55 billion of extra tax revenue to the government. The total cost of additional pay is said, at most, to be £28 billion. Clearly the increases can be afforded.

Now of course I know there are other cost increases to consider as well. But the big one is interest - and cutting interest rates, which the government could do, could solve that and save more than £30 billion a year at the same time.

In other words, inflation-matching pay rises in the public sector are totally affordable unless the government has some other goals in mind. What might they be?

Well, they could be trying to crush public services as a matter of policy. After a decade or more of austerity that is hard to rule out.

They could also want a recession to provide cover for increasing returns to capital by trying to create a long-term fall in real wages. Again, that can't ruled out.

And they could also just be utterly incompetent. The possibility has to be taken seriously.

What is impossible is that they can claim what they are doing is credible economic policy when it is not. Refusing to pay affordable inflation-matching pay rises when doing so would prevent recession makes no sense at all. So the other options have to be taken seriously.

Whichever of those other options motivates this government it is clear that what is going on in these disputes is ideological. But it is not the unions that are being ideological. They're simply pressing a fair claim. It is the government that's doing class warfare here.

If we had an honest, fair, open and competent government in this country they would be offering inflation-matching pay rises to their staff now. Instead we have a government intent on crushing the public services and the people who work for them.

Today nurses are striking for the first time, ever. They have to. They have been given no choice. The government has declared war on them, and us all. That's why nurses deserve our support.

Their battle is ours too if we want to live in a decent, prosperous society where all have a chance. The government does not want that. But we can and should have it. That's enough to require support for the nurses and others pursuing their claims. Right is on their side.