Funding the Future

The Middle East, the threat of wider war, and recession

Published: January 12, 2026, 8:42 pm

The Guardian summarises this morning an issue that was played out in a big way in yesterday's Sunday Times, saying:

A global recession could be set in motion by the conflict in the Middle East as the humanitarian crisis compounds the challenges facing an already precarious world economy, two of Wall Street's biggest names have warned.

The logic of Wall Street bankers is threefold.

First, the war in Gaza might spread and add to the stresses already being caused by the war in Ukraine.

Second, this might cause rearmament, and that is inflationary.

Third. war causes stress, and people do not spend when they are stressed, resulting in recession.

That's about as succinct as I can make their argument.

There are three responses.

First, war is not bad news primarily for economic reasons. That should not be the focus of concern.

Second, war has always been inflationary: deal with it because there is no way around it. Ask instead why rearmament is needed and instead focus on eliminating the causes of war.

Third, if people don't spend, work out how to put their savings to use within the economy by using them as the capital that is required for the public spending that is necessary for the purposes of a green transition. So do not leave them idle in bank accounts or moribund in stock exchange-style Ponzi schemes. I suggest how, here. Use them constructively instead, which only the government can.

I am not for a moment suggesting that there will be no consequences of what is now happening in Israel / Gaza, and I am not ignoring Ukraine either. But to passively accept that situation and suggest a) interest rates must rise because of war, when there is no way that raising rates will solve anything and b) that the government cannot use savings to good effect is utterly bizarre. However, that, it seems, is where the titans of banking are. No wonder we're in trouble.