

The way we are is unsustainable

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The FT is full of questions about what Rachel Reeves is doing. [As it notes](#):

Cutting public investment in the UK would damage the “foundations of the economy,” a group of leading economists has warned Rachel Reeves, advising the chancellor instead to overhaul Britain’s fiscal rules to help bolster spending.

The comment refers to a letter from eight economists who cannot see how Labour's planned cuts in state investment can deliver the decade of growth that Labour is demanding.

Martin Wolf, [meanwhile, says](#):

The government needs to combine reform with more spending. Where there are plans for high-priority investment, it should take the risk of time-limited borrowing. It should also look again at taxation.

And looking at economic policy from a slightly different angle, over the weekend, [the FT reported that](#):

Bank of Canada governor Tiff Macklem has opened the door to accelerating the pace of interest rate cuts, signalling policymakers could switch to jumbo 50 basis point moves should growth disappoint.

As the governor made clear, growth is disappointing. In other words, it seems very likely that a serious change of direction on interest is likely there.

What does all this mean when those comments come from quotes from different economic backgrounds? My suggestion is that these various suggestions, and those that [came recently from the Office for Budget Responsibility](#) on the likely growth in government spending over decades to come, imply that we are approaching a tipping point. In effect, four things are going to happen:

* There will have to be a serious relaxation in interest rates to avoid recession.

- * There will have to be significant increases in government investment to tackle urgent issues like crumbling infrastructure and climate change, irrespective of the desire for growth.
- * Wealth is going to have to be taxed more.
- * There will be an acceptance that the supposed current limits on the size of the state are artificial and are going to be broken because the needs of many supposedly developed countries can only be met if their governments do a great deal more now.

I am not saying this point has been reached yet. I very much suspect that Rachel Reeves will ignore all the appeals for a reason being sent in her direction. She is nowhere near turning as yet. But the reality is that politicians always trail in the wake of sentiment, and very few are ever capable of creating it.

Her response at this moment is unsurprising: like most of her type, she is a victim of the thinking of long-dead economists. Reality is not, however, constrained in that way, and it is moving on. Sometime, and maybe quite soon, we will be discussing very different economic scenarios to those now played out in political narratives as they are inevitable. There is one good reason for that. As is now glaringly obvious, the way we are is unsustainable. Reality will have to impose itself at some time.