

There is no economic crisis in the UK. So why is Rachel...

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I posted this thread on Twitter this morning:

Would the UK economy really have collapsed as Labour is saying if it had not cut the winter fuel allowance for most pensioners within days of coming into office, whilst announcing more 'pain' to come? Of course, it wouldn't have done. A thread.....

Lucy Powell MP, Leader of the House of Commons, made the absurd claim that cutting winter fuel allowance saved the economy from collapse when taking on television on Sunday morning.

I suspect that she would have said the same of keeping the two-child benefit cap in place. Together these policies saved maybe £4 billion. They reduced the well-being of more than 10 million low income people, many living in poverty.

"it was made clear to me that unless I acted urgently, market confidence in the UK's fiscal position could be seriously undermined. That would have meant higher debt, higher mortgages and higher prices in the shops. I was not prepared to let that happen."

This claim is linked to her suggestion that officials told her of a £22bn hole in Jeremy Hunt's budget hours after Labour won the election.

Candidly, I don't believe her. She had been seeing those officials for months already, as is normal for the Opposition before an election.

More than that, though, everyone knew Jeremy Hunt's budget was a fantasy that did not in any way add up back in March. Everyone said so. If Reeves did not know, she was negligent.

But let's suppose she was right (if she can play make-believe, why can't we?). What if

this £22 billion ‘black hole’ appeared from nowhere? It could have easily been filled without ever requiring that fuel poverty be imposed on millions or that children be kept in poverty.

First, it could have been filled by the Bank of England simply offering the Treasury an increased overdraft facility. It did that in March 2020. It could have done it again now.

Or, the Bank of England and Treasury could have agreed to do £22 billion of new quantitative easing. No one would have cared if they had done so.

To make that easier they could have cancelled the quantitative tightening programme, which wholly unnecessarily sold £33bn of gilts between April and June this year without a penny going to the government to fund spending.

Alternatively, a new bond of £22bn could simply have been issued. That would have been easy to do. The City would have bought it, without the bat of an eyelid, most especially if the quantitative tightening programme had been cancelled.

The next option for finding £22 billion would be to simply have the Bank of England cut its base rate by at least 2%. The economy desperately needs this. There is no way it can grow with rates anywhere near where they are. This would save more than £22 billion a year.

Finally, a wide range of tax increases on the wealth alone are available. Capital gains tax rates could be increased. Useless inheritance tax reliefs could go. Pension tax relief could be cut. VAT could be charged on financial services. See <https://taxingwealth.uk/> for more.

My point is that cuts were wholly unnecessary, in my opinion.

Would the financial markets have agreed with me? I think so. They don’t like quantitative tightening and would love to see it gone.

They would like rate cuts: they have no desire for the stress they have caused.

They could also easily find £22 billion for a new bond, with ease. They’d rather do that than see more quantitative tightening.

And they want the growth that Reeves is deliberately destroying with her cuts.

And everyone now thinks tax increases are inevitable now.

In other words, was there really likely to have been an adverse reaction to an honest suggestion from the government that it needed more funding that would have in any way spooked the markets? No, of course, there was not.

Nor was there anything to push interest rates up in any of this - most especially if quantitative tightening had been abandoned - which would have helped them fall.

And would exchange rates have collapsed when it is obvious that the trend in interest rates is downward worldwide? No, of course not, not for the tiny sums involved in real-world terms. That claim by Reeves - which is how she generates a bogus claim of inflation risk - is absurd.

Let's get real here: why would markets have wanted to create such an issue over such a small sum? There is no logical reason for them to have done so.

There would be absolutely no gain for them from doing that. In particular, pushing up UK interest rates as Reeves suggests likely (beyond the levels the Bank of England has already inflated them to) reduces the value of City bond holdings, and I can't see anyone wanting that.

And exchange rates are ultimately not influenced for long by short-term interest rate changes. They change because of altered trading conditions e.g. Brexit, and changes in productivity. I am not saying rates have no influence, but let's not overstate it.

So, the two real questions to ask are, firstly, who told Reeves she would crash the markets unless she cut the winter fuel allowance and left children in poverty, and, secondly, why was she daft enough to believe them?

If it was her advisers who told her the economy was in peril when it so obviously was not, she should sack them.

If it was the Treasury she should have ignored them. Their forecasting record is dire, as the last fourteen years where they have got just about everything wrong shows.

And if it was 'someone in the City', why didn't she think that they might be wanting to make a little profit at having the inside information on what she was going to do - as was their likely motive?

And why did she believe them and not make up her own mind, as she makes clear she did not do? Is that because she is not capable of doing so? Is any other conclusion possible?

In that case, we have to, firstly, conclude that pensioners and children in poverty are paying the price for Rachel Reeves' incompetence and that, worryingly, many more will do so before her time in office is over.

But there is a second, and as worrying conclusion. That is that Reeves does not think she governs on behalf of the people off this country. She thinks that she governs for the benefit of the financial markets. It is they, she thinks, who rule the roost and they that she must obey.

But this is very obviously untrue. The 2008 crash and Covid proved otherwise. It's not the City that funds the government. Nor is the government dependent on City money. It is the government that creates the money that the City uses.

What is more, the government does not need the City to save money with it (because that's what they do: they don't fund government spending, ever). As quantitative easing proved quite emphatically, the government can fund itself.

What the unpopularity of quantitative tightening has also proved is that the City can very happily live with the government funding itself.

In other words, Reeves is also presenting a falsehood to say that the City and its whims constrain what she can do. That is utterly untrue.

So, what is the truth? It can only be that for her own, very warped reasons that seem to represent a bizarre test of supposed strength, Reeves wants to harm children living in poverty and pensioners. The City just provides an excuse. But in that case, is she fit for office?