

Funding the Future

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The UK economy need not be stuck in a rut. It's Rachel Reeves' choice that it is. If only she demanded lower interest rates from the Bank of England and let the government spend to transform public services, we could be in a great place. She won't, though, making her the impediment to progress.

https://www.youtube.com/watch?v=Y3hPMYU1o4k?si=q5c4w0i_fv2IMV_O

This is the audio version:

https://www.podbean.com/player-v2/?i=gekbw-17acf28-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

Where is the UK economy? If you were to listen to most commentators, you would say it is in a mess. And, to some degree, I have to agree with them. As it stands, Rachel Reeves has put us in a mess. Deep into a mess. But we need to stand back a little bit and decide what does that mean? What are the causes? What are the prospects, and how can things change? Those are the themes that this video is all about.

So, where are we in reality, standing back from the immediate crisis that all the commentators are talking about, because interest rates in the UK appear to be rising? If we do that standing back, we will notice that Rachel Reeve's plan for growth is failing. And this is the overarching concern that economic commentators have. And they're right. The plan for growth is failing, but let me explain why.

Firstly, it's failing because the private sector is not trying to grow the UK economy. More than that, it has no idea how to grow the UK economy.

The private sector in the UK does not focus its attention on creating new products and services. It focuses its attention on how to extract value from existing products and services. In other words, how to add finance, or how to increase prices, but not how to add value. And the adding of finance, and the extraction of additional value by, for example, renting products that were previously sold is called financial engineering. And that's the only thing that the largest companies in the UK are now any good at. So, it's hopeless to think that they are going to deliver growth.

They're also not going to deliver growth because, frankly, there is no new technology for them to invest in. And anyway, they aren't investing full stop. Despite all the incentives that they have been given, which they demanded from the previous Tory government, and which have been continued by this Labour government, they are not investing even though, for example, they have been given 100 per cent tax relief on every pound they spend on investment in a year, which they said would liberate funds for this purpose, and which haven't.

They also have no clue why they want to invest in any case because there is no additional demand in the UK from people for services because our incomes are flat. In other words, the private sector is in the doldrums, and nothing is going to change it. A bunch of clueless people who claim to be entrepreneurs but clearly aren't, are in charge of business and they're not going to deliver growth for us.

Nor, unfortunately, is the public sector going to deliver growth for us. And that's because Rachel Reeves is already effectively set on austerity.

Yes, I know she has increased spending in the NHS a bit, but only a bit, and not enough to even meet additional demand from people who are obviously more sick. They must be because they're certainly turning up at doctors more often.

Look at other parts of the UK public sector and almost nothing to deliver growth is happening. Education is flatlining. Other parts of the public sector are still in deep trouble with no indication as to where resources will come from to actually make them effective or to meet public demand. We really are running things very badly because of a lack of money. Money which would transform those services and of course simultaneously create demand in the economy to deliver growth, but Rachel Reeves is not going to supply that.

So what else could might deliver growth? Exports could, but I'm afraid to say that despite her mad flight to China, Rachel Reeves really should not be looking there for growth. Trump is going to be in the White House. He is going to undertake trade war in some way or other. That is what he has promised to the people of the USA. He has said he will impose tariffs. If he doesn't, and if he doesn't start trade war as a result, he will

fail on his first promise to the US electorate. So, he is going to unleash that trade war and he's probably also going to unleash the mayhem of trying to deport millions of people from the US and so much more. The US is going to suffer inflation and possibly recession as a consequence. We are not going to be exporting more from the UK into a world facing such uncertainty.

And last of all, with regard to this overview of the UK economy and its prospects, we have interest rates that are far too high. We know that the Bank of England has set rates which are now out of line with what is happening in Europe. We are way higher in terms of cost of interest than our European partners are facing, and it seems to have no intention of changing our rates.

Far from that. It is, in fact, reinforcing the whole high interest rate policy by undertaking quantitative tightening. The consequence is we are facing a government funding crisis because the base cost of interest set by the Bank of England is now higher than the combination of inflation plus our growth rate, therefore meaning that if Rachel Reeves is determined that debt should fall, the only way she can achieve that is by cutting government spending still further given that interest is going to take a larger part of the total budget. The result is that we are in a pickle, as my father would have once said, 60-plus years ago. That was his favourite term for a mess, and I think it's pretty appropriate now.

At this point, you might say the only choice she has left to her is austerity.

She can't change her fiscal rule, she will say.

She can't tax people more because of electoral promises.

Therefore, the only option that we have is austerity.

I disagree. Keir Starmer could, of course, sack Rachel Reeves. It is entirely possible that he might. In fact, I think it's highly likely that he will, but I don't think that's going to happen yet, because he would have egg on his face if he did so, because he's backed her too publicly. However, in time, I think she will go, and with her will go her fiscal rule because that is always what happens when we change Chancellors.

So, there is a real chance of reform at some time we might face austerity, but it might be short-lived, because another Labour Chancellor might change the rules.

Another Labour Chancellor might also, of course, tell the Bank of England to cut interest rates. If they did, they'd be very wise. It's absolutely essential to the well-being of this country that that happens. It's absolutely essential to the well-being of this Labour government that that happens. And it can happen because simultaneously, the government could tell the Bank of England to stop doing quantitative tightening, which is the sale of £100 billion worth of bonds each year out of the stock of bonds the Bank

of England bought during the 2008 financial crisis and the 2020 Covid crisis back to the financial markets, with the deliberate intention of crushing growth in the UK economy.

You could not make something up quite as absurd as this. When Rachel Reeves is begging for growth, the Bank of England is doing everything it can to destroy it, and a wise Chancellor, unlike the one we have, will tell the Bank of England to stop doing that. And as a consequence, interest rates would fall.

At the same time, we could undertake real reforms. Those real reforms would include increasing the taxation of the wealthy. The wealthy are simply too wealthy for the well-being of the UK economy.

I made a video recently in which I explained that if you have too many wealthy people who do not spend in a productive fashion because they're so obsessed about remaining wealthy, you will actually shrink the size of your economy because the money that they could have spent is not being used productively and therefore growth falls. I'm certain that is happening.

We could put the money that is currently used by those wealthy people back into use and in circulation in the economy simply by taxing them more, by redistributing income and wealth. And a wise Chancellor would be doing that because that is what the UK economy requires.

A whole range of options to achieve this goal are available inside the Taxing Wealth Report 2024, which I wrote and which you can Google and find on the web - 126,000 words for and 30 recommendations as to how we could deliver against this goal, not all of which would ever need to be delivered at once, I make clear.

And we could, as I've said often and I will say again, change the way in which pensions and ISAs are given tax relief in the UK so that money saved with a tax subsidy has to be used for a social purpose, meaning that this money would be available to create the investment in social infrastructure, whether that be housing, or in the green economy, or in transport, or in education, or in health, to deliver what the people of the UK need. Using funds saved by people in this UK, for the benefit of the people in the UK, with a tax relief attached. That is entirely possible.

To pretend, therefore, that we are stuck, which is what most commentators claim, having analysed the current UK situation, is just wrong. We have every opportunity for change, and every opportunity for growth, and every opportunity for a better future.

But only if we have a Chancellor who is willing to give up her stupid fiscal rules, which is what Rachel Reeves has, as did all her predecessors since Gordon Brown, around the turn of the century.

And, if we have a Chancellor who is willing to understand that the state has the power

to change things, and in particular, the state has the power to deliver growth when no one else in the economy will do so. That's what Lord Keynes taught us. He was right. We seem to have forgotten the lesson that he provided in the 1930s and afterwards.

Now, we need to go back to being true Keynesians. We need to have the state swing into action to give the pump-priming money that is necessary to ensure that our economy can deliver for everyone. It could. I think it will eventually, but I do know that we will need a change in our political thinking to achieve that goal. I just long for the day when that happens.