

Funding the Future

Article URL

Published: January 12, 2026, 6:40 pm

Rachel Reeves thinks she is facing an economic crisis. She's wrong. She and Labour are facing a political crisis that demands that she spends. But will she realise that?

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This is the transcript:

Is Labour going to deliver austerity next Wednesday?

I know that they will deny it.

I know that they will say that whatever Rachel Reeves puts before the House of Commons next Wednesday, it will not be an austerity programme. But let me be clear to you, it will be. And they will in denying it be, to use the parliamentary term, speaking disingenuously. You might know that term by other language, like lying, but I couldn't possibly say that. Disingenuous means that they know they are not telling the truth, and that is what they'll be doing.

The reason why is very simple and very straightforward. An austerity programme is a programme of government expenditure that is designed to manage a debt crisis.

It doesn't mean that it's necessarily cuts.

It could be tax increases, but we know that Rachel Reeves has already ruled out all tax increases in next week's statement because she couldn't upset the rich, and so, as a consequence, she will have spending cuts, which are going to be cruel on all the rest of the population of the UK who are dependent upon government services, and that, whether Labour likes it or not, is an austerity programme.

And if you go to look at the sources which define what austerity is, whether it be Mark Blyth's great book on this subject, published in 2012, or any of the normal economic dictionaries that try to define these things, like Investopedia for a start, she will fall exactly into the definition of what austerity is because what she will be doing is managing her spending in order to meet her fiscal rule. And, since her fiscal rule is designed to curtail the growth of government debt, by definition, she will be doing austerity.

But it's worse than, by definition. She'll be doing austerity in practice.

Ignore all the blather that those same Labour MPs will come out with about the fact that there will be record levels of spending and record numbers of government employees and everything else.

Well, of course, there is a record level of government spending. That is the inevitable consequence of inflation over time. If nothing changed, the government would spend more this year than last year simply because there has been inflation of around 3% between the two.

If nothing changed, there would also almost certainly be more government employees because there are more people in the country whose interests need to be served. Therefore, the scope of government employment opportunity has to grow.

So, this is not an adequate measure. When we look at whether there has been a real or actual decline in the scope of government services, we are finding a decline because adjust everything for the number of people there are and allow for inflation, and government in the UK is at the very best stagnating, and Rachel Reeves wants to actually reduce its scale within the UK economy because she thinks it's too big as a percentage of economic activity now. And therefore, that is the goal of her whole statement to be made next Wednesday.

She wants to shrink the state.

This is austerity at work, and it's not going to work.

When we stand back and ask what people want from the government, no one says they want Rachel Reeves to comply with her fiscal rule because probably less than a hundred or so people in the country are really worried about what a fiscal rule is, and

fewer than them really know what Rachel Reeve's current fiscal rule might be about - balancing her current budget five years out - and those who do understand what that means, realise that this is a meaningless target because over a five year period, so much can change that to set a goal of such minute gradation for a period of time that long - it's quite ridiculous. So, her fiscal rule is meaningless. It is just being used as an excuse to shrink government, and yet, if you go out into the communities of the UK, they will tell you that they are in economic despair.

The government is increasing the cost of employment, and therefore, there is the threat of unemployment. There is downward pressure on wages despite the increase in the minimum wage because employers are having real difficulty in meeting those costs. And as a consequence, the actual amount of wage costs that they can afford to pay is going down, and they're offering part-time rather than full-time jobs, for example, and therefore we do get a pressure on wages.

There is a crisis in the NHS.

There's another crisis in education.

And people are furious that there is no functioning justice system with regard to many types of offence throughout the UK because the government cannot afford to fund a court system that works, let alone have sufficient police to actually address crime.

All of these things are what matters to people and fiscal rules don't.

She is getting everything wrong, but she could put things right, and there are three very simple things that she could do to actually simply change the way in which he manages the economy to make sure that the money is available to hit those other real targets that matter.

First of all, she could say that the world has changed. We are now living under threat of war. We have to bring the population with us so that they might be willing to make sacrifices if ever we do lose the peace which we currently maintain, and therefore, we have to deliver the level of public services that will ensure that the government is sufficiently popular to, if necessary, recruit armed forces. And that will not be possible in an environment of austerity. She should, therefore, abandon her fiscal rules. For that reason, they are now a threat to our national security, simply and straightforwardly. She is imperilling the country by ensuring that people are alienated from the goals of government. So fiscal rules out of the door, that's step one.

Step two is something that she could do if she wanted to, but she chooses not to, and that is to demand that the Bank of England cut the interest rate in the UK. Currently, inflation in the UK is running at around 3 per cent and it's not expected to go much above that in the next year, and it might well go lower.

The Bank of England's base rate is 4.5 per cent, meaning that there is at present a massive upward redistribution of wealth going on from those without money because that's why they borrow, to those with money, which is why they can afford to put money in bank accounts and earn better rates of interest than they can justify on the funds in question.

Rachel Reeves is fueling inequality and people are really angry about inequality. It might not be the biggest issue that they state, but they know it's real. It's even one of the reasons why people are so angry about migrants because they think somebody's getting a better deal than they are, and that's one of the major causes of concern throughout the UK.

If only we cut interest rates, one of the things that is fueling this sense of grievance would go away.

Rent rises would not be so significant.

The cost of mortgages would go down.

People would be able to make ends meet.

They would have more to spend.

There would be a growing sense of confidence in the country.

There would be more employment as a result.

Some of those stresses that are fueling current political anxieties would simply dissipate.

So, this is something that Rachel Reeves should demand from the Bank of England. Our interest rate should be in line with those in the Eurozone, and there is absolutely no reason why they aren't.

So, get on with it. Do action two, Rachel Reeves. Demand that the Bank of England deliver an interest rate cut of at least 1.5 per cent so that the net real interest rate is zero per cent, which is where it should be.

And then there's a third thing that she can do, and I really think that this is important, and that is she should actually reduce the amount of interest that is paid on a massive part of the government debt, which is the interest paid by the government to the UK banks on what are called their Central Bank Reserve Accounts, which were created by the government - mainly in 2008 and again in 2020 - as a result of the government injecting newly made money into the economy via those accounts, to be held by the commercial banks, firstly, to bail them out so they could not fail in 2008, and secondly, to support the economy when it was suffering the Covid crisis in 2020, but which are

now claimed to be bank deposits by the banks in question, meaning that they're paid interest at 4.5 per cent at present on such sums.

We're talking, therefore, about a bill of more than £30 billion a year, which is entirely, or at least partly avoidable, depending by how much Rachel Reeves should be telling the Bank of England to operate a system of what are called tiered interest rates.

We're talking about balances of over £750 billion here. If only the first £200 billion had a full interest rate at Bank of England base rate paid on them, and that was cut to 3%, we'd only be spending £6 billion a year.

Instead, at present, we're paying £30 billion roughly on that £700 billion-plus cost at 4.5 per cent.

There is a source of saving, and the only cost would be to the bottom line profits of the UK's banks, which are not the most popular institutions in the UK as a whole and which themselves fuel inequality.

So that's the third thing she could do right now to provide a pot of money that would firstly let her restore the winter funeral allowance, which is the thing that people most hate about this Labour government at present.

And secondly, to ensure that people get proper Personal Independence Payments, which are really going to be a cause of further grievance very soon.

And to ensure that the NHS can have the funding it really needs to tackle the problems it faces.

And to ensure that schools have the money that they really need to ensure that every child has the education it deserves, including those with special educational needs.

And to ensure that our justice system might work, whilst leaving over if she did all these things, enough money to probably fund defence as well.

In other words, Rachel Reeves doesn't need to deliver austerity at all. It's a choice on her part. It's a false choice. It's a ridiculous, politically driven choice which is solely intended to pacify her tutors from the days when she was in Oxford and learned that keeping the scope of government activity down to a minimal level was what a good neoliberal would do, which is what she is.

We need to have her take action for the benefit of everyone.

So what can you do about this?

Well, the first thing you can do is, of course, listen to what Rachel Reeves has to say next week.

Secondly, if you want to hear my immediate comments on what she has to say next Wednesday, listen out on Radio 2 - the Jeremy Vine Show at around 1.30 on the day in question, and I will be on air discussing my first, instant reactions to what Reeves has had to say.

Then phone in to Radio 2 and tell them what you think, because you might get on the air and actually get your opinion in front of 7 million people as well.

Do the same with your local radio station.

Do the same with the Facebook groups you're a member of.

Tell them that actually, we don't need austerity. What we need to do is have Rachel Reeves cut the interest rate and then we could afford everything else.

Share that opinion widely.

Please talk about it because we need real people to be able to spend sufficiently to give our economy the boost that it requires so that it can work properly so that the social tensions that we are suffering in this country can be alleviated.

Austerity will never do that.

If, as I'm sure she will, Rachel Reeve's plans to deliver austerity, then she's going the wrong way for the UK.

You can say that she's wrong.

You could tell your friends that you think she's wrong.

You could have good reasons to say that, and you could even put forward this idea of simply cutting interest rates and reducing the amount of interest paid to the UK banks.

And you could say that's the source of the money to put things right.

If you do, you've got your own economic narrative. And that's what's really important because then you are empowered to talk about our future.