

We're in trouble due to the economic incompetence of Re...

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The interest rate on ten-year UK government bonds or gilts, and on their equivalent 10-year Treasury bonds in the USA, both went up again yesterday, implying in both cases that the sell-off of these bonds is continuing.

This is despite the fact that stock markets remained in pretty unhealthy states. No stock market has recovered its confidence after the Trump fiasco of the last week, despite his temporary suspension of some of the worst tariff increases.

If anything, though, the moves in interest rates on government bonds are much more worrying.

In short-term financial markets, which is what we are talking about, if stock markets are suppressed because people are selling, the interest rate on government bonds would usually fall, indicating that money has moved from shares into bonds. However, those rates have risen, implying that those bonds must also have been sold because, as I have explained previously, the relationship between the interest rate on traded bonds and their price is inverse.

So, where is the money from share sales going in that case, because property transactions will not be involved, as these are short-term movements?

The first place is gold, but that is not where most major financial operators go.

The second place is cash, but there is significant risk in holding substantial cash balances in banks that might be vulnerable in the event of a financial crisis, which prospect is real at present.

Money might, then, be moving elsewhere, with Euro markets being the most likely at present. The value of the euro has risen, maybe reflecting this fact.

Whichever of these is happening, the message being delivered appears very clear. It is that markets, at least in the UK and USA, are losing faith in the capacity of the

governments in both countries to act as guarantors of their countries' financial systems.

In the case of the USA, the reason for this should be glaringly obvious. Trump is mad, bad and out of control. He is also very obviously at war with the Federal Reserve, and no one knows who might win that battle, creating massive uncertainty about the direction of US economic policy, which is going to have implications in international financial markets for years, if not decades, to come. The need for that major reorganisation of the organisations that underpin the international financial architecture that I have been calling for has become ever more pressing by the day, but as yet it is not being reflected in what leaders outside the USA are saying. No wonder US markets are worried.

Why, though, in that case, are UK markets following the lead of the USA on this issue?

Maybe it is simply because changes in interest rates in the USA have always had some implication for all financial markets, but that is not sufficient to provide the explanation at this moment.

Another explanation might be that even if markets do not think that Starmer and Reeves are either mad or bad, they do doubt their economic coherence because you cannot claim, as they do, that their fiscal rules will remain intact whilst at the same time they will not increase tax rates and yet they will, supposedly, maintain government services. That is an equation that simply cannot work. It is an obvious impossibility to achieve at this moment.

In that case, the message that markets are sending is that they do not believe Rachel Reeves, and they are absolutely right not to do so. What she and Starmer are saying makes absolutely no sense in the world in which we now live. The consequence is that we are paying a high price for their stupidity.

This is not, however, just an issue of market frustration and higher rates. It is, in the very real sense, much more significant in that. Markets, especially outside the USA, now have to believe that those who are in charge of them have a grasp of what is required of them to create stability. If those in charge do not display that understanding the resulting loss of confidence in government's ability to stand as guarantors of their currencies and as borrowers the last resort (in other words, the people with whom money can be safely deposited) begins to collapse, and if that happens, we are in very deep trouble indeed.

To contextualise this, the game that Starmer and Reeves are now playing is becoming extremely dangerous. Unless and until they make clear that they have a new strategy that will simultaneously support the pound, maintain interest rates at levels that they desire, and sustain demand in the UK economy so that taxation revenue can be maintained, markets will continue to price their doubts about this pair's competence, as they are already doing.

I stress markers are not looking for miracles. What they want are three quite reasonable things.

The first is politicians who understand that it is their role to act.

The second is politicians who have the competence to act in whatever way might be required to ensure that markets have the backstop they need from government.

Third, is the ability to communicate this, because narratives are key at times like this.

It is not at all clear that Starmer and Reeves are possessed of any of these qualities, let alone all three, as is required. That is why we are in trouble. Markets are simply making that clear.