

Funding the Future

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The Bank of England cut its base rate by an insignificant 0.25% yesterday, now pitching it at 4%, which is still above the rate of inflation.

More importantly, the Bank of England said that further cuts in interest rates may not be deliverable because the high rate of inflation in food prices in the UK might not allow for that. As a result, interest rates might have to stay higher than would otherwise be the case.

The consequences should be obvious.

The government will claim it has less money available to it because it will be paying excess interest, wholly unnecessarily (although it could, of course, avoid that by eliminating payment on much of the central bank reserve accounts, [as I explained recently](#)). This will fuel the austerity agenda.

And, we will punish already stretched households, not least because there is excessive inflation in foodstuffs, primarily as a consequence of Brexit, since the same phenomenon is not being seen in Europe.

In other words, factors that are totally external to the financial system will be used as an excuse for imposing financial punishment. This will then exacerbate the original macroeconomic problem, which is that households are already under so much financial stress that the economy is dramatically underperforming. The consequence of that, of course, is that we have limited growth in the UK. This means that Rachel Reeves will say we cannot have any other social reform. That will then mean that we will head for stagflation, which is the thing that the Bank of England loves to warn of, but which it is doing its utmost to create.

There is such a thing as economic incoherence. In other words, it is entirely possible for economic policy announced by the government or its agencies, including the Bank of England, to make no sense at all. Maintaining high interest rates to punish consumers for buying food at excessive prices when they have no control over those prices, and the only agency that could correct them is the government, which should be seeking to rejoin EU institutions to address this issue, is an example of that incoherence.

Every consequence that will flow from having excess interest rates, from having austerity, to low growth, will be the result of the UK having made structural decisions on its future that were themselves incoherent, over which people now have no control, and about which they are denied choice, but which create pressure on their household budgets because they have no option but to eat, for which fact of nature the Bank of England will now punish them.

As negative cycles of economic stupidity go, that one is well up there in the firmament of crass economic decision-making.