

Funding the Future

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The UK is stuck in a self-inflicted fiscal trap. Larry Elliott, former *Guardian* Economics Editor and my co-author in the Green New Deal, joins me to explain why Rachel Reeves' rulebook is economic guesswork, how the Bank of England is failing to control inflation and why capital controls could help rebuild Britain's productive economy. Plus, the technology hype cycle, the risk of an AI bubble, and where new political leadership might emerge to take us beyond neoliberalism. And in all that, a message of hope.

<https://www.youtube.com/watch?v=z9rWhj1yB-s&si=5KrelFkiLM3lioHj>

This is the audio version:

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This is a summary of what we discussed, as a transcript would be too long to reproduce here.

Larry Elliott on fiscal failure, technological anxiety and cautious optimism

Larry Elliott needs little introduction. He was Economics Editor of ***The Guardian*** for 36 years and remains one of the sharpest-eyed critics of orthodox economic thinking in the UK. We have also been allies and friends in the Green New Deal Group since 2007. In this conversation, we covered the present crisis in macroeconomic policymaking, the failure of neoliberalism, the risks of AI bubbles, the case for capital controls and the faint but real glimmer of political hope.

Larry began with the UK's immediate fiscal predicament. As he recently wrote in ***The Guardian***, ***Rachel Reeves will stand at the dispatch box on 26 November, boxed into a corner partly of her own construction. Her self-imposed fiscal rule requires that current tax revenues exceed current spending within four years. The Office for Budget Responsibility, set up to enforce such rules, will inform her that taxes must rise sharply to meet this target. This, Larry argues, is a clear-cut mistake.***

First, the economy is already weak. Raising taxes now risks intensifying the slowdown.

Second, the rule itself is built on “guesswork”, not certainty. It depends on speculative forecasts about what the economy will look like years from now. No serious economic management should operate on hopeful divination.

Third, that said, the OBR is not the real problem. It is doing what politicians told it to do: enforce arbitrary fiscal constraints devised by successive chancellors desperate to signal “responsibility” to financial markets. The mistake is having those fiscal rules.

If we must have fiscal rules, Larry said, let them be meaningful. Why should targets not relate to:

- * ***Falling child poverty.***
- * ***Improved income and wealth distribution.***
- * ***Meeting climate goals.***
- * ***Full employment.***

The Office for National Statistics already measures these outcomes. They are real. They matter. But they are excluded, replaced instead by a single measure of “fiscal prudence” that ultimately limits the ability to govern.

This brought us to the second pillar of UK macroeconomic policy: the Bank of England.

Larry's verdict was blunt. The Bank imagines it can control inflation by adjusting interest rates. But the inflation spike after 2021 did not arise because the Bank was slow to tighten monetary policy. It arose because Russia went to war, gas prices surged, and global food supply chains stumbled.

Monetary tools cannot cure supply-driven inflation. And yet:

- * ***A single 2 per cent inflation target dominates strategy.***
- * ***Employment, growth and financial stability are treated as secondary.***
- * ***Globalisation previously disguised the weakness of the model.***

In the years when cheap imports from China suppressed prices, Governors congratulated themselves on achieving low and stable inflation. Now that

inflation has returned due to geopolitical shocks, they have no tools that work. Worse, by pushing up interest rates, they actively weaken business investment and household finances.

And Larry adds another concern. Since 2008, the Bank has also supervised financial stability. But the next crisis is unlikely to come from commercial banks. The real fragility is in the shadow financial sector: hedge funds and money market funds that are barely regulated but provide half the credit in the economy. The Bank's blind spot is enormous.

This took us directly to Larry's long-standing advocacy for capital controls.

Between 1945 and the 1970s, most countries regulated cross-border capital flows. It was a period of high growth, rising wages, expanding public services and a dramatic reduction in inequality. Crashes were rare. Governments were free to run domestic industrial strategies without fear of speculative attacks.

In Larry's view, this freedom is essential if the UK is to rebuild after 40 years of neoliberalism. We do not need to stop capital moving altogether. We must stem the violent surges of speculative cash that destabilise currencies, distort investment and empower financial predators.

He notes that even the IMF now recognises that capital controls are legitimate tools. The real opposition is political, and the loudest defenders of the status quo are those who profit from it. But as he puts it: "Capital controls are impossible until the moment they become inevitable." His example was Trump's tariffs: they were impossible until they happened. They are not the same, of course; the point is that the impossible can happen.

The conversation then turned to technology.

Technological change in the late 19th and early 20th centuries increased productivity and living standards for millions. That was not only due to innovation. It was because society simultaneously:

- * ***Extended democracy.***
- * ***Built powerful trade unions.***
- * ***Created progressive taxation.***
- * ***Developed public services.***

Technology worked for the many because power shifted to the many.

Larry believes the so-called "fourth industrial revolution" lacks those characteristics. AI could destroy secure middle-income jobs and funnel wealth to a narrow group of corporate owners. The rhetoric of a productivity renaissance may instead disguise another speculative bubble. The herd mentality of institutional investors only reinforces the risk: fund managers

fear missing out more than they fear collapse.

So how does this all connect?

Larry's forthcoming book, *Making Good*, written with Doug Nicholls and Costas Lapavitsas, makes the case that the UK must rebuild its productive base. This means:

- * Reindustrialisation.
- * Nationalisation of key sectors.
- * Pension fund investment shifted back into the UK.
- * Smart tariffs and procurement rules.
- * Capital controls.
- * A coherent climate-aligned industrial policy.

The supply side must be rebuilt so that value creation replaces value extraction.

But if neoliberalism has failed, who will take up the challenge?

Here, Larry offers a surprising note of optimism.

British politics is fragmenting. Both Labour and the Conservatives face existential threats. Smaller parties are generating the policy innovation once expected from the two major parties. The post-pandemic electoral landscape is volatile enough that new forces may soon gain real power.

The ideas required for a fairer, greener and more secure economic future already exist. They are coherent. They are workable. They are grounded in history. What has been lacking is the political leadership ready to deploy them.

Larry and I share a view that this window may soon open. The UK is not doomed to austerity. It does not have to accept technocratic helplessness. Fiscal orthodoxy is a choice, not a law of nature. The state can act again with purpose. We have lived through better economic governance. We know what it looked like. We know it can be rebuilt.

That is the optimism that closed our discussion. Change is not guaranteed. But it is possible. And possibility is all that democracy requires when citizens are ready to demand something better.

My thanks go to Larry.

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