Funding the Future

There's a £1 trillion crash waiting to happen

https://www.taxresearch.org.uk/Blog/2025/11/02/theres-a-1-trillion-crash-waiting-to-happen/
Published: January 12, 2026, 8:28 pm

Global stock markets are at record highs. Everyone knows it’s a bubble, but no one wants to leave the dance. In this video, I explain why AI hype, leveraged finance and shadow banking have created the biggest financial bubble since 2008 and why its collapse could wipe £1 trillion off UK stock markets.

More importantly, I set out how we can rebuild finance to serve society, not the other way round.

https://www.youtube.com/watch?v=Ff4gvI1fr_M?si=gpa4bsdP0pIR3LoF

This is the audio version:

https://www.podbean.com/player-v2/?i=rnz72-19ae928-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

What happens when a stock market bubble bursts? I ask the question for a glaringly obvious reason, which is that global stock markets are at the moment at record highs, whether it be the FTSE 100 in the UK, or the S&P 500 in the USA or any other market you want to look at anywhere else in the world, tech and AI have driven valuations of shares into the stratosphere.

And everyone knows it's a bubble. No one is pretending otherwise. Every serious investor knows what they're doing, but none of them appear to dare to leave the dance at present, desperate to secure the last ounce of value before they think they will know when to leave, when in practice they won't.

This time is not different to any other bubble that I've seen in my life, or any other bubble bursting, which I have witnessed in my life. And just as was the case in 1987, in 2000, in 2008, and so on, when this bubble bursts, the shock will be global.

And burst it will because investors are betting on AI profits that simply do not exist as yet. No one knows how to use AI efficiently. No one even knows what value it can create, and yet trillions are being thrown at it anyway. And that's not rational investment. That's collective delusion.

In a crash, it looks like money vanishes, but let's be clear, that is mostly paper value. We have to understand that because the word crash is deeply symbolic and it's laden with potential meaning and threat, but in practice, we do have to understand the reality of what will happen. And in truth, a stock market crash just means that prices fall, but the real assets that exist in the real economy to create real jobs that employ real people to meet real needs, do carry on unchanged. The stock market and reality only vaguely overlap with each other.

And think of that price fall that the stock market will then record as a bit like the marking down of the price of baked beans in a supermarket. If the price is cut on a supermarket shelf, the beans are still there, and buyers will still come along and buy them. They might even buy more of them. Only the price tag has changed. But perceptions matter. In the case of the baked beans, people will think they're better value for money. In the case of shares where the value tumbles, fear spreads faster than fact.

There will be real losses too. Pension funds will take the first hit. Those which are guaranteed schemes where an employer has said they will pay a fixed proportion of the earnings of a person during their time when they work with them, will be forced to plug the gap that a fall in the value of the shares around the world will create.

That means that those employers will be forced to drag money away from real investment and to put it into buying alternative shares whose value might still fall again in time to come. That, therefore, is destructive. Let's not beat around the bush here. Because we have based pension saving on share valuation, we could now see serious detriment for the value of investment in the real economy, and that has knock-on effects for income as a nation, income now for real people who would otherwise have worked on those investment projects, and, of course, income in the future because those investment projects will not have taken place and therefore the benefits won't be seen.

For those retirees who are in defined contribution schemes where the pension to be paid is based upon the returns, including the capital gains, that the scheme might make whilst the person is saving with it, then, especially for those who are close to retirement, a stock market crash can be devastating. Their plans are completely changed. They can no longer look forward to the retirement that they hoped for. They might have to work longer, or they might have to live on less for the rest of their lives. This has personal consequences, therefore.

But it's not all downside when we have a crash. One thing to think about is the fact that when shares fall, money floods into government bonds, and when bond prices rise, which is, of course, what happens when more people want to buy them, the interest rate falls because the price of a bond in issue and the effective rate of interest paid upon it are the inverse of each other. So when a bond price goes up, the interest rate that is effectively paid on it goes down, and this transmits itself through into the price of government borrowing and also eventually into the price that mortgage holders have to pay on their borrowings as well. So in fact, a fall in share prices, giving rise to an increase in bond holdings, can help economic recovery. But the transmission process is pretty slow, so don't rely on that bailing us out for a while, but I do mention it because not everything about a share price fall is a disaster.

But there are some people for whom it really is not just disastrous, but potentially life-threatening. Now, I'm not talking about real human beings here; let's be clear about that. I'm talking about people in institutions who have borrowed large sums of money from banks to basically buy shares in the belief that they will always go up in value, to therefore cover the cost of the borrowing and to repay the loans. These are people like hedge funds, and private equity funds and shadow banks, all of whom live on debt. If they have done this, and it is very likely that they have, then they will see significant damage when stock markets fall, because those falls tend to happen in the moment. They are incredibly quick.

On the day that a stock market begins to crash, it is quite common that 10% of its value will disappear. Let me use an example. The UK stock market is at present worth something like £2.3 trillion. That's the FTSE 100 alone. It's rather more if we include all the other shares that are quoted, but let's just look at the top 100 companies as an example. If 10% disappears on day one, that's £230 billion of apparent value that has gone.

If we look at the longer-term shock from the beginning of a collapse to the point where the bottom is reached, and use 2000 and 2008 as examples, the bottom could be at values where 30% to 40% of the price before the collapse has disappeared. In other words, it's possible that £1 trillion worth of value in the UK could eventually disappear as a consequence of the bursting of the current stock market bubble.

And then inevitably, those who borrowed to buy shares are unable to repay their loans. And that then means that the banking system takes a hit. And that happens in fact, from day one, because once people begin to realise that banks have got loans to companies who will not be able to repay, they mark down the value of banks; they begin to not trust banks and the banking system begins not to trust each other because, as we saw in 2008, they all begin to panic that they don't know the value of other banks and therefore will not lend to them. And we then get a very real economic shock.

In 2000, Gordon Brown quietly steadied the ship when the stock market fell by 40%. Few people have given him credit for that. It was an extraordinary achievement.

In 2008, we had another crash of the same order, of course, as a result of the onset of the global financial crisis, when banks were at the epicentre of the failure at that time. And he had no choice but to bail out the banks because we faced the real risk that, as markets crashed and banks looked to be vulnerable, the payment system of the UK was about to topple over and quite literally, no one would've had the means to make payment. He had to bail out the banks at that point.

But my point now is that this time the bubble is bigger and the system is even more connected than it was in 2008. Big tech has meant bigger vulnerability because everything is more connected. And at the same time, big tech has meant the rise of the shadow banking system so that half of all loans are through things which aren't banks, but which behave like banks, like hedge funds, and private equity and so on. And their interconnectedness with the banking system is so great that another full-scale financial crisis is almost inevitable once we begin to see a stock market slide.

And just look at this chart, this chart is of the FTSE 100 index taken on Thursday evening, because that's when I began to think about making this video, and it shows just how big the rises have been.

We are at a record level at present on Thursday evening at 9,760 on the FTSE 100. But if you look, you will see that in fact there was a long period of time where a value of around 6,000 was fair. That's the point to which the market might fall if 40% of value disappears. And it could even go lower. Look at the period just after 2000, and look at the period around 2008, and the FTSE got to levels of only just around 4,000.

So from a point of 9,760, the decline could be of more than 50% of value if that happened again. I personally think that's unlikely, but I do think a fall to around 6,000 is on the cards, and if that's the case, as I say, the contagion into the banking system would be completely unavoidable.

It is the case, therefore, that we could have a crash that could wipe £1 trillion off the value of UK stocks and shares, and of course, bigger sums expressed in dollars, admittedly, but nonetheless, overall much bigger sums in the USA as well.

And the fact is, this is all happening because we never learned the lessons of 2008. We never built a safe payment system outside the ownership of our private banks to ensure that if we came to another crisis, as now looks likely to be the case, we could continue to ensure that payments were made by households to the supermarkets to ensure that food could be put on tables. And, as a consequence, we're just as vulnerable now to bailing out the banks for just that simple reason as we were in 2008.

We never split retail banking from speculation. Although it was said we should.

We never changed the City culture.

We recently scrapped bonus caps in the UK instead.

Every lesson from 2008 has been ignored. Risk has been allowed to remain in the system. So we must not waste this crisis. We must use the coming crisis - and coming crisis we will have - to ensure that this time things are different when it comes to the reaction to crisis.

This time, we must create a state banking infrastructure so that citizens are protected because the right to make payments through the use of currency, which is a public good created by the government, must exist independently of these privately owned banks, who keep on putting us at risk.

We must separate public-facing banking from casino finance.

We must, in other words, deliver what was promised after 2008, but which never happened.

And this time, we must regulate hedge funds and private equity. They are not signs of entrepreneurial activity. They are signs of major systemic risk in our financial system, which is going to cause a collapse that we will pay for.

Ultimately, we have to treat the City of London as a guest of the state and not its master. And the guest must know the rules of the house and not set them.

We must therefore be ready to nationalise failing banks this time and to keep them public. The idea that existed in 2008, that nationalisation was always going to be temporary and they had to be kept apart from government, was nonsense. It's failed because we are back here again. That's how we know it failed.

This time, we have to ensure that we build a public banking system suitable for the needs of this country and its people.

This time, we also have to stop any stimulus that is provided to keep the banking system going - and the economy going - from going to the wealthy. They must not gain, and instead, we must ensure that the money goes into real investment and not into asset price inflation, which is what it did after 2010.

We must stop housing speculation as a result of money creation undertaken to keep the banks afloat, because that's what again happened after 2008, 9, 10, and we've seen the consequences of unaffordability and all the political results that flow from that.

And we must make finance serve society and not the other way round. We are facing a reckoning for neoliberalism at the moment. The crisis will mark its final showdown. We know it's failing, and now it will fail. As a consequence, we can no longer let private finance dictate public policy. Never again must mean something this time.

The choice is repeat 2008 or rebuild a just financial order. We have to make that choice now because the bubble is going to burst. It always does. It's inevitable when the Bank of England, the Financial Times, and every other political commentator I know agrees that this time it's certain that collapse is going to happen.

We have to see that as an opportunity. We have to see it as the point where reform can begin if we act appropriately. And if we have politicians who understand that they serve people and not finance, because if that's the case, there can be hope.

Let's make 'never again' real.

Let's rebuild finance this time to serve all of us.

Let's make sure that this time we come out on top.

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