

Are we ready for the crash coming our way?

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The closure of the Strait of Hormuz is not just another geopolitical shock. It is the beginning of a physical supply crisis that could transform the British economy and everyday life.

Oil, gas, fertiliser and food supplies are all under threat. This is not a banking crisis like 2008, and it is not a pandemic like 2020. This time, the problem is scarcity itself.

In this video, I explain why inflation caused by shortages cannot be solved with interest rate rises, why the Bank of England is going to use the wrong tools in this crisis unless it's told not to, and why rationing, price controls, and direct government intervention in the economy may become unavoidable.

I look at what this could mean for fuel prices, food supplies, mortgages, unemployment, social care, housing and the wider economy.

I also explain why banks could once again require public rescue, why governments may need to support strategic industries directly, and why conventional neoliberal assumptions may no longer work in conditions like these.

This is not an argument for panic. It is an argument for preparedness. Markets alone cannot manage a crisis created by shortages of essential goods. If governments fail to plan now, the social and economic consequences could be severe.

That's why wartime lessons from the past matter again. Rationing and price controls worked in WWII, and they might be needed now, when fairness will be essential to maintaining public trust during a period of major disruption.

The question is no longer whether the UK can afford to respond as I suggest is necessary. The question is whether it has the political courage to do so, because the real risk in this crisis is not that the government runs out of money. It is that it fails to use the powers it already has before events begin to spiral out of control.

<https://www.youtube.com/watch?v=v9D4LI-R5fA?si=Ryl4zfXPaQFsCF3C>

This is the audio version:

https://www.podbean.com/player-v2/?i=kcu7f-1acc1df-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 [Debate Ammunition for this video](#).

This is the transcript:

The Strait of Hormuz is closed.

Trump's war looks like it will be never-ending.

The world is pretending everything will be back to normal soon.

It won't be.

Even Martin Wolf, in the Financial Times, has just noticed we have a mega crisis coming our way, and so far, the government is doing nothing about it. So, what should it be doing and why? That's what this video is about, and prepare for a very bumpy ride.

Strait of Hormuz, if it endures, is not a geopolitical inconvenience. It is already cutting off oil, gas, and petrochemical flows that the global economy depends upon. The effects will soon arrive, if they haven't already, in petrol forecourts, energy bills, fertiliser prices, and on supermarket shelves.

This is a crisis of physical supply, of real goods that will simply not be available soon. That makes this situation fundamentally different from the sort of financial crisis that we had in 2008, and the medical crisis that we had in 2020. This government, our government, must understand that distinction, or it will reach for entirely the wrong tools this time, and that could be disastrous.

The UK has not faced a supply shock of this character since wartime. In 2008, the crisis was in credit and bank balance sheets, and that could be addressed with money and quantitative easing dealt with it. This time, we have a physical resource shortage, and

that cannot be resolved in the same way.

You cannot adjust interest rates or inject liquidity into financial markets and expect to get more oil, gas, fertiliser, and food. That just is not going to happen. Those things will be in short supply, and scarcity of that kind ripples through every sector of the economy.

The question this time is not how to stimulate demand, which it was in previous crises, but how to manage severely constrained supply. That is a fundamentally different question, and in that case, we have to think more broadly, and my concern is that the government is not ready for this.

And I stress, inflation is going to be the consequence of a shortage of supply this time. When physical supply fails, and demand does not, and that's going to be the case for things like oil, home energy, food, and other essentials, then prices rise. That is the inevitable marketplace mechanism that we will see.

This inflation is cost-push driven by resource scarcity and not by excess consumer spending. In this situation, raising interest rates cannot bring more oil to market or fill gaps in food supply. Rate rises in this context would deepen the recession that we are going to get without addressing any of the underlying problems.

The Bank of England must then be told now, and I do mean now, that they must hold interest rates in the face of this coming crisis, or in fact cut them, because that is what the world needs at this moment, and that is what people in the UK are going to need very soon because the costs they're going to face are going to be rising considerably as a result of supply shortages. We do not need to push up interest rates at the same time. That would be a disaster. Inflation management in this situation requires direct intervention by the government through rationing and price controls, and it does not require the exercise of monetary policy.

And price controls are not a radical proposition when we are facing the sort of extreme variation in supply that we might have. Steve Keen is talking about world food supplies falling by 20%. It might not be as bad as that in the UK, but the fact that we are going to have shortages is undoubtedly true. We're also going to see major shortages in oil and energy supplies, whether they be oil or gas-based, and the fact is that we do not know the scale of these, but 20% is another good estimate.

And in the face of that scale of emergency, which means that we will not be completely out of these products, but that they will be in incredibly short supply, we have to look at the lessons from the Second World War.

At that time, price controls were used with considerable success. Without price controls, the price mechanism set by the market rations instead. It does so by income. The rich will carry on consuming then. They might have to save a little less, but that is the worst

that will happen to them. The poor, meanwhile, will go without; that's what this will mean.

In a shortage of this magnitude, that outcome is both unjust and socially destabilising and price controls must then be put in place to ensure that everybody has access to essential supplies, which will mean we need rationing to go with these controls, and this will have to cover road fuel, domestic energy, and essential food categories.

This must be accompanied by active government procurement and supply chain management, and nothing less will do. Markets cannot work in this situation. And that is because if prices are held below market-clearing levels, while supply is constrained, allocation needs a mechanism. That mechanism has to be rationing. The only question is whether allocation is by wealth or by need.

The wartime rationing system put in place in the UK from 1940 was administratively complex, but broadly effective. Crucially, it was seen as fair, and fairness is the foundation of public compliance in a crisis, and that is what is coming our way.

Rationing should then be considered now for at least road fuel, heating fuel, and maybe for food, the same things that will require price controls. And the administrative infrastructure to achieve this goal does not exist as yet. So planning must begin immediately. If it doesn't happen, this crisis is going to be very much worse, and the government needs to talk about what it is doing now, and that is why this is high on my list of priorities at this moment. We have to get this right. We cannot wait.

And we also have to recognise, whilst doing that, that the banking sector is going to feel the most almighty shock as a result of this crisis. And that is going to happen very soon, and this time support must be on the public's terms and not on the bankers' terms, which is what happened in 2008. Resource shortages will cause business failures, and business failures will cause bad debts for banks, and bad debts for banks on the scale that we're going to see will stress them to the point that they could fail.

And as this is going to happen at the same time as banks are going to suffer stress with regard to mortgage debts, which I will come to in a moment, this situation is going to be very serious. Banks are going to suffer, so the government should be setting out now, and in advance, the terms on which it will provide support to our banks so that they know, and we know the situation is going to be managed.

The lesson of 2008 is that unconditional bailouts reward failure and transfer risk to taxpayers.

If public money is going to support private banks, again, the public must receive a proportionate ownership stake in return. Nothing less will do, and the stake must be valued at crisis rates and not at prevailing market rates before the crisis hits. We have to look at the reasons why the crisis arose, and if the banks weren't able to manage it,

they must suffer a significant discount on their values as a consequence. The public should not be bailing out shareholders because they happen to own shares and took no consideration of the crisis to come.

If, as a result, we get bank nationalisation, my answer is so be it. That is a legitimate instrument of crisis management. It is not a measure of last resort, and the pretence from 2008 that any such nationalisation was going to be temporary should be foregone. Banks should be under state control if they cannot manage themselves. That's my message.

At the same time, the government might also need to consider extending the bank deposit guarantee schemes to ensure that people do not panic when they see the banks are in crisis. This is incredibly important, as will be government direction of bank lending priorities. Credit will be rationed during the course of this crisis. The government has to make sure it goes to those who need it. Nothing must be left to chance, and the bankers must not gain again.

Of course, what all of this implies is that businesses that are dependent on scarce resources are also going to need support. Let's not pretend otherwise, but this time we cannot give unconditional rescues. We saw what happened with that during the COVID crisis, and it was ugly. The fact is that this time, firms reliant on oil, gas, fertiliser, and imported materials will face cost increases, and many of them will not be able to absorb those costs, but what they do will be essential, and we will therefore want to keep those firms in existence.

The government must then resist both indiscriminate rescues and laissez-faire indifference. The lessons of 2020 have to be learned, and the key distinction is between firms that are viable, but illiquid because of the crisis, and firms that were already failing, which do not need to be bailed out; they will have to go to the wall. There will be corporate casualties during the course of this crisis. Let's not pretend otherwise.

An appraisal system to work out which company is which is needed now. Work must start at this moment to get this system in place. Viable firms should receive emergency credit, loan guarantees and, where necessary, conditional equity support, which means that the government will inject funds into their share capital and own a stake in them. This will be particularly true of strategic industries, energy, food processing and logistics, and they must be considered for nationalisation where private ownership cannot sustain them.

Again, this is practical crisis management and not ideology. And let's be realistic, what we do know is that unemployment is going to rise as a consequence of all of this, and the social security system that we have got at present is not ready for that to happen.

If we don't do universal furlough as we did in 2020, there will have to be changes to the social security system to manage the consequences of this crisis, because we already

have 5% of people unemployed in this country, and it's going to get very much worse. As businesses fail, or at least try to cut costs, unemployment is going to rise sharply as this year develops. Universal Credit, with its five-week wait, conditionality requirements and inadequate payments, is not a crisis management instrument. Conditionality and sanctions are going to have to be suspended immediately for those displaced by this crisis, and payment levels are going to have to rise to replace a meaningful proportion of lost income from day one of unemployment if that is going to happen, and people are going to be forced out of work through no fault of their own.

If it isn't done, we're going to face a second crisis. The cost of not acting in terms of poverty, ill health, and long-term labour market detachment will far exceed the cost of acting as this crisis develops. A government that is monetarily sovereign cannot run out of money to pay for this. That's a critical point.

Meanwhile, there will be a crisis in another sector, which is all too often forgotten. The social care sector is already at the critical pressure point, and the shortages that I'm describing with regard to energy and food will hit it directly because it is a care service. It houses vulnerable people, and it feeds them. The social care sector is already underfunded and reliant on low-paid staff with high turnover, and runs on thin margins and is operated by fragile providers.

Resource shortages will drive up its core costs, energy, food, and consumables faster than most sectors. Failure here means that elderly and disabled people would be left without support to wash, eat, and remain safe, and that, in turn, would mean that demand on the NHS would increase. It would be required to absorb the pressure, but it has no capacity to do so, and beds will be blocked, and discharge pathways will be closed as a consequence. And this means that what will be required is that local authorities must be provided with emergency funding to meet the rising cost of commissioned care. This is going to be a consequence of this crisis, and we have to again, think about it now.

Providers facing insolvency must be supported on the same terms as other strategically critical businesses. When providers nonetheless fail, the government must be willing to step in directly. People in care cannot wait for insolvency administrators, and care workers will also need a centrally funded pay guarantee to cover the increasing costs of living. Without them, the care sector workforce will not hold, and we must ensure that it does.

At the same time, Carer's Allowance must be increased to make sure that vulnerable households stretched to the limit can continue to afford to provide for those they're looking after at present at home. If they cannot afford to do that during the course of this crisis, the care sector crisis will become even worse as demand for social care increases, and that is a consequence we will not have the resources to manage, and so an increase in the carer's allowance is a necessary price to pay.

And talking of homes, let's talk about the crisis that is going to develop there. Very many UK households are already enormously burdened by household debt accumulated over decades.

We're not just talking mortgages here; we're talking about credit card debt, personal loans, loan shark loans, and all sorts of issues, and millions of households are already close to the margin of insolvency as a consequence of these debts. A sharp rise in the cost of scarce essentials is going to push many of these households over the limit, and unless measures are put in place to manage these debts and ensure that food takes priority over debt payment, we are going to see the crisis get very much worse.

So what do we need? A statutory mortgage payment freeze is the first thing we're going to require. Homeowners must be allowed to defer their mortgage payments, and that is going to be done automatically. The mortgage lenders are not going to be allowed to object. They must be required to add the missing mortgage payments onto the end of the mortgage term, and in this way, homeowners who will not be able to manage their mortgage debts will be able to stay in their homes, because that will be essential if we are going to manage this crisis.

With regard to rental properties, rent freezes should be put in place, and there should be no argument, and there should be eviction moratoriums as well to protect tenants who cannot pay through no fault of their own.

Meanwhile, consumer debt enforcement must be suspended for the course of this crisis, and consumer credit records must also be protected throughout it. People must not emerge from this crisis with their financial futures destroyed.

These measures are essential. They are about prioritising what is important during the course of a crisis, where people might otherwise go without food. We have to put food over finance. That is my message.

And talking of landlords, and I was just now, we have to deal with their particular problem. I do know that many buy-to-let landlords are heavily mortgaged and operate on margins that will not survive this shock. Current policy allows properties to be sold on in this situation, but house prices are likely to fall heavily very soon as a consequence of this shock and the number of landlords who will be trying to offload their properties. And so the government should be looking to intervene in these situations to protect tenants and to ensure that landlords are not allowed to go bust through no fault of their own, whilst they should bear a cost nonetheless.

They should be offered the opportunity to sell their properties as a result, but at prevailing market rates and not at those which exist at present, and homes acquired in this way should become permanent social housing and not be returned to the private market. This is a purchase at market value of assets the private sector can no longer manage, and it is not expropriation. A larger public housing stock, then held

permanently, will mean fewer people will be exposed to the next crisis, and that has to be a positive outcome of this situation.

And let's be clear. I'm only scratching the surface of what will be required here. If we are going to survive this crisis, we need to make other changes as well, and some of these will be permanent. Donald Trump is going to change the UK forever as a consequence of his war on Iran. This is the reality. That war is having the consequences of a world war, and we did see fundamental changes in the UK as a consequence of World War I and World War II.

So let me talk about another area that will have to change, and Lord Keynes understood this in 1940 when he laid out the plan for how the UK would fund the Second World War; you will note, a year or two late, the war was already underway, which is why I am talking now before this crisis develops, because I want to avoid that situation happening again.

What he understood was that we would need tax increases if we were going to keep the economy in some sort of balance during the course of this crisis. He realised that we would need windfall taxes on things like energy and commodity profits. He realised that we would need more taxes on income and gains from wealth. Why? The purpose is not to secure revenue, but is to withdraw purchasing power from those who would otherwise outbid those with limited resources, who would then suffer as a consequence.

This is the reason why we will need to increase taxes during the course of this crisis, and they might go up very significantly for some people, and that fact must be communicated. This is vital economic management. We have to balance the economy. The government is going to have to spend a lot more, and that requires it to take the consequent money that it spends to keep some people going out of the economy again, and that means that taxes will have to rise on those with the capacity to pay them. There is no other choice.

But there is one other thing the government could do. It could start planning for wartime savings arrangements. Crisis bonds will need to be issued. We had war bonds in 1940. We will need crisis bonds this time.

And I stress all of this is because the government must not repeat the mistakes of previous crises.

It must not pretend a physical resource shortage is a temporary disruption the market will resolve.

It must not leave the response to the Bank of England, which has no tools to manage a crisis of this sort, and it must not allow social care to collapse on the assumption that families will absorb the consequences.

It must also not let the language of fiscal responsibility become a justification for inaction.

It must not allow the fear of nationalisation to prevent action that the banking sector, strategic industries or housing supply may require.

Above all else, it must not allow this crisis to fall most heavily on those least able to bear it. The UK is monetarily sovereign. We must never forget that fact. The UK government cannot run out of money. Keynes knew that in 1940, it's as true today.

We can afford to take the actions I've talked about.

We can afford to care for people.

We can afford to feed them.

We can afford to house them.

We can do all those things, but we must use the tools that are available to do so. Those tools already exist. They are price controls, rationing, banking support, business rescue systems, social security changes, social care systems, and housing acquisition, if necessary, and at the same time, higher taxation.

The real risk is not insolvency for the government because that cannot happen, but is instead the risk of political failure to deploy available capacity at the scale required. That failure would be true fiscal irresponsibility.

The question is not whether the government has the means to respond to the crisis coming our way. The question is whether the government has the political courage to use the tools that are available to it and which it should use to deal with that crisis.

It has to face this reality now. If it does not plan for what is going to happen, it will fail. And that is my biggest concern of all because 2008 and 2020 suggest that neoliberal governments do not have the imagination to deal with a crisis on the scale that we are going to face.

That's my opinion. That's my concern. You might think differently. There's a poll down below. Let us have your comments. I suspect there will be a lot of them. Please share this video. People need to know about this issue. Please like this video, if that's what you do, and if you're willing to support our work and want to make a donation, there's a link to Ko-fi down below, and you can use that to buy us a coffee.

Poll

[poll id="405"]