Funding the Future

Debate Ammunition: Oil company profits

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THE RICHARD J MURPHY YOUTUBE CHANNEL

DEBATE AMMUNITION

Oil Company Profits and the Bank of England

Funding the Future | August 2026

Topic

Why the Bank of England risks making a catastrophic error by treating war-driven oil company profits as a sign of domestic inflationary pressure, and what MMT says should be done instead.

The video that this Debate Ammunition supports is available here.

The Core Argument

Eight major oil companies made an estimated $93 billion in profit in the second quarter of 2026, driven by Trump's war against Iran and the resulting disruption to oil supply routes. This is a windfall, not a sign of a stronger economy.

The inflation flowing from those profits is extraction inflation caused by companies using pricing power to take more from households, and not demand-driven inflation caused by too much spending in the UK economy. The Bank of England's Monetary Policy Committee is misreading the evidence on this issue.

Higher interest rates cannot reduce internationally set, war-driven oil prices, cannot stop corporate price gouging, and cannot create more energy supply. They will only deepen the damage already being inflicted on households and businesses, and risk tipping the UK into an avoidable recession.

Modern Monetary Theory provides the correct response. We need lower interest rates to protect jobs and household spending power, combined with an excess-profits tax on oil companies, rigorously enforced using country-by-country reporting and transfer pricing rules to recapture windfall gains in the UK economy.

Key Statistics

Statistic	Figure
Estimated combined profit of eight major oil companies, Q2 2026	$93 billion
MPC members who voted to raise rates at the July 2026 meeting	3 of 9
Nature of the cost increase to oil companies from Middle East war	Negligible

The Argument Structure

Step 1 — War creates windfall profits, not productive growth:

The Straits of Hormuz disruption has pushed oil prices up without changing the cost of production in the rest of the world. The increasing gap between cost and price reflects pure pricing power and extraction from consumers, not a price rise resulting from increased economic activity. Eight major oil companies pocketed an estimated $93 billion in a single quarter as a result.

Step 2 — Households absorb the shock by cutting everything else:

Most UK households are already at the limit of their ability to spend. Higher fuel and energy bills are absorbed into fixed budgets by cutting spending on restaurants, holidays, clothes, children's goods and other discretionary items. Overall demand is not rising; it is being redirected from everything else to oil companies.

Step 3 — Businesses face a double squeeze, and recession risk rises:

Firms outside the energy sector face higher energy costs at present and simultaneously face falling demand as customers divert spending to fuel. The combination of rising costs and falling revenues is the classic precondition for job losses and recession. Higher interest rates would add a third burden on top of these two.

Step 4 — MMT prescribes lower rates and an excess-profits tax:

Modern monetary theory suggests interest rates should fall to protect jobs and ease the burden on households and businesses at this time. An excess-profits tax should also be levied on oil company profits arising in the UK, enforced through strict application of transfer pricing rules and use of data from the country-by-country reporting system to ensure the tax falls on genuine UK profits.

Their Argument → Your Rebuttal

They Say

Your Response

Inflation is inflation. If prices are rising, the Bank of England must act to bring them down, even if the cause is external.

The Bank of England's own framework distinguishes between demand-driven and cost-push inflation. Interest rates work on demand; they cannot reduce the price of oil set on global markets.

Raising rates here will not reopen the Straits of Hormuz or increase oil output anywhere. What it will do is increase mortgage costs and reduce investment, compounding an external shock with a self-inflicted one.

Ask: how does making a family's mortgage more expensive reduce the price they pay at the pump?

If we don't raise rates, a wage-price spiral will embed inflation and make everything worse.

A wage-price spiral requires workers to have the bargaining power to match price rises with sustained wage increases. Real wages in the UK have been weak for years and trade union density is far lower than in the 1970s, the era that this argument is borrowed from.

The evidence from previous energy shocks under the current labour market structure is that wages lag prices, not lead them. Households absorb the squeeze, not amplify it.

The spiral argument is theoretical; the recession risk from rate rises is very real and already being demonstrated in the data.

An excess-profits tax would deter investment in UK energy and make the supply problem worse.

The video is explicit: the tax would apply to profits arising in the UK, enforced using country-by-country reporting to ensure it captures genuine domestic profits alone.

Oil companies do not set UK prices based on their tax liability; they set them on the global benchmark. A windfall tax on exceptional profits does not change the economics of any individual production decision.

The UK has already levied an Energy Profits Levy. The question is whether it is set and enforced rigorously enough to capture the scale of extraction now under way.

Government and the Bank of England have no tools to deal with an external oil price shock: this is just the market doing what markets do.

Markets doing what markets do is precisely the description of late-stage capitalism the video uses of large businesses extracting exceptional profits while smaller businesses and households absorb the damage.

Government has tools: excess-profits taxation, interest rate policy, and the choice to use country-by-country reporting data that already sits with HMRC.

The claim that nothing can be done is a political choice disguised as economic necessity. MMT has always argued that the limits are real resources, not political willpower.

The One-Liners

“Oil companies are not earning these profits: they are extracting them from the rest of us.”

“You cannot cure a price gouge with an interest rate rise.”

“Households are already paying twice: once at the pump and once on their mortgage. The Bank of England wants to make it three times.”

“This is not inflation driven by a booming economy. It is inflation driven by a war we did not choose and companies that chose to profit from it.”

“The only thing interest rate rises will achieve here is to make the wealthy richer still, exactly as MMT predicts.”

Questions to Ask

If UK households are already cutting spending on everything else to pay higher fuel bills, where exactly is the demand that the Bank of England thinks it needs to cool?

Can you explain the mechanism by which raising UK mortgage rates reduces the global price of oil? Because the Bank of England has not explained it.

Oil company production costs have barely changed. The entire profit increase is pricing power. Is that the kind of inflation that interest rates were designed to tackle?

Country-by-country reporting already shows where multinational oil companies make their real profits. Why is HMRC not using that data to levy an excess-profits tax right now?

Further Reading

Post	Date	What it covers

[The Bank of England must not be stupid if we get inflation as a result of this war]

1 Mar 2026

The original post warning the MPC that raising rates in response to an oil supply shock would compound the damage rather than cure it.

[War is not a reason to raise interest rates]

6 Mar 2026

Detailed explanation of why imported inflation from oil prices requires a completely different response from the Bank of England — the core argument this video returns to five months later.

[The case for a windfall oil tax is overwhelming]

9 Mar 2026

Sets out why the scale of oil company profits in 2026 makes an excess-profits levy not just defensible but essential, directly supporting the video's tax policy prescription.

[Could the Bank of England bring the economy down?]

1 May 2026

Analysis of the recession risk if the MPC responds to cost-push inflation with demand-reduction tools, foreshadowing the July vote described in the video.

[My View On...Inflation]

30 Jun 2026

Comprehensive statement of the argument that windfall profit taxes on companies benefiting from commodity price spikes are the appropriate response when energy prices drive inflation — not interest rate rises.

No one but a fool would run an economy this way

31 Jul 2026

The most recent companion post to this video, arguing that the combination of oil extraction profits and potential rate rises represents a failure of economic governance that MMT would prevent.