

# Funding the Future

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David [Cameron has said all the signs of another global crash exist](#). I think he is right: they do. But from then on he and I differ.

[Writing in the Guardian](#) it is as if he did not attend the G20. There is a nod to tax reform. But he appears to be completely unaware of the commitment to raise infrastructure spending at the core of the G20 plan to turn round ailing economies. His focus is instead on highlighting problems in Europe and on signing TTIP - the trade treaty that will require the privatisation of the NHS whatever he says now. To put it bluntly, this is a man who can see a crisis coming and who must know that his austerity programme can only make it worse (anyone but a fool can see taking money out of a failing economy, as he plans to do, is bound to make it worse) but who is resolutely refusing to recognise the issues that will cause this next wave of economic collapse.

So, let me explain as simply as possible for the likes of David Cameron why we are going to have another crisis. It's not hard to do. And it can be summarised in one phrase. The wrong people have the money. If you want an explanation for that it is that government policy over the last few years has done all it can to make sure that the wrong people to make a change in the world have got more of the money.

What do I mean? I mean that the people who spend least of their incomes have had the biggest pay rises and are the only ones to enjoy effective tax decreases over the last few years. These people are the highest income earners in the UK. At the same time cutting benefits for the poorest and increasing VAT (which together with deliberately enforced wage cuts have reduced the net disposable income of most people) and cutting taxes for the wealthiest this has been the inevitable outcome. And we know this outcome has not happened by chance: [this is deliberate](#).

[Wealth inequality has risen too](#). Again, that's deliberate, and capital gains tax cuts and reductions in inheritance tax are all intended to foster this goal. But there is a problem with fostering wealth inequality. The rich are rich because they do not spend anything like all they have. If they did spend it they would not be rich. But what that means is that when there's a shortage of spending in the economy to let the wealthiest get wealthier simply means that the imbalances within it get worse. And it's imbalances that cause crises.

Corporation tax cuts and reforms to our corporation tax system that means that multinational corporations based in the UK can, since 2010, find it much easier to make effective use of tax havens to cut their UK tax bills have also made the problem worse. [I reckon these cuts are costing at least £10 billion a year.](#) What these cuts do is transfer money that would have belonged to the state to companies in the hope that they will be encouraged to invest it as a result. But they aren't doing any such thing. The amount of the UK corporate cash pile is open to dispute (partly because company accounts are so unreliable) but [what no one doubts is that it is growing.](#) Companies are taking the tax cuts and banking them. They aren't even giving them back to their owners. They're just hoarding it. Like the wealthy (perhaps, unsurprisingly) large companies are simply sitting on their cash.

The tax gap is another indication of this. You [don't have to believe it is as big as I think it is](#) to realise that what the tax gap really means is that, yet again, the wrong people have the money. What really belongs to the government is in the hands of crooks and cheats, with massive economic consequences.

That is true of all these observed facts. All mean that for differing reasons the wrong people have the money. Either, in the case of the tax gap, the money is in the wrong hands in a way that undermines economic confidence, especially amongst honest small businesses, or in the case of the other gaps (income, wealth and the gap between large and small companies) increasing amounts of cash are being given with official sanction to those who won't spend it. And what that means is there is a shortage of demand in the economy - and most people are seeing their incomes fall. It's not rocket science to work this out: it's glaringly obvious, and yet the likes of David Cameron and George Osborne deny it, and suggest all must carry on as now - absolutely guaranteeing as a consequence that things can only get worse.

What can be done? I've always pointed out that there are only four drivers of the economy: consumer spending, investment, net foreign flows and government spending.

Investment is not happening; business will not do it: that's why it has cash.

Net foreign flows are broadly neutral: the trade deficit is dire but hot money still comes to the UK, although we cannot rely on that.

Consumer spending is poor and may get worse: most people do not have the money.

And that leaves the government to put matters right. It has to generate new economic activity.

How? Three ways. First, print money and use it productively rather than simply give it to banks to prop up asset values. That's [green quantitative easing](#). The [Bank of England has conceded this is possible](#). This would invest the length and breadth of the UK to create new sustainable infrastructure (which is exactly what the G20 says is needed to deliver jobs).

Part of the funding for Green QE would come from the income it would generate. The IMF says investing in infrastructure pays right now simply in terms of new tax yields created.

Part would have to come from additional taxes. Big business would have to pay some. I note that in the FT [there is discussion today](#) of applying retrospective taxes on large companies, albeit in Japan. Maybe the time has come for that here too if business will not invest its cash.

And we do, undoubtedly, need to rebalance tax onto those who can pay it via increased taxes, especially on wealth, including a national insurance charge on investment income and better wealth taxation, including land value taxes. Banks must also contribute through financial transaction taxes.

And we must close the tax gap.

Put this together and there is a coherent economic policy in play that deals with the fundamental fact that our economy is not performing as it should because money is being directed, by the nature of modern capitalism, into ever fewer hands (the drive for artificially defined productivity guarantees that) which fact is being exacerbated by current government policy and this fact has to be reversed if most people in this country, and others, are to achieve anything like their potential in the economy, in society and in their lives.

That's my goal. It cannot be that of the current government or they would not be doing what they are.

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*Please note that I remain out of action for normal work purposes at present as I am still recovering from an operation to have my gall bladder removed. I am blogging occasionally but comment moderation may take a while. I hope to be back to normal soon.*