

There is an elephant in the room at this election

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There is an elephant in the room at the next election that no one will name. It's not austerity, although it is closely related to it. The elephant is the question that floored Natalie Bennett of the Greens this week, and is the automatic response of any questioner to any proposal that any politician makes, which is:

How are you going to pay for it?

It's not just Natalie Bennett who has a problem with this. So too has Ed Balls, In fact even George Osborne and Danny Alexander should face it because the chance that either of them will stick to austerity in the face of outright public opposition and a massive QE programme in much of Europe is less than the square root of zero.

Nicola Sturgeon and Leanne Wood might rightly ignore the question saying, correctly, that at present it is Westminster's problem, but that's a diversion of an answer to a question that has skilfully been written to be unanswerable unless one of three responses George Osborne thinks no one will dare give is proffered.

The first, and most obvious of those alternative answers is one that I have long suggested. This is to suggest that collecting [only a part of the £120 billion tax gap](#) is a way to do this. Such solutions do not, admittedly, happen overnight but I have not a shadow of a doubt this option is available. Money that should be used in accordance with the will of government is not being so at present: the aim of this policy is to reverse that. At present some of that money lost will be saved - and so not be put to any productive use - and some will most likely be spent on consumer goods, many of which will be imported into the UK and so create little productive new activity in the UK on which very much tax will be paid, whilst at the same time undermining the balance of payments.

So, collecting tax that is owed can help rebalance the economy and pay for what is needed because it is glaringly obvious that there are things that need to be done in the UK that are not happening, precisely because the money to pay for them is being stolen at present. But I make clear that in saying this you have to believe that, in the first

instance, the rule of law should be upheld, and secondly that the government knows how to use this money better than those who are currently stealing it. All parties acknowledged the first of these suggestions, but I have a very strong suspicion that many on the right do not agree with the second suggestion and this is precisely why tax avoidance and tax evasion are not being tackled with the vigour that they should be.

There is, then, a second option available when seeking to answer the question "how are you going to pay for it". That is a very simple one, but is that you have no intention of doing so. In other words, you're going to borrow. And that makes a lot of sense when at present the government can borrow at interest rates that are in real terms, around 1%.

People are, effectively, queueing up to give the government money to spend because they have no idea what to do with it themselves, and aren't even asking for any real interest in return. It would be almost criminal not to use the money in that case to pay for what is needed in the economy, but no one has the courage to do so.

The third option is to ignore the market altogether, and to simply print the money.

This, of course, [is Green Quantitative Easing](#) where money is created, in exactly the same way that it was to bail out the banks to the tune of £375 billion, but this money is instead used to finance investment in the UK economy. This might be investment in infrastructure such as transport, hospitals, schools and new energy systems, or investment through a Green Investment Bank in partnering British business in creating new opportunities in this country for the benefit of our economy. This is not money that will, in that case, leave the UK economy: the whole purpose of this activity is to invest as much as possible of the money in this country, and for the long-term to make a return for us all.

The return for borrowed or printed money is broadly similar. In either case it is critical that the money is used for what will largely be investment purposes: frittering money away, as those who propose simply giving quantitative easing money to individuals suggest appropriate, is a ludicrous course of action. If that is done all that you do is create a short-term consumer boom, and when that's happened people remain in as much debt as they are now, the balance of payments is worse, and the cash has no further useful purpose to play. Investing creates a wholly different opportunity.

First, you would expect an investment return. Imagine that the money was used to build houses, as an example: of course there should in that case be a return built into the future rental income. This would be true of many other projects where it is, for example, already required that public sector institutions pay a return on the capital that they use.

Secondly, and at least as importantly, you make a return by putting people into jobs where they can make a reasonable income. The aim of doing so is to, firstly, to give people a reasonable standard of living and secondly to get them to a situation where they pay a reasonable amount of tax and reduce claims on the state. Creating low paid jobs, which is what we're doing, does none of those things and so is a complete failure

in economic terms, even if the social consequences are ignored. I demonstrated this in 2010 [when I looked at the cost of putting a person on £25,000 a year out of work, and suggested that it was at least £23,000 in cost to the state.](#)

Of course, the reverse holds true: putting a person into work has the reverse effect: there is almost no cost to the state from creating such jobs because of the savings made, but the net effect on the economy is extraordinary because getting a person into a decently paid job as a massive economic boost in its own right because of the extra spending power they have, which more than makes up the difference each and every year of the (net) £2,000 cost of creating the employment for them. And that, in turn, then pays for the cost of the programme.

There is, in other words, a way to pay for almost anything that we need to spend money on in the UK economy if it is investment expenditure. The fact is, almost any investment can make 1% rate of return to cover the cost of government borrowing, whilst putting people to work in the resulting new economic activity in more highly paid jobs than they can currently find will, in itself, provide a fairly rapid payback that will significantly increase government revenues and cut government costs.

In that case the truth is that there is no elephant in the room: there is just a lack of willing to state the glaringly obvious in economic terms, which is that investment pays for itself at current interest rates but despite that fact we are not willing to do it. That is the crisis that our country now faces: we are presented with politicians who do not know how to make the business case for the spending that they know they must incur when one is so obviously available. No wonder we are in a mess.