

We don't need to sell handbags if we want decent health...

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The [Guardian has reported](#) that Angel GurrÃ-a, the OECD's secretary general, said last week that:

Global trade, which was already growing slowly over the past few years, appears to have stagnated. What happened in the past 50 years whenever there was such a slowdown in trade growth, it was a harbinger of a very sharp turn of the economy for the worse.

I have, for some time, been predicting such a turn of events. It was why, over the summer, I was talking about People's Quantitative Easing and many economists seemed to have no idea why, saying there was no need for such measures when the UK was growing. My response then was that they were wrong and that a downturn was coming. I think I was right.

What worries me about such a downturn when it hits the UK is, however, the consequences that will flow from it. As [Barack Obama said on Friday](#), and as the OECD is saying now (see the same Guardian article), the right response to this downturn will be increased government spending. However, we have a government that has made balancing its books the highest goal of its economic policy. In that case when UK tax revenues decline, as is inevitable in a downturn, the likely outcome is the UK will reduce investment and not raise it. That will only exacerbate the impact of the recession may well be facing.

I could (and, I hope, will over the next week) deal with aspects of that economic policy but a wider issues concerns me now. And that is that if there is a downturn it will not just be investment that will be cut but other services too. The logic is, if I might paraphrase, that we cannot afford public sector health care unless the private sector sells enough handbags (or other fripperies) to pay the tax that is supposedly required to fund healthcare supply. Now, I should add when making this comment that I have no clue at all about the finer points of handbags, and am rather pleased to live with a women who seems equally ill-informed and is quite unable to see why so many people will part with hundreds of pounds (or more) for something so admittedly useful but

where such expense seems wholly unnecessary. Handbag incomprehension has, as a result, become a common mechanism for our expressing bemusement about conspicuous consumption but there are many other products (from mega-sized televisions onwards) we could substitute.

In a downturn demand for these products is likely to fall. And if it does so will VAT revenues, and so sales revenues, and so employment, and so PAYE, and in turn profits, and so corporation tax, and so on. And if you think we have to raise tax before we can afford any public service then the outcome will be a political demand to cut services such as the NHS on the grounds that 'we can no longer afford it'. But that's not true. Just as it has, for a long time, been untrue that we can only afford to educate our young people if we have a City of London teeming with dodgy financial dealing.

It should be obvious that the demand for education, healthcare and other essential public services has almost no correlation with demand for handbags, flatscreen TVs and so many other items. I am not saying there is no relationship: I am suggesting the link is very small indeed. What is more, the skill set required to deliver healthcare, education and other such services does not heavily overlap with those required to meet marginal consumer demand. Again, I stress there must be some overlap, but it is limited, and if that is true then to cut the supply of essential public services because demand for tax abuse in the city or conspicuous consumption the High Street has fallen is simply perverse.

As a matter of fact it is simply not true that we cannot afford essential public services if there is a shortage of demand for wholly unconnected consumer spending. Very obviously, if we reduce the supply of public services because of a shortfall in private demand we are simply delivering a double whammy to the economy: it is as if we would wish to punish ourselves for not consuming excessively, and the sole use of the claim that we must have tax revenues to pay for public services, and that only the private sector can generate those tax revenues, is the justification for that economic imposition of harm.

The reality is that tax does not pay for public services. As I have argued in *The Joy of Tax*, historically governments always spent before they taxed, and the tax that they raised was used to repay the loans they took out to initially meet their costs. Since the time the governments have had central banks technically they have not even needed to borrow to meet their initial costs: they can just run central government deficits, although gilt sales have traditionally, and with good reason, been associated with those deficits. But, however it is looked at, the spend comes first and tax come second, and at a time when there is no risk of inflation (as now) but there is a high risk of under and unemployment (as now) and at a time when there is a high demand for government bonds (as now) then there is absolutely no reason why a shortfall in tax revenues should result in a cut in government spending. Just as there is almost no overlap in the demand for and supply of public services and the demand for supply of many more marginal consumer items, so is there almost no overlap between the ability

of society to pay for those public services and the flow of taxes generated by marginal consumer spending, which is the most commonly forgone spending in the event of an economic downturn.

To put it another way, the supply of health care in this country is not dependent upon the number of handbags that we consume. Instead, the supply of that healthcare is entirely dependent upon our ability to pay those people who have the skills to supply it (or education, defence, law and order, and all the other essential services, as well as benefit payments and social support). And, crucially, that ability to pay in a downturn, which may be coming our way, is not dependent upon a short-term capacity to tax but is instead dependent upon the government's ability to sell long-term debt, for which at present there appears to be considerable demand, with no sign of that changing. What is more, when that debt can be issued at such low cost, with almost no prospect that effective repayment will ever be demanded (as now) then to ignore that opportunity would be almost criminal.

I sincerely hope the Treasury understand this. I am not sure that they do.