

Funding the Future

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I received this email last night:

Hi,

I wanted to raise a question on your blog post (now closed) "[Why we need more government debt](#)" based on some recent research I have undertaken.

Specifically I have read the following article by the IFS on the provision of health & social care through to 2066(!) [<https://www.ifs.org.uk/publications/9219>]. This seems to be underpinned by unstated assumptions about the amount of debt the government can afford to generate. This article lead me to the OBRs report [<http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-january-2017/>]. This latter piece seems to suggest that for the government to 'fully fund' social and health care would soon(2066 ..] lead to a situation where the payment of interest on the national debt would exceed the 'national income'.

The above seems so very different from your perspective that I wish to ask is there any validity to the assumptions which I feel underpin both of these reports?

Regards

Andy

This was my reply:

Andy Those reports assume that the state is limited by its capacity to tax and borrow â€œThis completely ignores the fact that the state need do neither. It need not tax to spend. And it need not borrow. It can instead create all the money it needs at the stroke of a computer keyboard. The government asks the Bank of England, which it owns, for a loan and technically it can provide it in unlimited amount. We know this is true. £435 billion of quantitative easing proves it. We do tax though. That is to prevent new money causing inflation. And we do issue debt. Partly that's because EU law, which is a slave to defunct dogma, demands it. Partly it's because a century ago when we were on the gold standard we had to borrow and no one in the Treasury has noticed the world has changed as yet. And partly it's because the banking, pension and savings systems needs to be underpinned by a safe place to save - which is government debt.

But it's just a convention and remember that right now the real rate of return on government debt is negative. So in fact money is no obstacle to social care. We can have as much money as we want and need. And we only need to tax enough to stop inflation. And both are subject to the real constraint, which is having enough available people. If we have them we can afford to look after the elderly. If we haven't we can't. But the IFS ignore this economic reality, and even real need, and show their neoclassical economic roots by thinking money is the issue. They also show their neoliberal roots by implying that we can only look after the elderly if private wealth creates the means to pay through tax, which implies they think there is no value in itself in looking after the elderly or those needing social care. But this is nonsense: the act of creating the money to create the employment to provide the care will also create the means to pay the tax to balance the equation, and if interest gets to be too much, don't worry: QE wipes out debt and interest. If you doubt me, rest assured that not a penny of interest is now paid on the £435 billion of its own debt the government repurchased. So, we can afford social care. And we can afford to pay people to provide it. All we can't afford are bankrupt economists who produce nonsense because they don't understand money or tax, even if they do call themselves the Institute for Fiscal Studies.

Regards Richard

PS And note that the Office for Budget Responsibility is headed by a former director of the Institute for Fiscal Studies.