

We need an intelligent debate on increased government s...

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There is much discussion [in the papers](#) this morning on the need to increase government spending. This is not ostensibly because of a national demonstration against austerity yesterday but because the Tories are rebelling against further cuts.

The 1% pay cap is now seen to be counter-productive.

NHS recruitment is in free fall.

Education is near collapse because of cost stresses.

The young voted Labour because they resent being asked to pay £9,000 a year for what their parents rightly got for nothing.

No doubt the list will grow, and the demand for spending with it. And that is spending we need: this is an economy working at way below optimality and as such additional government spending adds to growth. The glaringly obvious consequence is that it also adds to taxable income. And so it adds to tax yield. In fact, because those who receive extra government spending do at present on average spend 98% of the after tax sum that they receive (which we know because the savings ratio is so low) then in effect it's only a matter of time before all the extra spending ends up being repaid in tax. A simple arithmetic progression requires that in the end this must be true, and that any debt increases the spending gives rise to are only temporary at best as a result. If in the meantime it has stimulated economic growth then more than the original government spend might be recovered. Again, that's a fact.

Despite this well known economic fact (for that is what it is) the [FT wrote in an editorial yesterday](#) saying that:

The national debt, however, still remains too large at 85 per cent of GDP. This will leave Britain without the fiscal flexibility it will need in the next downturn – a dangerous choice as the country faces the uncertainties of Brexit. And the debt is big enough to raise questions of inter-generational justice: how many of the country's bills is it fair to leave to its grandchildren?

And it continued with a discussion with which taxes must be increased to pay for this extra spending. It takes staggering economic incompetence to argue in this way, but I suspect that this is what we must anticipate in the 'national debate' that Damien Green has called for. Let me run through the errors.

First, the FT assumes that any extra government spending disappears down a black hole to be lost, forever. This is absurd. That spend does instead expand the tax base, immediately. On average we pay 39% of our income in tax. That's the pretty immediate payback in this case, but as I have noted, over time (and I stress the time factor, but let's not overplay it because these are big percentages that grow to asymptotically approach 100% pretty quickly) the spend is recovered.

Second, there is no evidence anywhere that 85% debt to GDP ratios represent either a risk or limit to what is desirable. Rogoff and Reinhart said so, [but then we found they could not add up](#). To continue to argue on the basis of their discredited work is to bleat dogma and nothing to do with any known fact.

Third, whilst the recovery of the spend takes place I agree there will be more debt. But that is exactly what markets want and precisely what the national economy needs. [I have explained why here](#).

Fourth, the national debt is money. It's just a savings mechanism, except for the fact that what it represents is the money the government has injected into the economy - which is the money needed to make the economy go round. If our grandchildren wanted to repay it they'd want to destroy money. That may make sense in the future. Right now it's hard to imagine the case will arise. Which is precisely why national debt has never been repaid. We, the country, still need the money it represents. So we've never repaid it. And nor will our grandchildren. To argue that they might reveals an extraordinary level of what might best be called ignorance when it's the FT saying this.

But the FT is right in one way: we do need more state spending. But the fact is that it pays for itself and we do not need more taxes that would suck spending capacity out of the economy and leave us even worse off right now. Instead we do need more debt.

And I also think Damien Green is right: we do need a national debate on this issue, but let's make it an intelligent one.