Funding the Future

Paying for it

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The NHS is in crisis. That's not just because of money. It's also because its management structure is hopelessly inappropriate and prevents the possibility of truly effective working. But cash is at the heart of its problems.

And now schools are also facing a crisis. And not just ordinary schools, but the government's preferred ones where private sector involvement is meant to solve the problem of scarce resources, like money. Except it isn't. That, of course, is partly because the management structure of schools is hopelessly inappropriate and prevents the possibility of truly effective working. But cash is still at the heart of its problems.

As it also is in the crisis in social care, across the justice system, armed forces, local government, and so much else. There are many management problems in many of these as well, for the record, which prevent the possibility of truly effective working. And as in all the other cases those management problems all arise from pretending there is a market and attempting to operate at a scale that is far too small to be effective, and so too expensive to be viable. But solving these issues, vital as it is, will not realise the savings to resolve the shortage of money. The simple fact is that austerity has now run out of cuts to make and those made to date are now creating new costs that ensure service delivery simply cannot happen in a way that anyone can any longer pretend meets need.

We have reached that point that always arises when a crisis is postponed where, at long last, something simply has to happen. In this case pretending service delivery reform can solve problems any more is not possible, especially when both PFI and outsourcing all too obviously no longer work. Instead the choices left are to suffer reduced services or to pay for for the services we need.

We can have less health care.

Children need not be properly educated.

Justice need not be done.

Care may not be delivered.

Flood defences can fail.

Troops can be told their equipment does not work. Or will not protect them.

Pensions need not be paid.

People can be destitute.

Those are choices that can be made. And there are those who would make those choices even though they know people would suffer as a result. Indeed, some might make them precisely because they know people will suffer as a result - their dogma says that without suffering people will not help themselves.

Many more though know that dogma is wrong. People without socks cannot pull them up.

I also know it is unnecessary because we can have all the money we need to pay for the services we require. That’s because in an economy where there are people to do jobs that are not being done, which is the prospect we face in all the situations I describe, it is simply not possible to say that there is not enough money to pay. That’s as impossible as saying that in a football game played on an appropriate pitch in accordance with the normal rules that there can be a shortage of goals to be scored. Goals are, after all, simply the currency of football: there are always enough to keep score, because that’s all they are. They’re a scoring system. And so too is money that when used to make the economy work.

Saying that there’s a shortage of money to make the economy work is then like saying that in any match there may only be three goals, after which the game will end, and the remaining capacity for entertainment that it might have delivered will be abandoned, at cost to us all. The economic equivalent is to say that although more was possible in the economy it wasn’t done because money was rationed.

But that’s absurd. Goals aren't rationed. There can never be a shortage of goals in the world. So long as football is played more will be scored. And it's the same with money: as more economic activity takes place more money will be made. It's playing football that creates goals. It's the process of exchange that is implicit in economic activity that creates the promises to pay that are what money is.

And nor is it possible to say that some economic activity, in the government sector, is constrained by the extent of activity in another sector. So long as there are idle resources that could be used either at all, or to better effect, then constraining government sector activity is as absurd as saying that the number of goals scored in the women's game is dependent upon the number of those scored in the men's game.

I make clear there are capacity constraints to consider in both cases: so, in football, allocation of available pitches can be an issue, and getting the balance right in that allocation is important if the overall best outcome is to be achieved of (but only if) that shortage exists. So too might finding the right balance between private and public sectors be important if and when we ever get back to full employment with high productivity, but we're nowhere near that now. Or to put it another way, the constraint is not real right now.

So, in that case to pretend action cannot take place because there is a shortage of money is just wrong. The reality is that what pays for the NHS is people working in the NHS: the wages they are paid result in taxes due, additional spending and so growth elsewhere, as well as more taxes being paid by those in those other activities, and so on. All that is needed is for the government to realise that there isn't a finite sum of money constraining anything.

And nor is it required that the government's books balance. That is a rule as absurd as, in footballing terms, demanding every game end in a draw. It's not only unnecessary, but it also very obviously defeats the object of the exercise. And if a government deficit simply represents new money injected into the economy to facilitate the growth in things that need doing then, within reason, deficits are not an issue to worry about. And they can be controlled at will in any case by simply charging more tax, where the footballing equivalent was introducing the offside rule.

The point is a simple one then. Suggesting we cannot pay for things because there is a shortage of money is absurd. Money is just a promise to pay. And it's created by economic activity, and most particularly (because people want to use government created money) by the government doing what's necessary to meet demand in the economy. In the light of that understanding saying we cannot afford to undertake economic activity because there is no money shows three things. The first is a profound misunderstanding of what money is. The second is a profound misunderstanding of how the economy works. And the thirds is a lack of willingness to learn.

All three are serious.

The last is the worst.

We can pay for the services we need and want right now: the government just has to promise to pay, knowing it can then tax the money it creates back out of existence in due course.

The fact is that the services we need are paid for by providing them.

Just as a football match can only be won by playing it so too can the economy only provide the services we need by letting it. The goal of making the money to pay for it will follow: even the models are congruent if only we seek to understand things properly. And at its core that means that we have to understand that just as goals aren't the product of games of football, because winning and entertainment are, with goals just marking progression towards achieving those aims, so too is money creation not the aim of an economy. Full, gainful employment that meets need is that goal and money just marks progression on the way.