

It really is time that people realised most government ...

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It is deeply depressing to see so much economically illiterate comment in the mainstream media. It's even more depressing when it comes from those who should have some basic economic understanding but whose knowledge appears to be about as poor as that of the average minister or MP.

Take [Andrew Rawnsley in the Guardian](#) yesterday, who said:

One of the more sensible things that the Tories did during their otherwise terrible general election campaign last summer was not to make too many promises about tax. Though they never explicitly acknowledged that taxes might have to go up during this parliament, [Theresa May](#) and Philip Hammond signalled this could be so when they dropped many of the pledges inherited from David Thingy and George Whatnot. Anyone with a basic diploma in political semaphore could intuit that this meant that there was a strong possibility that taxes would rise.

Possibility has turned into racing certainty. That is one conclusion we can draw from Mrs May's announcement that there will be [£20bn extra per year](#) for the NHS by 2023. Even the magic money tree can't produce that kind of cash without some watering by the taxman.

It's that second paragraph that irritates me. Ignore the sexist assumption that there is a 'taxman'. And ignore the trite references to the magic money tree. They indicate ignorance and prejudice in both cases, but they're not the issue. It's the tax angle that annoys me.

Of course spending £20 billion more on the NHS has a tax dimension. And of course tax revenues will rise. But that's not because rates will have to increase or allowances will have to be reduced. That is because there will be £20 billion more economic activity in the UK economy. And if there is £20 billion more economic activity in the UK economy then the very least that could be acknowledged is that tax will be paid upon it. And given that the average tax take in the UK economy is around 35% of GDP, then that's the minimum additional tax that will be due. So, Rawnsley could at least acknowledge

that about £7bn of the 20bn cost of this spend will be settled by the tax due by those it will be spent on.

And, of course, we know that the tax yield can be higher than that. This is because of the multiplier effect. There is a [simple explanation](#) here. The essence is that the spend on the NHS is not all that will happen as a result of that spend. The £13 billion of so left in people's pockets as a result of that spend will be spent. And that will give rise to additional tax paid. And so on. But more than that; this new demand will stimulate additional new economic activity in itself quite outside the original NHS environment. And that new demand will result in more tax paid, especially if it results in new investment.

I am not going to argue whether as a result all, more or less of the £20 billion will be recovered as tax in the end. But few doubt that at least most (and I suspect rather more) will be.

So, whether or not Rawnsley believes in magic money trees the simple fact is that most of the extra spend on the NHS is paid for out of the £20 billion spent on the NHS. In other words, the additional spend pays for itself, at the very least at least in large part. And it is unforgivable that senior political correspondents do not have even this most basic of economic knowledge.