

Funding the Future

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The question of 'How are you going to pay for it?' is now perennially used by journalists to challenge any proposal made by any politician on any issue, whatever its inherent merits might be.

The question reflects poorly on those asking it. It assumes that nothing a government does might be of worth in itself, and so people might value it sufficiently to want to pay for it. That means the question is inherently biased.

The question also assumes that money spent adds no value to the economy, as if it is lured into a black pit, never to be seen again when in fact money spent by a government does three things. First, it becomes someone's income. Second, it provides the means for those getting that income to pay tax at an average overall rate exceeding 33%, meaning that at least one third of all government spending comes back pretty much directly in additional tax paid. Third, it provides the funding for additional consumption in the economy, and that means yet more tax is paid. So, far from disappearing into a black hole, much government spending actually funds itself by providing the means for additional tax to be paid.

The question next assumes that when the government spends it's at cost to other activity elsewhere in the economy. But this is only true when the economy is at productive full employment. We're a long way from that right now. So what the government spends boosts the size of the economy, rather than rearranges a fixed amount of existing work, as the question presumes.

But there's something even more important to note about this question. What it also assumes is something particularly perverse. It assumes that government spending will happen without any additional work being required to deliver the chosen policy. It's as if the spend takes place independent of human effort. And that's just daft. Because the fact is that no government policy happens without human effort being expended.

Appreciating this does however suggest the correct answer to the question 'How are you going to pay for it?' That correct answer is 'We're going to work for it.' After all, how else is anything paid for?

When the government has a plan to spend money it intends to put people to work. And to answer the question 'How is it going to be paid for?' the correct answer is 'From out of the value created, which is why we're doing it.'