

Funding the Future

The government has to stop subsidising the dead money o...

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A thread, [posted on Twitter this morning](#), partly in response to all that [Jack Monroe has said this week](#), and partly in response to [suggestions that there may be some reluctant subsidies to deal with fuel poverty](#) from the government:

It's good to say that everyone is equal. They are. But when it comes to government policy that's not enough. That policy has to be biased towards those who have least because those with the most are already more than equal. A thread....

We live in a country that is very biased to those already ahead. For example, we spend almost £60 billion a year subsidising pensions and the savings of those who are already wealthy, just to boost the value of the stock market and bankers.

On top of that we don't charge VAT on private school fees, private healthcare and second homes. We also massively under tax income derived from wealth, companies, capital gains, and expensive homes when it comes to council tax.

I've estimated that if the income and gains of wealthier people in the UK were taxed at the same average rate as paid by those who work for a living on average pay we would collect more than £170 billion more in tax a year - enough to eliminate poverty and tackle climate change.

But we won't do that. Instead there will be argument about whether we can support families facing fuel price increases of £700 a year by providing them with council tax rebates of £300, which will still leave them in food or fuel poverty.

And any payment made will be represented as if it is charity, with the wealthy being asked to subsidise these cuts when that's not how it works.

That's partly because the wealthy are in part wealthy because they get so many subsidies (call them benefits if you like) from the state.

But it's also because the wealthy just save these subsidies. That's why they are wealthy.

Worse though, these savings do not create new activity in the economy. They don't fund investment, or anything else right now because of the way we structure our economy at present. Most savings are just dead money.

For example, savings in bank deposit accounts aren't needed by banks to make loans, because as even the Bank of England now admits, banks create new money when they lend. They do not lend out savers' deposits. That's just a myth.

Savings in stock markets is no better because that's just about owning second hand shares. The company whose shares you buy does not get the money. The previous owner of the share does. And new share issues almost never fund real corporate investment now.

Meanwhile, if the saving goes into property it either buys a second hand property which adds nothing to wealth, or it is used for speculation which inflates property values, which just makes property the preserve of the already wealthy now.

Subsidising the already wealthy as we do does not add value to society then. It just increases speculation and wealth accumulation. And that is it. And this is what the tax system subsidises. I estimate that 80% of UK wealth gets a tax subsidy of one sort or another.

Giving those who are struggling to make ends meet does something totally different within the economy. Not only does it reduce the daily fear too many suffer, it also relieves hunger and prevents death from the cold, which is what causes most so-called flu deaths in this country.

It means children go to school able to learn not just because they're not hungry, but because they've got the self-esteem that makes them think that they can.

It means parents can live, a little. Or it provides them with the time to read with their child, because they're not doing two or three jobs to pay the bills.

But more than those vital things, in the most basic economic terms supporting families who are struggling puts money to life in the economy. That's because anyone desperate to balance their budget spends what they get because they need to do so.

Their spending then becomes someone else's income and that person can then spend more. And that process continues until someone stops the money rolling by saving it.

What is more, every time the money is spent the person receiving it pays tax. Now I admit that reduces the amount that they can spend onwards, but that tax paid also means that the cost of the original spending to the government is reduced.

This cycle is called the multiplier effect. It measures the amount by which government spending increases national income because any government spend is not lost once received by the person it is given to (as many seem to rather bizarrely assume) but is instead spent on by them.

The government assumes this effect is low. Research shows that they regularly underestimate it. In many cases the multiplier is big enough for the entire cost of government spending to be recovered by additional tax paid whilst along the way many lives are transformed.

The multiplier effect created by helping people afford the cost of living when in the case of most recipients of state support their wages are insufficient to make ends meet is a case of putting money to work to deliver what is good. And yet governments hate doing it.

Governments would rather subsidise the rich at overall much greater tax cost in terms of tax not collected and subsidies to savings given, which together might cost more than the entire UK social security budget a year. But that money is saved, economically dying in the process.

There is then a choice that every government has to make. It is between putting money to life - by helping people live well, which then creates new income, jobs and prosperity in society - or putting money to death by subsidising the accumulation of wealth by the already wealthy.

Wealth does not create prosperity. It's a measure of past effort, speculative price increases and, at an individual level, of hope to come, which is why people save - as I know.

But at any moment wealth does not pay the bills, because the wealthy can already pay theirs.

And wealth does not create new jobs, because it's almost never saved in a way that achieves that goal right now.

I am not against savings. People want to save, and I understand why. But I am asking why we're subsidising wealth so heavily right now whilst denying money to those who both need it and who can put it to good use, in the process helping build the prosperity we all desire?

I wish I knew the answer to that question. There is no justification for what government does now as day in, day out, it uses the power of government to make those with wealth even richer whilst denying money to those who need it.

What I do know is that if we are to live in a fairer society the tax subsidies to saving and the reduced rates of tax on income from wealth have to end and we have to instead

spend money in ways that supports real lives.

In summary, we have to stop subsidising dead money and put money to life transforming lives instead. The world would be a very different place if we did.