

he government has chosen bankers over state employees .

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I have posted [this thread to Twitter](#) in response to [the government's announcement](#) that it has agreed to pay review bodies' recommendations but has not agreed to fund the resulting costs:

Rishi Sunk has said that this year's public sector pay awards have been agreed in full but with no new or additional funding to cover them. There is literally no economic sense in this whatsoever. A short thread...

Pay rises of around 6% for education and healthy have been announced - with there being no room for discussion, apparently, whatsoever. In other words, the government has, by decree, just announced real pay cuts for millions of people.

This makes no sense. It guarantees three things. The first is more people leaving the public sector. They will quite simply not be able to afford to stay. So already massively depleted services will be undermined even further.

Second, this means that many workers will have less to spend back into the economy now, meaning that economic growth will be harder for the government to achieve. When that is one of their goals that also makes no sense.

Third, the policy presumes that proper pay awards to people will not motivate them. As such, the opportunity to add value by boosting productivity by having a better-motivated staff, instead of one that feels undervalued by a political leadership that clearly does not believe in what they do, has been foregone.

But the whole logic of also reducing to advance departmental budgets to cover these pay awards makes no sense. There are two main reasons.

Firstly, all of these pay awards will be taxed. The extra pay will be the top part of a person's pay. It's likely that tax of 20% and NIC of 12% will be paid by each employee

as a result.

On top of that employer's NIC of 13.8% will be paid. In other words, of the gross cost (pay plus employer's NIC), just over 40% will return to the Treasury in tax.

It makes no sense, in that case, to refuse that 40% back to the departments that are paying these people. If it is not returned to them the Treasury is winning, and I guess that in that case we have to assume that is their aim. That is a wholly destructive decision.

Secondly, refusing to cover these costs assumes that these pay rises generate no further tax revenue beyond the departments that pay them, but they do. If someone gets a 6% pay rise they spend it. And the person they spend it with has more income as a result, and so they pay tax.

And that person who has got additional income also spends what they get, and the recipient of that money then pays some more tax, and on and on. It's actually wholly possible that eventually the entire additional cost goes back in tax paid to the government. But that's being ignored.

In the state sector what is called the multiplier effect (which is what I have just described) is usually sufficient to cover the whole cost of pay deals - but the government is choosing to ignore this.

And finally, there's another reason why the government need not impose any cuts on the money for these departments. That's because although the economy is not growing in real terms right now, there is a lot more money floating around in it. That's what happens when you have inflation.

If prices are rising by 8.7% then the VAT yield goes up by that much. If wages are on average rising by 7% then income tax goes up by that much. And taxes on profits should definitely be rising. In that case, the money is available to give to departments to cover these costs.

It's a straightforward lie to say that there is no money available in the government to pay these costs in that case. There clearly is. But the government is choosing to spend it on something else.

What is that something else? It is paying interest. And as I noted recently, this year the government will pay our commercial banks more than £40 billion more in interest than it did two years ago on the deposit accounts that they have to hold with the Bank of England.

The government does not need to pay all that. It could pay a great deal less, as happens in the Eurozone and Japan, for example. But it has instead decided that the banks must be paid in full, even though teachers, doctors, nurses and so many others

apparently cannot be.

That is what is so hideous about this decision. What it hides is the fact that the government has chosen to favour banks over working people. The only reason why proper pay rises cannot be made is that banks are getting the money denied to our essential workers. There is nothing more or less to it than that.

Sunak, Hunt and all the other ministers who try to defend this deal will be lying when there is no money available to departments to pay for this deal and services must suffer instead. That's only true because they are shovelling money into our banks instead.

They had a choice to deny interest on bank balances that commercial banks only have with the government because new money was created by it during the Covid and banking crisis eras, or to pay workers decent living wages. They chose bankers. And that is unforgivable.

ENDS