

Funding the Future

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I had discussions with other economists yesterday, in which issues like fiscal headroom were on the table for debate. I [wrote about this issue very recently](#).

Unsurprisingly, given my choice of company, those I was talking to had little time for this idea as put forward by the likes of Jeremy Hunt, HM Treasury, the Office for Budget Responsibility, the Financial Times and others. The reason for that is quite straightforward. All of them treat money as the singular constraint on action within our economy. That is their fundamental error.

There is not and never can be, a shortage of money available to a government of the sort that we have in the UK which has created its own currency, has its own central bank, and has succeeded in both making that currency the dominant medium of exchange in the economy for which is responsible and acceptable for international trade. Such a government can, if it ever wishes to spend more, simply create the money to do so because that is quite literally what it does every single time that it spends. Debate about money as a constraint is, in that context, entirely meaningless.

That is not, however, to suggest that there are no constraints on the government when it comes to spending. There very clearly are. The actual constraints are represented by the availability of resources on which money might gainfully be spent before inflation is created.

I, and I am sure others, can hear the almost certain response from the likes of Andrew Bailey at the Bank of England. He would say on hearing this suggestion that the bank is respecting that constraint because it is taking labour market considerations into account when setting its policy. Bailey would, however, as usual, be talking nonsense if he made such a claim. There are three reasons for saying so.

The first is that he is assuming that the current usage of labour is a given fact, determined by the markets, over which neither he nor the government has influence. As a consequence, he would suggest that we are currently at full employment. Office for National Statistics data does, he might say, confirm that fact

Second, Bailey would be wrong to do this. Not only are we not at full employment

because there are plenty of people who would like work who do not currently have it, but in making his claim he is ignoring the vast misallocation of labour resources within the economy that we have. There are doctors, nurses, teachers, social workers, and many others who would love to pursue their chosen professions, but because of the denial of resources by the government cannot face the quite literal life-threatening stress upon them from seeking to do so. Those with these skills are working on other tasks within the economy or are simply not working at all, not because the market indicates that it is desirable, but precisely because government policy has denied them the opportunity to deliver what society needs in ways that are humanly possible. No amount of pretence that the market can overcome such a policy failure can disguise this very obvious issue.

Third, and as even Andrew Bailey is wont to point out, the UK is constrained by having a sick workforce. Some are simply unable to work because of the failure of the NHS to care for them. Others cannot work because they have to care for others whom the NHS cannot treat. More still work suboptimally because they need treatments that are delayed and the stress of that situation, let alone any physical impact, will impact their work performance. Once more, massive government failure is the issue here, and nothing the market can do will address that.

My suggestions are, then, threefold. One is that the appearance of full employment that the Office for National Statistics like to create with their data (which even they admit is sub-optimal) is false. We are massively short of that situation because of underemployment and the serious sub-optimal use of skills within the UK labour market.

Most obviously, and secondly, this problem is the real constraint on what we can achieve in the UK.

As a consequence, and thirdly, the real constraint that we face has everything to do with the way in which a false fiscal narrative of austerity that is supported by a false narrative about the shortage of money is preventing this country from meeting needs whilst grossly, misallocating resources within our society, meaning that we all suffer as a result.

Viewed in this way, I think that there is massive fiscal headroom within the UK economy. What I mean by that is that with the right government fiscal policies that recognise that spending additional government money into the economy in a manner designed to tackle this misallocation of resources we could release significant increases in growth, well-being, the personal satisfaction of vast numbers of people when at work, and increase pay for a great many people, all of whom would then be working to best effect.

It would be really good to hear fiscal headroom being discussed in that way. As ever, I will have to live in hope.

For further discussion of these issues see this note on [the political economy of money](#) and this [explanation of how money moves in the economy](#).