

Are those calling for more defence spending simply tryi...

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According to [historian Niall Ferguson](#), we are, apparently, incredibly close to the onset of World War III.

There is a land war in Ukraine. There are considerable tensions in the Middle East, which has already resulted in real conflict. China is also threatening Taiwan with considerable international implications.

Fergusson's suggestion would appear to be that just as we fell, almost by accident, into World War I, so could we into World War III.

This is not a prospect that I really want to consider. Who would? But, that said, several aspects of it do seem to require consideration. In particular, as [Matthew Syed noted in the Sunday Times](#) this weekend, this possibility combined with the possibility that Trump might be re-elected as president of the USA on an isolationist ticket, creates real economic risk for European countries in particular. That is because, if US rhetoric is to be believed, the members of NATO have been free-riding on the USA for decades when failing to meet their obligation to appropriately fund their defence budgets.

I do not accept this argument. In my opinion, the US accepted the obligation to defend the West following World War II in exchange for the West's use of the dollar as the world reserve currency. This is something it did in fact demand as a key component of the postwar economic settlement negotiated at Bretton Woods in 1944. However, my disagreement is of little consequence if a US president does not accept that argument.

How should the UK and other EU member states react to current demands for increased spending in that case? Firstly, they could heed the advice of Lord Keynes when he made his recommendations in '[How to pay for the war](#)'. In that slim book, Keynes suggested that when the defence of the realm was a priority, then this must come at a cost to consumption, with those with the greatest capacity to spend being necessarily required, as a consequence, to make the greatest contribution to any such cost if inflation is to be avoided. In other words, he promoted the taxation of the wealthiest. Whether twenty-first-century European states would accept this as an acceptable

approach is a matter open to argument, even though the logic is impeccable.

Alternatively, it would be entirely plausible for a WWI approach to the funding of this expenditure to be adopted. In other words, the deficit could be allowed to accumulate, funded by war bonds.

Thirdly, [for those who are familiar with the detailed history](#) of the issue of those bonds at the beginning of that conflict, the other alternative is that quantitative easing be used. This is a fair description of what happened when the issue of the first tranche of war bonds failed, and they were purchased by the Bank of England on behalf of the government at that time.

These are the choices available to us. That is hardly rocket science, presuming that grants and loans from a foreign power (the USA) are not available. Economics really has little else to offer.

There is, however, a potentially more significant question, which is whether and on what such sums could be expended. An increase in UK defence expenditure to bring that budget up to 3% or more of GDP, to match the USA, would require an additional £20 billion or so a year to be spent for this purpose. Whether there is capacity within the economy to actually do that, both in terms of defence procurement and in terms of personnel availability, is the real question, presuming that conscription would have very little role to play.

Finding the money to fund a war is one thing and a matter for columnists to muse upon. The setting of the whole economy on a war footing that might be required if additional funds were to be spent in the short time demanded by some is something else, and even then, open to question as to plausibility.

In other words, have the debate on how we fund a war effort by all means (the entire range of viable choices on that being set out above). But also, please, decide on what the money will be spent on first, or else all you are discussing is how to create that perennial partner to war, otherwise called inflation.