

Funding the Future

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In this morning's video I note that Steve Baker – until recently a Tory MP – has claimed that in twenty years' time – when we will be celebrating the centenary of the welfare state – we will no longer be able to afford it. Is he right, or talking a load of nonsense, as usual?

<https://www.youtube.com/watch?v=Jz02YOygDjU&si=RWf9iw-fKxqfc4b->

The audio version is here:

https://www.podbean.com/player-v2/?i=yy74c-16d066e-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

Can we afford the welfare state?

I ask the question because I watched a television interview recently where Steve Baker, who was until recently a Tory MP, asked that very question. And he claimed that in about 20 years time, or on about the centenary of the creation of the welfare state, we would no longer be able to afford it.

I thought about what he had said, and it didn't make sense to me. So, I just want to discuss this question of do we think we will be unable to afford the welfare state in future when we apparently will have been able to do so for a century by the time he predicts that we'll have to give it up?

What are his assumptions? Well, the first one is, and it must be, about the rate of growth between now and 20 years' time. He didn't specify that assumption, but there are three options that he could choose.

One would be that the economy will grow. In other words, we will be richer as a country than we are now. And we are already, let's be clear about this, a rich country.

Or, we might be at the same level of income as we have now. Which would still leave us as a rich country.

Or we might see our income decline, but there's no evidence-based upon past precedent that that is likely at present. And I don't think it very likely, whatever challenges we face, because although we need to go through a green transition I actually believe that could generate more economic activity, not less.

So, let me take the neutral version of those assumptions and presume that we are no richer in 20 years' time than we are now, but we're also no poorer.

What will change, then, between now and 20 years' time, which then gives him the right to claim that we couldn't afford a welfare state?

Well, the obvious fact is that I will look a lot older than I do now. And I won't be alone. So will you. But actually, as a proportion of the population, more people will look old than they do at present. Because we do have, presuming no change, as a result of migration, an ageing UK population. And the ratio of people at work to those who are dependent will change and therefore, each person at work will be required to supposedly support more dependent people.

Will that be possible, is therefore one of the assumptions that Steve Baker must have asked himself to come to this claim that we can't afford a welfare state. He's obviously concluded that presuming that we have the same amount of income we will not be able to allocate as much to those who are dependent than we will to those who are at work and therefore those people at work will either not be able to, or will not be willing to, support those who are dependent.

But, note that I've assumed that the overall income of the country is stable. If there are fewer people working to create that stable income, they will all be better off if they don't reallocate any of the excess income that they now earn because there are fewer of them to those who are dependent on them. So, he's basically saying we won't be able to afford a welfare state because people will not be willing to support the elderly.

It's an interesting idea. Maybe Steve thinks that's the way in which charity will work. Or rather, it'll all be down to us looking after our own elderly relatives. And tough, if you have nobody who wants to do so. I don't know what his assumption was, but I don't see why he thinks this stable state with fewer working people should reward those in work

more but leave those who are dependents in poverty.

There's another assumption that Steve made I think and again, he didn't specify any of these things, so I'm trying to work out the basis of his claim that the state will not be able to act as the intermediary in this transaction of taking more money off people who are at work and paying it to those who are dependents because it will have other claims on its income.

What is that other claim? I am quite sure, on the basis of what he said that he thinks that other claim will be the payment of interest on government borrowing, which he thinks is out of control. So in other words, what he's saying is, bad luck those who need to be supported by the state, the wealthy need the money. That is the assumption he's making. The state will have to pay so much out to the owners of government debt, which he thinks will rise disproportionately, with a consequent increase in the interest rate payable and therefore the cost payable to them, that there will be nothing left over to provide for people who need support from society.

In other words, he's saying that in 20 years' time, our society will be so unequal that the wealthy will claim everything and there will be nothing over to support those who are living in poverty.

Is that a reasonable assumption?

Is that the way it's going?

Would we be able to do anything to stop that happening?

Look, of course we could. Steve Baker's assumption is quite absurd.

First of all, there are likely to be significant changes to the structure of our society over the next few years. We are seeing significant inward migration to the UK at present. And actually, we should be celebrating that fact.

Why? Because the people who are coming in tend to be young, tend to be well educated, tend to be highly motivated, tend to be innovative, and even entrepreneurial. They want to join our workforce. That's why they want to come here, by and large, to provide a better way of life for themselves and, in particular, for their families.

And they are going to become the people who will supplement the workforce to ensure that there will be sufficient people to look after the people who are in old age. I have little doubt that this trend will continue. Firstly because, unfortunately, we're unable to stop wars around the world, it seems, right now. And secondly, because climate change is going to force more people into refugee status, because there will be large parts of the world, some even in southern Europe, where it will become very difficult for people to live. They will therefore be looking for somewhere else to go and we are one of the potential destinations.

Our advantage, their cost, their requirement to relocate, but our gain because we will have the people we need to rebalance the effective economy we have, which requires there to be sufficient people at work to support those who are dependent.

Then, let's look at the other assumptions. Will we allow debt to rise so heavily? No, of course we won't. Why won't we? Because there's no need to, in the sense that if that becomes a part of life, we will simply do what Japan has done and have the government repurchase large parts of the debt that is in existence through a quantitative easing process to ensure that the government is keeping the amount of debt that is in private hands under control to the amount that can be afforded as a safe deposit facility, which is what the national debt is in any case.

As a consequence, it will be able to control the interest rate, and if only it took control of the Bank of England, it would have absolute control of that interest rate at the same time.

As to the payments due on quantitative easing, it can cancel those in net terms. It's paying itself, therefore this idea that debt will run out of control is another, let's be blunt about this, stupid idea put forward by Steve Baker.

Is it therefore possible that his claim that as a rich society we won't be able to support our elderly and other dependents is correct?

No, he's talking absolute nonsense.

What he's saying is that his assumptions of a stable society with no population growth and an increasing income for those at work plus an increasing reward for those with wealth will produce this outcome.

All of those assumptions that he's making are wrong. And therefore, his conclusions are wrong.

And therefore, do we need to worry that we're not going to be able to afford our welfare state? No.

We can afford it.

We will afford it.

There will be an old age pension.

There will be support for those who need it.

There will be a state, and it will provide services, including education and the NHS and everything else, but only if we stop people like Steve Baker from talking nonsense and being in government.