

Funding the Future

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I was agonising last night, and even into the night, on how to deal with the issues raised by the Institute for Fiscal Studies yesterday in their pre-budget analysis. In essence, they said three things.

First, they suggested Rachel Reeves needs at least £25 billion of tax revenue a year to simply address the current deficiencies in public services.

Second, they are joining the club of commentators suggesting that this money cannot come from the wealthy or they will all leave the country.

Third, they then suggested that the City has very little desire to fund any investment plans Rachel Reeves has, and they will not be taken in by any plans she might have to change the fiscal rules. The implication is that they think the City might go on a funding strike, refusing to buy more government bonds as a result.

They did not, of course, put things quite like that: I am trying to cut through the details, of what they did say to get to their core points, the essence of which is that Labour is between the devil and the deep blue sea, partly because it said it will not raise VAT, income tax, national insurance and corporation tax, and partly because the City is not persuaded that there is a good case for spending more in investment, however numbers are rejigged.

To put it another way, it would seem that they think that the total incompetence of Rachel Reeves in making absurd promises before the election means that she has no choice but to impose austerity now, and as for investment, we can forget that because the interest cost is far too high and the City will not tolerate being paid anything less.

The IFS analysis is, of course, hopelessly inadequate. Its willingness to think very firmly within the neoliberal box whilst always believing that the rich will leave and the City has a choice as to what to do with its money, whilst perpetually denying that all the funding for government spending does, in fact, come from Bank of England money creation always means that will be the case. It's a simple fact that if you start with prejudice and then make a series of false assumptions, then your analysis will always be flawed. That is what the IFS do.

That said, they describe what almost all journalists then think to be the reality of our economic situation. It is not. The problem I have is in communicating the contrary message in the time I have available to me.

To do so, let me also get to the basics: the time for detail can follow.

My assumptions (some framed to make life for Reeves a little easier) are that, first of all, the situation now is worse than she thought when she made the promise not to increase all the aforementioned taxes, and so that assumption has to be abandoned. There have to be some increases in those taxes if the public services of the UK, on which we all, the wealthy included, rely, are not to collapse. It really would not be hard for Reeves to say this. She keeps saying the Tories made a mess of things, so why not blame the need for tax rises now on their reckless tax cuts before the election whilst emphasising all that she will do will impact the wealthiest alone?

Second, she has to revise the fiscal rule, or simply not have one. They are, after all, just bits of economic folklore which everyone knows will never be compiled with. Why not just say she will invest in what this country now needs to make it productive, sustainable and secure rather than spend her time talking about rules that prevent all those things? Which, ultimately, matters more?

Third, she has to tell the Bank of England to cut the bank base rate: it is absurd that it is so high, and the fact is that it is costing this country dear when there is absolutely no need for high positive real interest rates right now given that a) there is no significant inflation risk right at present and b) any risk that does exist will be entirely incapable of being addressed through interest rates manipulation. The ludicrous constraint of the government not being able to do what is required for this country because its cost of borrowing is too high because a government agency (which is what the Bank of England is) has set it at an absurd level has to come to an end.

Fourth, the payment of interest on at least 75 per cent of the central bank reserves that were created by new money creation via the QE process between 2009 and 2021 has to end. Right now, taking tax into account, that might save £18 billion a year, which is around 75 per cent of what the IFS says is needed to fund essential improvements in public services.

Fifth, if the City goes on gilt strike, refusing to buy more of them, then two things have to happen. First, the absurd quantitative tightening process, which is effectively sucking £100 billion of funds out of the City this year solely to reduce the size of the central bank reserves accounts and not to in any way support government spending or investment, has to stop. It is beyond crazy that cuts in real investment are being discussed when this programme is underway for no good reason.

Then, sixth, if there remain issues around funding, despite the fact that the City has purchased £156 billion of new bonds so far this year according to [Debt Management](#)

[Office data](#), which makes a mockery of the claim that they have no inclination to buy government debt, then the government has a duty to choose between the City and people, and side against the City. It can do so by simply funding investment by borrowing directly from the Bank of England, who have no choice but to fund the sums in question if instructed to do so by parliament.

Seventh, the paranoia about the wealthy has to end. Firstly, they do not pay disproportionate amounts of tax. As Chapter 3 of the full version of the [Taxing Wealth Report](#) shows, they vastly underpay tax in the UK. They know that. The vast majority of them are not going anywhere as a result. And even if they do, their wealth has to stay here: to presume that they now pack up their money in an old kit bag, put it on their back, and take it with them on a pack mule when they leave is absurd but appears to be what political and economic commentators think to be the case.

As a result, more taxes on wealth are required. Equalise capital gains tax. Add an investment income surcharge. Do both, and the funding the IFS says is needed is available. See chapters 6.2 and 8.1 of the [Taxing Wealth Report](#) for details.

But most important of all, end for good the belief that the UK only exists as an entity for the purposes of financial engineering and exploitation by the City and the wealthy, which is the current framing used for all budget decisions. What the City and the wealthy may want is not the basis for choosing what is required for the benefit of this country. What the people of this country need is the required basis for choosing budget priorities.

The City and the wealthy want:

- Children in poverty
- Pensioners dying of cold
- Under-educated children
- Low pay
- Inequality
- Rising rates of sickness
- High levels of mental ill health
- A failing justice system
- Payrocketing mortgage debt
- A perpetual cost of living crisis
- And more of a similar sort.

They must want these things: someone demanded that they be delivered, and they have been. The only people who could have chosen them are the City and the wealthy. They must, in that case, have demanded them in exchange for their support for fourteen years of Tory government.

So the choice is, the City and the wealthy versus the people. It is becoming increasingly clear that is the case. The massive, panicked and utterly absurd reactions to Labour's feeble attempts to adopt a different agenda makes clear that is true.

Rachel Reeves could decide to be on the side of the people.

It is already clear that she is caving in on almost all her plans. She is deciding to succumb to the demands of the City and wealth.

The short-term cost will be enormous. Misery and despair will continue whilst the wealthy continue to consume our planet as if there is a spare available when this one runs out, which will never be true.

The long-term costs of this cowardice from Reeves will be bigger still: we are talking about the fates of people, this country, our democracy and our planet here and she is putting herself on the wrong side of all of these issues.

Meanwhile, the IFS is hailed as the voice of reason when it is the voice of the wealthy and the City, wishing, as a result, the destruction of everything of value in our society.

I despair.