

# How to pay for defence

<https://www.taxresearch.org.uk/Blog/2025/02/22/how-to-pay-for-defence/>

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Lord Keynes told us in 1941 how to pay for defence. We should follow his advice. The last people who should pay for it are those most dependent on the state. It's the richest who should be covering the cost.

[https://www.youtube.com/watch?v=D8vt7hXlqZM?si=cwVRkxHD-lvj4am\\_](https://www.youtube.com/watch?v=D8vt7hXlqZM?si=cwVRkxHD-lvj4am_)

This is the audio version:

[https://www.podbean.com/player-v2/?i=2dhap-18102e6-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo\\_link=episode\\_page&btn-skin=c73a3a](https://www.podbean.com/player-v2/?i=2dhap-18102e6-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a)

This is the transcript:

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How are we going to pay for the defence of the UK is a fundamental political question of the moment because, as we all know, Putin and Trump have now become the most unlikely allies on the planet and are threatening Europe with the potential risk that unless Europe is willing to defend itself, we may be vulnerable to attack from either of them.

And I do stress, literally either of them, because it appears to me that Trump has already declared war on Europe through trade means, and so who knows what else he might do?

The response is to say that the UK must increase its defence spending.

Now, UK defence spending at present is approximately 2.3 per cent of our national income. Our national income is, roughly speaking, £2,800 billion a year at present and therefore, we are spending £60 billion a year on defence.

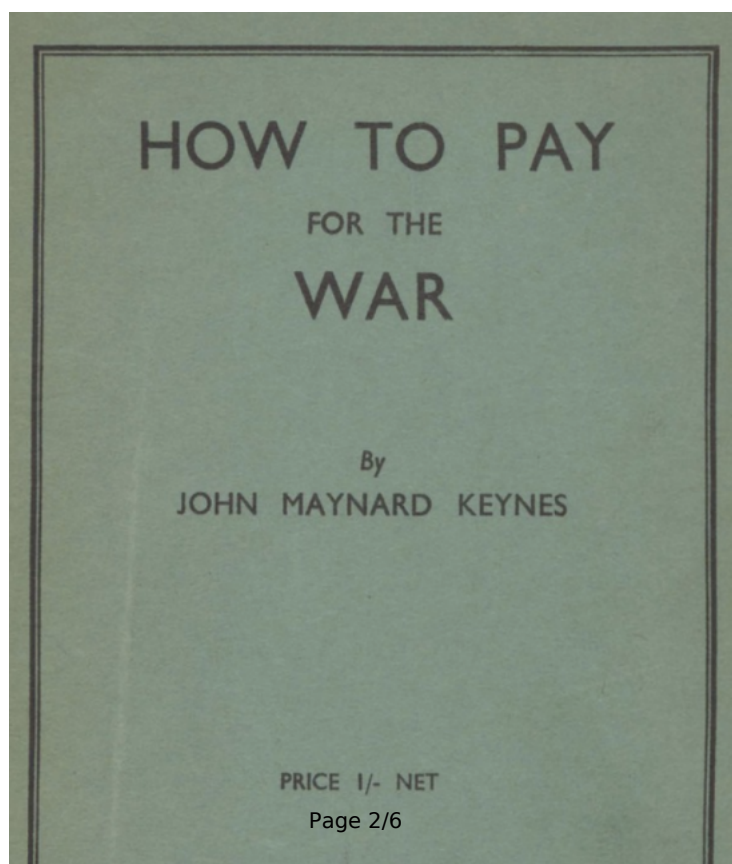
Trump's demand is that we increase this to 5 per cent of our GDP, which would be £140 billion a year. And frankly, no one believes that this is credible because there aren't the people to spend that money on, and there isn't the defence equipment to buy for that money because we don't have the capacity to make it, and, therefore, that's a stupid number, along with most things that he says.

But it is plausible that we could increase our defence spending. We could increase it to 2.5 per cent, which would then increase the spend to approximately £70 billion a year. So we'd need to find maybe up to £10 billion a year to do that.

And if we were to go to 3%, we could go to something like £84 billion a year, and that would be an increase of £24 billion.

And all the economic commentators that I see on the television, all of those who are on the mainstream channels, are all hanging their heads in horror and saying, "This is going to mean a cut in pensions", or "This is going to mean a cut in welfare benefits, this is going to remove the social safety net, or the government can no longer do anything with regard to climate change because we're going to have to spend money on defence", and let me tell you, all of that is simple, straightforward nonsense.

The answer is that we must do what John Maynard Keynes suggested in 1941 when he wrote a book called [How to Pay for the War](#).



Now we're not at war at present, we are paying for the continuing peace, I hope. But his radical plan for the chancellor of the Exchequer, which he wrote at that time, and which was immensely popular and fundamentally changed the way in which economic management took place in the UK during the later parts of the Second World War and thereafter, was absolutely fundamental to the process of victory at that time.

So, I want to highlight the key message that he made, and the key messages were, in fact, twofold.

One was, he said, that we must tax the rich more because they've got the money, and they must, therefore, make the sacrifice because we can't ask what he would have described as ordinary people to make that sacrifice because we're also asking them to serve in the front line to deliver the victory that we need. It was not possible to ask those people to give more than they already were, because they had nothing more to give, whereas the wealthy clearly had got more to give.

They could give more money, and they could give something else, which was their consumption. They could give up things and still live a good life, whereas those who were on low levels of income could not.

And very little has changed between 1941 and 2025. It is still true that the wealthy do have the money, and the wealthy have the good life, and that there are vast numbers of people in the UK who have very little more they can give because they simply don't have enough already. So, we can use the lesson that Keynes gave us. We should be taxing the rich more because they are the people who should be paying for the peace if that is what we are trying to preserve.

And if we need a figure of between £10 and £24 billion, where could it come from?

Well, I [wrote the Taxing Wealth Report](#). It was published in April 2024, and it remains as relevant now as the day when I produced it, because what it provides is a range of choices of tax changes that could be made in the UK to deliver income to the Chancellor of the Exchequer by asking for greater contributions with those with wealth in the UK, but having no impact at all on those on ordinary levels of income. So let me give some examples of where the money might come from to pay for the defence that we need to ensure that we have a continuing peace and not a war.



Suppose that we need more than £10 billion. The first thing that we could do is quite simply restrict tax relief on pension contributions in the UK to the basic rate of income tax, so that everybody gets the same rate of tax relief however much they earn. In other words, you do not get more subsidy for your wealth if you are wealthier than you do if you are a basic rate taxpayer, which is what happens at present. We have a perverse system which actually subsidises the savings of the wealthy more than it subsidizes the savings of those who are on low incomes. And you could not make up a more stupid system of incentivisation for saving than that. If we were simply to equalise the rate of tax relief, which I think would be a definition of fairness, that we could raise £14.5 billion

a year of extra tax for the government. That would be ample enough to go well over 2.5 per cent defence spending. It would push us towards 3 per cent defence spending. In other words, this goes a long way towards achieving our goal.

But it isn't the only thing we could do. There's plenty of other options. We could, for example, align the capital gains tax rate with the income tax rate in the UK - a perfectly sensible thing to do because both capital gains and income end up delivering pounds into people's pockets. The tax system should be indifferent as to where that pound came from. It is fair that the tax system is indifferent in that way because both income and capital gains enrich a person and there's no reason why one should be taxed less than another except for the fact that our tax system is biased to the wealthy and, basically, you've got to be wealthy to have a capital gain. If we equalize the tax rate on income and capital gains so that a person always pays their highest marginal rate of income tax on the gains that they made, then we could deliver an additional £12 billion of tax revenue to the government each year. So, on top of the change I've already suggested, that's over £26 billion we can supply, more than enough for everything that we need.

But just in case we need other choices, we could, for example, reform corporation tax. Corporation tax is in a total mess in the UK. It isn't charged on hordes of companies. We know that's true because we have lost control of company administration in this country. If only we required that banks tell the Revenue each year which companies they provide services to, so that the Revenue would know which companies they expect to pay corporation tax, I estimate that we could raise another £6 billion of revenue a year. And we'd have a more vibrant economy because the cheats would be forced to pay tax.

If we also took away the protection of limited liability from those directors who cheat the system and, as a consequence, do not pay the tax liabilities that they owe by leaving them in companies that they allow to be struck off by Companies House, we could raise, potentially, another £6 billion in a year.

And if we increase the rates of corporation tax in the UK for larger companies to the rates that are commonplace around the world, we could raise another seven billion

pounds of corporation tax a year. From corporation tax, we could, then, raise another £19 billion, and I can keep going.

For example, we could recreate something that we had for a long time called an investment income surcharge in the UK. This is, in effect, a national insurance charge on things other than work. Why is it, after all, that work has the highest tax rate in the UK, but if you get your income from savings, investments, rents, trust funds and everything else, well, that gets a lower tax rate? This is perverse, stupid, unreasonable, unfair, irresponsible.

I could carry on with that list. My point is simple. We should be charging the equivalent of National Insurance on such unearned income sources, and if we did, my estimate is that we could raise about £18 billion in that way, and only the wealthy would pay.

And finally, we could abolish the VAT exemption on the supply of services by banks. Why would that be relevant for the wealthy? Because only they buy financial services. As a matter of fact, the vast majority of people on low incomes pay very little to banks for the services that they buy from them because, frankly, all they need is a cheque account or an ordinary deposit account, and those do not have charges of any great consequence levied on them.

But financial services advice is a valuable service to the wealthy. And yet, it has no VAT on it, which is absurd. We could get an additional £8.7 billion from there.

This is my key point. Very obviously, we don't need to do all the things I've just outlined.

We might do because we have other uses for money, and we do need to charge tax to balance the effect of spending on things like the Green New Deal, on better education, on better health service provision and everything else.

But for the sake of defence, we don't need all those things. But what we definitely also don't need to do as a consequence of having these options available is cut pensions, or cut social security, or cut education, or cut the NHS, or any of the other fundamentally important services on which people rely. We could quite simply pick from that list and make some of those changes and more than cover the cost of the defence that we need in this country now. And it would all be paid for by the people who have the opportunity to forego something to ensure that we're safe, who are the wealthy, because nobody else can afford to do so.

This is what justice would look like.

This is what fair defence would look like.

This is what a country which was being governed by people who realise the resources that are available to them, and that most people don't have them.

But we're having a debate which suggests that in practice, the price of defence is going to be borne on the shoulders of those with least to pay, and that makes no sense at all.