

Funding the Future

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Growth is totally dependent upon people having enough money to spend. Without the redistribution of wealth in the UK, that is not going to happen.

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This is the audio version:

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This is the transcript:

The UK economy is stagnant, as the data shows.

If we want it to grow, we have to do one thing, and that is to redistribute the wealth of those who live in our society. In my opinion, that is about as close to a statement of economic fact as anyone can offer, because there are no such things as economic facts, but the likelihood that such a policy will work is so high that I can almost call it one.

Let me explain. If we are sitting in a situation which the data shows the UK is in, where nothing that is happening is producing any degree of growth at all, and we think that growth continues to be important in the sense that it might indicate an increase in the wellbeing of most people in the country, then there is only one thing that we can do to literally increase that growth.

It isn't to promote more private sector activity, as such, by encouraging inward investment, which is the route down which Starmer and Reeves are going, because people will not invest in the private sector economy in the UK if there is no reason for them to do so, and an absence of customers is why there is no reason for them to invest at present.

The government isn't spending more, so they're not acting as a good customer right now.

And people who are worried about their financial wellbeing, as vast numbers of the people in the UK are, are not spending.

In fact, the Office for Budget Responsibility has, in its own forecast for the UK economy for the next five years, shown that the only way in which consumer spending in the UK might increase over the years to come is by the level of savings in this country falling. And I think that there is a clue in there as to what we need to do to make the UK economy work better, and that is to redistribute the wealth of the wealthy.

The wealthiest save. That is why they are wealthy. They are sitting on pots of money. That's the literal definition of being wealthy.

And the pots of money that they put aside, whether it be in cash, whether it be in property, whether it be in stocks and shares, all of that money is actually stagnant as far as the economy is concerned.

It is money put aside that has been spent on something that is no longer active in promoting the well-being of the economy as a whole because it is not fueling current economic activity. It's dormant as far as current economic activity is concerned, and that's the best understanding of savings that you can have.

Just to deal with savings in their simplest form, which is money put in a bank account, the whole point of money put into a bank account and stored there is to put it aside for later use. It's doing nothing now.

And do not let anyone tell you that banks will then lend that money to somebody else because that never happens - and every single central bank in Europe and in Canada and in Australia and elsewhere now agrees that banks do not lend out depositors' money. That model of banking, which was taught for a long time and is still widely believed by the banking community and by most MPs, including our dear chancellor, it would seem, is wrong.

Banks create new money when they lend, and the money that they lend is redeposited with them as new savings. It may go around a few times before it reaches that status, but that's what always happens. Bank lending creates bank deposits. Bank deposits are not lent, so the consequence is that savings are quite literally dead money.

But if we want more money to circulate in the economy – and you get growth when more money goes around the economy because more people are doing things and working and spending and buying, and therefore giving reason for investment – if you want all of those things to happen, you have to pump prime the system.

There are two ways to pump prime the system. One is that the government runs a deficit, and I strongly urge the current government to run a deficit for precisely that reason, because it is essential that they do to signal to the economy that they believe in it, and they're going to invest in it by undertaking additional spending.

But, we also need to have a tax policy that redistributes the wealth of the wealthiest to those who might spend it. In other words, to drag it out of the savings accounts of the richest, to put it into use by those who are poorer.

All these things are relative terms, but those people who are less well-off do, as a matter of fact, have what economists call a higher marginal propensity to consume.

Let me just put that into layperson's terms. If you're very wealthy and you earn an extra pound, you probably put it aside in your savings because you've already got everything you need.

If, however, you are a person who is on £25,000 a year and you get another £100, it is highly likely that you will spend every penny of it.

You won't pay off your debts; you will just go out and literally feel better as a consequence of having some money to spend.

And that is the benefit of redistribution.

If we take money from the wealthiest and give it to those who are likely to spend it, we will boost the economic activity of the UK in a more effective manner than anything else that humankind can do.

Now we have to ask the question whether we can do this forever, because we do have to recognise the limits to growth, which exists because of climate change. But if in the short term we want to break this cycle of stagnation that we are in, there are only two ways to do it, as I've already said. One is for the government to spend more, and the other is for the government to redistribute the wealth of the wealthiest to those who are in need so that they have more to spend.

And as a result, the government's policy of taking away benefits from those who are in greatest need in our society, whether they be pensioners, most of whom do have high marginal propensities to consume because they have relatively little income on which to live, or from those who are claimants inside the benefit system, and in particular, those with disabilities who have very high demands on their spending capacity.

If you take money away from them, you increase the scale of economic stagnation in the economy.

Redistribution is not, therefore, an act that the right wing would like to claim is the politics of envy. It's a simple, straightforward necessity to bring money into use in a way that fuels growth, from which the biggest beneficiaries will always be the wealthiest.

If only they realised this, if only they appreciated that the redistribution of their funds into the economy would actually be the best source of the increase in the growth of their own wealth, they would stand up for this. But economics isn't telling them that. In this video, I am telling them that and providing the simple, straightforward, logical reason why redistribution can work.

It's time that they realised that they can help society by letting the money that they have generated over time be redistributed to those who need it, because without that happening the growth in their wealth is going to stop, and that's the one thing that worries them.

Most of all, this is a policy that will benefit everyone as a result.

So please, please Labour, understand this and deliver a policy of wealth redistribution of the sort that I've laid out in the Taxing Wealth Report, which would be easy to implement, would not be unfair, but would instead deliver wellbeing for quite literally everyone in the UK.