

Funding the Future

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The Alternative Budget 2025

Part 1

The Background

Rachel Reeves will be presenting her Budget on November 26, if the Labour government of which she is a part lasts that long.

I will be commenting on that Budget on the day on BBC Radio 2, and elsewhere afterwards, but what is already clear is that whatever Reeves has to say, she will miss the required mark by a very long way. Being aware of that, I thought it appropriate to offer an alternative Budget speech ahead of the time when she offers her own. Given the significance of this issue, it will be addressed in parts over the next week or so, leading up to Budget Day. This first part sets the scene for what is required. In subsequent posts, links to all parts will be provided.

The background

This budget comes at a time when we are facing an existential emergency.

This is a time of international stress.

Many are suggesting that financial markets are as stressed.

Inequality is rising.

So too is poverty.

Even democracy is at risk.

All of these frame this budget, but one issue above all else dominates my thinking. That is because it underpins all the other crises. Fifteen years of neoliberal austerity have left this country, and much of the world, in economic crisis. It has failed most people, small businesses, the government itself, and faith in democracy.

We face threats from the far-right to democracy itself as a result.

If democracy is to survive, economies are to be revived, inequality is to be addressed, and financial markets are to be reordered, then austerity has to come to an end: there is no alternative. That is the core of my message today.

Neoliberalism has to be consigned to history as a result.

In addition, all the neoliberal public institutions put in place to drive austerity that are now failing must be reimagined.

Privatised industries are not delivering for people. That experiment has failed. I will address that failure.

Regulators who are using the wrong rules and models, resulting in unaffordable price rises whilst excessive profits are extracted from the sectors they regulate, must be reformed or replaced.

Critical supplies that they supposedly oversee, like water, are in jeopardy.

The National Grid cannot manage the green transition.

Meanwhile, the Bank of England is not only using the wrong targets for its activities, but those it uses are now deeply counterproductive for the economy as a whole.

As a result, people are suffering. Deliberately punitive policies have been imposed. Currently, the most obvious example is the two-child benefit cap, but past impositions like the so-called bedroom tax, the aggressive pursuit of those who make errors in benefit claims, and the intimidation of those with disabilities when they are the most vulnerable in society are all entirely unacceptable in a society that thinks itself civilised. No wonder we are living in a toxic society when cruelty has been elevated to having the status of policy.

At the same time, there is no such thing as tax justice in this country. According to HM Revenue & Customs, 40% of small companies do not pay the corporation tax they owe. No one can be sure how much VAT and PAYE they also evade.

Large businesses are still treated too tolerantly.

But most of all, the wealthy do not pay a fair contribution in tax. Their overall tax rate — taking into consideration their income and gains — is far lower than the tax rate paid

by most working people. People should not be suffering the way that they are as a result of deliberate imbalance in the tax system.

These factors, and others, individually and in combination, require a wholesale reframing of how we think about government, economic policy, and, in particular, the role of the Treasury. That will now happen.

To be clear, the point I make is that the long-standing “Treasury view”, that the size of government should shrink, that the state should retreat from responsibility, that the government is wholly dependent on the private sector for its funding, and that markets must be allowed free rein, is over for good. If anyone within the Treasury cannot agree, they will be given the opportunity to depart with appropriate compensation because what we must have now are people in charge of this government’s finances who believe that its job is to enable the well-being of the people of this country, and not to hoard cash at cost to most of us.

It is my view that the job of government is to enable all that the people of this country can do. If you wish to know the vision that inspires me, that is it. We must do that of which we are capable, whilst fairly rewarding all who participate in that process in whatever way they can.

Assuming that we do this, and as a result raise the incomes of the poorest in our society, whilst asking those with the capacity to contribute more towards the collective good to do so, then the evidence of what will happen is clear: we will grow our society much faster than we have to date, and as a result will balance our books by default, without making that balance the only goal of government.

Today I am recognising that reality, but I will go further.

I will also recognise the fact that the UK government creates money every time it spends. There is, despite all the denials over many years by so many politicians, a magic money tree. This is a budget that will, for the first time, recognise that when this House authorises government spending, the Bank of England has a legal obligation to create the money required to make any payments owing. We can never run out of money as a result. We, in this House, create all the money this country needs by authorising the government to spend it into existence.

This shatters three further myths.

First, if we create the money this country uses, calling the money we spend 'taxpayers' money' is obviously wrong: it is government-created money. There is no such thing as taxpayers' money in this context.

Second, we can no longer pretend that tax funds government spending, because it does not. We do that by authorising the creation of money to pay for our programmes of

work.

And, third, to pretend that we are dependent on what is called 'government borrowing' is also a myth; we are not. Instead, we provide, as a government, the most secure possible savings facility for the City of London, in particular. We do not borrow from them: they deposit money with us. We have long known that we run a savings facility called National Savings and Investments; we should now recognise that this describes all our so-called borrowing. Our relationship with the City has been grossly misrepresented as a result. That misrepresentation will end now.

But doing so also requires that we recognise we would be reckless to spend if there were no resources available to us. The result, if we were to try to do that, would be inflation, and no one wants that. This, then, requires another reframing of our understanding. If tax does not fund government spending, as I have already explained, it must have another role, and of course, it does. The role of tax is to control inflation. It does this by withdrawing the money we create from circulation, thereby providing us with a direct method for controlling inflation rather than the indirect one used by the Bank of England through variable interest rates.

That means we have to accept our responsibility for inflation in a way that we have avoided for far too long. This understanding means we will need to spend when times are hard and use taxes to help constrain the economy when markets are too buoyant. Interest rates have never managed to do this. They work on very long timelines; their impacts fall on those least able to bear them; and there is no evidence from centuries of data to suggest they can control inflation. We have, quite simply, mismanaged this issue, and that era is going to come to an end. Fiscal and monetary policy will be placed under common control, with fiscal policy being prioritised because the experiment with monetary policy has failed.

That means we can now do something else. This is a government that believes that inflated interest charges — like excessive rent, the wages of those who exploit the companies they supposedly serve by taking salaries in excess of their value, and monopoly profits — represent a tax on ordinary people. They are paying far too much of their income in these combined economic rents as a consequence. And if we want to restore well-being and deliver sustainable growth, then now is the moment to curtail these things to the greatest degree possible, directing money towards those in need from those who have more than enough.

I say all this for a reason. I stress that this will fuel growth. The wealthy are wealthy for one reason: they do not spend all that they earn. They save it instead, but their savings have become almost entirely unconstructive. They put money into second-hand buildings, second-hand shares, and bank accounts when banks do not need their deposits to make loans, as the Bank of England has now recognised for more than a decade. These are all artificial measures of wealth because they are unproductive. This savings activity by the wealthy contributes almost nothing to our economy and takes

away a great deal. I will announce measures to begin tackling these problems later in this speech.

I should add, and not as an afterthought, that sustainability matters to this government. The neoliberal claim that markets can solve the problems they create by ignoring externalities is no longer viable. We know that the way we live now pollutes this planet. We know that this situation cannot last. We know we have to move to sustainable energy. We know that we must reduce some forms of consumption.

It is time to face facts. We need to transform energy supplies in our homes. We need to transform the way in which we travel. We need to transform the way in which our products are designed. We need to consume less “stuff” and spend more time enjoying each other’s company. We need to rethink how we live, and this government is not going to shy away from that. Our commitment to a Green New Deal is real and will continue.

I am intent on radical transformation, and I defy anyone to challenge my logic for doing so. When government is failing, democracy is failing, markets are failing, household finances are failing, and the climate around us is failing, and the biosphere with it, of course, it is time for radical transformation. How can anyone say otherwise?

Neoliberalism has failed us. Forty-six years after Margaret Thatcher came to the UK, her experiment in social, economic and environmental destruction is over. Now is the time for change, and that is what I will deliver.

In the next part of this series, I will begin laying out how I will address these issues. Those parts will address the following, but not necessarily in the order indicated. :

- * Suggest a new fiscal framework, the end of the full funding rule for government finances, the return of the Bank of England to central government control, a change to its mandate, and a new basis for interest rate policy.***
- * Propose the reform of the essential public services of the UK, recognising the particular interests of the differing nations within the Union.***
- * Explore the role that taxation must play if these objectives are to be achieved, and what contributions those within the economy will be expected to make.***
- * Set out a new commitment to those who have lived in fear for too long, including new policy on social security, pensions, education, housing, and health and social care, which will also reconsider the role of local authorities in national well-being.***
- * Discuss the need for a National Wealth Service, and how it will be funded.***
- * Lay out the measures required to tackle inequality.***

- * **Discuss the tax, borrowing and other implications of what I propose.**
- * **Prepare for the reaction of financial markets to these proposals.**

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [**here**](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments

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