

## Who must pay for war with Trump?

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Donald Trump has declared a trade war on Europe, and he might still be threatening physical conflict over Greenland and Canada. That forces a question most politicians will dodge: how do we pay for a war economy, even if no shots are fired?

John Maynard Keynes tackled exactly this issue in 1940. He argued that the real constraint is not money. The real constraints are resources, inflation, and fairness.

In this video, I explain why Keynes believed wartime sacrifice is unavoidable, why inflation is a political danger, and why the burden must fall most heavily on those best able to carry it, who are the wealthy, through taxation, organised saving, and controlled interest rates.

We are entering an era in which resilience matters more than market efficiency. The neoliberal model cannot survive this transition.

[https://www.youtube.com/watch?v=6JWbr8XTvjU?si=OFO\\_pcS2YjkTQPu1](https://www.youtube.com/watch?v=6JWbr8XTvjU?si=OFO_pcS2YjkTQPu1)

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This is the transcript:

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Donald Trump has declared a trade war on Europe and maybe the rest of the world, and he's threatening physical war on Greenland and Canada. The question arises, therefore, how do we pay for a war? Because we are going to have to do that, because we will unite with Denmark and Canada in defending their territory, and the consequences of doing so will arise.

Thankfully, we don't have to do all the thinking on this from scratch. John Maynard Keynes, Lord Keynes, tackled this issue in 1940, just as the war in Europe was getting really serious at that time. He said that almost everyone asked the wrong question about how to pay for a war. He insisted the issue to resolve was not the availability of money, because he pointed out that it was always going to be available if we needed it: the real issues were about resources, inflation and fairness.

Back then, people asked the question, "Where will the money come from to pay for the war?" And this terrified the City of London and others. They thought that we could not afford to fight the Nazis, but they were wrong because they assumed that the state was like a household. Keynes understood that framing produced bad policy because it hid the real constraint, and the real constraint that he appreciated was the productive capacity in our economy, or that we could call upon from our friends.

Keynes made it clear that the war economy pushed us to our limits. He understood that before most people. Labour becomes scarce in wartime. Factories and materials become scarce in wartime. Civilian goods become scarcer still, because there has been a diversion of effort into producing armaments and people who would make those goods are now in the forces. War output, therefore, displaces civilian output, and that is critical to the understanding that Keynes had.

Keynes said you could not undertake wartime activity and keep civilian production going at the rate it had previously been at if you wanted to win a war. You had to massively expand war production if that was what was demanded of you, and you could, as a consequence, not keep civilian consumption unchanged. If you tried, demand would outrun supply, and the result would be wartime inflation that would be deeply pernicious, and that was, again, one of his key understandings.

Inflation and wartime went together in the First World War. Inflation then was massive. What Keynes wanted to do was control it in the Second World War. Keynes argued that inflation was not a technical inconvenience. What it actually did was cut real wages unpredictably, and that's what he wanted to avoid. At the same time, it rewarded those with wealth and pricing power unfairly, and it did encourage profiteering in black markets, which happened in World War II, but which he wanted to constrain. What he realised was that inflation undermined the unity that was required to win a war.

The truth was brought by Keynes out into the open. He said that wartime required reduced civilian consumption, and that reduction was the real payment that war imposed. That was an interesting narrative. The cost was not financial. The cost was in

the fact that some people would have to consume less if we were to divert resources into wartime production.

Therefore, he said there was a choice to be made. That choice was that we could either have unplanned and random reallocation of resources via inflation and shortages, or we could have planned reallocation of resources to the war effort via organised saving and fair taxation, and his central solution was therefore to ration spending power.

Keynes did not just focus on rationing goods. Yes, that did happen, of course, but he was also just as interested in rationing purchasing power because it was purchasing power that was going to drive inflation, which he saw as such a pernicious enemy during a period of wartime. So, purchasing power had to be withdrawn from the economy deliberately, he said. We could not let inflation do this brutally.

Keynes proposed two things. One was that he proposed that taxes be increased significantly, and most especially on the wealthy. He also proposed that part of the wages of people during wartime should, in fact, be compulsorily saved, put aside, so that when the war was over, people would have a pot of money to spend and then enjoy. This, he said, would encourage people to believe that the sacrifice being made during wartime would be worthwhile later on.

In practice, only one component of his proposal really had much success. There was a massive wartime savings programme; that is indisputable, and it did work. And it worked by changing savings from unproductive deposits in bank accounts into funding the war effort. There was a direct connection made between saving and investment again, in other words. That element of his savings programme was successful, and I would endorse it, and I'd been talking about things like that for some time with regard to any form of politics of care.

But his plan to compulsorily impose this did not work. It turned out that that wasn't necessary anyway. People were persuaded effectively by UK government propaganda.

But his plan to increase taxes did work. He increased taxes on the wealthy, and he did so not because the government needed funding, because, as he knew, and as we know, the government could fund itself by simply spending the money that it could create whenever it wished at its central bank. The war suspended any relationship between the value of the pound and gold.

But what he did understand was that tax was required to reduce consumption, and most especially, and he made it clear: luxury consumption amongst the better off, because if the sacrifice of war was to be shared fairly, then tax rates on the wealthy had to be very high, and I do mean well into the 90 percents.

Keynes also accepted that borrowing was a normal part of wartime practice. Now, let's be clear, borrowing at this time did in effect mean borrowing because we were still sort

of on the gold standard at this period. But, although that has now changed, we would, if we were to reduce consumption in a period of war, have to also look at how borrowing would have to be managed, and he feared one outcome of enforced borrowing above all else. What he realised was that if the wealthy lent to the government during wartime and claimed significant interest rewards, as a consequence, they could turn the national emergency into something that provided them with economic advantage. He was very, very unsure that this was a desirable outcome, and so what he argued for were low interest rates; these were also part of his wartime strategy.

And he argued, and this is the overall summary of Keynes's approach, that the war must be paid for in real resources. Labour and output that were being redirected to the war effort meant that civilian consumption had to fall, and the policy choice was, who reduced consumption, and he was quite clear that via fair planned saving at low controlled interest rates with high progressive taxation in parallel, then the people who would pay most of the price would be the wealthy whose interests were being best preserved by the war in any case. Let's be clear about that.

Why talk about all of that now? Why, at this moment, talk about Keynes's narratives? Well, that's because Keynes explained something bigger. He explained what happens when resources become constrained. He showed that inflation is what happens when we pretend scarcity is not real, and he said sacrifice is unavoidable in that case, and the only issue is "How is that sacrifice shared?"

That logic of his matters now. We are likely to be entering something like a war economy very soon. We are in a situation where, even if no gun is fired, the world is going to have to realign its political situation.

As a consequence of the threats from Donald Trump, we are looking at a new world order, and that will not emerge with ease. Tariffs, coercion and threats are now the instruments of power. There is no longer, at this moment, any normal trade policy. The world has changed, and it will never revert, and as a consequence, we have to think about the consequences for our economy and assume, in effect, that we are now on a war footing, even if we do not have troops engaging in combat.

This is the real consequence of Greenland. Trump's attempt to confiscate a territory with no legal claim, backed by menaces, has destroyed trust in the international settlement, and trust once shattered is not easily rebuilt. Neoliberal globalisation has relied on predictable rules. It has relied on contracts being honoured and borders being respected. It has relied on stable payment systems and supply chains. It has relied on diplomacy and not coercion, and all of that is collapsing.

The new reality is that we are going to live in a world which will not prioritise market efficiency. I'm going to suggest to you in a video to come that the neoliberal era is over, and that something has to replace it. That something will be the prioritisation of resilience, of security, of autonomy and care. Those things are going to be the basis of

the new world that we're going to create. And that requires the creation of new domestic capacity and new regional supply chains because global ones look to be decidedly vulnerable now.

But that is going to require large-scale investment and, very quickly, led by government, but also required of business because nothing is the same as it was. We are, therefore, needing the economics of wartime transition to be put into place, and frankly, this will look remarkably like the situation that Keynes looked at.

The constraint will be the availability of resources.

We will have to replace US armaments, technology and products.

We will have to innovate at scale and not marginally, as happens in wartime.

We will have to rebuild supply chains around what is possible rather than what is desirable, as happens in wartime.

We will have to train labour and expand capacity for a new world order, including the new skills that we require that previously we outsourced.

There will have to be a major economic mobilisation as a consequence, but whilst that is going on, we must assume that the USA will not be neutral. They will, in other words, fight back. They will use trade, finance, technology, and diplomacy against us. There will be a strategic contest even if there isn't any form of conflict, and that will intensify the disruption that we are facing. And disruption will necessarily mean constrained supply over the years to come, and maybe severely constrained supplies in some cases. Therefore, we have to think about our reaction to this.

Now part of it will be about defence. We will need to build new defence systems; there is no doubt about that. They're not very productive. Let's be clear. They do not add great value to an economy, but nonetheless, the political demand for them is going to be real, and therefore, they're going to have to be supplied.

But resilience means more than just having armaments. Resilience means having communication systems that are independent of the USA. It means having IT systems that are not dependent upon US technology, chips, software, and everything else. It means having secure European finance and technology infrastructure. It means Europe must create European solutions. That's not something it's been very good at, but it is something that is going to be required. When this all happens, we will have the type of supply disruption that wartime created, which is why everything that Keynes said is now so relevant.

Disruption will happen even without bombs; that's my point. Scarcity will appear in parts, components, skills, energy, logistics, and, of course, amongst people, because people will have to be diverted to activities which will not be producing goods for

consumption for the time being. And if purchasing power is not managed in that case, inflation will follow, and all of Keynes's warnings with regard to inflation apply directly here. We either manage this by reducing consumption fairly, or we let inflation wreak havoc on the stability of society itself.

Democracy depends on protecting the vulnerable. This transition will strain our society. If the vulnerable are hit hardest, democracy will crack. Resentment will become political instability. Instability will result in authoritarian opportunity, and Keynes understood that economic unity was essential if we were going to prevent that authoritarian opportunity from turning into authoritarian reality.

So, resources are going to be diverted into resilience and defence, and less is going to be available elsewhere, and consumption will fall, and we cannot pretend otherwise. This is the world we are now going to face. It's time to recognise it.

So the key question becomes, who suffers? Who pays the sacrifice? And this is the moment that Keynes anticipated. And my answer is very simple, and it's very straightforward. The wealthy must bear the sacrifice. They have the capacity to reduce their consumption most of all, that is glaringly obvious, and most people do not. If democracy is to survive, wealth will be protected, most of all. But the consequence is that the burden of protecting that wealth must fall on the wealthy above all else.

Taxing wealth will become a necessity and not an option. But I'm not talking about wealth taxes here necessarily, although they can be on the agenda. I am instead talking about increasing the tax rates on those who have higher incomes and wealth across a broad range of measures because those can be put into place easily now.

And that's necessary because surplus consumption is not only at the very top of the pile, and does not only impact billionaires. Surplus consumption is, broadly speaking, undertaken by the top 10% or so of wealth earners and income earners in our society. They will scream and holler and shout and say, " But our lifestyles require that we have these things." I'm sorry, but we are living through a period of change, and your excess is not going to be compatible with managing our emergency.

There has to be a period of adjustment, and that means that there will be sacrifice by many who think themselves to be living on the edge already, when in fact they are living way beyond the country's means, and of course, beyond the environment's means. There is going to be an adjustment, and sacrifice will be demanded, and that is how society will hold together.

At the same time, the state must intervene, and very strongly. The rentier economy must be dismantled. It is the foundation of neoliberalism. It has to go. Excessive rents in housing, in interest rates, in monopoly pricing, in high pay, and the exploitation that represents, and so much else must be tackled. We cannot build resilience whilst feeding rent extraction, which is how the economy works at present. Neoliberal allocation of

resources must end. Justice must be delivered. Resilience requires this new political economy. We can't survive without it.

If we don't change, we will become a vassal state instead. That's the choice we have. We either change and become a resilient country exercising our own choice, or we become a vassal state of the USA, and actually, that outcome is worse. If we do not mobilise, we will lose our autonomy. Europe will become subordinate. Democracy will be hollowed out. The weak will pay the highest price because that is how an empire always works, because in this case, we will be exploited to ensure that the American public will continue to support the emperor, whoever they might be.

So, let's face facts and choose our direction of travel. This transition is beginning now. The fact is that the assault, whether it's real or not, on Greenland is going on at this moment. It's an assault from fascism. We must name it, and we must confront it. And then we must plan, invest, and protect those who are going to be impacted by it, and most especially the vulnerable. We must demand a sacrifice from those who can bear it, and this must be our direction of travel.

We have to plan for the politics and the economy to come now, and that means we have to move onto a war footing, whether there is ever a conflict or not, because the world's plates are going to collide in some way or other. The world's economies are going to both collide and move apart simultaneously, and to get through that, we need to plan for a new resilient world, and that's what I'm talking about, and that's why Keynes' thinking is so important at this moment.

Let us know what you think. There's a poll down below.

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## **Poll**

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