

Why you need a pay rise

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If people do not have spending power, businesses will not invest, innovate, or hire. It really is that simple.

This video breaks down the real sequencing of growth and explains why politicians have got everything wrong. Pay rises aren't the reward for growth; they are the precondition for it, because people without money to spend cannot ever drive the growth politicians crave.

<https://www.youtube.com/watch?v=Axr1N93Fq0U&si=6td1-5ieXt7csEtB>

This is the audio version:

https://www.podbean.com/player-v2/?i=fry9r-1a38ce0-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:

When it comes to growth, politicians have got all the economics wrong. They think that decent living standards are the consequence of growth, which they argue must come first. They say we cannot have jam today. We can only have jam tomorrow if growth happens between now and then. But that's not true.

Without guaranteeing decent living standards to everyone now, growth cannot happen

anymore. In other words, the fact we haven't got growth is because of a complete misunderstanding of the economic cycle that now exists, and that's what politicians need to put right.

It's their fault we're not getting growth because they don't understand the causality of it, and until they do, we are going to be stuck in the rut which the UK, in particular, is in.

I'm assuming, by the way, growth is good. I'm talking about sustainable growth here, the sort that genuinely increases well-being.

Now let's talk about the orthodox story we're told. What politicians say is that rising living standards are the reward for growth. Their claim is that private sector growth creates jobs, and jobs create income and income creates tax revenue, and that in turn gives them the power to deal with issues like low pay, insecurity and overwork, whilst the additional income that those jobs create after tax fuels the demand for further growth and this is the upward virtuous cycle that they say drives a successful economy. The only trouble is, almost every single element of that story is wrong. Yet again, politicians have got the sequencing of what happens in the real economy the wrong way round.

The real story is quite different. As is common with most of our political narratives, what we need to understand is that spending has to come before a benefit. You cannot do it the other way round.

Demand is driven by two things, in fact, in this case. One is innovation, which requires considerable upfront spending by somebody. Now, that could be the government; it could be the business sector; it could be them acting in combination. But the point is that investment in new technology and new products and new ideas has to happen before you get growth because you don't get growth from a static economy where everything remains the same. You get growth because of change. And if that upfront spending does not take place, then nothing will follow.

So, the idea that we wait for growth to happen before we get any extra economic activity is absurd. There has to be extra economic activity before we get growth. But politicians don't seem to understand that. And the point is that all the things I've just explained: additional income from additional jobs, providing the government with additional tax revenue happens from the investment, and not from the growth. So, there is again a total misunderstanding on the part of the politicians about what the ordering of events is.

But there is another key element here, and that is that people must have the purchasing power available to them to buy whatever it is that the innovation is meant to make available. Without these two things, there can be no growth, and in fact, when we look at the ordering of events, the thing that is most powerful of all is the requirement that there be people with purchasing power. If business doesn't believe

there are people with purchasing power for the product that they want to create, they won't invest, they won't innovate, and they won't create new jobs; that's the simple, straightforward statement of facts that politicians don't understand.

So the reality is that all growth eventually comes down to the belief in, and fact of, people having spending power to buy what business makes available. People with money in their pockets drive growth; nobody else does.

But politicians keep saying, we must accept low pay, insecurity, and overwork today, and the promise is of prosperity tomorrow. But the reality is that we won't get to that prosperity tomorrow because they are actually imposing cuts in demand by current policy, which reduces pay, reduces benefits, and creates insecurity, meaning that even if people did have excess income available to spend on the things that are being created by the market, they won't because they're too worried, and they'll save instead.

So we have, in effect, created a no-growth spiral within our economy where it is impossible to believe that growth happens precisely because the government does not understand how growth happens and is doing everything it can to destroy the conditions where growth might be possible.

This is the real problem. And this is only going to be exacerbated by the focus on productivity. Let's be honest, some of this does, of course, come down to AI yet again. The discussion about AI and the discussion around productivity, which has implicit within it the idea that there will be fewer people working in the businesses creating more products that everybody is expected to buy, is that there will be lower employment, wages will not increase because the return will go to capital, and unemployment might be created. In other words, the things that every government minister talks about that supposedly create growth will also not do so.

There's no evidence that AI is going to create growth.

There's no evidence that an increase in productivity will create growth.

What they will both do is create unemployment, and unemployment does not create spending power; it reduces it.

That's because we have an essential problem in this country. Spending power is too concentrated. The wealthy are the only people seeing their wages rise to any significant degree as a consequence of changes in the economy, and they have already got sufficient to live on in most cases. So as a consequence, when their incomes rise, they tend to save it. They don't say they are, but they'll make bigger pension contributions, and they'll buy secondhand properties and go for weekends away in that property in the country, but that's saving by any other name, so they don't increase their real productive spending capacity.

Meanwhile, those on lower wages and benefits are being increasingly squeezed, and when incomes are too low, spending contracts, and that's what we're seeing. There is no resilience, no choice, and no circulation of money in the economy because too few people have got access to the money to spend.

As a result, the multiplier effects, which I've talked about many times, are also collapsing. People aren't spending in the first place. Therefore, the secondary acquirer of the funds that the first person spent hasn't got any money to spend themselves, and so there is no growth because those at the bottom of the income pile - and let's be clear, it is those on low incomes who tend to start this process going, because they tend to spend every extra pound of income that they get - do not have the ability to do so because the money isn't moving in their direction. As a result, hope of growth dies quietly while politicians blame business for not responding to the incentives they provide, when in fact the politicians are providing all the wrong incentives.

Four things create this outcome.

The first is the desire on businesses' part for cost-cutting, which is seen heavily in Anglo-Saxon economies, by which I mean those in the UK and the USA, coupled, secondly, with a desire for productivity that destroys jobs, now heavily associated with AI.

Thirdly, the disincentives that the government is creating for employment, most especially amongst the young, by creating things like high national insurance charges and, fourthly, the government's goal of ever decreasing benefits, which hits the poorest in the country hardest, when up to 40% of the population are dependent upon benefits to make ends meet, and 60% of them are in extreme poverty as latest data shows. Add all these together, and we get no growth.

Productivity does not necessarily increase employment, but it can increase unemployment because the desire is to reduce the number of people at work. That's what increasing productivity does.

AI is compounding this by destroying jobs, and there is, as a consequence, no growth. But there's also this problem: no one has the money to spend. And you can never get anywhere with growth unless there's enough money available to people to actually begin the discretionary process of increasing spending. And when most people are living hand to mouth to try to cover the rent, and utilities, and basic food charges that does not exist. That stimulus is not available, and unsurprisingly, the economy is stagnant as a result.

So, what can we do? We have to break the old model. There is no way around this, and the only answer is redistribution.

Redistribution means literally having more progressive taxes. There is again no answer

around this unless we are to have wage policies, and at the moment, I don't think there's a political appetite for that in the UK. So redistribution through taxation is the answer, and how do we do it? We do it by taxing the income and gains from wealth more, and then, if that does not create sufficient redistribution, although I think it would, we could then have a wealth tax. But the point is, unless we do redistribution, no amount of technological process will produce growth. We'll still only have stagnation. This is not a future problem; this is already happening.

So, let's be clear what the new condition for growth is: surpluses must circulate. In other words, once a new technology has created the opportunity for profit, that should not be captured by those who already have sufficient for their needs; instead, that money must end up in circulation in the economy to increase the well-being of those who do not have enough, because without that happening, there will not be an incentive to create demand for the product to be sold. Therefore, it won't come to market, and therefore, the whole process of innovation will become stagnant, and we will never see the prospect of growth.

So, people need income security to stabilise the economy. That is my core message. And how do we get income stability? I'll get there in a moment. In the meantime, let's be clear, this isn't charity, it's the essential mechanism that keeps demand intact and with it, democracy and social stability intact as well. At the present point in time, we just aren't supporting people enough for those things to happen.

The role of the state in this is, of course, critical. Only the state can manage this transition because only they can charge tax.

They can guarantee income security through minimum wages that are realistic.

They can reduce rent extraction by literally controlling rents, but also controlling monopolies.

But most importantly, they can tax wealth and corporate profits to bring them back into circulation within the economy, and by treating care as a foundational economic infrastructure and not as a cost, there is an outcome that is of benefit to everyone. We do need to redistribute.

If we refuse to adapt, stagnation without dignity is our future.

We'll have technology without security.

And we'll have a politics that turns punishment into reality because it cannot explain its own failure.

So decent and secure living standards are not the prize at the end of growth; they are the precondition of growth, and that's the misunderstanding that is absolutely central to our current failure.

In an AI-driven economy, redistribution is not radical, and the choice is clear. We can have an organised economy centred around care that can deliver sustainable growth, or we can have stagnation. That's the choice. That's the future. Those are the options. There is nothing else.

What do you think? There's a poll down below.

Poll

[poll id="313"]