

Here's how I'd have found the cash for defence

Borrowing isn't an option for Rachel Reeves. The chancellor should instead look at welfare reform and helping people find work

Jeremy Hunt on 14th June 2026, The Sunday Times

John Healey's resignation cast the Treasury – and its boss, Rachel Reeves – as the villains. It was a conflict Sir Keir Starmer was too weak to resolve. But if a stronger prime minister had simply ordered the chancellor to find the money, how could it be done?

I know to my cost how high debt and high interest rates have made the public finances a nightmare since 2022. Reeves has experienced the same. Both of us have found plans for budgets ripped up at short notice by small movements in the bond markets that have hiked up the cost of debt interest.

In 2023 I had to spend months leading up to the autumn statement working out how to plug a £15 billion gap. Further freezes on tax thresholds? Equalising capital gains tax and income tax? Scrapping the triple lock? Cuts to public spending? There were no good options.

Even worse, as chancellor you are totally on your own. If your statement to the House of Commons bombs, it is your job on the line and no one else's. But every solution has legions of opponents waiting to pounce – whether from the media, parliament, business or campaigners.

At such times, living inside Downing Street begins to feel less like a privilege, more like being trapped in a bunker. But there are always solutions. The first step is to rule out what won't work – but carefully leave on the table what will. In the last week, the prime minister or his spokesman have ruled out welfare reform but refused to rule out raising taxes to fund the defence investment plan. Both were mistakes.

Why would it be wrong to raise tax? Because as Rachel Reeves has found to her cost, higher taxes damage growth. The evidence I gathered in my book *Can We Be Rich Again?* shows that OECD countries with the lowest overall tax levels grow up to 2% faster than those with the highest. I myself had to put up taxes, but that was in exceptional circumstances: we had just borrowed £350 billion to get through the pandemic. But after those early rises, Rishi Sunak and I were both determined to get taxes back down. We made a start and wanted to go further.

Putting up taxes this time would not just be terrible for economic growth, it would also damage our ability to fund the armed forces in the future. That's because ultimately public services can only be funded by a strong economy: for every 1% increase in GDP, the chancellor gets an extra £10 billion to £12 billion of tax receipts, all of which is available to spend on public services.

Borrowing more would be equally short-sighted: our debt interest is already £111 billion – getting on for double the defence budget. That means the average household pays nearly £4,000 in tax just to fund the interest charge on our national debt. Putting that up would only drive us further into a dangerous debt doom-loop.

Then there's welfare. It's obviously a challenging issue for Labour MPs. But if they don't want to listen to me, they should read Alan Milburn's shocking report on the one million young people currently not in education, employment or training. Six in ten of them have never had a job – and may never have one.

The number of people on incapacity benefits was falling until the pandemic but is now rising sharply. And it's a much bigger rise in the UK than in other countries. Why? Because in Britain if you claim the three main benefits available to people out of work, you can get between £31,000

and £49,000, depending on where you live. Working full-time on the national living wage gets you just £23,000 after tax. That can be topped up with in-work benefits, but with such a huge disparity it is not surprising that the Department for Work and Pensions (DWP) is signing off an additional 1,000 people every day as not having to look for work. Businesses, meanwhile, struggle to find the staff they need and inevitably press for looser immigration rules.

It is time to recognise that this is a social and economic crisis. But there are plenty of ways it can be addressed. We should ban benefit assessments by 'phone, something that became widespread during the pandemic. We should increase the frequency of benefit assessments instead of reducing them to three to five years, as the government has just done.

Most of all, we should remove moderate anxiety and depression as a way to qualify for benefits. The doctors I met when I was health secretary said that social contact is vital for people with mental illness. Parking them on benefits does the opposite, often making their conditions worse.

Far cheaper – and better for the individuals – would be to guarantee rapid access to NHS talking therapies, which have a high success rate. We should also overhaul the way the DWP itself works. There should be a fixed budget for welfare, just as there is for the NHS and defence. Local authorities, already responsible for housing and social care, should play an active role in the job-search process, and be given a share of any savings made from getting people off welfare and into work.

If we got the working age benefit bill back to pre-pandemic levels, it would save £58 billion a year within five years, even accounting for inflation. Replacing the pensions triple lock with an inflation guarantee, which I also support, releases less, although still £5 billion a year.

For now, working age benefits should be the focus. A determined effort on welfare reform would be more than enough to raise the extra £12 billion a year necessary to raise defence spending from the government's current plans to 3% of GDP by 2030. It would easily cover the £28 billion shortfall in funding over the next four years. And it would allow significant extra investment in NHS mental health provision.

For the chancellor, there is an even more important upside. Getting more people into work is one of the best things for growth. Around 75% of working-age adults are in work in the UK, but in countries like Sweden, the Netherlands and Switzerland it is closer to 80%. If we matched their average, GDP would increase by as much as 4%. That means massively more tax revenues, not just for defence but for public services, including the NHS.

Getting there will not be easy. The government obviously needs to learn the lessons from its welfare debacle last year. Welfare claimants are some of the most vulnerable people in the country, so any changes should proceed with great care. But we should also recognise that human beings are far more likely to flourish when they are helped to stand on their own two feet.

Mel Stride and I made a start in the last parliament but we both recognised there was much more to do. And not just on welfare: the opportunity of AI makes it possible to unlock radical improvements across the board when it comes to public sector productivity, particularly if we overhaul procurement so that government contracts go to brilliant British tech start-ups and not just to large consultancies.

As the world gets more dangerous, governments have more permission from voters to be radical. And in a week of terrible news for Britain's global reputation, there was one silver lining. Meg Hillier, chair of the Treasury select committee – herself a welfare rebel – said that Labour MPs are now willing to accept welfare reform. For the sake of all of us, let's hope she's right.