

Funding the Future

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Stories [abound on the fact that the UK supposedly has state debt of £1 trillion for the first time](#). This however is not true.

Over the last few years the UK has issued debt as shown below totalling about £560 billion. I have based all my data on the [national accounts for the third quarter of 2011](#) unless otherwise noted. It's the borrowing since 2008 that has supposedly given rise to the debt of £1 trillion.

UK net borrowings

Annually per UK government accounts, table A51

Year Net borrowing QE Net

£bn £bn £bn

2005 35,736 - 35,736

2006 35,543 - 35,543

2007 37,182 - 37,182

2008 66,368 - 66,368

2009 147,878 200,000 -52,122

2010 147,686 - 147,686

2011 (to Q3) 89,571 75,000 14,571

Average (6.75 yrs) 42,216

Average borrowing as a proportion of current GDP 2.91%

However, it should be noted that the government has done something else at least as significant. Through the quantitative easing programme the Bank of England has repurchased or will be soon repurchasing near enough £275 billion of that debt (I've shown the last £75 billion as happening in Q3 of 2011 as that's near enough when it was authorised).

Now the Bank of England is owned by the UK government so if, in accounting terms, a consolidated set of accounts were to be prepared the £275bn owed by the Treasury to the Bank of England would simply be crossed out, or ignored. The actual debt would only be £725 billion.

And in this case that would be absolutely the right point of view. There is no hope at all that this debt will ever be sold back into the markets: there's enough new debt to sell to meet all market demand for UK debt without ever re-selling this stuff. So it's absolutely right to say this debt does not exist and should not therefore be in the statistics at all because for all practical purposes it has already been written off. And as important, the interest paid on that £275 billion should not be considered government spending justifying cuts either: that interest is paid straight back to the government.

Then note what this does to the narrative on average borrowing. OK, this data misses quarter 4 of 2011 as the information is not yet available, but over 6.75 years the

average borrowing is near enough just over £42 billion and that's a remarkably consistent sum over time and is only 3% or so of current GDP; and that's within the Maastricht limits, let it be noted.

Nor is there any hint now of this QE causing inflation, all of which can safely be said to have had other causes, not least because as Government accounts also show, [the M3 measure of money supply has fallen steadily since 2009](#), meaning there is no prospect of inflation in the future either as a consequence of this process.

So we have no debt crisis. We just have misinformation about how big the debt is and about how much we're borrowing. Tell the truth, as I have here, and you get a very different picture indeed. And that would also lead to very different economic policies too. Because tell this story and the focus need not be on cuts that we do not need but on growth that we do need. False accounting is forcing the national political agenda in a direction in which it need not go.

It's all a matter of getting the story right and on this occasion it takes an accountant to do that.

So shall we stop all the other nonsense, now and get on with the real issue, which is we have low net borrowing that we can afford, lower interest costs than the government claims and the basis for sustainable recovery already in place. All we need to do is grab the opportunity.