

# Funding the Future

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I was asked this on Twitter last night:

This was my reply:

*That's the wrong question. The government creates all the money it spends. It's a promise to pay.*

*How is it recovered from the economy? By the people who receive it being taxed on it, and those who receive their spending being taxed, and so on.*

*And that way the spend is recovered.*

In other words, a government doesn't go and look in the piggy bank before it promises to pay. It can pay because its promises are always good. And that's because it makes our money. And we accept that fact, because fact it is.

And when it has paid - which payment will accept because it will be in our, state made money - then the question can be asked as to whether or not that new payment needs to be reclaimed by the government from the economy.

There are three ways to reclaim it.

One is quantitative easing, but that's rare.

The second is to promote new borrowing. But let's also be clear that the reason why new borrowing will be possible is because there will be more money in the economy. And the reason why there is more money in the economy is because the government spent it into existence. And so the so-called borrowing will in fact be the redepositing of the money the government spent back with the government, but now it will have become private wealth. So the spending has to precede the borrowing.

And third, the money could be cancelled by way of tax if it is necessary to do so to control inflation. But this is possible because the spend will become someone's income.

And they will be taxed on it. And when they spend the net proceeds after tax the recipient of that spending will also be taxed, and so on, until the tax is recovered. So the spend pays for itself, eventually. But along the way it will create economic growth, redistribute income and wealth in society and reduce hardship. And all by simply letting money flow from the government and back to it, in due course.

That's the miracle of government spending. It transforms lives, the economy and well being. And all because the government simply promises to pay. And we accept its promise because we know it is good for it.

Which is precisely how it pays for everything.