Answering the question 'How are you going to pay for it...

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I wrote this at the time of the 2017 general election. Nothing much has changed since then. The question remains the same today, as does the real answer which almost no-one seems to understand, which is why this is worth repeating, with mild updates:

The most dangerous question in political debate in the UK is the one always rolled out by every journalist, on-air or in other media, which is to ask a politician '*How are you going to pay for it?*' where 'it' is whatever the politician has just proposed to do.

Why is the question dangerous? There are three reasons.

First, it assumes that the government spends other people's money. It doesn't. It spends it's own. That's because it actually creates all money at the end of the day (*even that put into circulation by private banks is done under government licence). And because it creates all money there is technically no limit on the amount it can produce if it so wants.*

Second, this means that the assumption that the government behaves like a household with regard to debt is just wrong. Households can't create their own money out of thin air to repay their debts but governments with their own currency and central bank (as the UK has) can do just that. £435 billion of quantitative easing since 2009 proves this and yet everyone pretends that this has not happened, which is ludicrous. The fact is that governments and households are not the same at all because households may be constrained by the need to repay debt but governments are not.

Third, so long as the creation of government debt keeps pace with inflation and it does not overheat the economy by trying to create more than full employment then government debt is not a problem any more than having money in your pocket is a problem. And that's unsurprising because the money in your pocket is government debt. And all UK government debt is just a giant savings account for those who want an ultra-safe place to deposit their money, and what's wrong with that?

So, what's the answer to the question '*How are you going to pay for it?*' in no more than 100 or so words? Try this:

We're not going to pay for it. We're going to issue debt to pay for it. That's because people like pension funds, the banking system and prudent savers are exceptionally keen to buy that debt. But more than that, government debt is just money. Read what it says on any bank note and you'll realise that is true. And a growing economy needs more money and it's the government's job to create it. So we will. In that case who will pay? You could say it's the people who are queuing up to save with the government who will pay. And we're doing them a favour by letting them do just that.

And if the follow-up question is '*But what about repaying the debt?*' the answer is:

I really think you should look at the history of government debt since 1694. It's grown, a lot, and almost continuously. And very rarely has any, at all, been repaid. And that's a good thing. Because government debt is what underpins the value of our money. So repaying it cancels money. If you don't want money I'm happy to take whatever you wish to donate, but most people see value in cash. And so do I. That's precisely why I don't want to repay government debt. It would cancel the money we all depend on to make our economy work. You may think that's a good idea. I definitely do not.

And then to the bemused comment '*But who pays then?*' which is bound to be the retort the answer is:

As I have explained the government does. It uses its money to pay. That's the money it effectively puts into the economy by creating debt that people want to buy and it's the money that people owe in taxes - which is then the government's money. So the government pays. But if what you're really saying is does this mean more tax the answer is no, it doesn't. It means we will create more debt because the economy needs it. Just to keep pace with inflation we need to create about £50 billion of new debt a year to provide pensioners, banks and other savings institutions with the government debt that they need to keep the economy going. I'm not going to risk a financial crisis by refusing them the debt they need when at the same time I'd also be creating unemployment, harming those in need, be denying health care and would undermine education as well as the security and the safety of our country. Thanks very much, but I'll keep the bankers and financiers of this country happy by creating the debt they need and by providing public services all at the same time.

And if you want a slogan then it's '*Government debt meets everyone's needs*'.

Has anything changed in 2020? Not much, to be honest. I would add three things.

The first is that people are still queuing up to but government debt. As recent comments from bond traders on this blog suggested, there is a massive shortage of those bonds right now, and so any amount of debt could be sold at present. That's hardly surprising given the state of stock markets.

Second, if that changes (and it might, I accept that fact) we now know the Bank of England is willing to do direct monetary funding (DMF) of government spending, which simply means it does, in effect, provide the government with an overdraft even if that's technically wrapped up in bond issues made straight to the Bank of England.

And third, we're in exceptional times: there is going to be a massive shortage of tax revenue right now and unless you want people to starve or die, or both, then borrowing and money creation will have to happen.

But I go back to the point I made in 2017: that is just new money. That's all. And it does not need to be repaid. Not now, or ever. It's simply the money we will need to get through the crisis and it's not a real debt to anyone because the government can always keep it under control using quantitative easing if it needs to.

This crisis is going to be paid for with government money. That's it. And it's time we all got our heads around that fact.