

How the government can afford its promise to pay

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In a [previous video](#) I have explained that for fifty years all that has given money its value is the government's promise to pay. This promise is honoured by the government accepting the money it creates in settlement of the tax that people owe. But how can anyone be sure that the promise will work? The answer is provided by what is called the multiplier effect.

When the government spends the money does not disappear into a black hole. Instead it becomes someone else's income. They pay tax on that, and then usually spend what they've got left.

That process is repeated by the next person who gets some of proceeds of the money that the government spent, and then the next person does the same, and each time some tax is paid.

The result is that when the government creates money to spend it can pretty much guarantee that in a well controlled economy it will get its money back in tax. And that multiplier effect is what gives that money its value. This video explains that process.

<https://youtu.be/cqFY6Bp1mgM>

There is more [on the multiplier effect here](#).