

Funding the Future

Article URL

Published: January 12, 2026, 5:19 pm

I have posted [this thread on the merits of having a national debt](#) on Twitter this morning:

It is often said that if the government borrows we, as a generation, will leave debt for our grandchildren to repay. This, however, is wrong. The belief is based on a number of falsehoods, which are compounded to create a myth that both facts and history contradict. A thread....

The first falsehood is that governments and households are like each other when it comes to economics, or much else. They are not.

Households use government-created money to record their income, spending, borrowing and repayment. That's good news: the economy depends on us having a single currency.

But, the problem for any household is that to spend and repay any borrowing it has to create income in a currency it does not control. In other words, it has to work for it.

The household that passes on debt might, in other words, demand that a future generation work to repay the debt a past generation incurred, which is why the law protects people in most cases from having to do so.

Governments aren't like this. That's because they also use government created money to record their income, spending, borrowing and repayment. It's not hard to spot the difference. The government uses the money it creates. Households use money someone else creates.

There is another difference between households and governments. Households cannot tax, and governments can.

Then let me add another couple more differences. One is that the government has its own bank - the Bank of England (BoE). Like all banks, the BoE can create money by

lending. But unlike other banks, it can just create money itself. No other bank can do that.

And the other difference? That is that, unlike the average household, people queue up to place money on deposit with the government.

By convention, we call these deposited funds government borrowing, but just for the record every time you pay money into a bank you make a loan to that bank meaning that all the money in every bank deposit account is a loan to a bank.

However, we don't call bank deposit accounts on the balance sheet of a bank 'loans'. We call them deposit accounts, whilst recognising that the money is owed back to the people who've deposited the money.

We should do exactly the same thing for governments. We should call the money held on deposit with the government by savers (which is a precise and accurate description of what government 'borrowing' is) government deposit accounts.

Now of course banks must be capable of repaying the bank deposit accounts held with them. To make sure that they can we put a mass of regulation in place. But they can still fail, as 2008 proved, and savers have long memories.

That's why savers like saving with the government. They know the government can never fail to repay the money it owes, because it alone can always create the money required to make a repayment. Everyone relying on the government deposit guarantee scheme implicitly knows this.

This brings me to another point about those supposed borrowings by the government which should really be called deposit accounts. Just ask yourself a simple question, which is how can the government borrow the money it has itself created?

This question is almost never asked, but it's important. I need to explain one thing before answering this question. That is that the government does not need to have money in its bank - the BoE - before it spends anything.

Imagine for a moment that you had your own bank and that literally everyone in the country wanted the money you alone can create. It would pretty quickly become obvious to you that you could just spend in that case, whether there was money in the bank, or not.

Now, of course wise politicians have realised that to do this without limit would be reckless: mad, even. Keep doing it a lot and confidence in a currency would collapse. That's precisely why it does not happen. But let's say what happens instead.

When the government wants to spend the Bank of England will always (because the law requires it to) pay whatever it is told to do. It does not check the balance on the

government's bank account with it first. It simply creates an overdraft, if need be.

This is not a problem for two reasons. First, that's because tax comes in pretty regularly, especially in a country like the UK where most people pay their taxes. Those taxes then help clear the government overdraft at the BoE.

I stress, those taxes do not pay for government spending. What they do is clear the overdraft created by the spending, which is something that is economically and politically quite different. Tax controls the overall money supply and inflation. It doesn't fund spending.

But if tax coming in does not clear the government overdraft at the BoE then the Treasury can issue new savings accounts to make up the difference. These can be very short-term accounts, for a few days, long-term ones for 70 years, or new premium bonds. They all do the same job.

And where does the money come from to provide those new savings? It came from the money the government has already spent into the economy, using its overdraft at the BoE, which it has not then claimed back in tax.

In other words, the new money now saved with the government was actually created by it, and now the government is paying interest (generously) to those who have no current use for it. This is how deposits with the government, commonly described as its borrowing, are created.

Of course, it need not offer these savings accounts. It can, quite legally, run an overdraft at the BoE instead, and pay no interest on that, because it owns the BoE, after all. But it does not usually do that. It provides savings accounts - or supposedly borrows - instead. Why?

Four reasons. First, because people need safe places to save, and there is nowhere safer than the government because it alone can always repay bank deposits placed with it. The government is then the ultimate safe place to save, and the country needs that facility.

Second, the government wants to control inflation and just as tax does that so too does taking money out of circulation by locking it up in safe bank deposit accounts held with the government also achieve that goal. So, these accounts play an important macroeconomic role.

Third, the City of London really could not function without this debt being in existence. Government debt is now integral to the way the money markets work, and a lot of banking would fail without the security it provides to those markets.

Fourth, and vitally, the money the government injects into the economy to fund its spending which eventually comes back as government deposits (or borrowing, if you

are still insisting on calling it that) is a key part of our money supply.

Only the government can create money at will in the UK. Look at a banknote as evidence of that. However, commercial banks can also create money, but only by lending money to people.

Literally, every bank loan creates new money. No existing money is ever lent by a bank. Banks do not lend depositors' money to other people. Each bank loan is a mutual promise to pay from bank to customer and vice versa that creates new money as a result.

These loans then create new bank deposits - because every loan has to be deposited in a bank account. Just as government spending creates new taxes paid and government deposits received, new commercial bank loans create new bank deposits. That's how money works.

But, there is a problem with relying on commercial banks to create all new money the economy needs. They stop lending in downturns. People also try to repay loans and so cancel the money that loan created when times are tough.

What that means is that just at the time when the economy might need new money commercial banks try to stop making it. We are going to be there very soon.

Just as inflation will demand more money in existence, simply because it's worth less, recession will mean bank lending will become rare, meaning this source of new money will dry up. So the government will need to create more new money instead.

I stress, this means it will need to create more new money that is neither taxed back or deposited back. That money should instead be left out there in the economy for use to keep people, businesses, schools, hospitals and other services afloat.

This is what quantitative easing does, in a pretty roundabout and obscure way. It just creates new money, which the government records as debt, because it is of course a promise to pay (as is printed on banknotes). But it is just money in reality.

Or, to be bolder, it's the money that will keep our society just about going and just about hanging in as we work out the way to deal with the mess that decades of economic mismanagement from Thatcher onwards has created.

But to come back to so-called government borrowing, which is where this began, we now have two types to consider. One is safe deposit accounts that are essential to the smooth functioning of the economy. Why do we want to be rid of them? Please tell me how that will help.

The other is new money, which is technically part of the national debt, but which is, once more, just like the £80 billion or so of notes and coin already in existence that are

also part of that national debt, fundamental to making our economy work.

The national debt has existed since 1694 precisely because it does make our economy work. By under-taxing the economy grows faster. By deposit taking the government provides essential security. And the national debt creates our money supply.

So when people say they want to repay the national debt there are three questions for them to answer. One is, why do you want the economy to slow down, because this is what repaying the debt will do by taking spending power out of the economy?

Second, why do you want to make our savings and the whole of the City of London much less secure by denying us the chance to save with the government? Do you really want people to lose their money instead?

Third, if you don't want the government to create our money supply, which is what the national debt is, who do you think should do it instead, remembering that Bitcoin and other crypto have worked so well?

I stress, not everything about our current structure of national debt is perfect, but the reality is that we can't do without it because savers want it. What is more, the luckiest grandchildren will inherit some of it.

But even that is not a particular problem. As the national debt has almost never gone down, and is very unlikely to do so, the grandchildren who are fortunate enough to inherit the national debt will not have to be repaid by those who don't.

So, in that case what is this obsession with the national debt all about, when it is fundamental to keeping the good things about the economy we have (and there are some) going? And why do people want to get rid of something so useful? I am genuinely baffled.

That is most especially the case when to get through the coming winter with households, business and public services intact we are going to need £150 billion or more new QE-created money which will be described as debt.

You decide then. Do we want people, businesses and services to survive or do we want to stop the growth in debt? It's really not hard to answer that, is it? But I stress, that how the debt is used matters too, and we need spending and not tax cuts. Truss has to get that right. ENDS

PS If in doubt about the merits of leaving the national debt to the grandchildren please read the novels of Jane Austen and Anthony Trollope: we have been doing this for a long time and the wealthy seem to think it a really good thing to do, and there must be a reason for that.

PPS This thread is dedicated to @marinapurkiss who has to deal with @thejeremyvine's obsession with this issue more often than I do: I hope Jeremy reads it.