

Tackling the nonsense talked about the national debt, a...

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I wrote this Twitter thread today to respond to the drivel being put out by the Tories on wrong- footing Labour on the national debt, which neither party seems to understand.

The Telegraph is saying the Tories are going to change the UK's fiscal rules to catch Labour out in the run-up to the general election. This is because they think that we're all terrified of the national debt. We shouldn't be, and what they're proposing is bonkers. A thread...

First of all, although the government claims that the national debt is nearly £2.7 trillion, it isn't. It's actually only a bit over £1.6 trillion. The rest is created by what I think to be false accounting. [I explain why and what this means here.](#)

I stress that I say that £1 trillion of the national debt does not exist either because a) the government owns it, and you can't owe yourself money, or b) it isn't on the Bank of England's balance sheet, despite which the Office for National Statistics claims it is, or c) this supposed debt is new money created by the government during the 2008 and 2020 economic crises, and that new money should not and cannot be counted as debt. So, the accounting really is wrong. But our politicians really do not understand that.

Nor come to that do most economists. The two things in life that they really don't understand are money and taxes - which almost never feature properly in their economic models or teaching as a result. No wonder they get all their forecasts wrong.

Nor should we worry about the remaining national debt of £1.6 trillion because that debt plays an essential role in the UK economy. It's our money supply, the basis of our pension savings, and it's crucial to the functioning of the City of London and our international trade.

What is more, it's also fundamental to our wealth. Just recall that in Jane Austen's 'Pride and Prejudice, ' Mrs Bennett could appraise the value of potential sons-in-law based on

their holdings in the so-called 4 per cent's. They were part of the national debt.

Jane Austen knew at the beginning of the nineteenth century what we have forgotten since then, which is that the national debt represents the private wealth of the country saved with the government, which is the safest institution to deposit money with because they never go bust.

So, the obsession with the national debt is crazy. It's a great thing. The only three things wrong with the national debt are 1) the government falsely states how much we owe 2) the government claims it's a problem when it isn't and 3) they overstate the cost of it.

I've already corrected the overstatement. If Labour were wise, they would demand that the Office for National Statistics change its basis of accounting for the national debt when they're in office. Then we'd end this false obsession, and the need for austerity would go away.

So, let me turn instead to the supposed cost of the national debt. According to the Office for National Statistics, this cost has been just under £100 billion for each of the last two years. Of that, more than half is supposed interest due on what are called index-linked bonds.

Index-linked bonds actually only pay quite small amounts of interest each year. But, the amount repayable in these bonds goes up if there is inflation in a year, which in the past two years there has been.

The Office for National Statistics treats this extra cost of repayment as interest, so the supposed interest cost of these bonds - which are about 1/4 of the UK national debt - has been high. More than £50 billion a year, supposedly.

Except, that is not true because the average index-linked bond is not repayable for around 15 years and this inflation-linked payment is only due when the bond is repaid at the end of its life. But if you believe the government, this money is being paid out now. Except it is not.

What is more, they say the full cost must be accounted for now, but I challenge that in accounting terms: this is not an interest cost. It is an increase in the cost of repaying this debt, and that should not be accounted for in one go, but in instalments.

Those instalments should logically be spread over the remaining life of the bond. Given that this overstated cost has been £50bn a year for the last two years the impact of this is massive. The actual cost should have been no more than about £10 billion in the last year.

So, the cost of the already overstated national debt is also overstated - by maybe £40 billion a year. And the reason why the UK's national debt is also rising so fast compared

to other countries is that this overstated cost is being added to the national debt each year.

So, over the last two years, about £80 billion has been added to the national debt to represent interest costs not payable for about 15 years where that cost should actually have been spread over those 15 years.

It's very hard to make up accounting misrepresentation of reality on this scale. But it's happening.

Now, one final thing. For reasons that are utterly bizarre, the UK government pays the UK's commercial banks interest on new money that the government creates and spends into issue via those banks, even though they do nothing to earn those interest payments.

The interest payments in question are around £40 billion a year. We could cut this by a) cutting the Bank of England interest rate (which is necessary anyway to prevent an economic crash) and b) not paying interest on some or all of this new money the government has created.

There is no legal reason to pay interest on these balances the banks have with the Bank of England. None was paid until 2006. The European Central Bank and Bank of Japan do not pay on all their balances of this sort. We can change our rules, without even changing the law.

Simply changing the rules on this issue could save £25 billion or more a year. That's enough to pay what Labour thinks a Green New Deal would cost a year. Literally, that's solved the problem of paying for that.

But instead of getting our accounting for interest payments and debt right, we have a national obsession with imposing austerity and destroying our schools, the NHS, and other public services instead.

What would you prefer? Honest accounting and having money available for public services, or the current situation where politicians talk gibberish whilst running around like headless chickens and bankers laugh themselves all the way to their own banks? It's not hard, is it?