

The sectoral balances show that the government has very..

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I have posted a video this morning in which I argue that when the government discusses what it calls national debt, it forgets something really important - that if it supposedly owes money, there must be someone it owes to. Those people it might owe it to are either households, businesses, or people from overseas saving in sterling in the UK. And if all those three groups decide to save - as they often do - then the government has no choice but to borrow. And that means the government can talk about the national debt as much as it likes, but in reality it has very little practical control over how big it is.

<https://www.youtube.com/watch?v=ZFt7A8FBDcA>

The transcript is:

If you believed our politicians, you would think the government's books never balance. Let me promise you, the economy always balances.

The evidence of this comes from a theory called sectoral balances. Sectoral balances explain how the economy works by reducing our understanding of it to just four groups of people.

There's the government, there's households, there's businesses, and there's the overseas sector. That is everyone else in the world who's not in the UK right now, but who does use sterling.

The critical point of what we're talking about is sterling. The balances of sterling.

Of course, if you were in France, you'd be talking about the balances in euros. And if you were in the US, it'd be in dollars. But I'm talking about the UK, and this is the balances in sterling.

Now, when we're talking about sterling, if the government borrows money, somebody has to lend it to it.

If households save, they must have somebody who they can save it with.

If businesses borrow, they must have somebody they can borrow it from.

If the overseas sector saves in the UK, they must have somebody who wants to use that money.

It is not possible to have a saver without a borrower. That is the fundamental point that the sectoral balance analysis depends upon. You can't have a borrower without a saver. Now I know that challenges some modern theories of banking, but in aggregate terms, this is true.

If we look at the macroeconomy rather than the microeconomy, this theory holds true. Every single saving in the macroeconomy must be matched by somebody who borrows. So if the government says it wants to run a surplus - and quite a lot of political parties do these days - what they mean is they want to save, and necessarily, somebody else in the economy must borrow.

Now, usually, when they forecast that this situation will happen, they forecast that households will borrow to match the government's savings, i.e. the surplus the government makes is matched by a deficit in households because they have to borrow.

Companies, by and large, actually run themselves around neutral, most of the time in the UK. They neither really net borrow or save very much. They, broadly speaking, reinvest what they earn.

And the overseas sector has for decades saved in the UK. In other words, because the City of London is a hub for international money, it tends to be saved here. So there's lots of foreign money saved in sterling.

Now, if lots of foreigners want to save in sterling, and households by and large want to save in sterling, and companies quite often do save in sterling, the inevitable consequence is that the government has to borrow, because you can't have all three of those groups in society deciding they'll save without there inevitably being a borrower somewhere.

And that borrower, in that situation, can only be the government.

Now, the critical point about this is, and it's absolutely critical - I cannot emphasize that enough - that means that the government is not in control of its deficit. It can't be because the decision over whether it has a deficit or not is actually made by households, businesses, and the overseas sector deciding whether they're going to save or borrow, and by and large, they're inclined to save.

If they save, the government borrows, it must run a deficit, and there is nothing the government can do about it. End of story. Finished.

The government cannot control how much it borrows from year to year. It can't repay the national debt if people don't want it back - savers don't want to be repaid - and it has nothing it can do to change that because the decision is not theirs to make.

They are the person who has to borrow when everybody else saves. There is literally no other choice. So all this nonsense that politicians talk about, that they're going to repay the debt or anything else - it is total nonsense. They can't make those decisions. It's not within their power to do so.

PS: If you're wondering why I did not include a sectoral balances chart it was because I thought it was too much in the time available. Comment on whether others agree with that would be welcome.