

Why we have a national debt

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I posted this video on YouTube this morning:

<https://youtu.be/M2kVowF2HyA?si=f6TaeKdQ-RDGfWjU>

The transcript is as follows:

We really need a national debt in the UK. If you listen to our politicians, you wouldn't believe that. They talk about the national debt as if it is some sort of curse that we must get rid of. And that is so untrue, it is ridiculous.

Now let me explain why I think we need a national debt. Firstly, as I've explained already in another video, when the government spends, it creates new money.

Then it has to collect that money back to prevent inflation. And that's what taxation does in the main. It cancels the impact of the new money creation that the government does whenever it spends by literally bringing that money back in by way of taxation. But it doesn't always want to cancel all the money it's created.

In fact, most of the time it won't, because either there's been inflation - it's modest, but nonetheless real - and it therefore needs to leave more money in the economy so that there is more liquidity in that economy to make sure that there is enough money to go around - or it wants to stimulate the economy by literally spending a bit more than it collects by tax.

But that means there is that extra money in the economy and ultimately that won't be spent because the first person who gets the money clearly will benefit from it, pay their taxes on it, and then spend it. Whether that's on employees, whether that's on expenses for their business, or if it's an individual, on literally keeping their household going.

Then the next recipient will receive the money, pay the taxes, and then spend, and so on, until somebody, somewhere down the line – it doesn't matter how far they are down the line – somebody, somewhere, will save.

Now, what's the role of the national debt? It's actually there to mop up those savings in exactly the same way as tax is necessary to mop up cash in the economy to make sure there isn't too much inflation.

We need to have a growing national debt if the government runs a deficit to mop up the excess cash that ultimately is going to be saved as a consequence of that excess spending that the government has chosen to make. That's why the government has to make available savings facilities to people so that they can return that money to it to effectively balance the equation with regard to the issue of new money.

So the national debt plays an essential role in managing the money supply, but it does some other things as well.

In particular, the national debt is largely made up of government bonds. Now there's nothing secret about government bonds, they are simply deposit accounts issued by the government for fixed periods of time.

So - one year, three years, five years, 30 years, 70 years even - with a fixed interest rate over that period, and then they are repaid, normally, by issuing another bond to replace the old one.

But the point about the national debt is that it provides a very safe way of saving for large companies. You and I, if we put our money into a bank account, we get a guarantee from the government that £85,000 that we deposit with any one bank will be guaranteed to be repaid even if that bank fails.

But if you're a large company who wants to put a billion pounds into a bank, that guarantee isn't worth a lot. £85,000 is, well, peanuts compared to the amount they've got on deposit. And we have known since 2008 that banks can now fail, because they did in that year, as part of the Global Financial Crisis.

So how do money markets work instead? The large companies who want to save buy government bonds from banks, and then they sell them backwards and forwards, in what is called a repo market. But the government bonds provide the security for that. Literally. The City of London couldn't operate without government bonds being in existence.

And there's another fundamental reason why we need government bonds. About a quarter of the bonds really in issue in the UK are held by overseas governments, or overseas companies who want to hold sterling to facilitate trade. So, we need them to have that account here, and we need bonds to make that possible.

Finally, every single private pension in the UK is ultimately underpinned by the existence of government bonds which are the only guaranteed income stream which will exist for the remainder of a person's life once they reach retirement age.

Those are essential parts of the UK economy that government debt through government bonds facilitates.

We couldn't do without them.

We need a national debt.

When our politicians say it's got to be repaid, they're talking nonsense. Because nobody - nobody with any sense at all - nobody who knows anything about economics at all - nobody who knows how the city of London works at all, would ever want that to happen.

So I just wish they'd stop talking that nonsense, and talk about the reality - that we need a national debt, and thank God we've got one.