

Governments don't borrow from financial markets

<https://www.taxresearch.org.uk/Blog/2024/08/02/governments-dont-borrow-from-financial-markets>

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This morning's Economic Truths video is now out. In it, I argue that the obsession with the UK's national debt is absurd.

The UK government has no need to ever borrow money. It can create all the money it wants, when it wants, from the Bank of England. The reality is that the City is desperate to save its excess funds – created by government spending more than the sums it reclaims in taxation – with the government because the government alone can always guarantee to repay funds saved with it.

But that's not borrowing. That's the government offering savings facilities as a favour to the City.

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

The audio version of this video is here:

https://www.podbean.com/player-v2/?i=zgevd-168a1f6-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=8bbb4e&font-color=auto&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

Governments do not borrow from financial markets.

I know that everybody thinks they do. I know that Chancellors of the Exchequer say they've got to keep the City of London happy, and they've got to constrain borrowing

because the markets might not give them the money that they require. I know all this nonsense is talked about all the time and the national debt is discussed as if it is going to bring doom to us all. And it's all a load of utter nonsense.

Let me explain why. I have already explained in another video that the government creates the money that it spends. Every day, so long as there is a legal budget, the government can tell the Bank of England to spend whatever money the government requires, and the Bank of England has no choice but to extend the government's overdraft to put that money into circulation to pay for whatever the government wants.

That is a matter of fact.

Taxpayers do not fund that process.

Tax exists to reclaim the money that the government puts into circulation.

But also, as a matter of fact, the government sometimes decides, for its own very good reasons, that it does not wish to reclaim all the money that it has put into circulation in the economy, but wants to leave some out there in use.

Why does it do that? Well, first of all, because it wants its money to be used, and we want its money to be available to us to use, let's be honest. We'd have a pretty poor economy without government-backed money in circulation, so it has to do that.

And secondly, it might not want to reclaim all the money that it has put into circulation because it wishes to provide a fiscal boost to the economy. If it spends more into the economy than it taxes back, it increases the amount of economic activity in the economy, it delivers growth, and we're all feeling happier as a result.

So, for those two reasons, it won't always tax back all the money that it spends into the economy.

But remember, spending always comes first in this process. It has to. If the government didn't spend money into existence in the first place, there would be no money to pay tax with, and if the government spends but doesn't claim all the money that it has created back by way of tax, it's left out there in the economy, and eventually somebody won't spend it.

Of course, most people will. Most people spend most of what they get in terms of income. But some people save, and when they save, they want to put it in a safe place. They could put it into stocks and shares. They could put it into their commercial bank account, or, and this is incredibly common, they will entrust it to a pension fund.

Pension funds hold more money than anyone else in the UK. Over six trillion pounds of money is deposited in our pension funds. Now, pension funds have a diversified portfolio that they put their money into. Some they put into shares, some they put into

property, some they hold in cash. But quite a large part of the money that is held by pension funds also goes into government bonds.

Government bonds are quite simply savings accounts created by the government where somebody puts their money in on a certain date and is guaranteed to get a repayment 1 year later, 2 years later, 5 years later, 30 years later, up to 70 years later. All of those are possible. The point is that somebody wishes to place their money away securely, knowing that one day in the future, they will want it back.

And the person who is best able to guarantee repayment in the whole of the UK economy is the government. Why is that? Because the government can always create more money to make repayment and nobody else has that ability if it comes down to repayment of their own debt. Even a bank can't do that.

So, the government is the safest place to save, and that is precisely why pension funds, and also life assurance funds because they too have fixed commitments to make repayments in very many cases, will save significant sums with the government because of that guarantee that repayment can be made.

So, what are the sums deposited with the government that we call the national debt? Are they government borrowing?

Why would it have to borrow? Think about it. The government can create all the money that it needs whenever it wants by asking the Bank of England to create it. So why does it need to borrow from somebody other than the Bank of England, which is its own personal bank? It doesn't need to borrow from anybody else.

And we know that's true because the government did, of course, borrow from the Bank of England after the global financial crisis. That's what the quantitative easing process did. And it did it again during COVID, a total of £900 odd billion. So, it doesn't need to borrow from the City of London as a matter of fact. But it is quite willing to take the deposits from the City of London that they want to put somewhere very safe.

Our supposed national debt is then not a debt at all. It's actually a bank deposit account, in effect. The government is running a banking and savings system for the City of London, where it lets these people place their money with the government for safekeeping, guaranteeing that it will be returned at some fixed date in the future, with interest being paid in the meantime, admittedly at a lower rate than anybody else pays. But that's because there's no risk associated with this savings account.

So, let's stop all this nonsense about, "we are dependent upon the City to provide finance". No, the City is dependent upon the government to provide it with a savings opportunity.

And why does the City need to save? The City needs to save because the government

has created more money than it has claimed back through taxation.

In other words, this sum that returns to the government was created by government spending in the first place. The deposit that is saved with the government was, in fact, created by the government.

So, there is no crisis and never can be a crisis about government borrowing when the government is simply providing a safe place for deposit for those who are holding the money that the government has created until the time comes - if the time comes when the time comes, and it may never - that the government decides to tax that money back.

It's a very different view of how the economy works, but it has a great advantage. It's the truth.