

The government can never run out of money

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In this morning's video I note that politicians, commentators and journalists all like to claim that the UK government could run out of money, but that is total nonsense. The UK government can always create the money it needs to pay its debts. It is the one and only organisation in the UK that can never, as a result, run out of money.

https://www.youtube.com/watch?v=2m3BXdkDJYI?si=W_AC4Uj65WGosarU

The audio version is here:

https://www.podbean.com/player-v2/?i=62kv8-16a6949-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=8bbb4e&font-color=auto&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

The government can never run out of money. That is a simple, straightforward statement of economic fact, which is not the easiest thing to say on video, as we've just discovered having recorded it about five times.

Why is that statement true though? Because, if you listened to commentators, politicians and most of our Chancellors of the Exchequer, you would believe what Liam Byrne wrote in a note when he was the outgoing Chief Secretary to the Treasury in 2010 to his successor, that there was no money left in the Treasury.

But that is technically impossible. The reason why is, of course, that the Treasury makes the stuff. Literally all of the money that we have.

The government creates money through its spending and it does so by going to the Bank of England and saying Parliament has approved that we spend money on whatever it might be: pensions, teachers' pay, a new power system, whatever, and as a consequence please will you make a payment for us to whoever it might be. And the Bank of England is required by law, so long as that payment has been approved by Parliament, to make payment of the sum in question.

It doesn't look into the bank account that the government holds with it to say, there's no money there today. Instead, it just settles up. And in the process, it extends a loan to the government, and like every loan made by every bank to every single customer, new money is created as a consequence.

But this new money is of a very particular type. It's government created money. This is the money that can eventually form part of the national debt.

And by forming part of the national debt, it forms part of the national money supply. But there is no limit on the amount of that money that the government can create, if Parliament has approved a budget. And Parliament has never not approved a budget for a majority UK government. So, any government that's in power has, by definition, always had its budgets passed and therefore there is no limit on the amount of cash, money, whatever you wish to call it, that it can create. And if there is no limit on the amount of money that a government can create, how can we say that a government can run out of money?

By definition it can't. So, somebody somewhere is not telling the truth. And the people who are not telling the truth are those Chancellors, MPs, other politicians, prime ministers, journalists, economic commentators and others who say that the government could run out of money.

No, it won't. It never can, and it never will in the case of the UK.

It could run out of money to make settlement of debts owing in a currency other than sterling. But let's be clear, the UK government doesn't incur debts in currency other than sterling. It always pays in sterling and therefore that's also not a problem.

So let's not pretend it is. It could see the value of the pound fall against the value of other currencies and that has happened most spectacularly after Brexit, of course.

But there wasn't a threat to the ability of the government to pay.

And, unless we have a total breakdown of good government and good governance in the UK, which nobody thinks very likely at present, we will not replicate the experience of those places where there has been a complete breakdown in the ability of a

government to create money of any value.

Therefore, the UK government will always be able to pay its debts. And anybody who says otherwise has a completely different agenda. What they're really saying is they don't want the government to spend money. Now they should be honest about that. Instead of pretending that there is no money left, they should be honest and say they don't want to spend.

Now that is something that may be appropriate. They might decide quite genuinely that they do not think a proposed plan for expenditure is in the interest of the people of this country. And that's what political choice is all about. And that's a fair thing to say. But to pretend they can't spend because there is no money to make the payment is wrong. The UK government can always pay for whatever it wants if it thinks it is the right thing to do. And it can always pay its debts because it can always create the money to make the settlement.

So, let's stop the nonsense that says the UK government could ever run out of money and has not got access to the money it needs to make payment for whatever it is that it wants. Because both those claims are completely untrue.