

Government surpluses don't create cash piles waiting ...

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The idea that government surpluses are good because they create piles of cash waiting to be spent in the event of a national emergency is absurd. All money paid in tax is cancelled on receipt by the government. So, all government surpluses actually do is reduce the amount of cash in the private sector economy.

<https://www.youtube.com/watch?v=9Mts0WSUkhs?si=WYGB0bM1MTJSozl1>

The audio version of this video is here:

https://www.podbean.com/player-v2/?i=f4r3i-16f4731-pb&from=pb6admin&s hare=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

A government surplus doesn't mean that a government that collects more by way of tax than it spends into the economy is, as a result, sitting on an enormous pile of cash that it might be able to spend in the future. I hate to tell this to people who think that is the case, but it's simply not true.

And why am I saying this, anyway, because government surpluses are things that, in the UK, we are completely unfamiliar with? Well, that's because, just over the Irish Sea, the Irish government is, at present, running a significant government surplus.

Now, partly that's because there are a very large number of multinational corporations who headquarter their operations in Europe, in that country and record their income there, and as a consequence pay a considerable amount of tax in that country which is not really earned there. So, the Irish economy is totally distorted by the presence of these companies who are essentially tax avoiding in the Irish tax haven, which I've criticised for a very long time.

But, there's more to it than that. The consequence is that Ireland is actually in something of a mess. There is obvious massive poverty, whilst there is also obvious massive surplus income amongst those who are fuelling the needs of these multinational corporations who are locating their activities in Ireland, and there is hyperactivity around the Irish Financial Services Centre in Dublin, yet across the country as a whole, young people can't find homes.

The cost of renting has gone through the roof. There are many people who are simply and straightforwardly homeless as a consequence. Poverty is growing, inequality is rising, social stress is significant, the political system is under enormous pressure because of the desperate attempts of the current coalition government to keep Sinn Fein out of power, and onwards and onwards. Ireland is not an example that we would really like to copy, from being a tax haven and everything else.

But let's go back to that point about the surplus. People in Ireland seem to think that this means that there is a pile of cash for the government to spend. And certainly, when we hear people talking about the need to cut the government deficit and the government's debt in the UK, the impression given is that this would result in the UK government sitting on a significant pile of cash which it could use as the proverbial rainy day fund to cover for any other future unforeseen eventuality like Covid all over again, which is a complete possibility. And that's not true.

The problem with the claim that people are making about government surpluses is that they assume that governments are like households and companies. And they're not. They're nothing like households and companies because for a household and for a company, money is something external to them.

In other words, they have to earn it.

They can't create it.

They don't have their own bank.

They can spend it only if they've got it or they have an agreed overdraft limit with their bank.

But for governments, that is not the case.

Governments, including, by the way, that in Ireland, can create their own money. After

all, every government inside the Eurozone does create its own money, within agreed limits with the European Central Bank. And so, the Irish government can create the money that it is now overtaxing out of the Irish economy. And if it doesn't create it, someone else in the Eurozone will have done, which also permits this over-taxation to take place.

And the point is that they can create tax bills that people have to legally pay even if they have got no direct exchange of goods and services with the government as a consequence.

A tax bill, after all, is not a charge for services rendered, which is what we do to get our income, whether it is to ask our employer to pay us, or whether it is, for the self-employed, to send out a bill for something that we have done. Companies do the same thing. They send out invoices for services they've supplied and goods they've sold.

But that isn't true of tax. Tax is imposed by law, and is collected by governments not to fund their expenditure, because that's already been paid for by government money creation, but is instead used to cancel the consequences of that money creation to prevent inflation.

That's what the Irish government is doing. It's charging tax to cancel the consequences of the creation of money that it has spent into the economy over time. But it's now running a surplus. It's taking more money out of the economy than it alone has created at this point in time.

Now, that doesn't mean to say it didn't make it in the past. Let's ignore that point for the moment but also bear it in mind.

My point is, they are taking money out of the economy. And that's all that tax does. If you run a government surplus, you're taking more money out of the economy. So, the government is not creating a pile of cash that it sits on.

It is reducing the pile of cash that the private sector sits on because whenever the government collects tax revenue, it cancels the money paid. It doesn't then recycle it because banks don't do that. Banks do not take money in and then lend it out again. That's nonsense. That isn't how banking works.

Banking always works on the basis of creating debts and repaying them. And so do governments. They create tax debts and they're repaid in money. And when they're repaid in money, the transaction is complete. There's nothing left. There is no pile of cash. Because the government is not like us, we can run a surplus and see a balance in our bank account. But the government doesn't. The money's gone.

And the point then is that the Irish government is not sitting on a pile of cash as a

consequence of running a surplus. What it is doing is reducing the cash pile of the private sector of the Irish economy. And that's exactly what would happen in the UK if we did the same thing and ran the surplus that so many on the right wing of politics would like us to do so that government debt is reduced.

Do we really need to see the cash in the private sector of the UK economy reduced in this way? Well, there's an argument that for the sake of redistribution of income and wealth, then maybe that should happen. But my argument would be that would be wrong. If we did tax the wealthy and those on high incomes more, we should redistribute it to those on low incomes so that they could spend it. In other words, I do not think it would be wise to simply withdraw that cash from use in the economy.

And why is that? There are two good reasons. One, we have a growing country. Quite literally, the number of people in the UK is rising. I know partly from migration, and some people don't like that. But as a matter of fact, we have got a growing economy in terms of number of people, and indeed in terms of economic activity. Modest, but growing nonetheless.

And we've also got small levels of inflation, which is the second reason why we need more money because if we have inflation, The amount of cash we need to make the transactions within the economy work does, of course, grow. And taking excess private sector money out of the economy, in that case, is bound to cause stress, bound to reduce liquidity, and eventually bound to cause recession, because there won't be enough cash to go around.

That's what running a surplus means for a government. It means squeezing the private sector's access to cash, which will inevitably lead to recession, and will reduce private wealth.

So why is it that so many right-wing economists and so many right-wing politicians want to do that? I wish I knew because it literally makes no economic sense at all.