

Governments can't have black holes, whatever minister...

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Labour ministers have been talking about 'black holes' in the government's finances ever since they got into office, but technically such a thing is an impossibility. Isn't the most basic thing we should expect of them is that they be competent? So, why aren't they?

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This is the transcript;

Governments can't have black holes.

Now, there is a provocative statement for you because every single Labour politician who has been put up in front of a camera since July 5th has claimed that the Labour government has got just such a thing. But what they show as a consequence is their own ignorance.

A government can't have a black hole because what they claim exists as a black hole is a spending commitment which they have no means of funding, and that is nonsense

because the government can never have a spending commitment which it has no means of paying for because all its spending commitments are paid for by the Bank of England creating new money to make settlement of the liability owing that has been approved by the government for payment.

In other words, precisely because the Bank of England is always able to create new money on behalf of the government it can't have a 'black hole'. It is a technical impossibility. They do know how they can fund these payments. They can ask the Bank of England to settle the liabilities owing, and the sum in question could be left outstanding on what I call an overdraft, but which is just a loan facility in effect between the Bank of England and the government. And that's it. That's how the 'black hole' that the Labour Party says it has got could be solved.

Now, what Labour really mean is something quite different. What they mean is at present they haven't identified how they could raise tax revenues to cover this sum, or that they couldn't cover this sum without having to resort to borrowing from the City of London and they haven't set out a plan to do that. But that is something quite different. Not having a current plan as to how to raise the money from the Bank of England doesn't mean you've got a black hole. It just means you haven't done your thinking yet about how you're going to borrow the money when you require it, if you do think you do need to borrow from the City of London to cover the spend that you're going to make.

And not having a plan for taxation to cover your future expenditure costs simply means you need a budget. And that's it.

But there's never been a 'black hole'. There always has been the ability to make payment.

So what does it tell us about the thinking of government ministers who, I presume, genuinely believe that there is such a thing as a 'black hole' in the government's funding?

Well, first of all, it says they're ignorant, and I'm not being rude about them by saying that. They simply don't know, is what I mean by calling them ignorant. Nobody has explained to them that the deficit in question can be covered by the Bank of England, and for the Bank of England to do so is completely legal. So, they go round as a result, talking utter nonsense, maybe in good faith, because they haven't bothered to find out how the government works.

Now, as far as I'm concerned, that's quite worrying because they are, as they're all very proud to note, the right honourable this and the right honourable that, and member for whatever constituency they represent, and they are the government.

But the truth is, they still don't know how it works. And that leads you to doubt their ability on almost anything.

Shouldn't we have training schemes for ministers that require that they do know the basics of government finance?

Shouldn't this be something that every new MP is required to undertake when they enter parliament? And remember, most people who become ministers have been MPs for a while before they do so.

Wouldn't we call this continuing professional development - and let's be honest, as a member of a profession for over 40 years, I was completely familiar with the requirement that as a chartered accountant during that time, I was required to complete continuing professional development every single year of my professional career in that role - but apparently that isn't expected of a minister. They don't need to do that. They can just move into whatever job they are assigned to and know nothing about it.

And this evidence that they're talking about black holes when there are no such things confirms that they really do not know what government does, how it is funded, how it works, how their revenue cycle is managed, and how they need to communicate on all those issues to the members of the public because they're pretending that there's a crisis. And the truth is, there is no crisis. The government's books will balance. They will just balance with a loan from the Bank of England on this occasion. An increase in the money supply of £22 billion - an insignificant amount in the context of the total money supply because it amounts to about 1 per cent of the total sum, and that is not going to have any inflationary impact whatsoever.

So, therefore, there is nothing for them to worry about. They are just making up stories to create a mythology about the reasons why they can't spend, which is untrue.

Now, if they do really understand government finances - which I doubt - but if they did, and they're there making up that mythology, well then things are just as bad, because blatantly they're lying to us.

So we have a choice. What are government ministers? Ignorant or liars? Whichever one it is, this story about the 'black holes' makes those ministers look, well, bluntly really incompetent. And I would like ministers who could talk to me in what we might politely call grown-up terms about the true situation that we face, and the true choices that they have to make, and the true facts about the government's own funding. Because then I could believe in them. But right now, this lot look as though they have no idea what they're doing.