

## Government debt need never be repaid

<https://www.taxresearch.org.uk/Blog/2025/04/06/government-debt-need-never-be-repaid/>

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Time and again, we hear people saying that government debt must be repaid. They are fundamentally wrong. Repaying that debt would create economic nightmares.

<https://www.youtube.com/watch?v=Z9XdiPR169Y?si=9sg4kxrcPHB8NAQK>

This is the audio version:

[https://www.podbean.com/player-v2/?i=bu48u-186fc5d-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo\\_link=episode\\_page&btn-skin=c73a3a](https://www.podbean.com/player-v2/?i=bu48u-186fc5d-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a)

This is the transcript:

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Government debt need never be repaid.

That's not what you hear from the newspapers.

That's not what you hear people say on the television, but what I've just told you is the truth.

Not only does government debt never need to be repaid, meaning that it is never a burden on our grandchildren, which is the favourite phrase of right-wing politicians, but actually repaying it would be an outright disaster.

So let me explain just what government debt is.

Government debt is very simply the difference between the total cumulative spending by government into the economy to date less the total cumulative taxation claimed by the government to date.

It isn't a figure that has arisen in one year. That's the deficit. It is a cumulative total that has arisen over a period of more than 325 years now. And the consequence of that debt is that we have outstanding at this point of time, something in excess of 2 trillion pounds of net difference between total government spending to date and total government taxation to date, meaning that overall we have been undertaxed by more than 2 trillion pounds as a result, which most people would probably think is quite good news.

To put that figure in context, that's roughly speaking a year's total income for the UK that has over the last 300 years not been taxed.

So why would we want to reclaim that money, which is just simply a balance between government income and expenditure and nothing more or less than that?

Well, we might want to reclaim it if we are a really mad enthusiast for taxation who thinks that we must and should reclaim it so that the government's books balance.

That appears to be the position of an awful lot of right-wing MPs. They believe that we are going to hell in a handcart unless we do actually make that cumulative equation balance but that is just stupid. I can't use a nicer term. It just shows a complete lack of understanding on the part of those who are saying this. I could even call it ignorance. I think you're beginning to get my message.

I really do think those who suggest that somehow or other we've got to make good this difference are talking nonsense. And why are they talking nonsense? That's because the money that is left by the government in the economy performs a number of absolutely fundamental roles within it.

Firstly, that money is our money supply. How do I know? Look at a five-pound note. It has written upon it the words 'I promise to pay the bearer on demand the sum of five pounds'. If you go and ask the Bank of England for your five pounds, they'll give you another five-pound note in exchange. There is no value behind that, but if you want to go and offer the Bank of England five pounds to help pay your tax bill, they will very willingly take it because that is what the value of your money is. It can be used to pay your tax, and that's it. And that's what the government debt represents. It's the money that is available to pay tax. It is no more than that.

It is literally the money that's put into circulation, which gets its value because it could be used to pay tax.

So, if we removed the government debt, there would be no government-created money in use to actually pay our tax, which means it would have to come out of our private incomes and be lent to us by our commercial banks with a significant interest charge probably added on top.

There would be no government money supply, which is free of charge.

And we'd all be dependent upon the commercial banks to create our money supply. And they are notoriously unreliable at doing so, particularly in times of recession. So, we need government debt and government money supply to provide the stability to the economy upon which we're all dependent.

But there's a little more to it even than that.

Our private pensions are dependent upon the existence of this government debt, because government debt is represented by bonds issued by the government, and large quantities of those are owned by pension funds to underpin the promise that they make to pay pensioners when they reach old age, because there is nothing more secure than a government bond when it comes to a guarantee to make payment, which is what a pension fund does do to its pensioners. It guarantees to make a payment to them when they retire.

The other industry that is utterly dependent upon this is the life assurance industry. They want to make sure that they have sufficient funds to pay out the claims made against them. They therefore also hold significant values of government bonds to guarantee that process works. They, too, would have enormous difficulties if there wasn't a government debt in existence that they could own in part.

The banking system is in the same situation. It uses government bonds to operate what is called the overnight banking market, the technical details of which I won't go into now, but without the existence of government bonds to facilitate that market then the very large-scale banking operations that are run by the City of London on behalf of the UK's largest companies simply could not work.

So, do we need to repay the government's debts? Yes, if we want to pay a lot more tax entirely voluntarily for absolutely no gain, yes, we do.

If we actually want to remove government created money from circulation and be entirely dependent upon commercial bank created money to ensure that we can manage the economy at significant extra cost and also volatility in the event of a recession so that things might get very worse if there's ever an economic downside, which as we know can happen, then yes, we do.

If we want to destroy the private pensions industry and the private life assurance industry and commercial banking, if you want to do all those things, certainly be in

favour of repaying the government debt.

But if you want the government to create our money, and if you do not want to pay excessive tax, and if you want to have functioning pension funds, life insurance companies and banks, you really, really do not want government debt to be repaid.

So, whenever you hear a politician saying that we must repay the government debt, which is a burden on future generations to come, do ask two things.

First of all, ask them why is it a burden? Because actually repaying it is the burden, its existence is not the burden, because its existence implies that we've been undertaxed, which is normally something those same people are very keen on.

And secondly, ask them, why aren't you arguing that the interest rate on that debt be reduced because it's excessive at moment? Isn't that the real problem? Just cut the interest rate, which the government can do, and then everything would be running just fine.

Then there is no problem with UK government debt. It's absolutely fundamental to the operation of the UK economy. We can't do without it and repaying it would be a nightmare. So please ignore all those who talk about it as if it's a problem, because it really isn't.