

The UK government cannot borrow

<https://www.taxresearch.org.uk/Blog/2025/08/17/the-uk-government-cannot-borrow-and-never-has>

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Politicians tell us the UK is “borrowing too much” and faces a “debt crisis.” That’s wrong. The government creates the pounds it spends, and what’s called “borrowing” is really just it accepting deposits — or savings — from the public and financial markets. It’s time to stop the scare stories and understand the truth.

<https://www.youtube.com/watch?v=kdtRjihVVuM?si=1ZxNvRtxLWtkYBXc>

This is the audio version:

https://www.podbean.com/player-v2/?i=qz7rw-1936d35-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

The UK government cannot borrow.

As a matter of fact, I think that is true. And the vast majority of people will not understand what I’ve just said because they will say, “But the UK government says we have a debt crisis. We are borrowing too much. We may not be able to afford to repay it. So, what the heck am I saying by suggesting that the UK cannot borrow?”

And I’m saying it can’t borrow because the UK government makes all the money that is

deposited with it, and the amount of money that is deposited with it is even chosen by it. As a consequence, it isn't really borrowing at all. It's just offering people a savings facility, and we don't say that banks are borrowing when people deposit money with them, so why are we suggesting that the government borrows when people deposit money with the government?

Now, let me explain this.

The government creates the pound in the UK.

Nobody else can do so. The pound is our currency, and we only have one, and that is the one that the government creates.

It also creates all the UK's base currency. That is, the money that the government puts into circulation, including our notes and coins, that is the underpinning of the entire banking system of the UK.

Now, I know that on top of that base money that the government creates, UK banks do then make their own loans to people and businesses and that those loans also form part of the UK money supply.

But they can only do that because they're licensed by the Bank of England to do it, and in other words, every single pound of money created in the UK is directly or indirectly created under the control of the Bank of England, and so by the UK government, which owns the Bank of England and has done, outright, since 1946.

So, in other words, in this sense, the government is nothing like a household. It has its own bank, and it makes its own money, and it spends it into existence, and the issue is what happens then?

The convention, dating from the gold standard era, which ended in 1971, is that the government should not run an overdraft with the Bank of England.

Now, there were all sorts of technical reasons for that in the gold standard era that frankly do not need to worry us anymore because they're deepest, darkest history and absolutely irrelevant. And in fact, the convention that the government shouldn't borrow

from the Bank of England was ignored until 2006, because until that time, such overdrafts were run. But since then, overdrafts haven't been run between the Bank of England and the government. So for the last 20-odd years, we've been in this new era where the government insists that every day it must borrow whatever sum is required so that the government can clear its overdraft with the Bank of England, even though the overdraft in question is utterly meaningless because the government owns the Bank of England and therefore the fact it runs an overdraft with it is inconsequential. It's merely an accounting entry because the two balances net out with each other.

So we shouldn't be worrying about this, but we are. And as a consequence, the government deliberately plans to take in savings from the financial markets.

I stress the point, it takes in savings from the financial markets to ensure that it clears its overdraft with the Bank of England, and it then pays interest on the deposits that it takes, and they are labelled as government borrowing, which may have been technically true in the gold standard era, but isn't now, because this isn't borrowing out of a restricted money supply; this is borrowing out of the money that the government has created.

And to make that clear, the total amount of base money which the government has created and injected into our financial economy is the net total of its spending over all time, less the tax that it has reclaimed out of that total over all time, and the difference is what is left over, and that is fundamentally what we call the national debt, but it's actually the government money supply.

So, what we actually have is the government taking back by way of deposit the amount that it has already injected into the economy, which eventually ends up through the impact of the multiplier effect with those who can afford to save and want somewhere safe to deposit it.

That's how the system works, and they provide a banking facility to do that.

Now, quite explicitly, they already have one banking facility called National Savings and Investments, in which well over £200 billion is held at any point of time by people like you and me.

But for those who've got a lot more money to deposit, banks, pension funds, insurance companies, overseas governments, and overseas lenders who want to have a safe place to deposit money in sterling that they have available to them, then there is the government bond market.

But it's the same as National Savings and Investments, it's just inside this bond wrapper: that's the only difference.

So, in other words, for everybody, the government is running a savings facility, and it is not begging for funds.

It doesn't need to do that because it made the money in the first place, and it can't borrow back what it created because that money was created by it.

So what we should celebrate is the fact that people trust the government to hold their money, and they do, because it is the safest place to deposit it.

We shouldn't be talking about borrowing as a burden. We should be talking about the fact that the government is providing this incredibly effective financial mechanism to

ensure that our economy works, and we should be celebrating it.

Bar one thing, and, of course, that is that the interest on these deposits goes to those with the most wealth in the UK because they are the people who can save. So there is implicit in the operation of this market, a redistribution of the national income from those with the least to those with the most, facilitated by the government, and policy would suggest that interest payment should be minimised to the greatest possible degree for the reasons of social justice and not because of government affordability.

What we are looking for is a system where it is sufficient for people to get safety for their deposit as an exchange for depositing funds with the government, and that rates do not need to exceed the inflation rate in the UK because people aren't making money by saving with the government, they're simply looking for and getting a safe place to deposit their funds.

So, there are serious policy implications of this fact. If the government doesn't borrow and it doesn't and it can't and it never will because it takes deposits instead, then we need to talk about gilts as state savings products.

We need to look at them as part of a whole range of mechanisms for saving with the state, which might actually improve the use of savings in this country.

We need to manage them so that they, first of all, become a source of productive capital in the UK, and secondly, to reduce inequality by reducing the interest rate paid on them.

But we shouldn't be using them as an excuse to create a fake borrowing limit for the government, which is used to scare people in the country to believe that austerity is necessary, because none of that is true.

The UK government cannot borrow. It creates the pounds that are saved.

What is labelled as debt is savings, put on deposit with the state, and let's stop the pretence and stop the austerity logic.

We should use state capacity for economic and tax justice, and that's what we could do if only we described government borrowing correctly and called it what it really is, which is savings with the government.