

Government debt is private wealth, so why do people wan..

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Every pound of so-called “government debt” is a private financial asset. When the government spends, it creates money that becomes your wealth. Yet politicians pretend debt is a burden. In this video, I explain how our politicians' dangerous ignorance about the real nature of government debt drives austerity, destroys prosperity, and keeps Britain poor.

https://www.youtube.com/watch?v=lixZeo_jn-k?si=CFuBoz0cdwrQEBcZ

This is the audio version:

https://www.podbean.com/player-v2/?i=mx2bj-19999c2-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:

There's a simple truth in our economy that is almost never acknowledged by any politician ever, and that is that every single pound of what they call government debt is a private financial asset. In other words, every time the government increases its debt, the private sector in the UK gets wealthier.

That's a fact that I just do not think people understand, and you need to, because this is fundamental to the understanding of the economy.

It also makes a complete mockery of the claims that I hear so often from people on the right wing of politics who say they want to reduce government debt, because I'm not sure that they really mean they want to destroy private wealth, which is what they're actually going to do, but that is apparently what they intend. All of this makes the whole black hole story of government financing a completely dangerous fiction. Debt is not a problem. Misunderstanding it most definitely is.

Politicians claim time and again that the UK's debt burden will be a crushing blow to future generations, who they say will have to repay it.

In practice, this country has never repaid its debt, and it never will, and it doesn't need to because people want to own it.

And the truth is that this debt funds the assets our grandchildren will inherit, and the lucky grandchildren will inherit two things. One is their share of those assets, along with everybody else in the country who will enjoy the prosperity that we will have created if we invest wisely using the debt that we've created now to create the assets they need to live well in the future. But the lucky ones will also inherit part of the debt. They will own a private asset called government debt, and it will be the equivalent of inheriting a great big pile of cash. And who wouldn't want to inherit that?

Public debt simply records the money the government has spent into our economy that it has not claimed back by way of tax. If it was to claim it back, if it was to cancel the debt, it would have to decrease wealth. That's the only way it can do it. And that isn't what the right-wing say they want to do, and yet they obsess about reducing debt. They don't understand the subject.

But worse, they don't understand that if government debt is reduced, the essential liquidity, the money in other words, that the government provides to, in particular, keep this country's banks, pension funds, life insurance companies, and the City of London functioning, would disappear. And we would, in fact, have no money at all because all our money is created by the government.

I know people say banks create money, but they don't. They create credit denominated in money, and that's not quite the same thing.

All our money is created by the government, because anybody else who tries to create money will find themselves on the inside of a prison wall. And so those people who talk about reducing debt simply don't understand what they're talking about.

And let's be clear, what really happens, how the system really works.

Government spending creates new money in private accounts, and we know this. When the government goes to do anything, it has to spend with people outside the state sector, whether that be the people they employ who work in that sector, but who have

their own lives, of course - private lives - outside of work, and who are paid by the government to maintain those private lives, or whether the government spends with businesses who are going to construct contracts or deliver services or whatever else it might be, government spending creates new money in private accounts.

And the fact is that taxation exists to reclaim some of that money. It has to, otherwise, we'd have hyperinflation, and nobody wants that. The fact that we have a functioning tax system is proof that we have a functioning anti-inflation system in the UK.

But by choice, and I stress the point, every government this century has chosen to spend more than it taxes back. And let's not pretend that that's an accident or something they didn't want to do. Every one of them set a budget to achieve that outcome. They wanted to do that. They wanted to inject money into the economy to deliver growth because they know, deep down, although they all deny it, that that's the only way we can have growth in an economy where the private sector is frankly pretty moribund.

Around the world, in fact, if we took AI out of account at present, there's almost no real private sector innovation going on anywhere. That's the truth of the matter. And so governments are the source of any increase in well-being that we might now have. And without the government spending more, we are not going to see any benefit. And the government has the power to do that because the state is the source of all our currency. It doesn't use that currency. It creates it. And that is, its peculiar power, which is why it doesn't behave like a household.

A government deficit is not a problem because it equals a private surplus. This is a fact. It's a fact that has been recognised in economics now for 30 to 40 years. It is a fact recognised in something called the sectoral balances. And when the government spends, private wealth rises. That's what the sectoral balances show. And this is good news for everybody who's in receipt of that money.

But when the government tries to reduce the deficit, wealth falls.

If you think that's a great strategy for economic management, by all means, go ahead and try and reduce the debt. I don't.

But let's be clear, why I don't think that. That's because most UK debt is held by people who you will recognise. Some is held by your bank. In fact, probably quite a lot is held by your bank. It's what lets it function, and it's what lets it make interbank payments so that if you want to make a payment to somebody who banks with a different bank, the debt lets those payments flow from one bank to another. There's a long technical explanation for that. Trust me, it's true.

But other things also depend upon debt - this government debt, I'm talking about.

Pension funds use it to fund pensions for people, well, like me.

Life insurance companies use it to provide the long-term investments they need because, of course, they are insuring long-term risks, and so they buy government bonds to fund that long-term risk because nobody else can be guaranteed to be around at the time when they might have to pay out sometime way in the future.

Other companies use government debt. Why do they use it? Because they buy government debt rather than place money on deposit with the banks overnight in the UK, because it's too risky to place money on deposit with banks in the UK, as you know, if you have more than £85,000, because then you have no guarantee of repayment from the bank in question, because the government hasn't guaranteed it.

And of course, quite a lot of UK government debt is still held by the Bank of England; about 30% of it, or roughly £700 billion worth. So that money is hard to describe as debt at all.

And one third of our total debt, roughly, again, around £700 billion worth, is owned by foreigners, but mainly either by foreign banks who want to hold sterling, which is good news for us because that facilitates trade, or by foreign central banks who are holding our money because they believe in the value of sterling: they think we're a reserve currency of worth. They're giving a vote of confidence to this country by buying our bonds. And yet apparently we don't want them to do so.

Now, if you don't want banks, pension funds, life assurance companies, other large companies, the Bank of England, and foreign banks, and central banks to buy debt in the UK, please queue up and explain why not, because they're the only people who own this stuff in essence. Individuals hardly do at all. But tell me why you don't want our system to work, and why you would prefer it malfunctioned, which is what would happen if you reduce the debt.

Tell me too, why you don't want those who own the debt to not get the interest on it? Because, for example, that interest is used to reduce life insurance premiums, because life assurance companies earn when they hold debt.

That money is used to pay interest on savings, and maybe you'd like interest on your savings.

And that interest paid on government debt is also the foundation of most private pensions. If you don't believe in private pensions, why are you saving in one? Because you probably are.

So we owe it to ourselves to stop saying that debt is a bad thing.

What we need to say is we don't need to over-subsidise the wealthy when they come to buy this debt, and maybe we do that. But what we most certainly don't want to do is

cancel the debt, because if we did, there'd be no private wealth left in this country.

And yet the debt delusion persists. People panic when they hear that the government is going to borrow more and say, "We must have austerity."

Why would you do that if people are queuing up to lend money to the government?

When people ask me, "Where's the money going to come from to pay for government services?" I just say, "People who want to save with the government, it's simple." If the government issues new bonds, people will buy them. And there's never been evidence to the contrary in the UK. It is the myth of scarcity that protects privilege and power over those bonds, but we don't need to actually be scarce in their supply, people want them.

And so we need to stop this moral panic over debt, because that's just about political control in disguise. It's about trying to shrink the size of the state when we don't need to.

And the reality is, we could also repurpose that debt. What we know is that at present, we are not getting the public services we want. And that's because savings in the UK, in cash in particular, are not being used for public purposes. In fact, they're not being used for any purpose at all because although most people think that money saved in a bank is used to lend to other people, it not only is not used for that purpose, it cannot be used for that purpose. It is technically impossible for a bank to lend money deposited with it by one person to make a loan to another person. Trust me, I've tried to do it. It doesn't work.

And so what we need to do is now work out how we can turn idle cash savings, some of which could be held in the form of government bonds, into productive assets. And my answer is that we have to change the rules on individual savings accounts, or ISAs as they're commonly called, and pensions. If we required that all ISAs, new ISAs, that is, were saved in government bonds, and if we require that 25% of all new pension contributions were saved in ways that generated new productive assets in the UK economy, including government bonds, then we could use that money as the capital to fund the reconstruction of this country.

We wouldn't have hospitals that are falling down and schools that are falling down.

We wouldn't have inadequate flood defences.

We would have the funding for a green transition.

We would be able to pay for people to have the skills they need to deliver these for us.

We could do all of that if we put this money to constructive use. The money's available. It's sitting in dormant bank accounts, but if it were turned into a public good, by issuing

proper government debt dedicated to these purposes, maybe in the region where you live, so we could have an East Anglia ISA, because that would matter to me, given where I live, or a Scottish one, if that's where you live, or wherever, then this money could be dedicated to use, and you would have a direct relationship now with the rebuilding of your own economy for the benefit of future generations.

If that were done, we could build a bridge between us, the savers and young people who need the benefit of what we save and build, so that when they come to be of a certain age and we are all retired, they can afford to look after us. This is really critical.

So the question isn't about whether debt's a good thing or not. It is. As a matter of fact, we cannot run the economy without it. We cannot run government without it. We cannot run our financial services system without it. We cannot run savings without it. So let's stop pretending that it's anything but a good thing. The debt delusion has to be ended.

What we have to have is politicians who recognise that by using the public savings, which is what the debt represents, we could fund the public assets that we need to build a strong and sustainable future.

I just wish that we had politicians who realise that Britain's public debt is a big part of Britain's private wealth, and that debt sustains prosperity, stability, and savings.

The real danger is not borrowing enough and thinking too small, rather than borrowing too much.

We have to understand that, and we have to understand debt, because when we do so, we will be on the path to fiscal freedom. If we understand how to use savings as debt to fund investment, we'd all be vastly better off. And it would be so easy to do. We just have to get our heads around the fact that government debt is private wealth, and we'd all like a bit of that.

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