# Money, and the stories that are told to engineer contro...

Published: January 13, 2026, 5:32 am

---

A reader here asked this question today:

*Hi. New reader, found my way here via a recent interest in degrowth economics. I'm hoping someone here can clarify something that's puzzling me.*

*Richard has consistently said that the government can simply create money, seemingly with no real restrictions, and just use it immediately for public services etc. But aren't there laws in place preventing that? As I understood it the government currently has to issue bonds to be bought by private buyers (i.e. the debt everyone worries about) in order to obtain money. It can then if it wishes buy those bonds back with money created by the boe (QE) which effectively means it owes money to itself.*

*I guess my question is, is my understanding wrong, or is it just considered irrelevant because the government is still basically creating that money, it's just a bit of a roundabout way to do it (which conveniently enriches the already wealthy, but we'll leave that for another time!)*

I thought this was a valuable question to answer in more detail than average, so this is my response, which is longer than my own 400-word comment limit allows, and so has become a blog post in its own right as a result.

First, the UK government really does create money, and does so every single day. It does so through the Bank of England, which is wholly owned by the UK state. That means the Bank is not some external entity, nor is it independent in the sense that a private actor is. It is, by law and by design, an agent of government policy — even if it pretends otherwise.

When the government spends, the Treasury instructs the Bank of England to mark up the bank accounts of whoever is being paid. That creates new money. No taxpayer's cash is "sitting there" waiting to be used. The government's spending comes first, and then the money is created, quite literally, by the accounting entries that follow from that instruction to pay.

Second, you're right that there are laws and conventions that currently require the Treasury to issue bonds (gilts and Treasury bills) roughly equivalent to its spending in excess of tax receipts. This is the consequence of the so-called full funding rule, which is a recent creation and is a convention that could be changed at any time. This is what we misleadingly call "borrowing".

It is not a financial necessity. It's a political choice made to maintain the appearance of borrowing, because that helps preserve the myths of "sound finance" that neoliberalism depends upon. Those myths — that the state is like a household, that spending must be "funded" before it happens, and that debt is dangerous — are tools for limiting public purpose.

In reality, those bonds do not "fund" government spending. That has already been paid for. They are just a mechanism for transferring central bank reserves, which represent the money the government has already created, into interest-bearing accounts for the wealthy. It's a subsidy disguised as prudence.

Third, as you rightly observe, quantitative easing (QE) proved the point beyond doubt. During QE, the Bank of England bought hundreds of billions of pounds' worth of those same government bonds, using money it created out of thin air. That means the left hand of the state owed the right hand, and the debt, in any meaningful sense, disappeared.

The fact that this process is described in obscure technical language is not accidental. The complexity hides the simplicity: the state created money to keep the economy afloat, and in so doing it had first enriched bondholders. It could have funded the NHS, housing, or green investment directly. Instead, it funnelled liquidity through financial markets, the most unequal route imaginable.

Fourth, to your key point: are there legal barriers to doing this directly? Technically, yes, but only because the government has chosen to tie its own hands.

The 1998 Bank of England Act and the 1992 Maastricht Treaty rules (which still shape Treasury thinking) sought to create a formal separation between "fiscal policy" (Treasury spending) and "monetary policy" (Bank of England operations). The idea was to reassure markets that politicians could not "print money" at will.

But these laws are not constitutional constraints in the sense of creating a physical impossibility. They are policy frameworks, which Parliament could change at any time. In practice, they are already ignored whenever the system faces a crisis. QE itself, emergency lending during the financial crash, and Covid furlough payments all showed that when survival is at stake, the supposed firewall between the Treasury and the Bank evaporates overnight.

So there is a roundabout route in place. But that route was built for ideology, not necessity.

Finally, you touch on the real issue: who benefits from the way we currently do it.

By forcing the government to issue bonds, we gift private investors a risk-free income stream; interest on gilts. We also create artificial scarcity in money, justifying austerity, while inflating the wealth of those who already hold financial assets. It’s a system designed to make the public dependent on the goodwill of markets rather than on democracy.

That, I think, is the point you sense when you describe it as a “roundabout way” that “conveniently enriches the already wealthy”. You’re right; it does exactly that.

So, to summarise:

* Yes, the government creates money when it spends. It does so through the Bank of England, which is part of the state.
* Bond issuance is not a financial necessity but a political ritual; a hangover from the gold standard era, designed to disguise money creation.
* Laws exist to maintain that fiction, but they can be changed or ignored, as they routinely are in crises.
* The current system's effect is to entrench inequality and sustain the myth that government must “borrow” from the rich to serve the public good.

We could, if we chose, acknowledge the reality: that a currency-issuing government can always pay in its own money, and that the true constraint is not money but real resources; the people, skills, materials and energy we have.

Managing those resources sustainably is the real economics we should be debating. The rest is theatre.

In short, the government’s power to create money is real. The restrictions are self-imposed. And the longer we pretend otherwise, the more wealth will be siphoned off by those who profit from that pretence.

---

*A new glossary entry on the full funding rule has been created to support this post.*

---

***Comments***

When commenting, please take note of this blog’s comment policy, ***which is available***

***here*. Contravening this policy will result in comments being deleted before or after initial publication at the editor's sole discretion and without explanation being required or offered.***