

## The Alternative Budget 2025

### Part 2

### Understanding tax and 'borrowing'

*Rachel Reeves will be presenting her Budget on November 26, [if the Labour government of which she is a part lasts that long](#).*

*I will be commenting on that Budget on the day on BBC Radio 2, and elsewhere afterwards, but what is already clear is that whatever Reeves has to say, she will miss the required mark by a very long way. Being aware of that, I thought it appropriate to offer an alternative Budget speech ahead of the time when she offers her own. Given the significance of this issue, it will be addressed in parts over the next week or so, leading up to Budget Day. This second part sets out the reforms to the understanding of tax and government funding required to consign the curse of neoliberalism to history.*

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*I ended [the first part of this Budget](#) with a simple proposition: if austerity has failed — and it has — then the fiscal architecture that delivered it must also end. That means the rules that govern public spending, the institutions that enforce them, and the assumptions that underpin them all have to be replaced.*

*There is no escaping this. Austerity was not an accident. It was the direct outcome of the fiscal framework we still use. If we want different results, we need a different foundation.*

*My job now is to explain that new foundation.*

### **A proper understanding of tax**

Since the early 1980s, our economic debate has been dominated by the idea that the government must “fully fund” its spending through taxes or borrowing. This is the logic enforced by the Treasury and is embedded in the logic of Bank of England independence, the existence of the Treasury’s so-called Debt Management Office and the work of the Office for Budget Responsibility, whose models assume that government spending must always be matched by a process of “finding the money” elsewhere.

But, as I have already said, this premise is wrong. The UK government creates the money it spends. Parliament authorises that spending. The Bank of England ensures that payments clear. This is not theory; it is operational fact. We do not need to “find the money elsewhere” to pay for the government this country needs; we literally spend it into existence and never have to find it.

The so-called full funding rule, like so many other neoliberal economic “rules” exists to deny that reality. It exists to reinforce the pretence that the government is financially constrained like a household, when it is not. The consequence has been rationed public services, chronic underinvestment, and an economy where the greatest constraint is not money but the lack of political imagination.

So let me be blunt: the full funding rule ends today.

From now on, we will recognise that the government creates all the money that it needs to fund its spending by the simple act of making payment for whatever it is that this House has authorised it do, which authorisation the Bank of England uses as the authority to make that payment, creating money in the process, as all banks do whenever they extend credit.

If this is true when you tap your credit card on a vendor’s card reader, then it is also true when this House authorises the Bank of England to make payments. The only difference being that households have credit limits, and we do not, because we not only have our own Bank, but have the duty to spend into existence the money that our national economy requires to function.

What we will also recognise as a result is that the primary role of tax is to reclaim the money we have spent into the economy. It cannot fund what we spend: the Bank of England has already done that. That means that, contrary to past claims. We do not use “taxpayers’ money”. Instead, they use ours. Getting this relationship right is not just important; it is essential. It makes our responsibilities clear.

We have a duty to maintain the value of the money we create. This means we have the duty to manage inflation. We can no longer pretend to outsource that task to the Bank of England, to whom. I will refer further in a moment. But in doing so, we also have to recognise that tax has other powerful roles to play in the delivery of our national economic strategy. It does also:

- \* Assist the management of inequality in our society by letting us tax both income and wealth progressively to achieve this goal.
- \* Permit us to correct mispricing in markets when the private sector would otherwise fail to take the externalities arising from their actions into account in areas such as alcohol, tobacco, carbon usage and gambling.
- \* Allows us to underprice some activities as they are of social benefit, such as education, health, housing and essential foods.
- \* Makes it possible to direct some forms of economic activity which we might wish to promote, such as business investment.
- \* Represent the relationship of trust between those in this House and the people beyond it, which is one reason why I am taking all the actions I am announcing today. I will announce measures to assist the control of inflation through taxation today, but I will also take all the above issues into account at the same time when reforming the tax system of this country, as we must do if the full funding rule that has existed to embed austerity in our society is to be consigned to history, as is essential.

### ***The end of the full funding rule***

There is another dimension to this exercise that I must also discuss in that case, which refers to so-called government borrowing. I stress that I use the term “so-called” deliberately, because as I have already explained, the government in the UK does not borrow, and in a sense cannot borrow, because it creates all the money that is ultimately deposited with it by those whom, it has been claimed to date, fund our government’s operations by providing what, it has been claimed, are the necessary funds to do so. Just like the full funding rule itself, this suggestion is based on economic myths and falsehoods designed to misrepresent the truth of what happens within our economy.

As the House will be aware, it has been normal practice for governments in this country to run what are called fiscal deficits since the time that our supposed national debt was first created, with the Bank of England, in 1694. In other words, in most years since then, the government has created and spent more money into the economy each year than has been claimed back by way of taxation.

There has been good reason for this.

First, the economy has very often required the fiscal stimulus that this action creates. Growth has been the result, and few would deny the merits of that.

Second, a growing country – both in numbers in the population and in size of the economy – has required that there be more money available to facilitate trade, and it has been the duty of successive governments to meet that demand. Without running deficits, that additional money could not have come into existence. The so-called national debt has actually been our money supply for centuries, even though we have seemingly forgotten that essential fact.

Third, inflation has required it. We know that low rates of inflation are good for the economy and can be tolerated, but they also require more money to be in existence. Again, deficits provide that essential new money.

And lastly, those with wealth have demanded that such deficits be run.

There is a straightforward reason for this. The wealthy, above all else, wish to maintain their position and status in society, which their financial well-being supports. As such, what they demand of the financial system is a place where they can deposit their funds knowing that, in times of crisis, they will always be repaid. There is only one institution in any country that can have this status, which is described as being the borrower of last resort, and that is the government.

The reason why it can fulfil that role is because it not only created the money that the wealthy wish to deposit, which becomes theirs to save precisely because the government had spent it into existence and not yet taxed it back from the economy, but can always guarantee to make the money to make repayment of sums deposited whatever might happen, because this is the sole right of the government as the country's currency creator.

We do not, therefore, and never have, borrowed money from those with wealth. Instead, we have provided them with the most secure savings facility that they can ever enjoy for funds denominated in sterling, which savings facility they access by buying the bonds that we issue for their benefit, and not for ours.

That we are dependent on the wealthy, via their agents in the City of London, is, then, another of those economic misrepresentations, like the full funding rule and the idea that taxation funds government spending. The exact opposite is the case. It has suited those with wealth to pretend that the government must accede to their demands so that they might maintain their privilege and unequal status in our society by claiming that we are dependent upon them, but that is not the case. Their privilege is dependent upon us, and the simple fact is that every time we increase the amount of money in circulation in the economy, we, ultimately, increase their wealth by an equal and opposite amount. The simple rules of double-entry bookkeeping make that clear. This is why the full funding rule for the government must come to an end.

As a matter of fact, I am not saying as a consequence that the government will cease to issue bonds. Nor am I saying that it will stop open market operations using both gilts and Treasury bills to influence long and short-term interest rates. Those practices will, most likely, continue. But, whilst we maintain the full funding rule, we also maintain the fiction that taxation funds the government, when it does not, and that borrowing from the wealthy, or their representatives, is essential for the operation of government, when that is not true. The fact of the matter is that this government can always, and whenever it wishes, borrow those funds required to fulfil its obligations through its own central bank, which it did on a regular basis until as recently as 2006. From now on, all

that I am saying is that we will reserve the right to do that if we so wish. There are few benefits resulting from Brexit. This happens to be one of them. I look forward to enjoying the support of all those who supported that disastrous idea as a consequence.

For those in doubt, what this means is that if the City of London wishes in the future to challenge the operations of this government by forcing up interest rates in ways that we consider unacceptable, we will reserve the right to deny them the bond issues that they crave, and which are essential to their methods of operation, whether they work in pension funds, life insurance companies, banks, or hedge funds. The simple fact is that withholding such issues will reduce the available supply of gilts and, as those who understand the operation of the bond markets will know, if bonds are in short supply, their price rises and the effective interest rate payable on them falls inversely as a result.

I am not ending the full funding rule because we want to break our relationship with the City of London, its institutions, and with those outside the UK who also wish to make use of our bonds to save funds in sterling, but because we have to make clear whose advantage this arrangement must serve, and that is to benefit the people of this country and not either the City of London or the wealthy who use its services. It is to the people of this country that I owe my duty, and it is one I will fulfil.

In practical terms, we may see very little difference in our day-to-day financial operations because of this announcement, but the balance of power within our relationship with the City will have changed, for good, and for the benefit of the people of the UK as a whole, whom I stand here to represent. No longer will Chancellors be dictated to by the City. The City has enjoyed privileges without responsibility to date, and holding the country to ransom is irresponsible. I am making it clear that this is something that I will not tolerate.

As a result, the government will no longer issue debt just to tick an accounting box that has never reflected how our monetary system actually works. We will issue savings products — gilts — only when they serve a genuine public purpose: to provide safe assets for savers, pension funds and financial institutions and that will not be because the government needs their money, but because the financial system needs the stability that only we can, and will, supply so long as they do not abuse what we do on their behalf.

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***Other posts in this series:***

\* **[The Alternative Budget 2025 - The Background](#)**

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## ***Taking further action***

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [\*\*here\*\*](#).

***One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.***

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