

Governments aren't like households

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Politicians keep telling us the government must “live within its means” like a household. That idea is wrong. It is also dangerous.

In this video, I explain why a currency-issuing government is fundamentally different from a household, how money is actually created, why deficits create private surpluses, and how the household budget myth has justified austerity, weakened public services, and cut social security in the UK since 2010.

We need honest economics, not myths that limit democratic ambition. Real limits are resources, skills, energy, and environmental capacity, not money.

Understanding this is essential if we want an economy based on care, not the politics of destruction.

<https://www.youtube.com/watch?v=TUxVlad7mgA?si=yr9OJd1PUt0JodfH>

This is the audio version:

https://www.podbean.com/player-v2/?i=thx34-1a4f88f-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

I want to talk about something that I think is really dangerous in the current economic lexicon that is used to justify the way in which governments manage our economy, and that is the household budget analogy myth. This myth, called a myth because it is entirely untrue, is the claim that a government must behave like a household and, as a result, it must live within its means.

What that means is, of course, that the government is constrained like a household by the limit of its income, which is claimed to be the amount of tax it can raise and the amount of money it can borrow. All of which sound sensible except it is entirely and completely incorrect, resulting in dire economics and politically dangerous policy.

This matters. This thing, the household budget analogy myth, is deliberately misleading. It's incredibly useful to those who want to promote small government or deliver austerity, and those who want to promote the neoliberal politics of destruction we've seen for the last 15 years, because it leads to an economics of failure, and that, of course, is what they want, as do those who are now promoting fascism, because that economics of failure is being used as the justification to kick the state even more when it's down.

This is because the household budget analogy denies that the government can create money. Instead, it says that the government is wholly dependent upon households and the private sector to deliver the funds it can spend. This drives the narratives of growth, and also trickle-down economics, which we know have failed, and we then see the proclamation that debt is destroying government, and so it must be repaid, when that is another myth that is wholly untrue, as I've talked about in other videos on this channel.

We can see the consequences. This household budget analogy myth has shaped public opinion.

It has limited democratic ambition, not just on the part of the public, but on the part of politicians themselves, so pernicious has it been.

It has justified cuts.

It has undermined social security.

It has left us and the country weak, vulnerable, and ripe for fascist takeover.

It's even weakened our defences as a nation, because otherwise, why are we talking about being in a situation where those defences are literally crumbling all around us?

Bad economics is then never neutral, and the household budget analogy myth is most definitely not neutral; it was always created to serve someone.

So let me just do some straightforward comparisons, because I think they're important

at this stage in the video. Let's compare households and governments and why they are actually so different, and why it's important that we recognise what those differences are and what the differing roles of each are within the economy as a whole.

Let's be clear. Households use money; they cannot create it. They can issue IOUs, and let's be honest, all money is a form of IOU, but they can only issue IOUs in their own name, and you try getting someone to accept that for very long. It won't work. Try issuing the state's money if you are not a bank and see what happens. As Denis Healey, who was once Chancellor of the Exchequer of the UK, said, you will find yourself on the wrong side of a prison wall.

The UK government does, in contrast to a household, issue money. Quite literally, it issues all the money that we have to spend. Every single note and coin is, of course, issued by the government, except the counterfeit ones, and there are a tiny number of those in reality because the state's pretty good at finding them. All the rest of the money that we have is either created by governments spending money into the economy and then not taxing it back again, or by government license to banks, which lets them issue the money that the government authorises for use in the UK, which is, of course, the pound sterling. Those are the only ways in which money is created in this country; everything else is a complete and utter myth.

There is nothing but actual government-created money or government-licensed money creation by banks, which provides us with the cash that we need to make our economy work. That's it. And no household, no company, nobody else has any power to create money but those government-regulated organisations, or the government itself.

What is more, the government has another power, which is quite peculiar to it, which no household has. That is the power to tax.

It has to tax.

There's a very good reason for tax.

The government spends into the economy. It doesn't give money away. It spends. And when it spends, it creates money. It quite literally tells the Bank of England to make a payment, and the Bank of England marks up its overdraft. That is how it creates money. There is no greater secret to it than that. Quite simply, the Bank of England records that it will spend money on behalf of the government and therefore the government owes it the money back. Actually, of course, the Bank of England is owned by the government, so this is an entirely internal transaction within the government's accounts. But the point is, it results in what was once called 'government money printing', only it's entirely electronic these days, and that money is spent into the economy.

Now, of course, we all know that the government cannot keep spending money into the economy without constraint because the result is inflation, and nobody wants to live in

a world where there's a lot of inflation. So the consequences is that the money the government creates must be taken out of the economy again. How does it do that? It does it via taxation.

That is the purpose of taxation. It reclaims the money that a government spends into the economy in accordance with its democratic mandate to prevent inflation arising as a consequence of that spending.

That is what taxation is about. It does not fund the spending in question. The spending in question was funded by money creation, and if it wasn't, we would have no money, and we would have no economy. So don't say this is all nonsense. This is literally, and we know it, how the world's economies work, and that is confirmed by every single major central bank, the world over.

So, there is a crucial difference between a currency issuer, which is a government, and a currency user, which is everyone else, including, by the way, local governments and even our devolved governments in the UK, because they aren't currency creators, they are currency users.

A currency issuer must, in fact, spend before households get income because otherwise there is no money to provide them with an income. It is as simple and as straightforward as that.

And people can only pay tax once a government has spent the money that is used to make the settlement of the tax liability into existence in accordance with its spending programme. Again, that is it.

So there is a crucial difference between a currency issuer, a government, a currency user, which is literally everybody else within an economy, including local governments, because they cannot create money and even our devolved governments in Scotland, Wales, and Northern Ireland, because likewise, they can't create money. Only the Westminster government can, because only it owns the Bank of England.

A currency issuer has to spend money into existence before it gets any income, and I make the point absolutely deliberately. If it doesn't spend money into existence, there is no money with which people can settle a tax liability. In other words, spending has to come before taxation in the economy; there is no other way around it.

To therefore claim that the government is like a household constrained by getting income before it can spend is completely and utterly wrong. The government is exactly in the opposite situation to a household. The government must spend to get income. A household must get income to be able to spend.

And let's be clear about the role of so-called government borrowing in all this. It's also true that there would be no money for the government to borrow if the government

hadn't spent money into existence in the first place. That must follow like night does day. Unless there is money, nobody has anything to lend to the government.

But in practice, the government doesn't need to borrow because it can create the money. In fact, the money it borrows back was already created by it.

So, what is government borrowing? Well, it isn't borrowing at all. It's actually the offering of a safe deposit facility by government to people who have money that they don't want to spend at present. It is nothing more than a banking operation, in other words.

We don't say that if you put your money in Barclays, Lloyd's, HSBC, Santander, whoever else you bank with, that you are lending to that bank. You say you are depositing money with it. And although both loans to those organisations and bank deposits with them appear as liabilities of the organisations in question, because they are, the point is, the language is entirely different because so is the nature of the relationship.

The government doesn't borrow from people who deposit money with it. It provides them with a place of secure saving. That is the purpose of the government's so-called borrowing operations. That is why people put money with National Savings and Investments. That is why people buy government bonds. It hasn't got anything to do with funding the government's spending operations because they've already been paid for by the Bank of England, and in fact, there would be no money to deposit unless the money had already been spent into existence.

So, let's be clear and summarise all that because it's important to understand this.

A currency user that's a household must earn or borrow the money it requires before it can spend it.

But the exact opposite is true in the place of a central government. It has to spend to create money, or else money is not available in the economy.

By definition, the government is the opposite of a household, and that means that these two operations are fundamentally different, and to claim that, therefore, the government must behave as if it is a household is not only, well economically illiterate - there's no other way to actually describe the basis for such a claim - it would also be fundamentally dangerous.

So this makes the government and households fundamentally different, and it's vital that we understand that.

Let me offer an example of why this difference matters.

Households cannot stabilise an economy that is heading for a recession. Let me be clear about that. That cannot happen. But governments must, and it's their job to do so.

And because the government and households have totally different roles in this situation where recession is coming on, then we have to see them behave in different ways.

Recessions happen precisely because households do not spend. Normally, it's because households have begun to save significantly. Why have they saved significantly? Because they think bad times are coming, and that's what households do in this situation. Lord Keynes called this 'the paradox of thrift'. Although we would like households to spend more to prevent a recession from happening, the reality is that in the face of a recession, households save more, and the consequence is that the recession is more likely.

If the government were to behave like a household in this situation, it would exacerbate this trend. That is called procyclical behaviour in economic jargon. What it means is the government does everything that a household does, and the result is an even deeper recession. Unemployment and all the things that happen with such a recession would appear because the government has chosen to behave like a household.

But if the government does its job properly, it will do the exact opposite of what a household will do when a recession is coming on. They would spend to sustain employment. They would build infrastructure in downturns precisely because that will provide the economic boost that the economy needs. They would protect essential services, and they would create money as a consequence to keep the country running.

And what is more, they would offer savings facilities to all those people who want to save safely in the event of a recession, and therefore they would appear to run deficits, and that's absolutely fine. That is the job of a government when it faces a recession.

They must do the exact opposite of households. Household save; governments must borrow, if we call deposit taking, borrowing.

And households will save and not spend; governments must run deficits, and put money out into the economy.

They are the exact opposite of each other, and this is important.

Government deficits equal private surpluses. This is fundamental to understand.

And government surpluses equal private deficits. That's the point that almost nobody understands.

Let's reiterate what this means. If the government runs a deficit, in other words, it taxes less money back from the economy than it has spent into it, that money is left in the economy. Somebody's got it. They are therefore richer than they were beforehand. That's what I mean by a government deficit creating a private surplus.

That's also what I mean when I say a government running a surplus creates a private deficit. If a government taxes more money back from the economy than it has spent into it, that money must come from somewhere. The excess tax reduces private wealth.

That is what goes on when the governments run surpluses, and that's precisely why governments have run surpluses so rarely through history. People don't want to give their money to the government, to let the government get richer whilst they get poorer, and why would they because the consequence of a government running a surplus is that there is less economic activity in the economy. This would only ever happen if the markets were so exuberant that there was a threat of excess inflation.

Let's be clear. When somebody chooses to save, somebody must borrow.

If households choose to save, the government must borrow. That's it. That's what happens.

And during austerity, we have, for example, seen this. From 2010 onwards, as governments enforced austerity in the UK, the level of private debt has risen. That is the inevitable consequence of the government trying to constrain its own debt. This is just basic accounting. There's nothing more to it than that; it's inevitable. It's like night follows day. If somebody borrows, somebody has to lend, and that's all it's about.

And this is explained, by the way, in something called the sectoral balances. I don't want to go into these in too much depth here, but the chart I'm showing on the screen at present comes from the Office for Budget Responsibility's forecast for the UK economy issued in November 2025.

The lines add up to zero, and that's because, if somebody borrows, somebody else has to lend. This explains who is borrowing and who is saving inside the UK economy.

That blue line at the bottom, that's the government.

What's that yellow line that you can see peaking quite high in some places?

That's households. What's the line that you can see standing up above all the others at the end of the forecast period? That's the foreign sector with the UK. They are going to be funding the UK as a whole, it would appear, through their savings in sterling by the year 2030 or thereabouts, according to the UK government.

But the point always remains the same: for every borrower, there is a saver. And if the government tries to reduce its borrowing, and that's what the rising bottom blue line implies on this chart, somebody else is going to have to make good the situation by reducing the difference between saving and borrowing, and that's what this chart shows.

There will be less money in the economy as a consequence, and that's one of the

dangers of believing that this household budget analogy is correct. The government does believe it. It's trying to reduce the amount of money in the economy, and that won't be good for the UK economy as a whole.

So this claim is wrong, but why has it survived? Why is it so common? Well, the analogy is political rhetoric. It frightens voters. It justifies cuts to the NHS. It attacks social security. It blocks climate investment. It reframes public services as burdens instead of foundations of a functioning economy. That is why it is heavily promoted by the neoliberal politics of destruction. Those who do not want government to operate well promote the household budget analogy precisely because it gives them an excuse to crush everything that the government does, which is a value to you and me.

So what should we be talking about? That is the important question we have to get to.

Not money. The government can create all the money it needs if there is a good reason for doing so. Money is never a constraint on government action. It can always make more if there is a good reason for doing so. I repeated myself deliberately.

So what are the real limits on spending? The real limits on spending are:

- * The availability of labour to hire.
- * Labour with appropriate skills is, of course, also important because it's no good just having labour available to hire; the people in question must be able to do the jobs that the government wants.
- * There must also be energy and materials available to fulfil any plan the government has.
- * And there must be environmental capacity to undertake the activity that the government is proposing, because otherwise, we will, of course, be delivering long-term harm.
- * And there must be no inflation risk as a consequence of what the government plans to spend. In other words, if it plans to increase its spending significantly, it may do so if there are resources available, but it must also take into consideration the inflation risk and maybe increase taxes to prevent that risk happening.

At the same time, there's another difference between households and the government. At a national level, we have five forms of capital, and I talk about these every now and again on this channel because they're important. They are the forms of capital that we must actually maintain to make sure our economy works.

There must be enough financial capital: money, and other similar resources in other words. And as I've just noted, if we actually believe the household budget analogy and we try to cut government borrowing, we reduce the amount of money in the economy.

We potentially put it at risk of having a cash flow crisis. Quite literally, there isn't enough financial capital if the government doesn't create it, and therefore, this household budget analogy is a threat to our well-being in that sense because it will reduce the amount of cash available to us.

But there are things that households can't also maintain as well. The physical capital of the country cannot be maintained by households. We don't build roads. We don't build sewers. We don't build airports. We don't build schools or hospitals or whatever else. Those have to be built by government. We know many of those things are failing. The government has to provide them. The household budget analogy says that's not the job of government because government must behave like a household, but households can't do those things. This analogy makes no sense at all in that case.

The same is true with regard to environmental capital. None of us can do enough, however much we recycle, however much we turn off the lights, however much energy we generate in our homes, however many electric cars we drive to save the environment. The government could. The government could cooperate with others to make sure that we could. In other words, the government has to act like a government to save the environment; households can't do it all by themselves. So again, to pretend that they're the same as ludicrous.

Whilst human capital and social capital, I'm going to put them together for these purposes, must be maintained, and again, we can do something about that. We can make sure we go to school, or our children go to school. We can train ourselves. We can make sure we integrate into society and aren't antisocial, quite literally. But the government has to provide the environment in which those things can happen, and people feel safe doing them. That isn't down to households, and again, it's absurd to think that changes can be created at the level a household can do with regard to these two forms of capital, at least in isolation, because these are acts of cooperation between households and individuals and governments. And again, to pretend the household is the same as government is quite ridiculous. Households cannot do these things; only the state can.

That is why the politics of care is important because one of the things it emphasises is investment in long-term wellbeing, and the household analogy does everything it can to challenge that.

Despite this, the myth persists.

It is simple and emotional.

It protects wealth inequality.

It narrows expectations.

It weakens democracy.

And if people think or are persuaded that the government is broke, they stop asking for change.

The consequence is obvious: austerity becomes normal. Social security is cut. Infrastructure decays. Inequality widens. Public services fail. This is the reality of Britain since 2010. This is not theory; it is lived experience.

So what would abandoning the myth mean? Definitely not unlimited spending. That would be ludicrous. There aren't unlimited things that we can spend upon, because we are constrained by the resources I've already mentioned. Instead, it would mean spending guided by those real resources, their availability, and what they can be best used for. We would, in other words, be looking to use the resources of the country to manage well-being to best effect. What could be more useful than that?

We would also be using tax to manage demand, to keep the economy in balance. Again, that's the purpose of tax, it is there to make sure that we live in balance without too much inflation, but we've forgotten that, and that is important. We would have to remember it and then manage for that goal.

Government investment in care and climate would increase, and we would have enhanced democratic accountability for what is going on, not least because if the government set out to explain all this, then we would be able to hold them accountable because we wouldn't be managing on the basis of a myth that the government is a family with a credit card. But we would instead be talking about responsible fiscal policy, which is all about planning.

So, the household budget analogy is economically wrong.

It is politically motivated.

It is socially damaging.

We need to say that. We need to say that public money is society's money. There is no such thing as taxpayers' money; there is only government creative money. And that the government must use it responsibly, and that social security protects dignity, for example, and that investment builds prosperity. If we want an economy that works for people, we must stop repeating myths.

So what can we do?

We can challenge the household budget analogy whenever we hear it.

We can point out why it's wrong, now, you know. Households and governments must behave differently because otherwise the whole economy grinds to a halt, and there is

no money, a minor impediment to progress.

We should instead be asking, what are the real problems that the economy faces, and how can the government deal with them?

What are the real resources that are available or which must be created to ensure that we can live well?

That's the point, when we break away from the household analogy, that's the question we can ask, and the point is this, money is never an impediment to progress.

Lord Keynes again said a long time ago, "We can afford whatever it is we can do," and that's still true. If the resources are available to do something, it's pointless to pretend we can't, as Rachel Reeves does so often, because in practice, we could put those resources to use, and the money to do so is always available.

We do, then, need honest economics. The household budget analogy is a very long way from that. It's time we had something better. It's time we had an economics based on truth. It's time we had a politics of care.

That's what I think. What do you think? There's a poll down below.

Poll

[poll id="331"]