New glossary entry: the household analogy

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The *household analogy* is the claim that governments must manage their finances like a household: living within their means, balancing their budgets, and paying down debt before spending more. It is one of the most persistent myths in modern economics, and one of the most damaging.

First, a household is not a currency issuer. Households use money that they cannot create. Governments that issue their own currency, like t in the UK, create the money that the rest of the economy uses. When the UK government spends, it creates sterling; when it taxes, it withdraws sterling. A household cannot do this. Treating the two as equivalent confuses fundamentally different institutions.

Second, households must earn before they spend; governments spend so that others can earn. Public spending creates income for households and businesses. Taxes are then paid out of that income. The sequence is reversed. If governments try to behave like households and cut spending during downturns, they reduce national income and deepen recessions.

Third, households cannot stabilise the economy. Governments must. When private demand collapses, only the public sector can maintain employment, invest in infrastructure, and sustain essential services. The household analogy denies this responsibility and justifies austerity, even when that austerity is economically destructive and socially unjust.

Fourth, the analogy hides sectoral balances. If the government runs a surplus, someone else must run a deficit. Usually, that means households or businesses must borrow more. This is unsustainable. Government deficits are often simply the mirror image of private saving. Ignoring this accounting reality creates policy errors that we then blame on individuals.

Fifth, the household analogy is political rhetoric disguised as common sense. It is used to frighten voters into accepting cuts to public services, attacks on welfare, and underinvestment in the future. It shifts attention away from real constraints, which are labour availability, resources, and environmental limits, and onto false financial ones.

Finally, abandoning the household analogy does not mean governments can spend without limit. The real constraint on public spending is inflation arising from resource shortages, not an imaginary household-style budget. Responsible fiscal policy, therefore, requires planning, taxation to manage demand, and investment that maintains the five forms of capital:

* financial,
* physical,
* environmental,
* human, and
* social.

The household analogy survives because it is simple and emotionally persuasive. But it is wrong. If we want an economy that delivers care, security, and sustainability, we must stop pretending that a currency-issuing government is just another family with a credit card. It is not, and policy based on that myth will always fail.