

The government borrowing myth

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We have just [published this short video on YouTube](#) and many other channels.

This is the transcript:

It is said that the government needs to borrow from financial markets. That sounds responsible. It sounds like a household taking out a loan, but it's misleading. A government that issues its own currency doesn't need to borrow it.

Let's be clear what happens when the UK issues gilts. When that happens, the Bank of England swaps deposits held by our commercial banks and others with it for bonds issued by the Treasury.

The bonds offer savers a safe interest-bearing asset for those who need really long-term savings, like pension funds. By doing so, the government does something else. It supports its own long-term interest rate management policy.

It doesn't go out to get money in that case; it is managing money it has already created. That's the important point to understand about gilt issues. When gilts are issued, the Bank of England is controlling interest rates.

It is providing pension funds with safe assets.

It is stabilising financial markets.

Treating government borrowing like household borrowing when it isn't, then, is simply justification for unnecessary cuts, and we don't need them.

The phrase, 'Borrowing from the markets,' frames the state as being financially constrained; it isn't.

The constraint is the availability of real resources in the economy and inflation.

We can't run out of pounds.

The government does not need to borrow its own currency. It does need to choose how to manage it. That is what 'so-called' borrowing permits.