

Richard Murphy's View On...The Household Analogy

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This post is one of an ongoing series explaining Richard Murphy's views on significant topics in economics, political economy, politics, taxation, and accounting. It should be read as such, as an overview of a position developed across many years of writing and analysis, and not as a comprehensive treatment. Where more detail is required, the reading list at the foot of this post is a good starting point.

Others in this series [can be found here](#), and they can be downloaded [as PDFs from here](#).

The Analogy and Its Political Uses

Few ideas have done more damage to economic thinking in Britain than the household analogy. It is the claim, repeated by politicians of almost every party and echoed across the media, that the government must manage its finances just as a household manages its budget. It must live within its means. It must not spend more than it earns. And if it has been borrowing, it must pay that debt down before the burden falls on future generations.

Richard Murphy has argued, consistently and at length, that this analogy is not merely imprecise but fundamentally false, and that its persistence carries serious consequences for public investment, social provision, and democratic accountability.

He traces the idea to a specific historical moment. A 1935 book, ***[published to justify the economic policies of the National Government that had delivered the Great Depression, made the household comparison its central argument. At the time, there was at least a partial justification: the UK's adherence to the gold standard had imposed an external constraint on government spending, tying the pound to reserves that could be depleted by deficits.](#)***

But the gold standard had been abandoned in 1931, and with it the constraint

that had made the analogy even remotely applicable. The analogy has been wrong ever since, and its continued use, Richard argues, is therefore either a matter of ignorance or a deliberate political choice.

What Governments Actually Do With Money

The reason the analogy fails is structural. A household is a user of money. A currency-issuing government is a creator of it. The difference is fundamental.

In the UK, when the government wishes to spend, it instructs the Bank of England to create the funds required. Those funds are credited to whoever is being paid, whether that is a nurse, a pensioner, or a contractor building a road. No prior act of taxation is required. The money is created by the act of spending itself.

This is not a fringe position. It reflects the operational reality of how the Bank of England functions, and the Bank has confirmed as much in its own published research. Taxation does not fund government spending; it cannot, because the money used to pay taxes must first be put into circulation by government expenditure.

The sequence runs: spending first, taxation later. The government spends, money enters the economy, and taxation then recovers some of that money, withdrawing it from circulation to manage inflationary pressure and to pursue social objectives.

Richard has described taxation as an economic steering wheel rather than a revenue source, and the distinction matters enormously for how policy is understood and debated.

The notion of "taxpayers' money" is therefore doubly misleading, both as a description of how government finance works and as an implicit claim about accountability. All the money in the economy was created by government in the first instance; there is no independently generated pool of private funds that citizens hand over to the state. Richard has made this argument repeatedly, and with particular force: the phrase exists not as an accurate description of monetary reality but as a rhetorical device designed to make voters feel that government spending is using something that belongs to them and should therefore be minimised when that is not true.

Why Cutting During a Downturn Makes Things Worse

If the household analogy were merely a harmless simplification, the stakes would be lower. But Richard's concern is that it directly produces harmful policy.

A household that reduces its expenditure when times are hard will, all else being equal, improve its financial position. That logic does not transfer to a government, because the government is so large a participant in the economy that its spending decisions shape the income of everyone else. When government cuts spending, national income falls. Tax revenues, which are determined by income and activity, then fall alongside it. The

deficit the government hoped to reduce by cutting may not shrink at all; it may even widen.

This is not a theoretical abstraction. Richard has pointed to the experience of austerity in Britain after 2010 as a practical demonstration of the principle. The contraction in public expenditure reduced demand, suppressed growth, deepened inequality, and degraded public services, without achieving the deficit reduction that was promised. An approach modelled on the logic of household budgeting produced precisely the opposite of its stated goal, because a government's position within the economy is categorically different from that of a family within its own finances.

The sectoral balances framework, which Richard draws on extensively, makes the accounting logic plain. The financial position of the government, households, businesses, and the overseas sector must, by definition, net to zero across the whole economy. If the government runs a surplus, someone else must run a deficit. In practice, that means households or businesses are borrowing more, or the overseas sector is running a corresponding surplus against the UK. A government surplus is not, therefore, a sign of prudent management; it is a sign that debt has been transferred to the private sector, usually to the households least able to carry it.

The Analogy as Justification for Austerity

Richard identifies the persistence of the household analogy as the intellectual foundation on which successive programmes of austerity have been built.

If voters believe that government spending works like a household budget, then cuts look reasonable and even virtuous. They look like belt-tightening, like the responsible behaviour of a family that has overspent. The political language reinforces this constantly: maxed-out credit cards, money running out, debts for our children to repay.

Each of these formulations, he has argued, depends on a false premise. The government's "credit card" is the Bank of England, which the government owns and controls and which can always meet the payments Parliament has authorised.

The national debt is not a burden to be handed to future generations; it is the stock of government-created money that the private sector currently holds as savings. Paying it down would mean withdrawing money from the economy, which would reduce private savings and contract activity. Far from protecting future generations, it would impoverish them.

The real constraint on government spending is not monetary but real. It is the availability of labour, skills, materials, and productive capacity. When those resources are fully employed, additional spending will generate inflation. When they are not, as was plainly the case across most of the austerity years, restraining spending simply leaves people and resources idle, producing nothing, while public services deteriorate

and long-term productive capacity is eroded.

The Analogy's Grip on Political Debate

One of the features of the household analogy that Richard finds most troubling is its capacity to survive even when the people deploying it are confronted with evidence of its failure.

Politicians who have witnessed the failure of austerity, or who lived through the extraordinary spending of the Covid period without the economic collapse the analogy would predict, continue to invoke its logic the moment fiscal pressures re-emerge. This is not, he suggests, because they are incapable of understanding the argument but because the analogy serves a function that is political rather than analytical. It disciplines public expectations, sets a ceiling on what voters are allowed to demand, and provides cover for choices that are, in reality, choices about distribution and power rather than about the availability of money.

Fiscal rules, which Richard has examined separately in considerable detail, are the institutional expression of this logic. They translate the household analogy into binding commitments, constraining what governments may spend by reference to arbitrary ratios rather than by reference to the actual state of the economy and its real resource constraints. In doing so, they embed the analogy's errors in policy frameworks that successive governments then feel obliged to respect, even when respecting them produces demonstrably bad outcomes.

What Should Replace It

Richard does not argue for spending without purpose or limit. His argument is that the right question is never "can we afford this?" but always "do we have the real resources to deliver this without generating excessive inflation?" When resources are available and needs are unmet, the government has both the capacity and the obligation to act. The constraint is real, not monetary, and policy should be designed around that reality rather than around an analogy borrowed from the finances of a Victorian household.

Understanding this distinction is, in Richard's view, a precondition for any serious programme of public investment, whether in health, in green transition, in infrastructure, or in the care economy. So long as the household analogy shapes the terms of political debate, the space for such investment will remain artificially and unnecessarily narrow, and the political imagination of what government can achieve will remain confined by a metaphor that was wrong when it was invented and has only become more wrong with every decade that has passed since.

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