

Funding the Future

Your opinion is sought

Published: July 30, 2026, 6:28 am

I have posted an infographic on the household analogy this morning, but as part of our edperm inenattyion on how to turn these infographics into carousel presentations on Instagram, TikTok and YouTube Shorts, we (or actually, Sam, our summer intern) tried another version which we think might be more suited for that purpose, which is this:



I would stress that we created this to split it into parts for social media presentation, each box being its own slide for that purpose. However, here is an obvious question to ask. Do you prefer the above print-style version or the version in the handwritten style we have been using, which is this:

The Household analogy

1. The comparison everyone knows

- People often say a government should manage its finances like a household.
- They point out that households must earn before they can spend.
- So, they claim governments must do the same.
- I suggest this comparison is fundamentally wrong.



2. Households use money

- Households cannot create the money they use.
- They must earn income, borrow or sell assets to spend.
- Every pound they spend must come from somewhere.
- Their budgets are genuinely constrained.



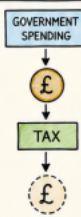
3. Governments create money

- The UK government, like all similar governments, is different.
- It creates the pounds that everyone else uses.
- Government spending introduces new money into the economy.
- That is how the money we use first enters the economy.
- Tax comes afterwards.



4. Spending comes first

- One important fact is almost never acknowledged.
- Government cannot collect tax until the money to pay it exists.
- That means it must spend money into existence before tax can be paid.
- Government spending creates that new money.
- Only afterwards can tax reclaim part of it from the economy.



5. Why tax exists

- Tax does not fund government spending.
- Its main role is to reclaim government-created money from the economy.
- That helps control inflation.
- Tax also redistributes income and changes behaviour.
- Tax helps create fair, stable and thriving societies.



6. Borrowing is different too

- Government borrowing is not like a household mortgage.
- Because government creates our money, it does not need to borrow before it can spend.
- Instead, it offers people a safe place to save.
- Government bonds work like government savings accounts.
- People value them because government can always guarantee repayment.



7. Why the myth survives

- The household story sounds like common sense.
- That is why it is so persuasive.
- The only problem is that it is wrong.
- It hides how the monetary system really works.
- Worse, it encourages unnecessary austerity by limiting what government is thought able to do.
- That is why it is so popular with politicians who want to limit what government does.



8. A better way to think

- Think of government as the issuer of our currency.
- Think of households as users of that currency.
- They cannot operate under the same rules.
- Confusing them leads to bad economics and poor policy.
- Government spends before it taxes.
- Households have to earn before they spend.
- They operate in opposite directions.



Conclusion

A government that issues its own currency is not a household. Understanding that one difference changes how we should think about tax, spending, borrowing and the whole economy, and how it should be managed.

A BETTER FUTURE FOR EVERYONE



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<https://www.taxresearch.org.uk/Blog/>

Richard Murphy's
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