

Britain's real interest crisis

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Is the UK facing a government debt interest crisis? More than £100 billion a year is now being spent on debt interest, and this is frequently presented as a threat to the government's finances. In this video, I argue that this misses the real issue.

The UK government cannot involuntarily run out of pounds with which to meet sterling-denominated payments. The important question is therefore not whether the interest can be paid, but who receives that money and what those payments do to the distribution of income and wealth.

Government interest payments become somebody else's income. They flow to the owners of government bonds and other savings, including pension funds, investment funds, banks and other financial institutions. But because financial wealth is distributed very unevenly in the UK, the benefits of those payments are also unevenly distributed.

I argue that this means higher government interest payments can contribute to wealth inequality. Those who already own substantial financial assets receive additional income, while households with little or no financial wealth receive very little direct benefit.

That raises an important question when politicians simultaneously argue that spending on pensions, health, education and other public services must be constrained. Why is austerity discussed for those services while the scale of interest payments to asset owners receives much less attention? Is this a case of austerity for the poor and interest for the rich?

The real interest crisis, in my view, is therefore not government solvency, or even the cost being paid. It is the distributional impact of transferring such large amounts of income to the owners of financial wealth while claiming that spending elsewhere must be restricted.

<https://www.youtube.com/watch?v=CfCCyQezwl8?si=rl53eFQ8bYCqyFrS>

This is the audio version:

https://www.podbean.com/player-v2/?i=2hm7m-1b69d85-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:

Has the UK got an interest crisis? More particularly, has the UK government got a debt interest crisis as a consequence of the interest that is being paid on the UK's so-called national debt? That interest is now costing more than £100 billion a year, and some people are claiming that this is totally unaffordable and will effectively bring our government's finances down.

Now, I don't believe that. It's completely untrue. The UK government can always settle its debts because it creates the money to make the payments. So there is no government debt crisis, but there are still questions to ask about such an extraordinary level of interest payments. And the real question to ask is who gets this money and what are the consequences?

Let's just put the figure in context. The latest estimate for debt interest payments was that, in the last financial year, the UK government paid £110 billion of interest, and the figure will, of course, be more this year, and it is expected to reach £137 billion in 2030. That is more than £30 billion greater than the cost in 2024. And the monetary scale of this transfer is then increasing.

And at the same time, interest is taking a bigger share of government spending. Debt interest was around 8% of total government spending in 2024-25, and that is expected to rise over the next few years, although not exceptionally, because, of course, the economy will grow as well. But that doesn't mean that this isn't an issue.

There is money being paid, but it's not lost as a consequence, as you would think is true when you hear some politicians talk about this. The fact is that this money isn't poured into a black hole. It becomes somebody else's income, and so it might become somebody else's wealth. And the important question is, who gets this money? And that matters because the total level of debt interest paid now exceeds 3% of the whole UK economy, and that figure might be rising to 4% by 2030.

So this is a question about distribution and not about government solvency. It's a question of who bears a public cost, and why should we continue to put up with that

level of transfer of wealth from the public purse into the hands of private individuals.

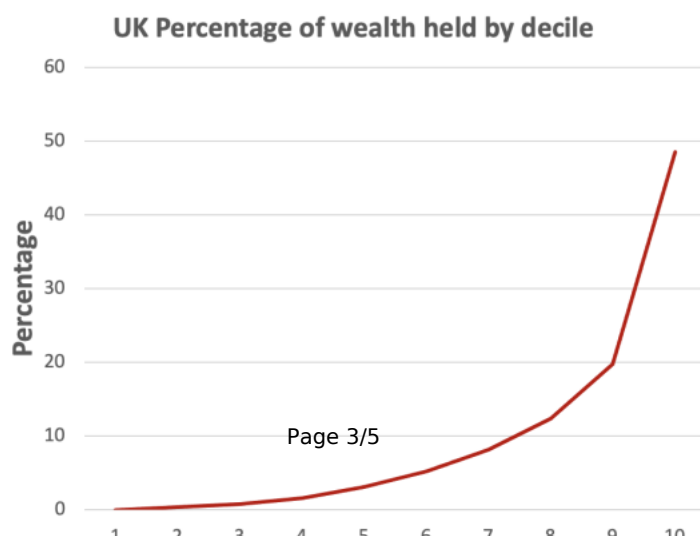
And I stress yet again, this is not about government solvency. The UK government can afford to pay its debts. In fact, it doesn't have a problem with paying interest on this money because all this money represents is money saved with it by wealthy people, by banks, by pension funds, by foreign governments, and even by the Bank of England. And it cannot involuntarily run out of pounds with which to make the payments due with regard to the interest.

So, the question is very much about who benefits and not about whether this payment is affordable. And the reality is that whenever the UK government spends, the payment made becomes somebody else's income. It's vital to remember that. Most people don't. But every transaction has two sides. So when the government pays interest on a bond, or a gilt, as they're commonly called, the owner will receive it. When the government pays interest on an NS&I savings account, with that bank being run by the government, the person who has saved in that way gets the interest.

And let's not forget that the Bank of England also earns a significant amount from these interest payments because around one quarter of all government bonds are still owned by it. But the reality is that most of these payments go to pension funds, investment funds, and banks located in the UK, but some also abroad and some of the interest gets paid to foreign governments as well.

Don't worry about the foreign dimension of this. It really doesn't matter because we earn matching interest from abroad. That just represents the fact that savings are spread outside the country where they originate. That's normal, appropriate and balanced. So there is no foreign concern about this. All the payments are made in sterling. The UK government can afford to make them. They do not prejudice the well-being of our country.

But the point is, who owns the pension funds, the investment funds, and the banks, and even the companies that receive these interest payments? And what we can see from data is that wealth is very unevenly owned within the UK economy. This chart shows that. It is prepared on the basis of data produced by the UK Office for National Statistics, and the figures along the bottom of the UK population split into 10 equal groups by size.



If you are in the poorest group, you are in decile one as shown on this chart. If you are in the richest 10% in the UK, you are in the group called Number 10, and you can see that that group owns almost half of all UK wealth between them. In fact, the top 1% of wealth owners in the UK own more than all the wealth owned by the bottom 50% of people in the UK as a whole, so unevenly shared is UK wealth.

And this is important because what those wealth owners actually own are the pension funds, the investment funds, the banks, or shares in them, and shares in large companies that also benefit from the interest payments. The poorest households in the UK have very little wealth capable of generating any financial returns. Those in the top 10% or so of the UK population generate a lot of returns either directly to themselves or indirectly through their pension funds and other assets. And they therefore benefit from these interest payments by the government because these funds in which they have a stake are the people who own the UK government's bonds. That matters.

What we are seeing is that the UK government is paying out substantial amounts of money for people who are already rich. And, as a consequence, their income goes up. But so too does their wealth because, of course, if you have enough money to be able to save already, any income that you earn on your investments will probably simply accumulate as greater wealth from then on.

The fact is, as a consequence, that the UK government is increasing wealth inequality in the UK, and things like the subsidies that the UK government provides to pension fund contributions only exacerbate this trend by providing an extra subsidy to those who are already being paid large amounts of interest by the UK government.

We are seeing the inequality that we know our economy suffers from increase as a result, and this does then matter. What we are seeing is interest rate policy creating a distributional problem in the UK, and to me that is an issue which requires attention.

And so what we need to do in that case is to raise the question about why is the benefit of this payment so unevenly distributed and should we as a result be asking questions about it?

And let's put this in proportion. The wealthiest 10% or so in the UK economy are picking up over £50 billion a year as a consequence of these payments. And that's equivalent to around one third of the total old age pensions paid in this country each year as well.

Now old age pensions are paid to prevent poverty and to support those who have no other way of keeping themselves going. But these payments of interest are going to those who are already wealthy, and yet nobody's talking about this.

We hear talk about cutting the pension triple lock, but we don't hear talk about how we can cut the amount of interest paid to those who are already wealthy and yet we could. We could cut the interest rate, for example. The fact is, though, we don't do that. So

there is austerity for some and interest for others.

That's wrong. When people are being told the government has to be constrained with regard to its spending on education, on health, on pensions, on crime, on defence, on justice, then we should instead be asking why we are still spending to make the rich richer?

This is the contradiction which is at the heart of the UK political debate and which isn't being talked about. And this, in my opinion, is the real interest crisis we face in the UK.

The problem is not that the UK government might be unable to pay its debts. It can. It will. There is no question about that. The problem is what these enormous payments do to the distribution of income and wealth in the UK, and why they leave the most vulnerable even more vulnerable still, because the government claims it has to deliver austerity as a consequence of making the rich even richer in this country. The government is providing a substantial income to the owners of financial assets in the UK, but why isn't it instead making it a priority to increase the well-being of those who are most vulnerable?

Who gets money is a question that always matters. The government can create the pounds to pay its debts. The economic consequences of those payments should not be ignored.

Those interest payments are the problem. And the result is that we have an issue which we should be talking about in the UK economy. I believe we need to tackle the imbalance that these interest payments give rise to, but you might disagree.

There's a poll down below. You have the opportunity to leave your comments as well. Please do take part. Please do like and share this video. Please do subscribe to our channel. And please hit that bell button because that means you will then be told when we make another video, although, let's be honest, that tends to be every day. And if you like what we are doing and support the work that we're trying to undertake so that people better understand the way in which our economy works and the way in which politicians should be talking about it, please do make a donation. There's a button down below for that as well. It's called Ko-fi, or coffee, and that helps buy some more of this, and I promise coffee helps make these things.

Poll

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