

Why governments need to issue bonds despite modern monetary theory

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I [wrote this in June](#). In the light of my [blog on modern monetary theory today](#) and the comment I made in it that the government must act as the borrower of last resort I think it appropriate to republish it. I do so knowing it contradicts modern monetary theory. Political judgement and the needs of financial markets suggests that doing so is appropriate for the reasons I note. Modern monetary theory is not, in other words, the answer in all cases: it can just inform the process in which a government decides to engage.

In principle a government with its own central bank does not need to issue gilts to cover its deficit: it can simply run an overdraft instead, and pay no interest. In practice there are good reasons why debt is issued.

First, people need safe places to save.

Second, those with pensions need locked in and guaranteed income streams.

Third, the banking sector has, post 2008, needed government bonds as a mechanism to secure overnight deposits.

For these reasons I am not opposed to bond issues at low or effectively no net interest cost. And that is possible right now.

As the [FT has noted today](#), 10 year government bonds have not paid more than 1.5% in the last few years. And the demand for 50 year bonds is so strong that they are paying lower interest rates than 30 year gilts.

The FT's conclusion is that this indicates a capacity to issue more debt because the demand for it exists. I am entirely sure it does.

And if other debt was packaged for a domestic market - as an NHS bond, for example, in an ISA wrapper - then I suspect there would be a very strong take up. What is more

the myth that the debt is so bad would be shattered: it would be seen as the simple savings system that it is.

The simple fact is that markets need and would readily buy more government debt. Gilt issues are six times over-subscribed at present. It's completely baffling that the government refuses to supply people with the savings products they want - and most especially longer-term locked in ones - when there is no net cost to doing so in interest terms and the country is crying out for the benefit of the spend which it will not get if these funds are instead directed into private savings arrangements.

Is it really too much to hope that someone, somewhere, might see the sense of what even the FT thinks is the obvious thing to do, which is to issue more debt to assist the provision of improved government services!