

Why we need green bonds

Published: January 13, 2026, 5:30 am

The FT has [reported this morning](#) that:

The head of the UK's Debt Management Office has poured cold water on the case for issuing "green" government bonds, saying it could end up costing taxpayers more than standard gilts.

Robert Stheeman, who is in charge of raising billions of pounds a year in the bond markets on behalf of the government, said the creation of "green gilts" – government debt with proceeds earmarked for environmentally friendly projects – would be a "symbolic" step unless investors were prepared to pay more for them.

Sir Robert, who has run the DMO since 2003 and has a mandate to keep expenses down for taxpayers, told the Financial Times he is sceptical that issuing green bonds would be cost effective because it could prove difficult to create a big and liquid market.

"One of the natural ways you minimise cost is you try and ensure all your bonds are as liquid as possible," he said.

"In our case that usually means building up benchmarks to £20-30bn size. Smaller one-off bonds tend to fragment that process and the market is not necessarily willing to pay a liquidity premium for those smaller bonds."

I post that as background, and because this issue is important, and important to me. I have been arguing for green and alternative bonds e.g. from local authorities, [throughout this century.](#)

In that case what I might call the rather narrow-minded approach of Sir Robert needs to be considered.

Background

First, let's consider some background. Whilst it is a fact that under the currency

conditions that existed until the 1970s it was the case that the UK did need to issue gilts to make good deficits, that has not been true since then. I rather strongly suspect that the Debt Management Office ignore this fact when undertaking their work. They simply accept that what is done is what has always been done, and so week in and week out they manage their books by issuing gilts.

But the truth is that this is not necessary. When there is a fiat currency in issue in a country, and when there is a stable currency, and when there is an independent central bank, then there is no need for gilts to be issued, except by convention and because of international agreements (that exist right now, but may not when we leave the EU).

It is possible that all government borrowing could instead, for example, be from a bank and not be financed by gilt issues. And it is also possible that the bank making the loan could be the Bank of England. And that also creates the possibility that the loan need not have interest charged on it because the Bank of England is, after all, owned by the government. It could then simply lend to itself at a zero interest rate.

This, I stress, could be done. It isn't. That's because of paranoia that this would lead to excessive borrowing and so inflation, and you might think that is simply a neoliberal political imposition to prevent socially-minded government seeking to meet the needs of society and you may well be right. But I stress, it is possible.

The important point about knowing that this is possible is to appreciate that bond issuance is not necessary, or required. It is done for a policy reason. So arguments about cost, serving taxpayer need and all the rest of the case Sir Robert makes is not really true, because none of his activities are strictly necessary. His office exists to fulfil a policy purpose. It does not exist to fund the government, because the government could fund itself using an overdraft from the Bank of England at zero cost.

Why bonds are issued

It has to be asked why bonds are issued in that case. There are a number of reasons. I do not have time to elaborate in detail. I hope this will suffice.

First, bonds are issued because that's what we've always done and many cannot think of anything else. Do not dismiss this is possibly the most important argument of all, because it is. The bond market exists because the bond market exists and it suits some very well for it to be perpetuated. Bonds are, then, issued to support the status quo.

Second, and coming to more important issues, the bond market creates the most secure form of saving available to anyone. The UK government simply cannot default on its debt if it is in sterling because it can always, and without exception, instruct the Bank of England to make payment of that debt for it and it always will. As such bonds are the place for savers in the last resort. And long term savers have traditionally wanted that; gilts used to be fundamental to pension funds for this reason, for example,

although less so now because the rates are so low (see below). Bonds are in this case issued to provide a savings mechanism.

Third, the existence of this secure asset provides an essential alternative for the safe deposit of funds for those for whom government guarantees on cash deposits do not work. That is, companies and those with more than £85,000 to deposit. Government bonds are then the backbone of the so-called repo market, which is at present fundamental to the smooth operation of the City of London. I happen to think that important still: when banks are not reliable (and they are not), and funds deposited with them are at risk (and they are) then the government needs to create an alternative form of currency for the safe deposit of funds. In effect government bonds provide this. The government issues bonds to support the financial markets, in other words.

Fourth, and vitally, bonds can, like tax, take currency out of circulation in the economy and so can help control inflation. This is an economic function.

Fifth, in the process of regulating the supply and demand for bonds they can be used to set interest rates either directly or indirectly via the quantitative easing process. This means that the government did have (but now has not) a valuable mechanism for control of the economy. Again, this is issuance for an economic management purpose.

Those are the reasons for issuing bonds. In summary:

- a) To support the savings market;
- b) To provide an alternative savings mechanism;
- c) To control interest rates.

But, and important to note, is the fact that bonds are not issued to fund government spending.

Bonds and government spending

I stress the last point noted above. Bonds do not fund government spending. That spending can happen whenever the UK government wishes by it simply instructing the Bank of England to make a payment. It is purely convention, as previously noted, that the resulting overdraft at the Bank of England is then cleared by a form of debt issue. The issue of bonds is not then a mechanism for funding government spending, even if it appears otherwise.

Bonds and 'taxpayers' money

The claim by Sir Robert that the cost of borrowing must be minimised for taxpayers is profoundly wrong. Government money is not taxpayers' money. Tax is collected to recover the spending the government makes. If the government did not spend the

money into existence in the first place it would not exist for the settlement of tax. This has, then, to be true. Factually, taxpayers' money is simply destroyed upon receipt at the Bank in that case, just as all loan repayments destroy money in a fiat currency system.

But Sir Robert's claim is also deeply wrong because it perpetuates a falsehood in addition to the false belief that governments have no money of their own when money is necessarily of their creation. This falsehood is that the government is beholden to maximise return to taxpayers. This is simply a deeply corrupt form of the false thinking that companies only exist to maximise return to shareholders. The latter is emphatically not true, and we know it. Companies have a plethora of purposes and so does the government. To suggest maximising taxpayer return is one of them is simply wrong.

So what are green bonds for?

The logic of green bonds is that they supposedly fund green investment. As noted above, that is not true. They do not. At one level it could then be argued that they are simply not necessary. Borrowing at zero per cent from the Bank of England could be said to be a better deal.

And Sir Robert is right to say that:

"Any government can choose to do what it wants for the environment in investment terms, regardless of how it borrows," he said. "I think that's quite importantâ€.â€.â€.â€I do think there are a number of investors who would love to have sovereign green bonds in their portfolios. What I would like to see is what are they going to pay me for it?"

In the past, the UK government has not earmarked revenues from specific taxes or debt for particular purposes, and doing so would require a change in the law.

That is "not an insurmountable problem. These things could be done," Sir Robert said. "Ultimately this is a decision for ministers. Were ministers to decide this is something we should do, not only will we do it, but we would make a success of it."

I accept this point there. And if existing gilts would behave very much like green gilts - and the article makes the point that this is likely- then what is all this about? I suggest that it is something much more profound.

Why we need green bonds

We need green bonds for four reasons.

First, people are going to save. That's a fact. They do save. They have rational reason for doing so. And that saving needs to be secure. It is already the case that the government carries enormous risk to ensure that this is the case. It guarantees the

cash deposits of most people in this country, effectively underpinning the banking system in the process. The question has to be asked as to whether a better form of saving could be found in that case.

Second, [subsidising pensions](#) costs well over £50 billion a year. And subsidising ISAs costs several billion more a year. Both inject substantial amounts of saving into the inherently unstable stock market. And stock markets provide very little funding for any form of investment now. New stock issues are incredibly rare. As a result, this massive cost is being used for no social or economic gain. It merely supports gambling. This is ludicrous.

Third, most people do not understand the risks that they do face in their savings, and that is because there is [massive opacity around such savings mechanisms](#). This is dangerous. I have [explained why](#).

Fourth, the disconnect between people's savings and anything that they can identify happening in the economy means that a massive industry - the financial services sector - does appear to most people to exist without any apparent social purpose or gain to society. The impression is, regrettably, not unfair when most banking activity supports property speculation and most stock exchange activity is simply gambling.

There is then a need to issue green bonds not because they are inherently necessary to fund green infrastructure, but because there is a need for a vastly better savings market than the one we have.

That better savings market would:

- a) Be transparent as to the cost of government support;
- b) Link saving to social purpose;
- c) Be transparent;
- d) Minimise risk for the saver
- e) Provide the funder for bond issues that the government thinks necessary.

In effect, this is the basis for my proposal for [issuing green ISAs and linking pensions to green investments](#), made in December. The need is to make savings relevant for a social purpose that the government should be promoting and not because, per se, this is pre-condition for green investment, although whilst the government insists that there must be bond issues then this arrangement also happens to completely fulfil that need as well.

The price paid in the form of interest is tiny compared to the current cost of supporting savings. In that case, very politely, can debate on this issue (whilst appreciating that the rates used are wholly indicative and not prescriptive, and not suggestive of a flat rate for all issues) be within that context?

But the form of the suggested saving - replicating the massively successful cash bond market - is deliberate. People want such products.

And that this will apparently cost more than gilts is not the point: the social gain of making explicit the subsidy to saving and linking that subsidy to the social gain of green investment is the whole point.

And that, I suggest is a price worth paying for the value it provides.

In that context, what I am saying is Sir Robert is guilty of knowing a price but seems quite unaware of value. And that has been a failing of markets for a very long time.