

The government has a duty to provide the market with mo..

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As the [Guardian has reported this morning](#):

*Money is absolutely pouring into government bonds, as investors try to find somewhere safe to put their money.*

*This is forcing prices to stratospheric highs, which pushes the yield (or interest rate) to new lows.*

*The yield on Britain's two-year government bonds (or gilts) has just fallen below zero.*

*That means the UK government could effectively borrow for free, and simply return the money in 2022.*

This needs to be understood. No one, of course, is excited by a negative rate of return on their savings, but the reality is that there are vast amounts of money invested in stock markets owned by people who are also desperate to avoid a loss on their savings. In the light of the overnight disruption in the oil markets, deliberately created by Saudi Arabia, stock markets are crashing and as a result people are pulling their money out as fast as possible. This has two effects, of course.

The first is that the losses are compounded: the herd of factors guaranteeing that a downward trend in the market is built in a present.

The second is that people need somewhere else to put their money, and the people in question have vastly more than the £85,000 that is guaranteed to be safe by the government if placed in a bank account. As a result they look for alternative places to locate their funds that offer the same degree of security, and government bonds provide that. This is because markets know what modern monetary theory always says, which is that the UK government can never default on its borrowings precisely because it can always create the funds necessary to pay out on demand. And, as a consequence, money is pouring into government bonds. The corollary of that is that the price of these bonds is pushed up as demand for them grows, and as the price goes up the effective rate of interest paid goes down because the interest rate does not vary in

proportion to the price paid for the bond. As a consequence, the return on government bonds in the UK has actually reached a point where negative interest rates are being paid at present.

I stress, given that this is a sign of stress this is not necessarily good news.

I would also say that market disruption of this order is very rarely, if ever, good for the real economy.

But the most important thing I want to note here is that given the level of concern that clearly exists with regards to security within the financial sector, the government now has a duty to respond to this crisis by providing the market with more bonds. What the markets are clearly indicating is a very high level of panic and when fear of this order exists then it is the job of the government to dispel it. It has just one way it can do that. It can underpin the risk in the market by providing the risk-free savings mechanisms that it alone can create, which are government bonds. Companies, individuals and pension funds are all desperate for these bonds at present, and with good reason: the alternatives that they face are highly risky, as is cash as far as they are concerned, because those who are panicking do not enjoy a guarantee that their deposits in our banks are safe. This is why they need bonds. And the only responsible thing for the government to do is to supply those bonds.

This will keep the price of bonds under control, which is necessary.

It will keep interest rates stable, even if low, and that is appropriate.

And it will provide a place for funds to go, even if only in the short term, so that panic can be managed.

It is utterly irrelevant that the government may not need the funds in question present: what it must do in this situation is act as a borrower of last resort, which is precisely what it is with regard to those wish to save in government bonds at present.

So, what the government should be doing, through the Debt Management Office, is making available very large quantities of short term government bonds, all of which could, if necessary, be repurchased by the government at a moments notice if market sentiment changes.

Then every person in the market would know that they could have the security for their savings that they want. And simply knowing that would stabilise markets.

Will the government do this? I very much doubt it, because it's not what governments have done. But it's risk-free, responsible and vastly cheaper than allowing panic to grow and credit markets to be de-stabilised.

As ever, I can live in hope, but without expectation.