

Labour's Recovery Bonds are a work in progress, ...

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Having been taken slightly by surprise to find that Labour appeared to be promoting an idea I have long been associated with, [having first suggested something akin to it in 2003](#), in the form of its so-called Recovery Bonds, I have watched reaction with interest.

As far as I can see many on the right have simply decided to ignore this proposal. That is, I suspect, a policy based on the idea that denial of the publicity of oxygen to Starmer makes sense to them. It also suggests to me that this idea will be recycled as Tory strategy long before Starmer gets the chance to use it.

Reaction on the left has generally been hostile. Duncan Weldon said he could not see why the government wanted to borrow at more than prevailing gilt rates. That wholly misses the point. When existing subsidies to savers cost maybe £60bn a year, paying £1bn in additional interest charges is almost irrelevant if a social gain follows. Nonetheless, it seemed many echoed his view. Market fundamentalism runs riot on the left, or so it would appear.

Others suggested that NS&I should just increase its rates again, but that once again shows a lack of understanding as to what the proposal is about. The marketing of a bond (and I suggest they be hypothecated with greater granularity than it seems Labour might be proposing) is critical to its appeal. There is a deliberate social intention within the plan to link the saver with the project that the saving might deliver.

No one, it seems, got the inter-generational dimension to the idea: the proposal uses savings of the older generation actually to create assets and, most importantly, work for those who are younger.

I was asked by someone who knows MMT well who came up with this dumb idea, and I admitted I might be knew if its progenitors, and saw no conflict. I think that created a sense of horror. The MMT line is that the government does not need to borrow because it can always fund itself. But need and desirability are not the same. I have long argued pure MMT gets this wrong. The government may not need to borrow, but people need to deposit with it. That's for security, or because they are overseas holders of sterling

wanting a safe place to borrow funds, or because they are in finance and need the collateral value government bonds provide. The MMT argument about not needing to borrow has a singularity of perspective that does not help explain why bonds actually exist. I am quite willing to disagree with MMT when it gets things wrong.

And as far as I can see only Larry Elliott really got the purpose of the proposal, when saying in [The Guardian](#):

The thinking behind them is that only a fraction of the excess savings built up during the pandemic will be spent so the rest could be doing something more useful than sitting in bank accounts.

In other words, he saw what the critics did not, which is the instability that substantial deficits create by pumping excess savings into the economy which QE denies a safe harbour to by restricting the supply of government bonds at a rate the smaller saver desires.

Aviva noted yesterday that there might be £1.6 trillion held in cash savings in the U.K. right now, with maybe £225bn of that earning no interest at all. People want security. This plan is intended to provide it whilst delivering social advantage.

The person who might have got the idea best was James Meadway, who was once in John McDonnell's team. He appreciated that this might provide the means to direct loan funds to local authorities at lower cost than they are charged at present with a new economic role being created for them as a result. This is exactly what Colin Hines and I were suggesting in 2003. The aim was always to empower local decision making and accountability.

The Recovery Bond is not a well formed idea from Labour as yet. The suggestion that it will pay market rates of interest is wrong: it needs to pay a premium. And it needs to be linked to ISAs, at least. It also needs more options. NHS bonds would work. So too would Welsh and Scottish bonds appeal, I am sure. But the proposal is much more significant than the critics have understood it to be.

It lets Labour answer the question 'how will you pay for it?' It now can say.

It lets Labour say it is tackling the risk of instability in the savings market, which I think is high.

And it really does provide a pool of capital. Of course MMT says that the government could also do this. And I agree, but that does not address the political difficulty of it doing so. And it does not address the difficulty of the savings glut that MMT could create, and which as far as I know is an issue it has not addressed, but where the market has no solution and so one is required. This plan recognises those realities and deficiencies and addresses them.

Let me be clear that I see this as a work in progress. But it is also a decided step in the right direction.