

Funding the Future

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There's a persistent myth that our government is somehow at the mercy of the financial markets and that it has to dance to their tune. This is most definitely doing the rounds this week, mainly as a result of Labour's mismanagement of its own party, and Rachel Reeves' subsequent very public tears.

It's a myth I have been challenging for years, so let me summarise why.

1. The government creates the money

The UK government is the monopoly issuer of the pound. It spends all of that money into existence. Every pound of government spending creates a matching financial asset for someone else. It is only afterwards that the government issues bonds, not because it needs the money, but to provide a safe place for savers to deposit their funds when banks cannot provide this service.

This point is critical. The government does not need the markets to 'fund' its spending. It is simply swapping one form of money (reserves) for another (gilts). Bizarrely, it pays interest to those to whom it provides this service.

2. Gilts are a choice, not a necessity

The sale of government bonds, gilts in the UK, is presented as if the government is dependent on the markets to keep spending. This is nonsense. The government issues gilts largely because:

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It wants to drain reserves from the banking system to help the Bank of England hit its (currently too high) interest rate target.

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It wants to give pension funds and insurance companies a safe deposit facility to underpin their promises to those who use their services.

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It believes it must maintain an outdated and now unnecessary City-based financial

architecture.

None of this means it needs the markets to spend. If no one bought gilts, the government could continue to spend. In fact, as quantitative easing and now quantitative tightening prove, there is no relationship between bond issues and Bank of England market interventions and the capacity of the government to spend: the evidence is all there for anyone to see.

3. The central bank is always the buyer of last resort

When financial markets are in turmoil, as happened in the mini-budget fiasco under Liz Truss, the Bank of England steps in. Its role is to stabilise prices and yields. This is not optional. It is a fundamental part of having a sovereign currency and a central bank that acts as the lender of last resort. This means the financial markets are, in fact, dependent on the government and its central bank. Not the other way around.

4. Interest rates are a policy choice

People say, “but the markets set interest rates, and so they can discipline the government.” Again, this misunderstands monetary operations. The Bank of England sets the base rate. It can cap or control longer-term rates by buying or selling bonds as it chooses. The so-called market rates are policy-contingent. When push comes to shove, the central bank can always enforce the interest rate it wants.

5. What markets really influence is ideology

So why the obsession with ‘market confidence’? The reality is, politicians and economists often invoke markets to justify austerity. It is easier to say “the markets demand it” than to admit their own ideological choice, which would otherwise be unpalatable to the electorate. Financial markets do, in that case, play a political role, but they do not hold the government hostage. They operate within the monetary framework that the government and its central bank set. We could just as easily choose to run the economy with other priorities, but it does not suit neoliberal politicians to do so. That is because they view politics as the City does, at cost to us all.

Summary

I keep returning to this issue because it is so fundamental: the UK government is a currency creator, not a currency user. It is not like a household. It does not need to beg or borrow from the markets to spend. Financial markets are accommodated by the government, not the other way around.

Understanding this changes everything. It means that economic policy decisions — on public services, investment, climate action, and inequality — are political choices, not technical constraints imposed by bond traders. That is why misinformation on this issue matters so much, and the fact that it is so widespread shows just how strong are the

forces that wish to deny that democratic choices can still be made in the UK.