

## How to manage the cost of government borrowing

Published: May 12, 2026, 6:55 am

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Bond markets are reported to be twitchy this morning. Gilt rates are rising. The City of London is muttering about “fiscal credibility”. And the reason is not hard to find. There is growing uncertainty about the future of the Labour government and, in particular, whether a successor to Keir Starmer might eventually emerge who could shift policy, even modestly, to the left.

The mere possibility that a future government might choose to improve public services, reduce poverty, invest in housing, or restore social security is enough to unsettle financial markets. The threat, from their perspective, is that the government might begin to work for ordinary people instead of primarily serving wealth.

And so the pressure begins. Gilt yields rise. Commentators warn of “market confidence”. Politicians are told there is “no money left”. The same script is rolled out yet again.

But we need to be clear about what is really going on. The fact is that the benefit of the interest paid on gilts in the UK goes, almost entirely, to the wealthiest people in the UK. The top 10% of wealth owners, who broadly coincide with the top 10% of income earners, capture around two-thirds of the benefit. That is worth about £55 billion a year, a sum only just a little less than the annual defence budget and bigger than the entire Westminster sourced budget for Scotland.

In other words, government debt interest is now one of the largest upward redistribution mechanisms in the UK economy.

What is more, every time a government even hints at doing something for the benefit of ordinary people, meaning the 90% outside the wealthiest elite, the financial markets respond by demanding higher returns from government borrowing. The result is perverse. Any threat to improve the lives of more than 14 million people living in poverty in the UK, including more than 4 million children, is used as the excuse for transferring even more money to those who are already wealthy.

This is not an economic necessity. It is political power exercised through financial markets. So, what can be done?

First, the government needs to take back control of interest-rate policy from the Bank of England. The Bank currently operates a system that overwhelmingly benefits wealth holders. UK interest rates are too high, not because inflation requires them to be so, but because the City wishes to attract foreign money into London's financial markets so that financial institutions can profit from managing it. The rest of society pays the price. That has to end.

Second, the base rate should be cut. UK rates should be much closer to those in the eurozone. A cut of at least one percentage point is justified by current economic conditions. At a time of stagnation and insecurity, maintaining excessively high interest rates is economically damaging and socially destructive.

Third, the government should reduce the interest currently paid on reserve balances held by commercial banks at the Bank of England. These payments now cost at least £20 billion a year. With relatively straightforward restructuring, that bill could very likely be cut dramatically. Once again, this is money currently flowing overwhelmingly to the financial sector and wealthy asset holders.

Fourth, the government could refuse to issue new gilts at elevated rates if markets seek to impose punitive terms. Instead, it could borrow directly from the Bank of England if necessary. That would make an essential point. The government is not dependent on financial markets for money. The markets are dependent on the government for the supply of safe assets like gilts.

Right now, we are being told that the UK government, and the Labour Party in particular, must obey the dictates of the City of London or face financial punishment. The correct response in its politest form is simple and is "get stuffed."

A government that properly understood the nature of its own finances would not tolerate this situation. It would prioritise the well-being of people before the interests of wealth, and it would act accordingly. But, we are not possessed of a government that properly understood the nature of its own finances, and for reason of that failure millions are suffering.