

The City is holding this country hostage

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UK government borrowing costs are rising fast, and the official explanation does not make sense. Britain is paying far more to borrow than France or Italy, despite having its own currency, a central bank, and no meaningful risk of default.

So what is really going on?

In this video, I argue that the City of London is using the bond market to discipline government and protect wealth. The institutions that own most UK government debt are banks, pension funds, insurance companies, and wealthy investors. Rising interest rates mean rising income for them.

I explain who actually owns UK government debt, who receives the £111 billion a year in interest payments, and why most ordinary households see almost none of that money.

I also look at the role of the Bank of England, quantitative easing, central bank reserve accounts, and why UK rates are so much higher than those in much of Europe.

Most importantly, I explain why the government does not need to accept this situation. There are alternatives. A government that understood how money and central banking really work could take back control of interest rates and stop this ongoing transfer of wealth to the financial sector.

If you want to understand how bond markets really work, and why UK economic policy seems designed to protect wealth before people, this video is for you.

<https://www.youtube.com/watch?v=t8aaYXtZxSc?si=fMC9i6wl8crqiff8>

This is the audio version:

https://www.podbean.com/player-v2/?i=8qqi6-1ac2979-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

UK government borrowing costs are going up right now. The City is terrified of there being a new left-wing Labour prime minister, and they're pushing up these costs even higher than they already are, and that is something we need to talk about.

UK government borrowing costs are now above 5% on ten-year borrowing, and over 5.75% on 30-year borrowing, and that is expensive. How do I know that? I can look at the costs of France and Italy within the EU, and they are borrowing at less than 4%. That says we are paying too much. The UK is paying much more than comparable European economies, and that makes no sense at all, because there is no relationship here between economic fundamentals and the cost of our borrowing.

So, it is something else that is driving these costs upwards, and we need to ask what that something is, and why it is, because this is something the government should be tackling. We should not be putting up with borrowing costs that are this high, which are having an impact on the well-being of people in this country.

Now, the first thing to say here is that the numbers that the government provides so that we may appraise this data are not what they seem.

UK official national statistics around this issue are riddled with made-up numbers. For example, UK GDP is currently said to be £3 trillion a year. That's £3,000 billion, but of that sum, near enough, £300 billion is the rent that it is claimed that homeowners pay to themselves for the right to live in their own houses, and of course, homeowners don't pay that sum. So, the real figure is, in fact, around £2,700 billion, and you can ignore the official data because it is, to be polite, a great big pile of CRAP or a 'Completely Rubbish Approximation to the truth', to be slightly more polite.

Again, the Office for National Statistics figures on the national debt also include made-up numbers. They include something called the "Bank of England contribution to the national debt", and there is no such thing as a Bank of England contribution to the national debt. They just make the figure up. It's not real.

So, let's deal with the most reliable figure for debt that we can find, which is that from the UK Treasury's Debt Management Office, and they put that figure for the national

debt at just over £2,900 billion. Unfortunately, yet again, they get the numbers wrong because included in that £2,900 billion is a debt of £200 billion, which is owned by the Debt Management Office. You can't owe yourself money. That's not a possibility. So the real figure is actually £2,700 billion. But the Debt Management Office likes to claim a bigger number, and bizarrely, so does the government when it comes to paying debt interest, because they include the interest paid on that Debt Management Office-owned debt in the total figure for interest paid.

None of this makes sense. If you think all of this is bizarre, you're absolutely right.

But let's come down to the nuts and bolts of this. The fact is that what we do know is who owns this debt that the Debt Management Office has put into circulation on behalf of the UK Treasury. That number looks to be reliable: at last, something we can talk about, which is sort of real. And here, the figures are clear.

One third of UK debt, 33% at this point in time, is owned by overseas investors. In other words, by governments and organisations and banks, and maybe people, but probably not, outside the UK.

Why do they own that? Well, they have good reason to do so. The UK is still quite an influential economy in the world. We might be struggling, we might feel as though we're having a bad time, but we're still the fifth or sixth largest economy in the world, and the pound sterling is still used for trade. As a consequence, people outside the UK want to hold the UK government's debts for two reasons. One, to facilitate that trade. They've got sterling when they need it to pay their bills, and two, because the UK government is the longest-established in the world, which has never, in effect, ever defaulted on its debt, and that makes UK government debt an attractive proposition for investors. And so one third of our debt has been bought by people outside the UK, and that is not a problem because that is a vote of confidence in the UK economy. Anybody who says otherwise has their understanding of this situation wrong.

But what about the remaining debt? There are three organisations that own most of this. The Bank of Eng

	% of debt owned
Insurance companies and pension funds	21.1
Overseas	33.4
Bank of England (Asset Purchase Facility)	18.5
Financial institutiouns	26.9
Households and non-profit institutions serving households	0.1
Local authorities	0.0
Total	100.0

It owns 18.5% of UK national debt, and again, you might say this makes no sense because the Bank of England is owned by the government. The government, therefore, can't owe debt to the Bank of England because the government is the Bank of England. They are synonymous at the end of the day. But there is some logic to including this number inside the total national debt figure at this moment because the figure in question can be substituted with the balance held on what are called the central bank reserve accounts, which are the deposits that UK commercial banks hold with the Bank of England, which arose as a consequence of quantitative easing. So, let's substitute the 18.5% so-called national debt figure with the balances held by the commercial banks at the Bank of England and say this debt is real after all.

Then we need to note that 27% of the debt is owned by UK banks and financial institutions directly. In other words, between this balance that they own directly and the balance held on central bank reserve accounts, UK banks and financial institutions directly own more than 45% of UK national debt.

	Interest paid £'bn	% of debt owned
Overseas	37.1	33.4
Insurance companies and pension funds	23.4	21.2
Banks and financial institutions	50.4	45.4
Local authorities and individuals	0.1	0.0
Total	111.0	100.0

They are the biggest owners of debt in this country. They are the people who are the bond vigilantes, who are always talked about by UK journalists and others when they're trying to say that pressure is being brought to bear on the government to increase interest rates, and there's one other group to take into account as well.

That is UK insurance companies and pension funds. They hold 21% of UK government debt, and that holding is absolutely fundamental to their business operation. Why? Because they cannot survive without UK government debt, the offer that they make to pensioners to provide them with an income for life is underpinned by their ability to rely upon UK government debt to pay them interest forever if necessary, or until a person dies, and of course, they will. And the fact is that it is critical to the way in which they operate.

So too, by the way, is the holding of government debt critical to the way in which UK banks and other financial institutions operate. The whole of the overnight London banking market, which is enormous, depends upon the existence of UK government

debt to operate. And therefore, to pretend that these organisations are not dependent upon the government to create this debt is completely ludicrous. All their ways of working are dependent upon the existence of this debt. That's why they own it. But let's be clear. What this data also tells us is something else.

The UK government's debt is concentrated in the hands of institutions and the wealthy, and those institutions only exist to serve the wealthy. After all, it is only the wealthy who hold money in banks and financial institutions in any large quantity, and it is the wealthy who have the most money in pension funds.

So, when it comes to interest paid, what is the story? Last year, in the year 2025-26, we think that the UK government paid about £111 billion in interest. I say 'we think', because again, this number might be subject to change after the event, but let's take that as our baseline at the moment.

Of that figure of £111 billion, which is roughly 10% of all government spending in the UK, around £37 billion went to overseas holders of debt. They receive that money, but let's be clear, they receive a sterling payment. We do not have to buy foreign currency to achieve that goal. What they do with the sterling when they get it is up to them. They can keep it, which is good news. They can sell it, which might depress the exchange rate, but the amounts involved are not big enough to make any real difference, or they might reinvest it in the UK economy, the best outcome.

Around £23 billion of the money that is paid out a year by the UK government in interest goes to pension funds and insurance companies. That provides those with private sector pensions with their income. Now you can say that's a bad thing, but you won't if you're somebody who does enjoy a private sector pension, and most people who are now in the UK do expect to do so one day. So challenge this if you wish, but ask the question: why don't you want private sector pensions to work, because this payment is fundamental to their operation?

	Interest paid £'bn
Insurance companies and pension funds	23.4
Overseas	37.1
Bank of England (Asset Purchase Facility)	20.5
Financial institutiouns	29.9
Households and non-profit institutions serving households	0.1
Local authorities	0.0
Total	111.0

And finally, nearly £50 billion of interest goes directly to banks and financial institutions, including the part that is represented by the Bank of England share.

Almost nothing at all reaches ordinary households. Less than 1% of government debt is owned by ordinary people who have their names on the ownership list.

This, then, is the single largest transfer of public money to wealth management institutions in the UK. More than £73 billion a year is going from the UK government to organisations that manage wealth on behalf of the wealthiest people in this country, year in and year out.

Who ultimately receives that money? Let's be clear. The concentration of ownership of wealth in the UK is extraordinarily tight. The top 10% of wealth owners in the UK hold two-thirds of all financial assets, including pension funds. That means roughly £48 billion a year in gilt interest or government payment of interest flows to the wealthiest 10% of the people in the UK, and they also, of course, happen to be the people in the highest 10% of incomes in this country as well. The overlap is very high indeed. The sum in question is not far short of the UK defence budget. It is more than the money that the UK government gives to Scotland to operate each year.

Decile	% of wealth held	Likely share of interest
Top	66	48.8
9	19	14
8	9	6.6
7	4	3
Rest	2	1.4
Total		73.8

The bottom 70% of the population receive almost none of this money in any shape or form. There is then in this payment of interest, a structural transfer whereby the government transfers funds to the already wealthy, and in the process says it cannot afford to provide services to the very poorest. That is the biggest problem that we face inside this whole structure of interest payments on government debt. Let's be clear. It's not the cost that matters; it's the consequence that matters.

Every time the government proposes a measure to help ordinary people, what do we see? The markets manipulate that situation to force up government borrowing costs. This is achieved by financial institutions selling government bonds, and when they sell government bonds, they push down their price, but the rate of interest paid is fixed, whatever the price, and that increases the effective interest rate. Selling bonds in this

situation simply pushes the interest rate up, and the institutions that are doing this are almost invariably UK banks.

Higher interest rates then mean more interest income for those same institutions, and this is not a market signal. It is a straightforward mechanism for protecting wealth. Any government that proposes to help the poorest ends up indirectly benefiting the wealthy. That is the bizarre situation that we end up with in the UK. Policies that would help the 14 million people living in poverty in the UK do almost automatically trigger higher borrowing costs with the City of London, and those higher borrowing costs then transfer more money to the wealthiest. The worst things are for ordinary people, the more the wealthy extract.

The Bank of England operates this system on behalf of financial markets, and it does so by keeping interest rates at very high and exceptional levels, way above, as I've already noted, those that prevail in the European Union.

Why do they do that? Well, let me suggest the one and only obvious reason, and that is that they want to attract the world's 'hot money', that is, the mobile capital of the wealthy who do not care where they put their money so long as they maximise their return, into the City of London, which does, of course, still operate as a tax haven for these purposes. So we pay this exceptional rate of interest because the City of London is keeping interest rates too high so that it might provide tax haven services, and we are paying the price so that bankers can make a return to the wealthy who use the City of London for tax haven purposes.

This is the ridiculous situation that we are in.

Can we do anything about it then? That is the most important thing to ask.

And the first step that we could take to tackle this problem is obvious. The government could reclaim control of interest rates. The Bank of England currently sets interest rates for the financial markets, and we should be taking that control back.

The current bank base rate should then, secondly, be at least 1% lower than the 3.75% it currently is, and if the government controlled the Bank of England, there is no reason why that would not happen.

We would reduce the level of activity in the City of London. We would, as a country, cease to be a tax haven. We would cease to make it government policy to promote wealth inequality, but we would cut the cost of borrowing in the UK, and that would leave everybody in this country better off. That is what we should do, and it's entirely possible for the government to do this simply by taking back control of interest rates from the Bank of England, which should not have ever had them.

We could also, and thirdly, cut the cost of the payment of interest on central bank

reserve accounts, those balances that our commercial banks hold with the Bank of England, which were almost entirely created during the post-2008 and COVID financial crises when the balances in question were effectively gifted to those banks by the Bank of England through the creation of the quantitative easing process, and we could eliminate some of that interest paid. Japan does this. The European Union does this. Why we don't, I do not understand. We could structure the interest payments on those balances in a way that would halve the annual cost, and that at this moment might save £10 billion a year. The beneficiaries of the current arrangement are bank shareholders and not the public. And we should not be biasing the world in favour of bank shareholders and against the public interest.

The fourth step, after those first three, taking back control of interest rates, cutting the interest rate and cutting the payment on central bank reserve accounts would be the most important politically. This one would be for the government to refuse to be held to ransom by the City of London. The fact is that the City is dependent upon the existence of government borrowing to facilitate its operations. They need what are called gilts, that is, government bonds, or pension funds cannot pay out, and banks cannot operate the overnight so-called repo market. I won't go into the technicalities, but that's what it's called, and therefore, they need bonds much more than the UK government does because if you've been following this channel, you will know that the government does not need to borrow in order to be able to spend, because the Bank of England creates the money that the government spends every time that the government issues an instruction for that payment to be made.

Therefore, if the City of London want to play silly games, and they want to try to hold the government to ransom when it comes to interest rates, the government should simply say, "We are not issuing any more bonds. You need them. We don't need to issue them. When you understand the power relationship here, which is that the government has all the power and you have none of it, we will reissue the bonds that you require to make your businesses work. But in the meantime, we will borrow directly, interest-free, from the Bank of England, and there is nothing you can do about it."

This is possible. At the beginning of the COVID crisis, the Bank of England made it clear that it would provide an overdraft facility of this sort to the government if it required it, and there is no reason why it should not do that again. Indeed, before 2006, this was commonplace. It was how the arrangements worked. So let's not pretend we've always lived with the current situation. It is a modern creation that has been put in place to facilitate this wealth extraction process. It is not one that is necessary.

In that case, we should be looking at a situation where the government does take back control of its economic policy.

Labour is being told it must live with being held hostage by the City of London, and that is presented as an unavoidable fact of economic life. That is not true.

It is a political choice by our governments to submit to this pressure from bond markets. A government that really understood its own finances would not do that, and I've explained how it can take four steps to achieve that outcome.

The needs of 14 million people in poverty must come before the needs of City banks. The message to the markets needs to be direct, clear, and unambiguous. Their demands will not be met now. The Bank of England will do what the government wants, and we will be the masters of our own interest rate. That is possible. It's time to do it. A new Labour Prime Minister, which it looks like we'll get, should have the courage to say all of this, but will they? That's the question.

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Poll

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