

What if the national debt is really the nation's saving...

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What if the national debt is not a burden at all?

What if it is simply the nation's savings?

Any sensible analysis shows that this so-called debt is no such thing: it's just a massive savings bank operation.

That sounds like a contradiction, but it is not. In fact, understanding this point changes almost everything about how we think about government finance, public spending, austerity and economic policy.

In this video, I explain why every pound of government debt is also somebody else's financial asset. I show why government bonds are not like household debt, why they function as savings accounts with the state, and why the financial system depends upon them. Pension funds, insurance companies, banks and many of the world's largest investors all rely on UK government bonds as a safe place to hold wealth.

I also explain why governments that issue their own currency are fundamentally different from households, why the UK government cannot run out of pounds, and why the idea that Britain must one day "pay off the national debt" makes little economic sense. The national debt exists because people and institutions want somewhere secure to save their money, and the government has a duty to accept those savings.

Along the way, I challenge some of the most common myths in economics.

Are bond markets really in control of governments?

Do bond vigilantes dictate public policy?

Does rising government debt automatically create a crisis?

Or have politicians, economists and commentators misunderstood the role that government bonds actually play in a modern economy?

The answers matter because misunderstanding government debt has helped justify decades of unnecessary austerity, underinvestment, and fear about public spending. If we get the nature of government bonds wrong, we get much of economic policy wrong as well.

If the national debt is actually national savings, then the debate about government finance needs to start in a very different place.

<https://www.youtube.com/watch?v=rMfCrIhIAm8?si=Oco2E2O1ofX89bEr>

This is the audio version:

https://www.podbean.com/player-v2/?i=3urdg-1ad060e-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition [for this video is available here.](#)

This is the transcript:

I'm not sure how many times I have to say this. Government bonds are not debt; they are savings held with the state. This is a simple, straightforward fact that the world needs to understand, and because it doesn't, we give the City power, and people are suffering. This misunderstanding does then have consequences, and that's why I'm worried about it.

The fact is that when anyone buys a government bond or a gilt, as we call them in the UK, they are simply placing money on deposit with the government. The government is not borrowing their money. It is holding their savings in the safest possible place anyone can choose to deposit them. The reality is that the bond is no different in principle from a national savings account, and in fact, that is what they should be called. And although they're almost universally described as debt, that description is misleading and creates unnecessary fear. Let's talk about it.

Calling government bonds 'debt' is a category error that distorts the whole debate on this issue. All savings deposits are liabilities of whoever holds them. That is just an accounting fact. Bank deposits on a bank's balance sheet are, for example, a liability,

and that is true for the government as well, but we don't say a bank is having a crisis because it owes the money back to its depositors. And I don't understand why we say the government is in crisis then, because it too owes savers' money back to them.

And government bonds are just savings instruments. They are nothing more than that. They are a liability of the government. That is indisputable. They are on the balance sheet. But if you look at a bank's balance sheet, the major liabilities on that balance sheet are made up of two sorts. One is loan finance, and that is the money that is lent to the bank to undertake its business. And the other is deposit accounts. And these are not money raised by the bank to let it undertake its business.

In fact, we know it does not need deposits to undertake its business. That is not necessary because banks can lend without ever having a deposit. So that is the fact of life.

The government also takes deposits. It does not need them, but it does provide the world with a favour by taking their money.

But there's a twist. Banks can fail, and the UK government has never once failed to repay a gilt. The simple fact is that the UK government cannot run out of money to repay its bonds, ever. The UK issues its own currency, and it has its own central bank. It can then always create the money it needs to settle bond repayments as they fall due, and it doesn't also need to borrow money as a consequence. Why does it need to borrow money when it can create its own whenever it likes?

The fact is that a currency-issuing government is not, as a result, in any way like a household or even a bank that can go broke. Treating gilts like a household mortgage is, in that case, a fundamental mistake. And yet, because of the household analogy, which means that most economists and most politicians cannot think beyond the limits of their own household, that is what we do.

So why do bonds actually exist, and what are they for? Bonds exist in the modern economy for one reason, and that is because large institutions like banks themselves, or pension funds or life assurance companies and other major financial organisations, including foreign governments, I should add, need somewhere safe to hold very large sums of money.

Now, I agree that when we were on the gold standard, governments had to borrow, but since 1971, we've been nowhere near that condition. Since then, and that's a long time ago. I was 13 at the time, and I'm now 68. Governments have created all their own money. That is, for example, how they can provide a £120,000 bank deposit guarantee, which most of us rely upon if we have any money in a bank, because we know as a consequence that bank will be able to repay us. And how do we know that? It is because we implicitly know that the government can create the money to repay us even if the bank in question cannot. So, let's not pretend we do not know that

governments cannot create money. We all rely upon the fact that they do.

And that bank guarantee is of relevance when we're talking about bonds. If the government only guarantees a deposit of £120,000 in a bank and a business wishes to place £1,000,000,000 on deposit tonight, and that is what they might do, that guarantee is worthless. As a result, the government provides bonds so that the business can own those bonds as a place of safe deposit instead.

The national debt is then simply the accumulated private sector savings held with the government. In fact, around £250 billion of it at present is National Savings and Investment balances held by ordinary people.

And as a matter of fact, without bonds, the banks in the UK, our money markets in the City of London and all of our life assurance and pension funds would not be able to function. They are all critically dependent upon bonds to provide them with an essential tool for use in their commercial operations.

The national debt is then the nation's savings, nothing more and nothing less than that. It is not money lent to the government because it is always available to be repaid. You can trade it and get your money back. And the fact is that every pound of national debt represents a pound someone chose to save with the government at some point in time.

Paying off the national debt would then mean that these savings would be forced to go elsewhere, somewhere not as safe, somewhere potentially outside the UK, somewhere where risk would be much higher, somewhere that would undermine the effective operation of banks, the City money markets and our life assurance and pension companies, and although I sometimes criticise those organisations, we can't do without them.

So this idea that we must repay the national debt is absolutely absurd. And what is more, those in the City of London who quietly nod their heads when that claim is made by unknowing politicians and media commentators actually know they cannot do without government debt. We need that debt, and the government has provided it for that reason, for centuries, and without crisis.

The idea that bond vigilantes then hold the government to account is total nonsense. These people at pension funds, banks and hedge funds are not guardians of government discipline. They're simply people who trade in government debt to make a profit. That's it. Let's not pretend they are very worried about what the government does. They are only worried about the opportunity to buy and sell bonds at a profit to them. That's what they do, they don't enforce sound economic management as they see it, and no one should pretend otherwise.

But right-wing politicians, including those in the Labour Party who now live in fear of the City and most of the media, do just that. And they're all telling us lies, and I use the

word advisedly because if they truly understood what bonds were, they would not be making the claims that they do.

The truth is that the Bank of England sets the base rate in this country, and as all the evidence shows, bond yields track that rate and bond dealers do not set the market rate for interest. As a consequence, when bond yields rise, meaning bond prices are low, the bank can always buy bonds in any quantity they need to bring them back down again. This is normal and is called an open market operation, and those have happened for decades, if not very much longer, and by decades, I mean in my experience since World War II. So this is something that the government does as a matter of fact. The Debt Management Office of the government usually holds a couple of hundred million pounds of government debt just for this reason, so it can manage interest rates. That is why the bond vigilante story is complete nonsense. It's the government that's in control of the market, not the City. QE during the financial crisis and during the COVID period just proved that beyond any serious doubt.

But despite all of that, politicians still talk about bonds as debt because they have never understood what bonds are. They're paranoid about repaying, when that is always going to be possible, and that ignorance has real consequences. It drives unnecessary austerity. But the fact is that those who promote these false narratives are really seeking to deliver austerity anyway. That is why they like this idea that bonds are debt and have to be repaid when none of that is true.

Never forget their true agenda. They are trying to say something that is socially useful is not. They're trying to claim we should get rid of it when they know we should not. And they're doing so so that they can cut government spending, that is their reason.

And the simple fact is that if bonds are savings, as they are, there is no burden to eliminate. There is no crisis to manage. There is only a savings facility to run well.

Every time a politician warns about bond markets, they are accepting a false premise. Getting this right, then, is not a technical issue. It is a precondition for competent government.

The fear of government bonds is manufactured. Manufactured by far-right commentators who want to crush the government, and it can be rejected. The language of debt burden and crisis is political. It is not economic.

Bonds are a savings facility that the economy depends upon. The real question is not how to reduce the size of that savings facility, but how to manage it well, and governments that understand that are never constrained by bond markets.

That's what I think. You might disagree. As usual, there's a poll down below. If you disagree, let us have your comments. We try to read as many of them as we can, and please share this video if that's what you're inclined to do or like it, because that also

helps us with YouTube. Finally, if you'd like to buy us a coffee, which is a way of supporting this channel, there is a link down below for that as well, and we'll be very grateful because I'm a bit of a caffeine addict.

Poll

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