Funding the Future

My View On ... Government Bonds

Published: July 19, 2026, 6:38 am

The Richard J Murphy YouTube Channel

and

My View on ...

Government Bonds

Richard J Murphy

This post is one of an ongoing series explaining my views on significant topics in economics, political economy, politics, taxation, and accounting. It should be read as such, as an overview of a position developed across many years of writing and analysis, and not as a comprehensive treatment. Where more detail is required, the reading list at the foot of this post is a good starting point.

The whole View On series [*is available here.*]

Introduction

Government bonds are among the most misunderstood instruments in public finance. In mainstream political and media discourse, they are presented as evidence of government debt and fiscal irresponsibility, and as a burden on future taxpayers that must be repaid and, ideally, reduced in total value.

My view is almost the precise opposite. My opinion is that government bonds are fundamentally a savings facility, not a borrowing mechanism; they are a necessary feature of a well-functioning economy, not a mark of failure; and the narrative of fear that surrounds them, sustained above all by the mythology of bond vigilantes, is a political weapon used to enforce austerity and constrain democratic government.

What Government Bonds Actually Are

My starting point is definitional and a departure from conventional framing. A government bond, or, in the UK context, a gilt, is not in any meaningful economic sense a loan that the government takes out and must repay. It is the equivalent of a fixed-term bank deposit account.

All that happens when a person chooses to deposit funds in this way with the government is that they swap a holding in a non-interest-bearing cash account in which they hold government-created money for a holding in an interest-bearing account, also made available by the government.

Total government liabilities are not increased when the government issues a bond. All that happens is that the interest cost that the government agrees to pay to those holding cash balances it has created increases. The overall size of the government's debt is never altered by the issue or redemption of government debt: its composition and cost is.

In summary, when an institution or individual buys a government bond, they are placing money on deposit with the government for a fixed period at a fixed interest rate. At the end of that period, the deposit is returned, usually by issuing a new bond to replace the old one.

The process is not fundamentally different from holding money in a National Savings account (many of which organisation's products are described as bonds) or a premium bond.

The label "debt", while technically accurate in an accounting sense in that all bank deposits are liabilities of the entities with which they are saved, creates a false impression of vulnerability and obligation that does not reflect the underlying economic reality of the relationship between the depositor and the government. They either hold their funds in the currency the government creates in cash or with a savings institution, whose liabilities the government might guarantee as to repayment, or they deposit the sum in question with the government itself, whose ability to repay it can never be in doubt, because it, ultimately, is the only agency with the capacity to guarantee its ability to do so.

This reframing matters enormously. The UK government issues its own currency and has its own central bank. It cannot be forced to default on debt denominated in sterling. If bonds fall due, the government can always ensure the central bank creates the reserves necessary to settle them.

That is not a controversial claim. The Debt Management Office's own description of gilts notes that the British government has never failed to make interest or principal payments as they fall due. The implication, which I draw out in this note, is that the entire apparatus of alarm around government bond issuance rests on a category error, which is the result of treating a deposit with currency-issuing sovereign government as though it were a sum lent to a household or a business that might genuinely run out of money.

Why Governments Issue Bonds

If the UK government cannot run out of money, why does it issue bonds at all? My answer is that bond issuance is not operationally necessary for the government but is economically useful for several distinct reasons, none of which amount to the government "borrowing" in any ordinary sense.

The first reason is savings provision. Large corporations, pension funds, insurance companies, and foreign governments all need somewhere safe to hold substantial sums denominated in sterling. Bank deposit guarantees cover only the first £120,000 per depositor, which is trivial for institutions wishing to deposit billions. Government bonds provide the only truly risk-free savings vehicle at scale in that case. Without them, the functioning of money markets, pension funds, life assurance companies and international trade in sterling would be severely impaired. The national debt, in this light, is not a burden; it represents the accumulated savings that the private sector has chosen to place with the government.

The second reason is monetary management. Bond issuance helps manage the money supply and supports interest rate policy. When the government spends, it injects money into the economy; when it issues bonds, it provides a vehicle for that money to be saved rather than spent, preventing inflationary pressure. Bonds also give the Bank of England a mechanism through which to conduct monetary operations used to manage interest rates, including quantitative easing and quantitative tightening.

The third reason is international. Sterling remains a global reserve currency, and foreign governments and institutions that accumulate sterling through trade need somewhere to hold it productively. Government bonds serve that function.

In all these respects, bond issuance reflects the government's desire to service the economic needs and structure of UK money markets, rather than any need on its part to borrow. I emphasise, the government could in principle fund all its spending directly through the Bank of England and pay no interest to the private sector at all. The choice to issue bonds is a political and institutional one, not an economic necessity, and is one from which UK financial markets benefit considerably.

The Myth of the Bond Vigilantes

No aspect of government bond markets features more prominently in my writing than the “bond vigilantes”. They are the financial market participants who, in mainstream economic discourse, are said to enforce fiscal discipline by selling government bonds when they disapprove of a government’s spending decisions, driving up yields and forcing a change in policy. This narrative, I argue, is a myth, or rather, it is a political construction that serves specific interests.

The so-called bond vigilantes are not heroic guardians of fiscal probity. They are traders and fund managers at major financial institutions such as pension funds, insurance companies, banks, and hedge funds, who buy and sell bonds as part of their routine investment activity. They sell when they can make a profit elsewhere or when uncertainty makes them nervous. There is nothing principled or democratic about the process. And crucially, their power over interest rates is far more limited than the conventional narrative implies. The Bank of England sets the base rate, and gilt yields track that rate. When markets try to drive yields higher than the Bank of England is willing to tolerate, the Bank can simply buy bonds in whatever quantity is necessary to bring yields back down. Quantitative easing programmes demonstrated this during both the financial crisis and the Covid pandemic, and the Bank’s emergency intervention during the Liz Truss mini-budget crisis of 2022 demonstrated it again, but this activity is much more commonplace than commonly thought.

The Truss episode is important to my analysis precisely because it is so often cited as proof that bond markets constrain governments. My reading is different. What the episode demonstrated was not that governments cannot spend but that announcing unfunded tax cuts taking place while simultaneously flooding the gilt market with new issuance, and doing so without any independent economic assessment, created a specific and avoidable crisis. The government’s own actions, combined with the Bank of England’s quantitative tightening programme, caused the disruption. Bond markets gain power only when governments choose to fear them, or when institutional decisions create avoidable vulnerabilities. A government that understands its own monetary sovereignty and manages its central bank relationship accordingly is not beholden to traders’ moods.

Bonds, Wealth, and Democratic Accountability

I do not treat government bonds as entirely benign. I raise two concerns that are distinct from the mainstream critique but more analytically serious.

The first is distributional. To buy a government bond, you must have wealth. The primary holders of UK gilts are financial institutions such as pension funds, insurance companies, banks, and overseas investors, all of whom benefit from interest payments paid, according to popular narratives, at a cost to government spending that might otherwise help those less financially advantaged. Government bonds are, in this sense, savings accounts for the already-wealthy. The interest paid on them represents a transfer from the public purse to those with surplus capital to invest. This does not mean bonds should not exist, but it does mean that the interest cost should be minimised, that distribution matters, and that the wealthy's effective subsidy through bond interest reinforces the case for more progressive taxation.

The second concern is accountability. I have noted that the bond market operates under a much thinner layer of democratic scrutiny than government departments, whose accounts are audited by the National Audit Office and scrutinised by the Public Accounts Committee. The influence that bond markets exercise over fiscal policy is substantial and largely unaccountable. Politicians claim that “the markets” will punish progressive spending when there is no accountable source for that claim. The idea that markets sit in judgement on democracy is not an economic fact; it is a political choice that governments can refuse to address.

Answering the Sceptics

There are three objections to the argument I have set out here that deserve a serious answer, because they come not from those who have simply absorbed the conventional wisdom without examining it, but from people who have looked at the evidence and drawn different conclusions.

The first and most persistent objection is that calling bonds a savings facility rather than government debt is a form of wordplay that obscures a real fiscal constraint. The national debt appears in the Office for Budget Responsibility's forecasts. It is measured as a share of GDP. Governments are judged against it by credit rating agencies, by financial journalists, and, increasingly, by their own fiscal rules. If it were simply a savings mechanism with no practical consequence, why would any of this matter?

My answer is that the political salience of the debt figure is real, but the economic constraint it implies is not. The UK government has never failed to repay a bond on time. It cannot be compelled to default on an obligation denominated in a currency it creates. What the national debt figure measures is not a burden in the sense of a household with outstanding loans, but the cumulative stock of financial assets held by the private sector in the form of government-issued savings instruments. Treating this as a binding constraint on public spending is a political choice dressed up as an accounting necessity, and it is a choice with very large and very damaging consequences for investment in public services and public infrastructure.

The second objection is drawn from recent British experience. The events of September and October 2022, when gilt yields spiked sharply following the Truss government's mini budget, are regularly cited as proof that bond markets do, in practice, constrain governments. Yields rose, the pound fell, pension funds faced margin calls, and the Bank of England was forced to intervene. Within weeks the government reversed course. On the conventional reading, this is bond market discipline at work.

My reading is different. What the episode demonstrated was not that financial markets possess a legitimate power of veto over fiscal policy, but that the Bank of England retains the capacity to stabilise gilt markets when it chooses to use it, as it did by purchasing gilts directly. The market turbulence was real, but it was driven by algorithmic trading and leveraged positions in liability-driven investment funds, not by any rational reassessment of the UK government's solvency. It was also created by the Bank of England itself, announcing quantitative tightening the day before the mini budget in question, and adding to and even triggering the market chaos then blamed in Truss. The need was for co-ordinated and coherent economic policy. It was the failure to deliver that which caused the crisis.

The government gave way not because it was insolvent or unable to fund its plans, but because it lacked that coherent economic framework and no political support, domestically or internationally, for what it was attempting to do. A government with a credible programme and a central bank willing to act as the buyer of last resort in its own currency is not ultimately at the mercy of gilt traders. The Truss episode showed the danger of bad policy and poor political management, not the inherent constraint of the bond market.

The third objection, raised most seriously by those who take inflation risk as the central question in monetary economics, is that even if the government cannot technically default, money creation on a sufficient scale will eventually produce inflation, and the bond market's pricing of yields reflects a rational assessment of that risk rather than mere speculative positioning. There is a real point here that should not be dismissed.

A government that continues to inject money into an economy that has already reached its productive capacity will generate inflation rather than growth, and the experience of the mid-1970s, when inflation reached levels that imposed a heavy burden on fixed-income earners and on the economy more generally, remains a genuine caution. But the argument I have advanced is not that governments should spend without limit or that inflation is a risk to be ignored. It is that the constraint on government spending is the productive capacity of the economy, not the preferences of bond traders. When yields rise because the economy is running genuinely hot and inflationary pressure is building, that is a signal worth heeding. When they rise because of speculative positioning, political uncertainty, or the herd behaviour of leveraged funds, as in September 2022, the signal is noise, not information. A government that cannot distinguish between the two, and that treats every movement in gilt yields as an authoritative verdict on its fiscal policies, has handed power over public economic decisions to those who were never elected to exercise it. That is the democratic failure I am pointing to, not an assertion that fiscal choices carry no consequences whatsoever.

Reform: Towards Purpose-Driven Public Finance

My analysis points towards reform rather than abolition. I do not argue that governments should stop issuing bonds; I argue that the current system is outdated, structured to serve financial intermediaries rather than citizens or the public interest, and needs substantial redesign.

The current gilt market, I argue, was designed around assumptions formed centuries ago, during the gold standard era, about the nature of money, the savings needs of society, and the management of inflation and risk. It benefits speculators and large institutions ahead of ordinary savers, and it potentially gives undemocratic actors leverage over public spending decisions.

An alternative approach would offer purpose-driven savings products directly to citizens, or bonds explicitly linked to investment in public infrastructure, the green transition, and social care, accessible through straightforward retail channels. This would broaden ownership, restore democratic legitimacy, and align the savings function of government bonds with the investment needs of the economy.

The overarching point is that governments should manage their bond markets, not be managed by them. When gilt yields rise to levels that reflect speculative pressure rather than economic fundamentals, the appropriate response is for the government and the Bank of England to intervene by buying bonds as necessary to bring yields back to a level consistent with policy objectives. The real constraint on government spending is not the bond market. It is the availability of real resources in the economy: labour, materials, and productive capacity. Managing that constraint well is the task of competent macroeconomic policy and a proper bond-led investment policy. Deferring to the preferences of gilt traders is not.

Reading List

The following posts from the Funding the Future blog provide further detail on my thinking on government bonds, arranged in reverse chronological order.

Post

Date

What it covers

Glossary entry: bonds

December 2025

Defines bonds as deposit accounts where the holder entrusts a sum for a fixed period at a predetermined coupon rate, distinguishing them from genuine borrowing.

[*The bond market conspiracy*]

15 May 2026

Argues that the bond market narrative is a conspiracy created by mutual consent between markets, media and politicians to constrain democratic spending choices.

[*How to manage the cost of government borrowing*]

12 May 2026

Challenges the idea that governments must borrow their own currency from financial markets and argues for taking back control of interest rate policy.

[*The UK government should be buying bonds*]

23 March 2026

Argues that when markets sell UK gilts below value, the government should buy them back to drive yields to desired levels — an asset swap at no net cost.

[*Glossary entry: bond vigilantes*]

30 December 2025

Defines bond vigilantes as financial market participants who supposedly punish governments by selling bonds and explains why this framing misrepresents their limited power.

[*MMT and rules of government borrowing*]

3 September 2025

Examines conventions around bond issuance and deficit rules, arguing these are *political choices rather than economic necessities imposed by market constraint.*

Is it time to replace the bond market?

27 July 2025

Argues that the gilt market is built on century-old assumptions and calls for reform toward purpose-driven savings products accessible to ordinary citizens.

Government bonds are just savings accounts for the very wealthy

4 July 2025

Shows that gilts function as risk-free savings accounts accessible only to large institutions and the wealthy, a transfer of public interest income to those with surplus capital.

Are bond vigilantes really in control?

5 June 2025

Questions whether bond markets can genuinely limit government spending, arguing that the idea suits the City and neoliberal politicians but does not reflect monetary reality.

Glossary entry: deficits and the national debt

19 June 2025

Defines government deficits and the national debt, explaining that cumulative deficits represent savings the private sector holds in government bonds, not a burden of real borrowing.

Why do governments issue bonds when they don't need to?

12 August 2024

Sets out the economic reasons currency-issuing governments voluntarily issue bonds — savings provision, monetary management and international reserve functions — despite having no need to.

Governments don't borrow from financial markets

2 August 2024

Argues that bond issuance is a savings facility offered to the private sector, not borrowing, since the government can always create money via the Bank of England.

Why we have a national debt

8 May 2024

Explains the national debt as the mechanism for absorbing excess cash created by government spending, arguing a growing national debt is the natural counterpart to deficits.