

# Abolishing cash or building social housing? Which is be...

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Bank of England chief economist [Andy Haldane's speech in Northern Ireland yesterday was a bit of a revelation.](#)

Let's summarise his thinking (as I see it).

First, we're in for tough times.

Second, there is no case for increasing interest rates now.

Third, conventional QE has run out of road.

Fourth, any alternative to conventional QE has to be monetary policy.

Fifth, this means potentially relaxing the inflation target to 4%

Sixth, even this, to allow sufficient headroom for monetary policy, will require that we have negative interest rates.

And, seventh, that might require the abolition of cash in the economy so that people will be forced to hold money in banks and see its value deteriorate.

I am sure you could pull out variations on the above, but I think it is fair. Now let's stand back and think about this.

First, credit where it's due. Andy Haldane has shown political and economic courage in saying these.

Second, as an aside, it is interesting to think what Haldane's suggestion of abolishing cash would do for the shadow economy and the tax gap: I will leave that idea floating for now.

Let me instead look at why Andy Haldane has been forced into such an extreme position that he is suggesting the abolition of cash. There are several clues as to this in the article of which the first is this:

*Reputation, in all walks of life, is hard-earned and easily lost. Inflationary reputation is unlikely to be any different. So consciously de-anchoring the boat, with a promise to re-anchor some distance north, runs the risk of a voyage into the monetary unknown. Once un-moored and de-anchored, the course of inflation expectations is much harder to fathom. That navigational uncertainty is likely to be damaging to macro-economic stability.*

In other words, although it would make complete sense to increase the inflation target there is real doubt about the ability to do so. The BoE has become constrained by its own myths. What is right cannot be done because macroeconomists believe the stories they have told rather than the evidence of the facts.

And the second might be this:

*[E]xecuting QE on a larger-scale or putting it on a more permanent footing would risk blurring the boundary, however subtly, between monetary and fiscal policy.*

*If a central bank executes QE by buying government debt, this is likely to have an impact on the cost of servicing that debt — indeed, that is one of the channels through which QE is supposed to work. If that purchase is permanent, it also has implications for the quantity of debt the government needs to issue, for a given fiscal stance. Either way, there are direct consequences for the government's budget constraint*

*That would corrode another hard-won monetary prize over recent decades — namely, central bank independence. In short, as QE becomes permanent, monetary policy credibility heads down the most slippery of slopes.*

So let's put that another way: another macroeconomic myth - [that of Central Bank Independence](#) - must be preserved.

Worse, the fact that the BoE can only do monetary policy (by law) means that it must have priority over fiscal policy, even if it is obvious that the latter might be more effective in the situation that Andy Haldane clearly thinks we are going to face (as do I).

I venture to suggest that the wrong questions are being asked if a solution as extreme as negative interest rates enforced by abolishing cash is the answer.

Is the right question, instead, to ask whether monetary policy has any role in the face of the likely coming crisis?

And is it also to ask what fiscal policy might support that?

And is it instead to ask what is best for the country rather than what is best for the BoE, or even monetary policy?

And could it also be right to ask how the BoE should be supporting fiscal policy (which is its legal duty) rather than seeking to preserve a monetary policy that clearly cannot work?

To put it another way, rather than such desperate measures wouldn't it be better to say now is the time to build social housing and invest in the economy and get real people at work rather than to crush the life out of certain parts of the UK and at the same time seek to promote the most horrendous consumer boom when it is investment and not (overall) increases in consumption that we really need?

I reiterate, I admire Andy Haldane. But if there is a choice on how to tackle a downturn I really do think I might have a better plan.