

Taking the Red Pill

Published: January 13, 2026, 6:42 am

This was written in the [Business Insider in Australia in 2012](#):

On Saturday, we wrote that [more and more people are starting to wonder](#) if central banks like the Bank of England and The Fed can just “rip up” the debt that they’ve bought via Quantitative Easing, and reduce the national debt of these countries with the stroke of a key. Asking this question, and thinking about the implications of it, is the equivalent of taking the ‘Red Pill’ of economics. The Red Pill, of course, is what Neo took in the Matrix, and it exposed his mind to an entirely different view of the world that was far less comfortable than the one he inhabited. If you start thinking about the possibility that the central bank could just rip up a government’s debt, with few negative ramifications, then you might start thinking about government finances in a totally new way that makes you uncomfortable.

You might start to realise that this whole construct of a broke government, deeply in hock to the Chinese (and everyone else) is an illusion, that completely distorts the realities of sovereign finance.

Now I stress, the magazine in question came to the conclusion that the mass cancellation of sovereign debt via the quantitative easing programme would lead, in their opinion, to the risk of serious inflation, but I want to stress that things have moved on since 2012.

We now know that \$6.5 trillion of quantitative easing has not only failed to create inflation, but has actually led us to a point where there is no inflation at all.

And there are now technical arguments as to why this is the case, with it being entirely plausible to argue that when there have been such large-scale labour market reforms that any inflationary pressure can be outsourced to an under-regulated and, in the case of the growing army of the self-employed, an under-measured workforce, then unless and until an increase in real wages becomes the focus of inflation policy there is no risk of that phenomena returning.

The point is a real one now: I suggest that now is the time for us to review just what the realities of sovereign finance are. I would argue that they are very different from the mainstream perception.

I would also argue that this is something we need to get used to. Just as it took until April 2014 for the Bank of England to accept that bank loans were not made out of depositors' savings but were, instead, created out of thin air, which was something some of us had argued for a very long time, the time has come for a review of sovereign finance when that has also been misunderstood for far too long.