

## The First World War was partly paid for with quantitati...

Published: January 13, 2026, 2:02 pm

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The Bank of England published an [astonishing blog post yesterday](#). This began by saying:

*Financing World War I required the UK government to borrow the equivalent of a full year's GDP. But its first effort to raise capital in the bond market was a spectacular failure. The 1914 War Loan raised less than a third of its £350m target and attracted only a very narrow set of investors. This failure and its subsequent cover-up has only recently come to light following research analysing the Bank's ledgers. It reveals the shortfall was secretly plugged by the Bank, with funds registered individually under the names of the Chief Cashier and his deputy to hide their true origin. Keynes, one of a handful of officials in the know at the time, described the concealment as "a masterly manipulation".*

To put it another way, because the country did not rush forward to fund the Great War as the government expected, the Bank of England (then, admittedly, a privately owned institution), stepped in and saved the government's day by buying over £200 million of the debt that had to be raised to fund the initial war effort. In effect, it created money out of thin air to do so, and as a consequence effectively used what we would now call quantitative easing for the purpose of funding the war effort.

As the blog also notes, this was covered up by entirely false news reporting that stated that the issue was a resounding success. The false news reports in the FT of the time is reproduced, and the FT has now apologised for it, one hundred and three years after the event.

This does, however, leave some very obvious questions that the BoE needs to answer. They are:

- 1) On how many other occasions did purchases by it of government debt take place before QE began in 2009?
- 2) What were the dates when this happened?

- 3) What sums were involved on each such occasion?
- 4) When were the positions unwound, if they were, and how?
- 5) What profit or loss arose on such operations?
- 6) What publicity was given to these operations at the time they took place?
- 7) If these operations took place how did they impact data on UK government gross debt by effectively overstating them, and by how many percentage points?

I am sending these questions to the Bank of England for comment.