

Funding the Future

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As the [FT noted recently](#), about twenty per cent of the world's government debt is now owned by the central banks of the governments who issued the debt in question. And, with the global financial crisis now a decade old, the question [that private sector commentators say is hanging over](#) those central bankers is how they are going to 'normalise' this situation. By that they mean, how is that debt going to be sold back into the market?

The answer is it is not.

Let me put this in a UK context, but it stands as well for everyone else. In 2008 [UK debt](#) reached £600 billion. Now, QE excluded, it is £1.75 trillion. The debt has nearly tripled. More than £700 billion of that increase has been since 2010. And since 2009 £435 billion of this debt has been repurchased by the Bank of England, which (as I get bored of pointing out) means the total is not now about 90% of GDP but is actually something less than 70% because a government cannot owe itself money and the U.K. Government owns the Bank of England, which is not an independent entity as a result either in practice or in law.

'Normalising' this debt would require that the Bank of England sell it back to private sector markets. Now, I readily admit that I argue there is a need for [more government debt](#) in the UK but there are three ways of supplying it.

One is for the government to continue to run deficits. Don't worry: it will, for many years to come. This source of supply is guaranteed.

Second, there is a green or people's [QE programme](#) that could issue debt to fund new infrastructure spending. This would inject new money into the economy, build sustainable infrastructure, create jobs, support the value of the pound, be environmentally robust, deliver new housing and update much of our creaking economy and so revive our fortunes. In the process it would create a return to service debt. That could deliver the required new bonds.

Or third the government could just sell bonds back into the market, reduce bank liquidity, reduce funds available for investment in the private sector, help precipitate a credit crisis and seek to pull the economy down. That's the 'normalisation' route. Of

course it need not do this. As has been shown here, QE has not [actually boosted money supply](#) so by itself it has created no economic risk, including of inflation.

Those are the choices then. Well, actually, the first is not a choice: deficits are going to continue. So there are only two choices. One is get the economy going again. The other is seek to crash it, not to put too fine a point on it.

Bankers seem to want option two.

It's time for central banks and governments to make clear that 'normalisation' is not going to happen. The debt government purchased using QE has been cancelled. The money QE injected into the economy is there to stay, because it is needed. And there will be new debt issues to create economic activity. It will be up to markets to decide to buy them or not, but it doesn't really matter. They can be QEd if the markets refuse to play ball.

And that's where we get to the real nub of this. 'Normalisation' would put money markets back into a position of power over government. That's what they want. QE destroyed that power. That may be the best argument against 'normalisation' of all.