

Funding the Future

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A reader of this blog shared the following email exchange between him, and the Bank of England with me and asked me to comment upon it. I do so with his explicit permission to share the correspondence.

Glynn Worthington wrote to the Bank saying:

Hello,

I came across this article from Tax expert Richard Murphy, which says that taxes are not used/are not necessary to fund public spending.

Further reading shows this is not a new revelation, going back (at least) to Keynes and former Head of the New York Federal Reserve Bank, Beardsley Ruml.

Can this be correct? It seems to me that it must be. How can you rely on me for money that only you can issue?

Could you please confirm or deny this?

MPs are often asked "which taxes would you raise to pay for this", but this would seem like a malformed question, if Richard Murphy is correct.

<http://www.taxresearch.org.uk/Blog/2016/08/07/note-to-prospective-labour-leaders-tax-has-never-ever-paid-for-government-spending/>

Thanks,

Glynn Worthington

The Bank of England replied as follows:

Dear Mr Worthington,

Thank you for your email. The proposal you refer to falls outside of the Bank of England's remit as a central bank and accordingly, we are not in a position to consider it. The Bank's responsibility currently is clearly defined and fiscal policy, including

responsibility for taxation policy, falls to the Government.

As compelling as the proposal you refer to may seem, it would be illegal, as it violates Article 123 of the Lisbon Treaty, which forbids central banks from financing government spending.

In addition, the idea of printing money to fund public services could undermine faith in the fiscal and monetary framework. Printing money would cause inflation which cannot easily be reversed if it became too high. Excessive inflation is not good for the economy as it effectively reduces the value of money. More money is needed to purchase goods and services. People on fixed incomes such as those that are retired would see a decline in their purchasing power and generally consumers and businesses would also be less likely to spend due to the uncertainty. This would impact economic output and in turn economic growth.

Also, if the inflation rate is high in comparison to other countries, domestic products become less competitive as goods and services will cost more in comparison to elsewhere.

I hope the above information answers your question. Thank you once again for writing to the Bank of England.

Kind regards,

Brendan Manning

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So what does this mean? Am I right, or are they?

I have to say that the answer is laid out between the lines of the Bank of England's letter. They say that it would be illegal for them Bank to finance government spending. And so they claim that they have not done it. But, let's not beat about the bush here. let's call that out for what it is. It's a lie. And everyone knows it is a lie.

As the Bank of England **says on its own web site:**

Quantitative easing (QE) is an unconventional form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target.

How does that work? In a time when the government has issued substantial new debt (**more than £1.1 trillion since 2008**) it was widely believed by the finance community that this process would suck too much money out of the private sector economy and reduce real levels of investment and so economic activity. As a result the Bank of England bought that debt back from those private sector actors that had bought it in the hope that this might encourage them to invest alternatively.

But in the process what they did was take away from the private sector its role in providing loan finance to the government and implicitly took on that task itself. In fact, quantitative easing has been sufficient to cover all government borrowing from 2012 to 2016. And in that case it is quite clear, and obviously true, that the Bank of England has quite emphatically provided financing to the government for the purposes of covering its spending. That is all QE can and does do.

And that's obvious by the fact that the Bank ends up owning large parts (about 25%) of the government's total debt which it has quite explicitly funded through the creation of new money as a result. This cannot be denied. As a result the Bank of England is lying.

And yes, it probably is breaking the law as well, but since it's happening all across Europe and it has been universally decided (one ongoing court action in Germany apart) to ignore this fact because it is clearly in the public interest to ignore such a badly conceived piece of law, no one cares.

What is more it has printed money: it says so on its own website. Again, its denial is a lie.

And that has not created inflation. The suggestion that it might is another lie.

So why is it doing this? Three reasons. One because it is pretending it is not breaking the law.

Second, because it remains committed to a version of economic theory on money, money creation and inflation that died ten years ago, but which the Bank of England has refused to bury (there's another post on this coming next on this site).

Third, because I strongly suspect that the Bank is part of a conspiracy that spreads beyond the City that does not want to know that money can be printed for use for social purposes like creating full employment, funding the green economy, delivering the NHS we need and providing the social security safety net that most have to rely on. They want it to be thought that money is in short supply when the evidence is that the Bank can create it as it

wishes.

To be blunt, the Bank is lying because it knows there is a Magic Money Tree but that it does not want to use it for the benefit of the people of this country, which shows that it is neither apolitical or independent of the government in its actions.

That's my explanation for the Bank of England's reply. Their lawyers are welcome to contact me if they wish. I'd win in court.