

At long last the government can borrow straight from th...

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In today's [FT Alphaville](#) was this pure gem:

Hidden in [last Thursday's announcement](#) from the Bank of England that it intends to buy another £200bn-worth of mostly government bonds was this line:

The MPC will keep under review the case for participating in the primary market.

It might sound like dull techno-speak, but the mere possibility of the Old Lady of Threadneedle Street buying bonds directly from the government (i.e., in the primary market) is a big deal.

Since gaining independence, central banks have liked to see themselves as unsullied by politicians' whims. While the clear distinction between monetary policy and government spending blurred in the aftermath of the financial crisis, until now central banks tried to keep their distance by only buying government bonds in secondary markets — that is, from other investors — as opposed to directly from the state.

I am most annoyed that I missed this, but am delighted that the FT did not.

What, in effect, this means is that the government need no longer go through the charade of quantitative easing if it wants to use the ability of the Bank of England to create money to fund its activities in keeping the country afloat. Instead, what this means can happen is that the Treasury can now create a bond whenever it wishes and the Bank of England may buy it directly from it, without ever involving private banks. In effect, then, the Treasury can now run an overdraft at the Bank of England (even if it is wrapped up in a bond arrangement) which is exactly what is required at this point in time. It also means that private banks need no longer profit from this arrangement, which they have done to date, quite unreasonably.

In effect this means is that the Bank of England has accepted that modern monetary theory works exactly as people like me have been saying for some time. As this note suggests, the government can always spend whatever it wishes simply by deciding to do so. And as we have always said, it can do so because it has the power to instruct its

central-bank to fund any sum that it wishes to spend. And tax need not ever be involved in this process.

We do, of course, know that in normal times tax will be a part of this equation, but simply for the purpose of reining in inflation, as the same FT article notes, and not to fund the spending. Now this fact is being explicitly acknowledged.

And the good news is that now this has been done the objection to mechanisms such as green quantitative easing, which were always designed to use this process, have fallen away forever. Coronavirus has changed everything, and this time for the better.