

Positive Money and the Bank of England are completely w...

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Positive Money has made an appeal asking that people support the idea of a Bank of England central bank digital currency (CBDC) in the UK. In particular, they have asked that people make submissions to the Bank of England on this issue. A number of people have asked me for comment, and I have decided it appropriate to do so. [The Bank of England survey is here](#).

I regret that as has been so often the case Positive Money [get most of their logic on this issue hopelessly wrong](#). Quite staggeringly they are using this proposal to demand the end to the right of private banks to create money, and as I note below the Bank of England will not want to take on that role, so what Positive Money are proposing is that we crash the economy by denying it access to any new money. As ever, Positive Money remains committed to some perverted sort of gold standard that would drive the UK into deep recession. All that reveals they simply have no idea how money works. I regret having to say it, but you would think by now that they would have learned what money is and what the needs for it within an economy might be, but apparently not.

So, let me state the obvious to start this response. That is to say that we already have a digital currency in the UK. Your bank account is already part of a wholly digital currency system. So, there is no obvious need for a CBDC unless it does something better than your existing bank account or existing money can do.

Then let me as clear as it is possible to be: no one, anywhere, has yet found any evidence that a so called digital currency of any form can do that.

The truth is that for an individual to switch their banking to a CBDC account with the Bank of England may well make them very much worse off. There are a number of reasons, and broadly I'll move from the specific to the more general in the argument that follows.

First, I rather strongly suspect the Bank of England will not consider granting personal overdrafts as part of a CDDBC service. In that case anyone who needs one had better look elsewhere. A CDDBC is not for them.

Second, given that many transactions are digitally recorded on credit cards and not debit cards and I cannot see the Bank of England issuing credit cards I cannot see their CBDCs as a way of digitising most transactions. For those requiring credit card facilities you will still need to look elsewhere. So a CBDC may well not be for you.

Third, anyone with chaotic financial affairs - which is the reason why many on low incomes remain unbanked through no fault of their own - is not going to find their chaotic scenario aided by a sympathetic Bank of England manager. So the claim that CBDCs might improve access to banking is just wrong.

Fourth, banks lend. That is their business. But, I cannot see the Bank of England doing that to individuals any more than they might offer overdrafts. So they would not be providing what might be called a banking service. You'd still need banks for that. So CBDCs are not alternative banking, at all.

Instead, and fifth, what the Bank of England might do is simply offer what will in effect be savings accounts, whether they be current accounts for day-to-day transactions where the accounts stay in credit as far as the customer is concerned, or term deposit savings accounts. So CBDCs will provide a small part of the banking service people need. Which makes them pretty irrelevant then.

Sixth, this creates a real conceptual problem because rather bizarrely when anyone saves with the Bank of England they currently increase what is called the national debt. Central bank reserve accounts held by the UK's clearing banks at the Bank of England are supposedly part of the national debt even though they are simply bank deposit accounts. So too are National Savings accounts part of the national debt. So, running CBDCs would apparently require that this paranoia be overcome. No one is suggesting how that might be done. Nor is anyone discussing what the Bank of England might do with the funds deposited with it. That is the most massive going flaw in their whole paper - and in Positive Money's response to it.

Seventh, despite lip service to the issue neither Positive Money or the Bank of England (based on some of their comments on their website in this proposal) seem to be aware that savings are not what creates the UK money supply. The UK's money supply is created by lending. Savings are then created by that lending. But the savings are never lent on: they represent money stored inactively in the economy. Seeking to focus banking reform in the inactivity that saving represents would appear to be the most unhelpful way of addressing the issue.

I could go on, but by now I hope you will appreciate that I have major reservations about what is being proposed.

That said, I have many reasons for thinking banking reform is necessary, and that some aspects of CBDCs might have a role in that.

I have argued for a long time, and right through the 2008/09 banking crisis, that the bank payments platform should be taken out of the control of creating banks and be brought under state control. This is because the creaking architecture of private banking cannot be permitted to hold the country to ransom during banking crises, requiring that banks be bailed out to maintain the infrastructure for bank payments.

What is instead required is a banking system where the accounts and payments structure is all under state control but banks provide a credit creation service based on that infrastructure in which private capital takes the risk of default without their being macroeconomic risk to the state, or risk to bank depositors because the accounts of a failed bank can be readily transferred to another operator if a bank fails. Call this the Railtrack model of banking if you like, with the infrastructure being state owned and with licensed banks working on it.

This is the risk the Bank of England should be concentrating on, but which it is not.

Positive Money, with its residual enthusiasm for gold standards and non-fiat currencies and banking, seems to not even see the issue.

A CBDC could be the inter-bank currency in my model - replacing central bank reserve accounts - but that is about it.

This whole issue of digital currencies is a problem seeking a reason for existing. The sooner digital currencies are simply seen as the Ponzi schemes that they are the better. And that is what the Bank of England should be saying if it is a responsible banking regulator that understands the issues it is addressing, which this consultation implies it does not.

But, in summary, please do not support Positive Money on this issue: they are, as is usual, completely wrong when it comes to money.