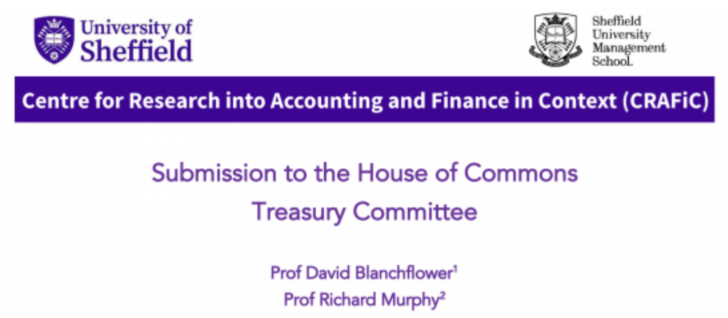
Funding the Future

The Bank of England needs an urgent change of strategy…

Published: January 13, 2026, 10:56 am

Prof David (Danny) Blanchflower and I made a joint submission to the House of Commons treasury Committee on Friday. They had asked for evidence on quantitative easing (QE), quantitative tightening (QT) and the Bank of England (BoE) Asset Purchase Facility (APF).

We submitted this:


University of Sheffield

Sheffield University Management School

Centre for Research into Accounting and Finance in Context (CRAFiC)

Submission to the House of Commons Treasury Committee

Prof David Blanchflower[1]
Prof Richard Murphy[2]

The summary we prepared for journalists was as follows:

The House of Commons Treasury Committee has requested written evidence concerning policy on quantitative easing (QE), quantitative tightening (QT) and the future of the Bank of England Asset Purchase Facility[1]. In response Professor Richard Murphy, Professor of Accounting Practice at Sheffield University Management School and Professor David (‘Danny’) Blanchflower, Bruce V. Rauner Professor of Economics at Dartmouth College, USA, and Professor of Economics at Adam Smith Business School, University of Glasgow, have made a joint submission to the committee.

We suggest that:

* QE was beneficial for the UK economy from 2009 to 2020 because austerity-driven fiscal policy would otherwise have led to deflation and recession during this period.

* QE did not create the inflation seen from 2021 onwards, which was created by

external supply chain problems and disruption resulting from war in Ukraine.

We argue that:

* The Bank of England did not have a strategy for QE in 2009, has not developed one since, and has provided no evidence of having an understanding of the reasons for QT now, and so has no strategy for that either.

* These conclusions are based on Professor Blanchflower's experience as a member of the Bank of England Monetary Policy Committee from 2006 to 2009 and a review of the subsequent actions of, and statements by, that Committee.

* In the absence of coherent strategy, there is no justification for QT.

* The collapse of Silicon Valley Bank and Signature Bank in the United States on March 13 2023 is indicative of the consequences of inappropriately undertaking monetary tightening too rapidly.

As a result we suggest that:

* The Bank of England is at risk of making a serious error by pursuing a policy of QT now.

* Based on analysis of UK government bond issues this century the policy of QT proposed by the Bank of England will place unprecedented demand on financial markets to fund the government over the next five years, with an unprecedented £178 billion of debt likely to be issued on average in each of those years, which may have a serious impact on financial market and so commercial bank liquidity.

* This policy can only be achieved by creating exceptional positive real (inflation-adjusted) interest rates that will have a deep impact on both households and business, threatening growth, business solvency and employment in businesses that might fail, resulting in the risk of recession or even depression.

* There is, then, no justification for a policy of QT now, and because of the already exceptional demand that the government might make on financial markets over coming years a new round of QE to address the crisis that the UK is in might be more appropriate. They suggest a programme of £50bn a year for the next five years.

* There is also, based on the Bank of England's own growth and inflation forecasts, an urgent need for an interest cut in the Bank of England base interest rate. They suggest a 1% cut now, with more to follow.

* They also suggest that there is at this moment no basis for a programme of austerity from the government.

* They suggest that there is no reason for the Bank of England Asset Purchase Facility to be run down and that it should, instead be expanded.

As a result, we suggest that there is no need for the Bank of England to necessarily buy government bonds using quantitative easing. They suggest that it might also consider buying:

* Mortgages, replacing them with new very long-term mortgages at a fixed rate for the whole mortgage term to provide mortgagees with long term financial security.

* Student debt, which could again be replaced with new loans at low fixed rates.

* Bonds issued by a national infrastructure bank to fund the green transition the country requires.

In press release I said:

The Bank of England has never been able to justify its policy on QE or explain its impact. What is, however, clear is that despite this that policy has been benign and saved the country from many of the worst impacts of the austerity pursued by successive governments since 2010 without creating the current inflation we are suffering.

The Bank of England is also unable to justify its QT policy but what is clear is that this policy if combined with more austerity in fiscal policy and high interest rate might have disastrous consequences for the UK economy over the next few years, including household debt and consequent banking crises as well as by creating a major threat to the viability of many businesses. The Bank should cancel this policy now.

Danny said:

The Bank of England is showing signs of dangerous group think when it comes to QT, believing that it must reverse the previous policy of QE when they have not as yet offered any credible reason for doing so.

The evidence is clear from this week's Silicon Valley Bank (SVB) fiasco. Over-hyped interest rates killed that bank and have left government's exposed to supporting depositors whilst after bank capital has been wiped out.

SVB bought large amounts of government bonds which declined in value as the US Federal Reserve raised interest rates. As a small bank of under $250bn in assets SVB were not subject to the liquidity and diversification of asset rules required of the large banks under the US Dodd-Frank legislation introduced after the 2008 financial crisis.

Financial markets have already responded with demands for reduced interest rates and expectations of further rate rises in the US have declined sharply. Markets are now pricing in rate cuts in the US in 2023. Cancelling QT has to happen in that case: the economy cannot support unnecessary stress created by central banks without good reason.

The Bank of England needs to stand back and reappraise its role on the economy. It *could use QE over the next few years to be a powerful force for good for the people of the UK, transforming the mortgage, student loan and business investment markets in the process using new funds created via QE. We urge them to grab this opportunity instead of heading us towards almost inevitable recession or even depression, so severe could the impact of QT be.*

The report that supports this submission is long at 46 pages, but comprehensive in its review.

That report can be found here.

We believe that the case we have made for an alternative economic strategy is compelling. This is especially true now that we know that commercial bank liquidity is strained and QT would stress it even further. The need for change is urgent.

Comments are welcome, of course.

---

[1] https://committees.parliament.uk/call-for-evidence/3036/