The Taxing Wealth Report 2024

Every politician's guide to "How to pay for it"[1]

The political economy of money and tax

Background

It would be very easy to issue a report on the reform of tax in the UK and to ignore in the process of doing so the role of tax in creating the power of the state, the management of the macroeconomy and within our society. This is, after all, what almost every politician, journalist and so-called tax specialist in the UK does whenever they comment upon the subject. The latter are particularly good at doing so, frequently talking about reforms that they would like to see in the tax system without ever showing the slightest awareness that tax has a very broad political, social and economic purpose within UK society.

In 2015, the author of this Report published a book called The Joy of Tax[2]. In that book, it was suggested that there were six reasons for government of the sort that the UK has to tax. They were:

1. To ratify the value of the currency. This means that by demanding payment of tax in the currency that the government has itself created that currency has to be used for most transactions arising in a jurisdiction providing its government with significant macroeconomic control as a consequence.

2. To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate. The aim of doing so is to control inflation.

3. To redistribute income and wealth.

[1] This note forms a part of 'The Taxing Wealth Report 2024' published by Finance for the Future LLP, which is UK LLP number OC329502, registered at 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ. See https://www.financeforthefuture.com/taxing-wealth/. This note was written by Richard Murphy FAcSS FCA FAIA (Hon), Professor of Accounting Practice, Sheffield University Management School, who is a director of Finance for the Future LLP.

[2] https://www.penguin.co.uk/books/430502/the-joy-of-tax-by-richard-murphy/9780552171618

The Taxing Wealth Report 2024 is a joint project between:

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4. To reprice goods and services.

5. To raise democratic representation because people who pay tax tend to vote and are more passionate about doing so.

6. To reorganise the economy through what is called fiscal policy[3].

What should be obvious from this list is that none of the reasons noted refers to the funding of government expenditure. That is because that is not the reason why our government taxes. If the economics of government money creation[4] and tax are properly understood (and they are in reality, the flipside of each other, and cannot as a consequence be considered separately) then it becomes obvious that unless the government creates money in the first place by spending it into existence then the money required to make payment of tax would not be available. Tax cannot, therefore, fund government expenditure. Tax, instead, exists to control the inflationary consequences of that expenditure. That is because if the money that the government creates through its spending is not cancelled by the payment of tax, or is instead taken out of circulation through its safe deposit with the government as a result of the process misleadingly called government borrowing, then inflation would, inevitably, be rampant within the economy.

When this initially hard to comprehend and even mind-bending idea is understood[5], tax can then be seen within its proper context. To restate the points already made, but with reiteration for the sake of understanding being appropriate, the following roles for tax exist within government policy making:

- To control inflation.
- To act as a key component in the delivery of government economic policy[6].
- To influence social policy.
- To provide a mechanism for accountability between the government and those to whom it is responsible.

All these ideas are implicit within the Taxing Wealth Report 2024 report. However, of those roles, the most important within this report are probably those that relate to tax as an instrument of social policy and as an instrument for accountability.

[3] See appendix 1 to this note that explains the nature of fiscal policy.
[4] See appendix 2 for more information on the economics of money creation.
[5] See appendix 2 to this note.
[6] See appendix 1.

It can be quite reasonably argued that over many decades, but most especially since the global financial crash of 2008, there has been growing disquiet within the UK population about rising inequality in society, increasing tax burdens and the apparent failure of successive governments to fulfil their part of the social contract by meeting the need for those essential public services that the people of the country are dependent upon. In economic terms, the Taxing Wealth Report 2024 tackles these issues by:

- Explaining how inequality in the UK can be reduced, presuming that additional taxes of the types noted within the report are used for this purpose, with some of the revenue proceeds, then being used to support those in need.
- Explaining how economic multiplier effects can be increased by reallocating income from those with wealth to those without it, as explained in Appendix 3 to this note.
- Seeking to change the use of tax incentivised savings with consequent considerable increase in the resulting multiplier effects, as again explained in Appendix 3 to this note.

The political economy of tax

A state is defined by its ability to:

- Define and defend its borders.
- Legislate within its domain.
- Create a currency.
- Tax.

All other aspects of political economy flow from these issues. In that case, and presuming that the definition and defence of borders is not an issue of concern, the power of the state to create a currency and to tax is fundamental to its ability to create and enforce policy that meets the needs of its population. A proper understanding of the relationship between money and tax is, in that case, fundamental to the creation of successful economic policies.

Definitions

Some terms need to be defined to make sense of the discussion that follows:

- A currency is the unit of account used to describe the money in use in a jurisdiction.

- Money is a measure of debts owing denominated in the currency of a jurisdiction. Money may also be used as a measure of the value of debt-based exchanges that have taken place within an economy.

- A fiat-currency is the currency declared to be the legal tender of a jurisdiction by its government. This is a legal concept: a currency is legal tender merely because the government of a place declares it to be so using its power to legislate.

- An asset-backed currency is a fiat currency that enjoys the right of convertibility into another asset. If an asset backed currency fails it is claimed that demand might then be made by the person holding that currency to the central bank that issued it for the substitution of another asset, such as gold, in lieu of that money. In practice, if this was ever possible at any time in history it is implausible in a modern economy.

- Tax is a legal obligation contractually due to a state because economic events of a prescribed form have occurred.

- Government borrowing, if denominated in the currency of the jurisdiction in which the borrowing takes place, is a facility offered by the government of that place for the safe deposit of funds by those who wish to place them with a government owned and backed institution always guaranteed to be able to repay its debts. This is akin to a banking arrangement. It should, however be noted that like all savings arrangements, this borrowing has the consequence of removing money from circulation within an economy in much the same way as taxation does (see below). A reduction in saving has the opposite effect of increasing the money in circulation in an economy. The use of interest rates can, in that case, impact the volume of savings and as such borrowing by a government in its own currency can provide a mechanism for influencing interest rates throughout an economy in addition to providing a secure savings facility to those wishing to save funds denominated in the fiat currency that it has created.

- Government borrowing denominated in the fiat currency of a jurisdiction other than that which is undertaking this borrowing represents a promise to pay requiring that the government that has borrowed secure access to sufficient of the currency in which the borrowing has taken place by the time that repayment of the loan is due. This is a debtor relationship.

Some technical issues also need to be addressed:

- Base money is money put into circulation by the central bank of a jurisdiction. Base money is denominated in the fiat currency of the issuing jurisdiction. That money is issued into circulation as a record of the promise to pay made by the government of

the jurisdiction in question that it offers in exchange for the supply of goods and services procured by it.

Examples of base money include notes and coins. It also includes the balances held by commercial banks with the central bank of a jurisdiction that represents sums spent into the economy of its jurisdiction by a government and not recovered by it from within that economy either by way of borrowing or taxation.

Base money is destroyed by the payment of tax and the issue of government debt issued in the fiat currency of the jurisdiction.

There is no theoretical limit to the amount of base currency that a jurisdiction may issue. However, to issue such currency in an attempt to procure resources in a jurisdiction already at full employment will always result in inflation unless additional tax charges are simultaneously imposed. As such there are practical constraints on the issue of base money.

- Commercial bank created money is money created by the commercial banks of a jurisdiction when advancing loans to a customer who promises to make repayment of that debt in return. Commercial bank money is destroyed by the repayment of the bank loan that created it. The practical limits to the capacity to create money in this form are:

    - The availability of borrower with the ability to make repayment.
    - The availability of capital within banks to sustain bad debts arising on debts that default.
    - Regulation intended to direct credit or to limit its availability.

- The payment of tax has to always follow the expenditure of money by the government. Given that governments with stable currencies always demand payment of tax in their own currency (so creating a demand for that currency within their economies that then requires its use in most everyday transactions in most jurisdictions) this has to be true: if the spend did not come first then there would be no money available to pay the tax due.

Consequences

If these definitions are accepted:

1. All money is debt: as matter of fact the nature of double entry book-keeping, which is the only verifiable method available to record monetary transactions, does not permit it to be otherwise.

2. Debt free money cannot exist as a result. Money on deposit is always owed to the depositor. Money owed to a bank or other person is always a debt. There is no money that exists that is not a liability of one person and the asset of another.

3. Money can only acquire value because of its capacity to settle a debt.

4. Base money acquires its value because it is used to settle tax liabilities owing, which are legally created debts intended to impart value to a currency.

5. Tax does not as a result fund government spending: it cancels the money created by government spending, whose legal creation is permitted by a properly authorised government budget.

6. All money is as a consequence intangible in its nature.

7. Tax, if not used to fund government spending acquires a range of other social purposes:
    a. To ratify the value of the currency: this means that by demanding payment of tax in the currency it has to be used for transactions in a jurisdiction;
    b. To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate;
    c. To redistribute income and wealth;
    d. To reprice goods and services;
    e. To raise democratic representation - people who pay tax vote;
    f. To reorganise the economy i.e. fiscal policy.

8. Governments do not spend taxpayers' money. They do, instead, create new base money to fund their expenditure. That base money is then cancelled, largely through the imposition of taxation charges, but also through government borrowing in its own currency that has the effect of taking that base money out of circulation.

9. Banks do not lend depositors' funds to customers when advancing loans. Instead, they create new money when doing so based upon the mutual promises to pay that the bank and the customer exchange when arranging that loan. That new money created by the loan made immediately becomes a deposit with a bank that mirrors

the loan made. Banks' books do always balance as a result. Money created in this way is cancelled by repayment of the loan.

10. Governments do not borrow money in their own currency to fund government expenditure. Governments do, instead, provide a safe deposit facility for their own currency whether created by their own spending or by commercial bank lending. This is a banking arrangement. The funds in question might be better thought of as part of the national capital of jurisdiction. If hypothecated for investment purposes, this might explicitly be the case.

11. Commercial banks do not require deposits to make loans to customers. Deposited funds are never loaned in this way. Depositors' funds are, instead, part of the assets of the bank, and are available to meet its obligations to its creditors in the event of the bank being unable to meet its obligations. Few depositors appear to be directly aware of this, although the unease that depositors have is reflected in the guarantee that governments like that in the UK supply to depositors holding up to £85,000 with UK banks.

Economic policy

Based upon this understanding a government should in pursuit of a sustainable economic policy:

1. Must determine the sustainable capacity of its economy, taking into consideration labour, natural, financial and manufactured capital resources.

2. Determine the potential value in use of those resources.

3. Decide on what part of those resources it might wish to procure to supply public services, and what value those services might have.

4. Determine the quantum of its resulting expenditure, also taking into consideration any desire it might have to maintain, replenish or deplete capital stocks, and taking into consideration the multiplier effects of its own spending, if material.

5. Decide the extent to which the remaining net injection of funds into the economy that it might make needs to be withdrawn from circulation by way of taxation or borrowing as a necessary means of controlling inflation if that is perceived to be a risk.

6. Determine the extent, if any, to which commercial credit creation needs to be controlled to facilitate the government's economic objectives and to consider the resulting necessary regulatory and taxation changes required to achieve this outcome.

7. Determine the extent to which it might wish to change the sums it has borrowed, considering interest rate policy as a part of this process.

8. Determine which taxes at what rates might fulfil its social, economic and environmental goals.

9. Determine which policies might minimise the impact of interest charges and other rent seeking activity within the economy as a whole in pursuit of its social policies.

10. Make clear its intentions and the reason for them.

11. Communicate these issues, including to banks and others directly impacted as a result.

12. Adequately resource those agencies such as HM Revenue & Customs that are critical to delivery of these goals.

Conclusions

What this analysis suggests is that most currently commonplace thinking, such as that which suggests that tax funds government expenditure, and that deposited funds are loaned by banks to their customers, is wrong.

The latter has been explicitly recognised to be wrong by the Bank of England and other central banks.

The former is implicitly recognised within the operation of central bank reserve accounts, which have become commonplace and material within most developed economies since the 2008 global financial crisis. See appendix 4 to this note for an explanation.

Ben Bernanke, the Chair of the US Federal Reserve, summarised this process of government created money being what government uses to deliver its policy very

effectively when discussing how the money to pay for the 2008 Global Financial Crisis was found. He said[7]:

> *"It's not tax[payers'] money. The banks have accounts with the Fed, much the same way that you have an account in a commercial bank. So to lend to a bank, we simply use the computer to mark up the size of the account that they have at the Fed."*

And that is how the government pays for everything. It is also how most money is created. And it is why tax is essential to cancel the impact and so prevent inflation, when that is necessary. Everything else in economics is a footnote to this understanding, which is not to diminish the importance of the matters discussed in the appendices to this note. What is, however stressed, is that tax has to be properly understood within its true economic role if tax policy is to be correctly directed. That is the aim of the Taxing Wealth Report 2024.

[7] Quoted at https://www.ft.com/content/5e5b2afb-c689-4faf-9b47-92c74fc07e66

Appendix 1

Fiscal policy

Fiscal policy is a term used to describe one of the two most common approaches adopted by a government towards macroeconomic management of the economy for which they are responsible, the other being monetary policy.

Fiscal policy uses the management of government expenditure and taxation income to, in combination, either stimulate or suppress economic activity within a jurisdiction.

Based upon the ideas of the 20th-century British economist, Lord John Maynard Keynes, fiscal policy suggests that if a government wishes to stimulate economic activity because, for example, there is significant unemployment or under-employment in a jurisdiction, then it will spend more money into the economy than it raises in taxation revenue, with the reverse being true if it wishes to suppress activity because, for example, it thinks markets are overheated and there is a risk of inflation.

The inherent logic implicit in fiscal policy is that government expenditure in excess of government taxation revenue stimulates economic activity whilst this situation persists, with the reverse having a dampening effect on economic activity.

Fiscal policy is finessed by deciding upon the mix between government revenue expenditure, i.e. that which is incurred for immediate purposes, and government capital expenditure, i.e. that which represents investment for long-term benefit. These two types of expenditure tend to have different fiscal multiplier effects, with government capital expenditure usually generating greater long-term taxation benefits for a government than current revenue expenditure does.

Fiscal policy can also be finessed by altering which taxes are increased or lowered within the economy. Reducing taxes on those with the lowest pay tends to have a higher fiscal multiplier effect with, as a result, more and more immediate fiscal policy impact than reducing taxes for those with the highest levels of income and gains does. That is because those with lower incomes tend to spend the benefit of any tax cuts that they receive almost immediately, whilst those with higher incomes and gains tend not to spend the benefit of tax cuts that they enjoy but save them instead, producing, as a result, smaller fiscal multiplier effects. In both cases, the reverse is also true.

As the previous paragraph makes clear, because government expenditure and government taxation revenue are not independent variables because government spending does invariably give rise to activity that is subject to taxation, fiscal policy management can never

be a precise science. The resulting imprecision in fiscal policy management is exacerbated by the delay that exists within any economy between the announcement of policy, the undertaking of expenditure, and the consequent changes in taxation revenue. These delays create inherent uncertainty in fiscal policy management.

Keynes created the concept of fiscal policy because he correctly noted that markets do not by themselves, and without government invention, necessarily deliver conditions of full employment in any economy. Keynes thought full employment to be the goal of macroeconomic management, particularly given the experience of economies in the inter-world-war era.

Every modern government of any size does now necessarily consider its fiscal policy when managing its affairs and those of the economy for which it is responsible. Many will, however, also seek to manage the continuing fiscal cycles of relative boom and depression that occur despite their doing so through the use of monetary policy. This seeks to control the scale of short-term economic activity by the use of artificial movements in interest rates set by the government. They do so despite the evidence of the success of monetary policy being limited. In contrast, there can be no doubt that the post-1945 growth in economies around the world has arisen because of the use of fiscal policies and the implicit desire for full employment inherent within it.

Appendix 2

Money creation by banks

Many central banks (i.e. the banks owned by governments that issue the fiat currency in use within their jurisdictions) have issued explanations of how banks, including central banks themselves, create money by making loans[8].

This explanation, by Norway's central bank, the Norges Bank, is one of the more straightforward to follow[9]:

> *When you borrow from a bank, the bank credits your bank account. The deposit – the money – is created by the bank the moment it issues the loan. The bank does not transfer the money from someone else's bank account or from a vault full of money. The money lent to you by the bank has been created by the bank itself – out of nothing: fiat [literally means] 'let it become'.*
>
> *The money created by the bank does not disappear when it leaves your account. If you use it to make a payment, it is just transferred to the recipient's account. The money is only removed from circulation when someone uses their deposits to repay a bank, as when we make a loan repayment. The money supply is therefore only reduced when banks' claims on the rest of the economy decrease.*

The Bank of England addressed this issue quite comprehensively in 2014 in its first Quarterly Review of that year, in which it noted[10]:

> *In the modern economy, most money takes the form of bank deposits. But how those bank deposits are created is often misunderstood: the principal way is through commercial banks making loans. Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money.*

Central bank or base money is created in exactly the same way except that the central bank makes the loan and the government it serves borrows the funds that the central bank creates. The money in question is cancelled by the collection of taxation revenues or by

[8] See https://www.taxresearch.org.uk/Blog/2024/01/06/central-bankers-on-the-ability-of-banks-to-create-money-out-of-thin-air/
[9] https://www.norges-bank.no/en/news-events/news-publications/Speeches/2017/2017-04-25-dnva/
[10] https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy

what is called government borrowing, but which is actually deposit taking by the government in the currency it has created, with the government effectively providing a banking (or deposit taking) service to the rest of its economy as a result.

Appendix 3

Multiplier effects

A multiplier effect is a measure of the amount by which national income is increased or decreased as a result of additional spending within an economy. If a multiplier effect is greater than one then the additional spending produces an increase in income of greater than its own amount, and vice versa.

The largest multiplier effects are usually associated with healthcare spending and capital investment, where returns that are several times the size of the sum initially expended can result. In contrast, defence spending has very low multiplier effects.

Some multiplier effects e.g. those resulting from spending on education are hard to measure because of the extended time periods involved.

In the context of the Taxing Wealth Report 2024:

- Tax charges on the wealthy have low multiplier effects, because the wealthy do, by definition, save part or all of their marginal income as their income grows. As a consequence, whilst the savings of the wealthy might fall as a result of increased tax charges arising upon them proposed in the Taxing Wealth Report 2024, because savings are by definition funds taken out of circulation within the economy the impact on overall economic activity as a result of these tax increases will be limited because the wealthy will still have sufficient to spend to meet all their ongoing needs.

- Tax cuts for those on low income, and the payment of additional state benefits to people also on low levels of income, do in contrast have high multiplier effects. That is because it is very likely that the beneficiaries of these cuts or benefit payments will spend almost all that they gain almost immediately within the economy, providing an immediate boost to economic activity resulting in additional activity that is quite likely to exceed the cost of the cuts or benefits paid.

- It follows that the policy implicit within the Taxing Wealth Report 2024 of reallocating the tax burden from those with low incomes to those with high incomes will have a beneficial impact on the overall level of economic prosperity within an economy. It is, in fact, very likely that many of the economic problems that the UK currently faces arise because tax charges as currently imposed have been so heavily

orientated towards those on low income, and against those with wealth, creating adverse multiplier effects.

- The focus within the Taxing Wealth Report 2024 on redirecting tax incentivised savings away from their current, largely speculative use or cash based dormancy, and into active use in providing capital for investment within the economy is again intended to change the multiplier effects on this very significant item of overall government spending when £70 billion a year is spent subsidising savings. The existing multiplier effects of this expenditure are likely to be very low indeed, because there is almost no relationship between current tax incentivised savings and proactive investment in new capacity within the UK economy. By creating this relationship, the measures noted within the Taxing Wealth Report 2024 have the deliberate intention of significantly increasing the multiplier effect on this government expenditure, with likely considerable benefit to the overall growth and well-being within the UK.

Appendix 4

Central bank reserve accounts and the quantitative easing process

Central bank reserve accounts (CBRAs) are held by the UK's commercial banks with the UK's central bank – the Bank of England.

As a central bank, the Bank of England is owned by the UK government. It is responsible for the day-to-day management of the money supply in the UK, for the regulation of commercial banks in the UK, and for managing the settlement of inter-bank debts in sterling, for the issue of which currency it is responsible.

The central bank reserve accounts serve two purposes. Firstly, they provide the mechanism by which payments from commercial banks and their customers are made to and from the government. Secondly, they are the mechanism used by commercial banks to make settlement of the liabilities that they owe each other when fulfilling the obligations that their customers' request be settled with customers of another bank.

These accounts restricted for the use of commercial banks and some other regulated entities in the financial services industry. It is, as a result, believed that there are only a few hundred of them.

Before 2007 there were almost no balances on the central bank reserve accounts, at least in total. The current situation where all CBRAs are, in effect, bank deposit accounts held by the UK's commercial banks as a mechanism to guarantee their ability to make settlement to each other is almost entirely a creation of the post-2008 global financial crisis.

This change was in no small part motivated by those banks refusal to trust each other to make settlement after 2007, in which year it became clear that major commercial banks could fail when none in the UK had effectively done so since the 1860s. Once banks had demonstrated their own inability to manage their balance sheets at the time of the global financial crisis it became apparent that these banks would need to hold funds with the Bank of England to prove their ability to fulfil their own promises to pay.

As a result the central bank reserve accounts of UK banks were deliberately boosted in value by the Bank of England to facilitate this inter-bank payment process. This was the way in which banks were bailed out post-2008 to prevent them failing again.

In that case the way in which these reserve accounts have been increased in value needs to be noted. Doing so requires a number of things to be understood:

1. Overall, the sum held on these accounts is not within the control of the commercial banks. The sum that each bank might hold will vary from day to day. However, that is the consequence of payments between banks varying. However, the quantum of funds held in the CBRAs as a whole is determined by the Bank of England on behalf of the government because it is the sole creator of what is called 'base money'.

2. 'Base money' is sometimes called 'central bank money'. It comprises the currency issued by central banks in the form of notes and coins plus the balances on the CBRAs.

3. Base money is created as a result of the CBRAs being used to transfer funds from the Bank of England into commercial banks on behalf of the government, to whom it acts as primary banker through what is called the Consolidated Fund, which is in effect the government's consolidated bank account, and to also receive payments from those banks that are due to the government.

4. In summary, payments from the Bank of England Consolidated Fund account to the commercial banks increases the sums held in the central bank reserve accounts and so create what is called base money. These payments are made in the ordinary course of government business to make settlement to whomsoever the government chooses to make payment to, from an old age pensioner to the sums used to redeem gilts when they reached their repayment date. Payments to the government from the private sector economy via UK commercial banks via the CBRAs include taxes due, the proceeds of new gilt issues and the receipt of the many trading sums owed to government agencies.

5. The balances on the central bank reserve accounts are a proxy for the impact of fiscal policy as a consequence.

In that case the only way in which the balances on the central bank reserve accounts can increase is by the government spending more into the economy than it receives back from it. There is no other way in which this can happen. In turn that is only possible because the government can decide to fund its expenditure with new money created on its behalf by the Bank of England. That new money that the Bank of England creates for the government is base money.

The corollary is also true. The only way in which the balances on the CBRAs can be reduced is by the government collecting more money from the commercial banking system than it spends into the economy e.g., as a consequence of taxes paid being in excess of government expenditure, or by raising new borrowing in excess of current requirements e.g. because of quantitative tightening.

In this context, the role of quantitative easing can appear to be confusing, although it is actually quite straightforward. The pattern of the transactions involved in QE is as follows:

1. At any time it wishes the government can decide to issue new financial instruments. These can be very short term, in which case they are described as Treasury Bills, which are often redeemed in a matter of days. Alternatively, the government can issue bonds or gilts, which can have duration from a year or so to fifty years, or more. It has been government practice to only issue such bonds when there is a deficit on the government's Consolidated Fund account with the Bank of England, the aim being to restore a neutral balance on that account. This, however, is not a necessity and before 2008 it was commonplace for this account to also be cleared through the so-called Ways and Means Account that the government maintained with the Bank of England, which was an overdraft in all but name.

2. The issue of new financial instruments, of whatever their nature, results in new financial flows from the commercial banks to the government either because the banks themselves buy these instruments or, more commonly, because their customers do. The resulting funds to acquire these financial instruments flow through the CBRAs in either case since this is the financial conduit to and from the government available to the banking sector to use for this purpose. Whether the payment the commercial bank makes is as principal or agent for their customer makes no difference: the flow is from them to the government via the central bank reserve accounts. The result of the issue of new bonds is to reduce the balance in the CBRAs, meaning that the balances on those accounts created by government spending being in excess of routine income are cancelled in whole or part. Bond issuance of this sort, it is stressed, is not a part of the quantitative easing process.

3. If the Bank of England decides to undertake quantitative easing all that it does is lend funds to its legal subsidiary, the Bank of England Asset Purchase Facility Fund Limited (the 'APF')[11]. This company is fully indemnified with regard to its activities by HM Treasury and as such an agent of Treasury and is not under the effective control of the Bank. That company then uses the loan funds provided to it by the Bank of England to buy bonds issued by HM Treasury on the open financial markets. There is no reason why the bonds acquired need to be owned by the commercial banks, and it is likely that most of them will not be. This is inconsequential to the resulting movement through the central bank reserve accounts, which is represented by a flow of funds from the account of the APF to the commercial banks, which as a result increases the central bank reserve accounts balances.

[11] https://www.taxresearch.org.uk/Blog/glossary/A/#asset-purchase-facility

4. As a result of the above noted transactions, it is apparent that bond issues cancel the CBRAs created by government spending being in excess of government income, but QE then in turn cancels that cancellation process as if the bond issue never took place, effectively restoring the CBRA balances created by expenditure exceeding income. Given that the bond that was issued is, after being repurchased using QE under the effective ownership and control of HM Treasury it is easy to argue that the bond in question has effectively been cancelled. This is the accounting position reflected in the UK government's Whole of Government Accounts, which are the only true and fair accounting representation of this transaction[12].

5. QE is then a simple way of swapping bonds that need never have been issued for base money, and quantitative tightening (QT) then reverses that swap by cancelling QE.

As a result, the reality is that QE and QT are simply window dressing and it is the excess of government spending over income and routine bond issuance since 2008 that has created the current CBRA balances.

[12] https://www.gov.uk/government/collections/whole-of-government-accounts