

Quantitative tightening will thwart any economic plans ...

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I [have already noted](#) that the FT has this morning, noted that Rachel Reeves is offering Tory economic thinking as if it is Labour policy. The Guardian is also getting in on the act. It, too, is noticing that her thinking cannot be delivered because it flaws within it, long noted on this blog.

As [they note in an editorial](#) this morning:

The Labour party has in mind new institutions that will capitalise future-facing industries, create good jobs and see Britain catch up with its peers. That is one message from Rachel Reeves's speech.

They add:

Her Labour colleague [John Eatwell](#) suggests she is inspired by Alexander Gerschenkron, whose seminal work concludes that the way the state was organised influences its ability to adopt income-enhancing technologies. Many of Labour's proposals, such as Great British Energy, are welcome. But this column has been sceptical about whether they would meet the scale of the challenges Britain faces without substantial funding or effective mechanisms for socially directing investment.

Saying so, they note the chilling effect of the Bank of England and its policy of quantitative tightening on the economy. Not only is this intended to keep interest rates well above their natural rate by oversupplying the market with gilts, which keeps their price artificially low, keeping the interest rate paid on them high, but it also has another effect.

That other effect is to realise what seem to be losses on the resale of gilts purchased in the past by the Bank of England. In my opinion, there are no such losses: the purchases and sales are, in fact, unrelated policy decisions. That, however, is not how the Bank sees it, and nor does the Treasury, because they view these issues as if they are microeconomic concerns of separate entities and not and not macroeconomic management issues of a single entity called the government. The result is that the

Bank puts pressure on the government to reduce its spending by creating supposedly realised losses that it must account for, reducing its capacity to spend elsewhere.

This is the dead hand of neoclassical/ neoliberal economic thinking that fails to take into consideration accounting reality. The consequence is the deliberate creation of an environment where austerity can be demanded where none is required, and to do so is utterly counterproductive to the well-being of the country.

Reeves very clearly has no intention of challenging the quantitative tightening bond sales that are planned at about £100 billion a year, not a penny of which will be used for any constructive economic purpose. If she does not, whatever else she says is meaningless. This policy is intended to thwart any ambition she has and will do so unless she challenges it head on.