

Funding the Future

Article URL

Published: January 12, 2026, 6:32 pm

There is much debate about whether Labour is really short of money, and if it is, why it did not know it was going to be. I was on LBC radio discussing this yesterday.

In this video, I argue that if Labour says it is really short of money it need not be so. I suggest that they just stop paying maybe £30 billion of interest to our commercial banks each year that they have done nothing to earn and then see what they can do with it to change the well-being of people in this country.

<https://youtu.be/JvBnz81Ytbw?si=YNr1Cb5wxtkz9qQ9>

The audit version is:

https://www.podbean.com/player-v2/?i=8i2ek-167ffdf-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

Three weeks or so after a general election, and there's one thing that is now very clear. Labour is short of money.

There's no great surprise about that.

I said it would be way before the election happened.

Every other commentator said that the forecasts prepared by the Office for Budget Responsibility for the outgoing Chancellor, Jeremy Hunt, which Rachel Reeves has accepted as if they are gospel truth, would result in there being a shortage of government funding for essential programmes.

And now the truth is very apparent. The crisis has come, of course, over the two-child benefit cap, but there are many more such issues to come from now on. The government is massively underfunded to meet its obligations. It needs more money. How does it get it?

Well, I keep on talking in these videos about the fact that it could tax wealth more, and that's true.

But that's not the only way in which the government could get more money. Let's raise another obvious change that the government could make, which was talked about by Reform during the course of this general election, but which I have been talking about for a very long time, before it ever got came into existence, let alone came to think about it as a policy.

And that is, the government could stop paying interest on all the central bank reserve account balances that are held by our commercial banks with the Bank of England.

There's a lot of jargon in that last sentence, so let me explain what I mean.

When the government spends money into the economy, or when it receives money from the economy, those flows of funds go through commercial banks to the Bank of England. And, the commercial banks hold a very particular type of bank account with the Bank of England, which, by the way, only has about 300 odd customers. That account is called a central bank reserve account. It effectively is the point where government money is transferred into the real economy, and the real economy repays that government money by way of, for example, making payment of tax, or by depositing funds in government bonds or national savings and investments.

So, money flows out from the government through a central bank reserve account. We pay money back through a central bank reserve account, either as tax or as money that we want to save with the government.

That's the essence of what these accounts do.

But what happened during the period from 2008 until 2021 was that these central bank reserve accounts went up in value from around £20 billion to almost £1 trillion, or £1,000 billion.

Now they've fallen a bit since then because the government has been reversing what is called quantitative easing and so they're now under £900bn, but they're not going to fall in a big way any time soon.

The problem is that the government has since 2006 paid interest on the central bank reserve account balances at what is called Bank of England official base rate, which is at the present point of time five and a quarter per cent.

Now when the balances in question were only £20 billion, who cared what the interest rate was? The total impact upon government finances was neither here nor there.

But now, if you're going to be paying five and a quarter per cent on coming on for a trillion pounds, you're going to be paying, well, something like £40 billion a year at present on these accounts.

Now, it is said by the City of London, and by some economists, that it is essential that the government pays interest at this rate, because this transmits the decision on official interest rates into the rest of the economy, and therefore requires that everybody else use that rate.

The only trouble with that theory is that the European Central Bank successfully transmits its interest rate into European economies without paying interest on all the central bank reserve accounts that banks throughout Europe have with the European Central Bank. And the Bank of Japan, which is the equivalent of the Bank of England, does not pay interest on all the central bank reserve account balances that it holds for commercial banks in Japan.

So, the Bank of England is a bit of an outlier here. It's paying vast amounts of interest that it appears do not need to be paid.

Now I'm not disputing that some needs to be paid. I think that's true. I think that £10 billion, meaning, therefore, that roughly one-quarter of all the central bank reserve account balances might be subject to interest payment, would be reasonable. I think that would achieve the monetary policy goal of transmitting the Bank of England's chosen interest rate into the economy.

But the rest? Look, the rest was created by the government as new money injected into the economy to keep it going in the aftermath of the 2008 financial crisis and during the COVID crisis and there is no reason why our commercial banks should be enriched by those funds.

Up to £30 billion a year could maybe be cancelled in terms of interest payments. Although, I should add that if that's the case, the banks would not, as a consequence, pay tax on those receipts. And so the net benefit for the government may be a bit over £20 billion a year.

Well, £20 billion, would that make a difference? I think so.

It would end child poverty.

It would allow us to pay the whole of the backlog of pay due to junior doctors and restore their confidence in the NHS so they wouldn't all be leaving to go to Canada or Australia and somewhere else.

It would allow us to pay for the special educational needs of every young person at school, primary or secondary in the whole of the UK.

It would end the bedroom tax.

It would restore most of the payments due to those with disabilities. that had been lost during the period of the Tory government.

It could restore the services supplied by local government.

It could improve social care, and a bit might go into the NHS.

It's that big. £20 billion can make a real change to the way in which our economy is run and services are supplied.

And right now, it's all going to banks. That makes no sense at all. Should they be enriched at cost to the people of this country who need essential government services, or who require government support to be able to enjoy a full life as part of their community? I don't think so.

I don't think banks deserve that money.

I think other people do.

This needs to be looked at. Just because Reform picked up this idea does not mean that it should now be treated as out of bounds, not to be considered. It was always a terrible idea that interest was paid at this rate on that money. And it remains so, whether they supported it or not.

We need this change. The Labour Party needs to make this change. And it's one of those things that I really hope to see when Rachel Reeves stands up and delivers her first budget sometime this autumn.