

Funding the Future

When the Bank of England and the Chancellor agree on de..

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This is what the Bank of England once said on its website (recovered [via Way Back Machine](#), thanks to blog reader Bill Kruse:

When the global recession took hold in late 2008, we quickly lowered Bank Rate from 5% to 0.5% to support the UK's economic recovery. Lower interest rates mean it's cheaper for households and businesses to borrow money – which encourages them to spend and invest, whether that's a family buying a new car or a company wanting to build a new factory.

But there's a limit to how low interest rates can go. So when we needed to act to boost the economy, we turned to another method of doing so: we introduced quantitative easing.

In other words, the Bank of England used quantitative easing to do what the government would not do from 2010 onwards when the government was running an austerity policy, and that was to run a stimulus policy. They boosted the economy, whilst the government sought to actively crash it. And they knew what they were doing: they refer to boosting the economy.

Now, they are doing the opposite. The [Bank of England now says this](#) on its website:

The money we used to buy bonds when we were doing QE did not come from government taxation or borrowing. Instead, like other central banks, we can create money digitally in the form of 'central bank reserves'.

We use these reserves to buy bonds. Bonds are essentially IOUs issued by the government and businesses as a means of borrowing money.

Now that we are reversing QE, some of those bonds will mature and we are selling others to investors. When that happens, the money we created to buy the bonds disappears and the overall amount of money in the economy will go down.

They are deliberately taking money out of the economy. They know that will shrink it.

That is their deliberate goal. They are pursuing this in the vain hope that this will control inflation that was created by reasons way beyond their control, which reasons have gone away. The way they will achieve that is by shrinking the economy i.e. by creating a recession.

The admission of this truth came in a [Guardian article](#) yesterday, which said:

The Bank of England needs to “stop squeezing living standards” and cut interest rates, a senior policymaker has said.

[Swati Dhingra](#), a member of the central bank’s monetary policy committee (MPC), said official borrowing costs should be cut at its next meeting on 1 August to ease pressure on households and businesses.

“Now is the time to start normalising [interest rates], so that we can then finally stop squeezing living standards the way we have been to try and get inflation down,” Dhingra told the Rest is Money podcast. “We are weighing on living standards and that cost does not need to be paid.”

So, we have an admission here from a person who definitely knows that the Bank of England is now deliberately crushing the economy.

But, at the same time, as the [FT has noted](#) in a preview of this week's King's Speech:

The King’s Speech on Wednesday next week will feature a big package of legislation expected to include measures empowering the Office for Budget Responsibility to independently publish forecasts of any big fiscal event involving big tax and spending changes, a move intended to reinforce the party’s commitment to fiscal discipline.

In other words, law will be passed to effectively impose the balanced budget rule to which Rachel Reeves is dedicated and which already guarantees the perpetuation of child poverty, the continuation of austerity, and recession, whatever Reeves says.

What the Bank is up to is clear from what it is saying. Those who understand what it is saying know that it is consciously trying to deflate the economy. At the same time, everything Rachel Reeves is doing will deliver the same outcome. And yet Reeves apparently believes she can deliver growth, which in this situation makes absolutely no sense at all. I can only conclude that Rachel Reeves is not aware of how the economy works, and what the Bank is doing. I cannot see another option

In that case, welcome to what happens when incompetent Chancellors (most especially Osborne and Kwarteng, who are now joined by Reeves) are unable to read the runes and the Bank runs economic policy. From 2010 to 2021 this saved us. Now, it will be our ruin.

For a long time we had policy where the Bank and Treasury have had their feet on different pedals - one on the accelerator and the other on the brake. Unless either changes, now both will be on the brake. The outcome is inevitable. You have been warned.