

Funding the Future

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As far as most people know, the job of the Bank of England is to control inflation, which it has proved itself utterly unable to do. Meanwhile, its essential roles in money creation, government funding, and bank and financial services regulation are almost all ignored when they are really important. We need a Bank of England that concentrates on the jobs it needs to do, not the one it can't do.

<https://www.youtube.com/watch?v=3nR98vHPvq0&si=9DcV89izWH7OWWaO>

This is the audio version:

https://www.podbean.com/player-v2/?i=hf3be-16e870f-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

And this is the transcript:

Time and again, I have said that the Bank of England should lose the responsibility for setting the interest rate policy of the United Kingdom and, therefore, for controlling the monetary policy, which is a fundamental part of UK economic management. And I stand by that opinion.

Nothing will persuade me that the Bank of England should be in control of the largest part of our current economic policy within this country. But if we did take the powers of the Monetary Policy Committee away from the Bank of England and transferred them to where they belong, in the Treasury, where these monetary policies can be coordinated with the fiscal policy that the Treasury runs in a way that might be highly beneficial to

the overall effectiveness of the management of the UK economy what would there be left for the Bank of England to do? Well actually, quite a lot. And I think it's important that we understand just how significant the role of the Bank of England is as our central bank.

Remember, the Bank of England's primary job is to issue money on behalf of the government - and I'm not talking about our notes here - the coins, by the way are issued by the Royal Mint - I am instead talking about the fact that every single time the government spends the Bank of England extends its overdraft to the government and creates new money. As a consequence, literally all government spending is funded by the Bank of England.

The effect of that money creation is cancelled through taxation, which is managed by the Treasury, but the Bank of England creates the money that is taxed in the first instance. And, of course, if it didn't create the money to enable the tax to be paid, there would be no money available to pay that taxation. So, things have to be in that order.

This fundamental task of the Bank of England is not fully understood by almost anyone. And if it was, the Bank of England would be seen as a much more significant organisation than it is at present within that role.

There's another task that is absolutely fundamental that the Bank of England undertakes and that is to regulate the banking system of the UK. That is a major task that it must undertake. It does, in fact, set the rules under which all the commercial banks that operate in this country do operate. That's important. Why? Because, as we saw in 2008 when commercial banks decide to fail because of their own recklessness or because the regulation under which they have been operating is not good enough, and there is very good reason for thinking that it was not at that time, and that the Bank of England did seriously fail us, then the cost to society is very high.

So, the Bank of England should be concentrating on getting that job right.

Are they? I don't know. Why do I not know that? Because at present, one of the facilities that they supply to ensure that interbank relationships are properly regulated, which is the banking facility that the Bank of England actually supplies to our commercial banks, is being progressively withdrawn by the Bank of England.

I am referring to the quantitative tightening process by which the balances on what are called the central bank reserve accounts that the commercial banks maintain with the Bank of England are being steadily reduced to the point that a time will come when there will be insufficient credit in the interbank trading system to ensure that bank solvency can always be guaranteed. That worries me.

What else should it be doing? Well, the Bank of England actually has a responsibility for regulating quite a number of other activities, including the life assurance sector, even

though very few people seem to understand that outside the financial services industry. So, we do need the bank to do that as well. Why? Because we are dependent on a large part of our financial services industry for the sake of our own well-being. Many of us will have products which are sold under regulation by the Bank of England.

But the whole focus of its public identity is centered on the activity of the Monetary Policy Committee. And the whole focus of the Monetary Policy Committee is upon controlling inflation, when there is no evidence that it has actually had any real effect in achieving that goal. Controlling interest rates in the UK has never had an impact on global fuel prices, oil prices, gas prices, wheat prices, fertilizer prices, or anything else that drove inflation upwards in 2021. But the failure of the Bank of England to properly regulate banks did have an impact in 2008 and the global financial crisis then. But on inflation, the Bank of England Monetary Policy Committee might never have achieved anything.

So, the public persona of the bank is all wrong. That's one of the reasons why we should be moving monetary policy out of its control, so that we understand the importance of the Bank of England for all other aspects of our life, including the smooth operation of our commercial banks.

And if, in due course, then we do get what is called a central bank digital currency, as some people are proposing, which means that you and I might be able to bank directly with the Bank of England, then we really do need to understand the consequence of that for the Bank of England itself, for our commercial banks, and for the stability of the financial system in this country. And again, I don't think the Bank of England is at present making nearly enough noise about what all this might mean and talking about the consequences for us all.

The Bank of England does then have enormous jobs to do but it is putting all its focus of attention on the thing that it can't do, which is control inflation. I would really like it to get on with the job that we require that it do, which is regulating financial services and banks. I would rather it had nothing to do with the undemocratic control of economic policy in this country.

We need a Bank of England. It has to be effective. But we're not getting the Bank of England we need at present. And therefore, it does require change.