

Could the Bank of England make life better?

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The Bank of England could make our lives a lot better by changing some of its policies, but it shows no sign of doing so. Why then do we tolerate its supposed independence when that is used to undermine our well-being?

<https://www.youtube.com/watch?v=EgPRy3OFAYI&si=MS19bH0Q9voMCVI7>

This is the audio version:

https://www.podbean.com/player-v2/?i=r8n7w-17fe124-p&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=f6f6f6

This is the transcript:

What could the Bank of England do to support the UK economy? It's an important question because right now Rachel Reeves is still committed to the idea that the Bank of England is independent of the government and can pursue its own agenda with regard to what is called monetary policy, with serious impact for the well-being of the people of the UK including you, me and Tom who's sitting the other side of the camera. This, then, matters.

But let's first of all get our terminology right. Monetary policy is how the Bank of England can use interest rates to influence the level of demand in the economy to both control inflation and to keep the level of bank borrowing under control.

Fiscal policy, which is what is managed by the Treasury, is fundamentally the measure of the impact of the difference between government spending and government revenue in the form of taxation and the stimulus effect that has, or the effect that it has to actually mute economic activity if you spend less than you get by way of taxation revenue.

Fiscal policy is, therefore, a way of controlling inflation, and so is monetary policy a way of controlling inflation. Whether we should have the control of inflation so strongly at the centre of all our economic policy is a very good question, but right now, that is the one thing that our politicians obsess about, and it is fair to say that opinion polls suggest that is the biggest concern of people in the UK when it comes to economic issues, which always surprises me because I just cannot see how well-paid jobs aren't more important than that, but that's what they say, and therefore that's how it is.

So, let's go back to that question. What could the Bank of England do now to improve well-being if it was really trying to deliver on behalf of the people of the UK, who I think should be the epicentre of its concern? In other words, I'm saying if we have reached the point where there is little inflation risk - and at this moment, that is the case - then what should they be planning to do with regard to monetary policy to achieve other goals, given that inflation is unlikely because we can't see an external economic shock that's going to create it right now unless we say that Trump will truly impose tariffs and they will be truly disruptive on a scale that we could never have imagined, but even so, which cannot be countered by the impact of any form of monetary policy that the Bank of England can do, because changing interest rates in the UK will never have an impact upon what Trump decides. So, what can they do?

There are actually a lot of things they could do, other than keeping interest rates high, which is the only true economic agenda they've got right now.

They are keeping interest rates high - 4.5 per cent base rate at the time that we're recording this - 1.5 per cent ahead of the Eurozone - because they say that is necessary to prevent the risk of inflation recurring, even though they admit there is almost no chance of inflation recurring right now unless, as I've noted, there is an external shock like Trump. So, they don't need to keep interest rates as high as they are.

The first thing that they could do to increase the well-being of people in this country is to cut interest rates.

The long-term interest rate in the UK is something that has been monitored for a period of well over 500 years by the Bank of England, and what they have shown, based upon their own research, is what is called the real rate of interest - that is the rate of interest paid on bank loans over and above the rate of inflation - has fallen from something like 15 per cent several hundred years ago to something very close to zero per cent now. In other words, the effective interest rate that should be charged in the UK at present

should be the inflation rate, which is, near enough, 2.5%. And that, therefore, is where the Bank of England should have its base rate at this moment.

It does not need a base rate which is at 4.5 per cent, because that creates a real interest rate at present of 2 per cent. In other words, we're paying 2 per cent out of our real incomes, in terms of interest.

Real net interest rates should not impose a charge on us. That is what the trend of recent economic history has shown. And when we don't pay real net interest, what we get is a vibrant economy, or a more vibrant economy anyway, because people have enough money to spend, but savers have an inflation hedge when they put their money into a bank for the purposes of saving. There is a form of equilibrium there, as much as there is ever a form of equilibrium or balance in anything to do with economic policy.

So the interest rate should be, as a matter of fact, lower than it is, and the Bank of England's own research proves that point, and I really don't know why they ignore it.

But there are other things that they could do as well to really help the economy. For example, the government keeps on saying that its cost of borrowing is too high. And it is. Because it's paying interest unnecessarily. For example, the Bank of England has deposits from the commercial banks of in excess of £800 billion pounds at present. The number fluctuates a little from time to time. But it's something of that order. And, on that, they pay their bank base rate. Now, interest at 4.5 per cent on roughly £800 billion comes out at something like £36 billion a year. Again, the number will vary slightly.

Why do they need to pay 4.5 per cent on all that balance, almost all of which was created as a consequence of the quantitative easing programme by which the Bank of England and the government jointly injected money into the economy to keep it going in 2008 and 2020 when we faced financial crises. It's a question that nobody has ever been able to answer. We don't need to.

The Bank of Japan doesn't pay interest on all the balances created in the same way in that country.

And nor does the European Central Bank do so on balances created with it as a consequence of its quantitative easing program with the funds held at the European Central Bank.

So, therefore, the Bank of England is out of step in this way.

It could pay what is called a tiered interest rate. For example, it could pay the full rate of interest on the first £200 billion of deposits and a very much lower rate - half a percent, or maybe nothing at all - on the rest, and save the government well over £20 billion as a result.

What could the government do with £20 billion? You queue up with your suggestions. I've got plenty, but you'll have your own.

The point is, the government would know what to do with that. We would not, for example, need to have the austerity that is being imposed on many government departments, including health and education, if that £20 billion was available.

What else could the Bank of England do? It could end its quantitative tightening programme. Now, QT, as it is called, is the reverse of the quantitative easing programme, QE, as it is called. Under QE, the Bank of England bought government bonds. Under QT, the Bank of England sells the bonds that it bought under the QE programme.

There is absolutely no reason on earth for the sale of those bonds to take place. There can be no economic justification for it. It is literally a process of the Bank of England selling bonds to financial markets to withdraw money from those markets, which is not going to be spent on government programmes, or funding infrastructure, or anything else.

It's just literally removing money. And the only reason to do that is to force down the price of government bonds by supplying too many of them, which has the effect of forcing up the interest rate paid on them, which therefore pushes up the interest rate that we all have to pay on everything else. And this is a totally antisocial program as a consequence, which not only deflates the economy, reduces economic activity in it, reduces the funding available within the private sector for any form of investment, but also penalises us all with high interest rates. That programme could and should end now.

That would release the animal spirits of the financial markets to find other uses for that money which is at present going to fund the quantitative tightening programme.

It would permit more investment, and it would save people real costs with regard to mortgages and other loans.

So that program could be cancelled to totally improve the well-being of this country.

And there's another way in which the Bank of England could, if it was really interested in actually supporting the well-being of the country, back up the government. When the government is held to ransom, or is threatened with ransom by the City of London, as happens occasionally, when they say, "We don't think we can fund what you're doing anymore", the Bank of England could simply respond by saying, "Thank you very much, we don't care whether you agree or not, because if you don't like what the government is doing, we will lend them the money that they require to undertake their programmes until you get your head around the fact that you can't survive as bankers without owning government bonds, which are fundamental to the financial structure of your

organisation, and therefore we will fund the government until you decide you do actually want to start buying bonds again."

In other words, the Bank of England could literally weaponise its own ability to lend direct to the government, charging interest or not, as it chose, to make sure that the City understood that it is in the subservient role here, and not in the dominant role that it likes to think it plays. It is, in fact, the organisation that gets the favour from the issue of government bonds, and it is not doing a favour to the government by subscribing for them.

It needs bonds to structure pension arrangements.

It needs bonds to structure banking arrangements and literally cannot do overnight banking operations which are fundamental to the operations of the City of London without them.

And it needs bonds to provide part of its tier of stable capital which ensures that banks are going to be solvent in the event of a financial crisis.

Therefore, to pretend that they have the power is absurd. They actually need the government. But the Bank of England has to back that up, and at the moment it doesn't. It sides with the banks, and that's wrong.

So, there are then real agendas that the Bank of England could pursue to improve the well-being of the people of the UK. If it did pursue those agendas, and if it did as a consequence support well-being, its independence would in turn be worthwhile.

But if it won't support well-being, and it won't cut the interest rate, it won't cancel quantitative tightening, and it won't support the government when it is under threat from the City of London, when it wants to do things that are for the benefit of the people of this country as a whole, then frankly Bank of England independence is a joke, not worthwhile, and in fact a threat to us all, and it should go.

My point is, the Bank of England could be playing a useful role in our society. It isn't. And it's time for it to decide whether it wants to or not. And if it doesn't, it's time for its role as an independent agency to come to an end, and for the Treasury to take the functions back in house.