WHY THE BANK OF ENGLAND IS BEYOND CONTROL

How the UK Central Bank Digital Currency project demonstrates the Bank of England's independence is not just from the British people – but also from their political representatives.

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Introduction

Rishi Sunak and Jeremy Hunt have brought about the complete independence of the Bank of England from political control – which means from our democratic control.

The Bank's status vis-a-vis Parliament is now the same as the status of the European Central Bank towards the European Commission, the European Council, the European Parliament and the member state national parliaments. The ECB is autonomous of all of them and its actions are limited only by a statute that it finds quite easy to redefine as it sees fit: the ECB's Pandemic Emergency Purchase Programme, as my 2021 paper for Bruges Group said, was tantamount to a coup d'état[1].

The Bank of England's autonomy is demonstrated by its 'Britcoin' project to investigate a form of cryptocurrency known as a Central Bank Digital Currency or CBDC. The Bank has engaged with vested interests in the Visa and Mastercard ecosystems and US Big Tech, and is drawing on a narrow evidence base from its trusted sources amongst international financial bodies.

However, this 'investigative' process now appears to be a smokescreen to disguise its pushing ahead with major alterations to national life regardless of counter-evidence and events in the real world – like the crash of cryptoassets. The Bank has become disconnected from our democratic checks and balances. This is the new meaning of Bank of England independence.

1. http://www.lyddonconsulting.com/the-ecbs-pandemic-emergency-purchase-programme-epitome-of-the-failure-of-the-euro/ accessed on 18 November 2022

Central banking in a Brexit context

After the Bank of England participated so actively in the EU referendum's 'Project Fear', it was surely not unreasonable for Brexiteers to expect the Bank of England to be reined in and made to serve UK interests, and for a pro-Brexit government to express what that meant.

Not only have we not had a Brexit government, but we have seen a set of policies being pursued by the Bank that are in lock-step with other central banks, such as:

1. Persistence with ultra-low interest rates even in the face of indicators of inflation;
2. Continued build-up of bond purchases under the heading of 'Quantitative Easing' or 'QE';
3. Expansion of the types of bond that are accepted as collateral, well beyond what would count as 'central bank money' i.e. UK government risk and denominated in £pounds.

The Bank is now belatedly unwinding QE and in a less benign interest rate environment: Reuters reports that this could cause a loss for the UK taxpayer of up to £133 billion[2].

Global – not UK – reference points

The reference points for the Bank's policies are invariably international ones, such as the Federal Reserve Bank or the European Central Bank, or financial coordination bodies such as the World Bank, the International Monetary Fund, the Bank for International Settlements, the Financial Stability Board, the Committee for Payment Market Infrastructures and so on.

All of these bodies have opined on Central Bank Digital Currencies and of course positively, their enthusiasm being matched by payment card brands, management consultancies, and trade bodies for the financial technology and cryptocurrency industries.

The result is a momentum towards the introduction of a CBDC which the Bank can present as broad-based and market-driven.

2. https://www.reuters.com/world/uk/uk-taxpayers-hook-133-billion-pound-bill-cover-boe-losses-2022-11-17/ accessed on 18 November 2022

Capture of the Britcoin CDBC project

The extent to which the Bank of England has populated its Britcoin project with its willing helpers is laid out in Lyddon Consulting's recent paper entitled 'CAPTURE – BigTech and Digital Payment Giants dominate the committees evaluating the replacement of physical cash with 'Britcoin' – a UK 'Central Bank Digital Currency''[3].

The research proves that the two committees which the Bank of England has appointed are steeped in the milieus of Visa/Mastercard/PayPal, Silicon Valley and Fintech/cryptocurrency. Where there is supposed UK involvement, its nature is suspect.

In particular there is an interplay between the Payment Systems Regulator, its own advisory PSR Panel, its Digital Payment Initiative and both vested and foreign interests that serves to smother any possibility of UK businesses and consumers having a proper voice. This is laid out in pp.31-52 of the research.

Governance issues in the 'Britcoin' project

The research also unearths significant governance issues, laid out on pp.9-12, going beyond the committees being unbalanced and conflicted, but also suffering from:

- Inadequate upfront due diligence on participants;
- No ongoing due diligence on participants;
- Lack of transparency over lobbying to get the project mobilized in the first place and to obtain participants' seats on the committees;
- Lack of consideration of negative research by other central banks;
- No process to surface all relevant scientific and academic research;
- No control to inoculate against spurious and circular evidence.

The upshot is that the project governance falls far short of the standards required for a matter that will have a huge impact on UK national life.

The project appears to have been hijacked by a 'concert party' of organizations who will benefit financially from its going ahead. The Bank allows these organizations to front-run the project because it establishes a plausible smokescreen for its own machinations: these organizations play back the Bank's own pre-baked opinion and supply the Bank with spurious and ostensibly market-based support for it.

3. http://www.lyddonconsulting.com/capture-a-major-new-paper-on-the-committees-considering-a-uk-central-bank-digital-currency/ accessed on 12 November 2022

Spurious and circular evidence

The final point in the above list merits special mention. A technique is needed to counter the usage of suspect 'evidence', and to avoid these committees – composed of enthusiasts – delivering a distorted selection of evidence so as to endorse the course of action that they and the Bank of England want, and which has been the predestined outcome of the process.

The inoculation should be applied towards 'evidence' that is presented as independent, third-party, and factual, but where it is subject to one or more of the following shortcomings:

- It emanates from another organization within the 'concert party';
- There is interplay between the user of the 'evidence' and those who contributed to its creation: the Bank of England, for example, participates actively in the machinations of all of the Bank for International Settlements, the Financial Stability Board and the Committee for Payment Market Infrastructures, making its use of any documents from these sources suspect in terms of their independence;
- A piece of 'evidence' quotes secondary sources that are opinion pieces, possibly to the extent that the opinion pieces represent the majority of the content[4];
- Pieces of 'evidence' quote one another as their corroboration;
- Actors in the processes use or cite sources without at the same time disclosing their own involvement or that of their organization in the commissioning or creation of the source

Independent or out-of-control?

Who can intervene to ensure the good governance of the Britcoin project, though? No-one. The interplay between the actions of the Bank of England, the defenestration of Liz Truss as Prime Minister and Kwasi Kwarteng, and the elevation in their stead of Rishi Sunak and Jeremy Hunt indicate that no-one now has the power to rein the Bank in:

- Sunak and Hunt recently made an abject retreat in the face of the Bank's opposition on the issue of 'calling-in powers'[5];

4. As an example, four of the seven chapters in Finextra's 'The Future of Digital Banking in the UK' are an 'expert view' from a market actor in digital banking. The report contains no data tables, footnotes, or bibliography: https://www.finextra.com/researcharticle/250/the-future-of-digital-banking-in-the-uk-2022
5. https://www.cityam.com/sunak-backs-down-against-boe-and-ditches-call-in-power-over-city-regulators/ accessed on 29 November 2022

- The Bank proceeds to unwind the QE that it should never have built up to the extent it did, and can hand the taxpayer a bill of £133 billion, to meet which the UK will have to issue new debt.

This cessation of political control over the Bank was flagged by Jeremy Hunt in the Autumn Statement, and particularly in his speech to Parliament. Hunt unequivocally endorsed the Bank, "which has done an outstanding job since its independence, [it] has my wholehearted support in its mission to defeat inflation and I today confirm we will not change its remit"[6]. He endorsed the confirmation of the Office for Budget Responsibility that "global factors are the primary cause of current inflation", laying no blame for inflation on the Bank's low interest rate policy or on QE.

This positioning deferred cravenly to the Bank's own narrative, which was the same narrative around the Mini-Budget that served to defenestrate Truss and Kwarteng and elevate Sunak and Hunt. The outcome was simultaneously an abdication of Hunt's responsibilities as the representative of Parliament and the voters in limiting the Bank's powers.

Having parroted the Bank's narrative and insulated it from all possible criticism, Hunt and Sunak have given the Bank 'carte blanche' to do whatever they like in every area the Bank succeeds in defining as within its remit. The remit is elastic, and the Bank's actions within that remit are elastic: the Bank is out-of-control.

'Financial stability' – the flexible friend of the Bank in justifying its espousal of Britcoin and cryptoassets

Jeremy Hunt made 'stability' the leading issue in the Autumn Statement, and because it was a speech about finance, he opened the door to the Bank to have unlimited powers to deal with any threat the Bank sees to financial stability.

It cannot be a surprise that the profile of Sir Jon Cunliffe, the Bank's Deputy Governor for Financial Stability, has since risen dramatically. The Britcoin project has reported to him since its inception. The ructions in the cryptocurrency market (such as the collapse of FTX[7] and BlockFi[8]) have given him a platform to champion and accelerate a

6. https://www.gov.uk/government/speeches/the-autumn-statement-2022-speech accessed on 29 November 2022
7. https://fortune.com/crypto/2022/11/13/could-sam-bankman-fried-go-to-prison-for-the-ftx-disaster/ accessed on 14 November 2022
8. https://www.reuters.com/technology/crypto-lender-blockfi-files-bankruptcy-protection-2022-11-28/ accessed on 29 November 2022

pre-existing policy: to regulate cryptoassets and thereby make the UK a global cryptoasset hub[9]. Since the policy was declared in the spring, cryptoassets have been shown to be an emperor with no clothes, a palpably unstable item and not really an 'asset' at all: the better action to ensure financial stability would be to wall crypto away from the mainstream[10].

Sir Jon, though, seems to have caught the Nicola Sturgeon affliction of declaring events to betoken their exact opposite when those events contradict their wishes: Sturgeon declared that the decision of the Supreme Court strengthened the case for IndyRef2, when it obviously weakened it[11].

When Sir Jon mentions 'stablecoins' as a form of cryptocurrency, he is indulging in cryptospeak: he means Britcoin. Now, of course, Britcoin is needed in order to underpin financial stability, according to Sir Jon's and the Bank's logic. This mirrors the position of the European Central Bank, that a digital euro is needed for financial stability in a digital world[12].

Both the Bank of England and the European Central Bank are free to implement major changes to our money regardless of such counter-intuitive delusions – because they are answerable to no-one.

Sunak and Hunt have entered into a Devil's Pact with the Bank – its price is the death of democracy

The slavish self-abasement of Sunak and Hunt before the Bank of England and the Office for Budget Responsibility – arguably as a quid pro quo for the support of these bodies in elevating them to the positions of Prime Minister and Chancellor – betokens a cessation of political control over the Bank.

Sunak and Hunt have surrendered responsibility over the country's money not just for themselves as politicians, but on behalf of all of the UK's individuals and businesses. This mirrors the situation in the Eurozone and is entirely to the taste of central bankers: they have made themselves unaccountable.

9. https://www.gov.uk/government/news/government-sets-out-plan-to-make-uk-a-global-cryptoasset-technology-hub accessed on 12 November 2022
10. https://www.coindesk.com/policy/2022/11/21/uk-may-need-digital-pound-bank-of-englands-jon-cunliffe-says/ accessed on 29 November 2022
11. https://www.belfasttelegraph.co.uk/news/uk/sturgeon-yes-movement-galvanised-by-supreme-court-ruling-on-indyref2-42174595.html accessed on 29 November 2022
12. https://www.ecb.europa.eu/paym/digital_euro/html/index.en.html accessed on 15 November 2022

It is a fundamental democratic principle that those who manage our country's money – *which is our money* – should be accountable to us: they act at our behest, not we at theirs. After all, when a central bank creates 'central bank money debts', they are by definition creating debts for which all the UK's individuals and businesses are responsible.

The principle ought to be 'no debt creation without representation'. Instead, the Bank appears to have created a £133 billion debt for the taxpayers through its unwinding of QE without its having to give good account of its actions to the taxpayers. We will have to eat the loss in the form of higher tax payments to meet the UK's consequentially higher debt service payments, but we have no control through our democratic process on the organization that caused us the loss.

Sunak and Hunt have buried this fundamental principle in order to serve their ambitions for high office, using the name of 'financial stability' – the elastic catch-all term that justified the defenestration of Truss and Kwarteng and now enables the Bank to expand its remit as and when it wishes.

The Britcoin project is a token for the cessation of political control. The Bank will pursue Britcoin to implementation regardless of the views of the UK government and of UK businesses and individuals, who will not get a look-in anyway as demonstrated by Lyddon Consulting's research. Now that the Bank can define Britcoin as needed for 'financial stability', nothing stands in the Bank's way.

Conclusion

Political appointees have abdicated responsibility for managing the UK's money: this means that we have no control of the money we use or the debts that can be created for which we are responsible. This usurpation will be completed by the introduction of Britcoin. Fundamental tenets of democracy have gone up in smoke.

Bob Lyddon 31 January 2023

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