

## Central banking is not the answer

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The FT has an interview with Mark Carney, who is now in his valedictory period at the Bank of England before leaving in two months. [As they note](#):

*The global economy is heading towards a “liquidity trap” that would undermine central banks’ efforts to avoid a future recession, according to Mark Carney, governor of the Bank of England.*

*In a wide-ranging interview with the Financial Times, the outgoing governor warned that central banks were running out of the ammunition needed to combat a downturn.*

*A liquidity trap occurs on the rare occasions when monetary policy loses all effectiveness to manage economic swings and looser policy does not encourage any additional spending.*

*“It’s generally true that there’s much less ammunition for all the major central banks than they previously had and I’m of the opinion that this situation will persist for some time,” he said.*

So, three thoughts.

First, central banking really is dead in the water: the idea that an organisation with almost no weapons left in its armoury can really do anything to assist the delivery of economy policy is absurd.

Second, in that case fiscal policy is the only game in town. This has to be said time and again whilst noting, as Carney does, that central banks cannot run fiscal policy.

Third, as Carney also notes, that means that they cannot run green policy either: Financial markets can assist green policy but they are no substitute for the real thing.

So, in that case what’s the remaining point of emphasising the key role of central bankers, as Labour’s fiscal rule still does (despite all my best efforts to undermine it)? There is none at all, as I have argued ever since John McDonnell signed up for this

irrelevance. I sincerely hope that this idea may now be consigned to the bin, where it belongs.

The job of the modern central banker is to keep interest rates as low as possible. That's it. And they must do so working with a Treasury. They are the subordinate in the relationship. And they are simply a technocrat. Their glory days are over.

We need to move back to the era when democratically elected politicians manage the economy.

It's long overdue.