

Bank of England independence is just a charade that's a...

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As [I have already noted this morning](#), the new Governor of the Bank of England has been throwing down the gauntlet to the government this weekend, threatening not to undertake direct monetary funding (DMF) of government spending if he does not want to do so.

I wrote [this blog in 2015](#):

I argued on the Today programme on Radio 4 this morning that the Bank of England's independence from the Treasury is just a charade. It was always designed to appease the stupidity of the bond vigilantes. This is why. It is [Section 19 of the Bank of England Act 1998](#):

To put it another way: they have independence so long as they do what the Treasury wants or independence can be suspended at any time.

And that is precisely why the Bank of England has always done what the Treasury wants, as I said. They really don't have much choice in the matter.

It's time we talked economic reality and not the silly games people have played in pursuit of neoliberalism.

I [also wrote this at about the same time](#) (slightly edited for context now):

This is a letter from the Treasury sent in 2012 authorising the purchase of assets other than gilts (and so, by default, People's Quantitative Easing), this time from George Osborne in 2012:

And as [I showed in another blog at that time](#), all conventional quantitative easing by the Bank of England was explicitly undertaken on the instruction of the Treasury, who

indemnified them for it. So much, then, for Bank of England independence.

And as the above letter shows, that arrangement was extended to non-gilt purchases, which are the precedent for other arrangements, including direct monetary funding (DMF) of government spending by the Bank.

In other words, there is nothing for Andrew Bailey to jump up and down about. Presumably he just does not know what actually happened in the last decade: he was not, after all, involved in any of these decisions.

Several thoughts follow. First, the Bank of England is not independent. That's just a charade.

Second, the Bank does what it is told to do by the Treasury. Let's not pretend otherwise.

Third, the Treasury picks up the risk. So much of talk about threats to the Bank of England balance sheet.

Fourth, Andrew Bailey is talking complete nonsense at this moment for all these reasons.

Fifth, misrepresenting reality at a moment of crisis is really not a clever thing to do.