

Labour still thinks the financial markets are in charge...

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I [wrote yesterday](#) about Labour's dedication to fiscal rules, and how ill-advised this was. I have now read [Anneliese Dodd's Mais lecture](#), given last night. I am as concerned as I was yesterday.

First, my suggestion that Labour is still committed to such ill-advised rules was conformed. Dodds said:

The Bank's monetary policy role also continues to be essential — and I want here to be crystal clear that this role must continue to be exercised independently.

So, despite the fundamental change in the macroeconomy since 1997, and the evidence that central bank independence is both a charade and a neoliberal one, Labour remains committed to it. That is deeply disappointing. It's as if Labour believes, [as the FT obviously does](#), that the game of lies around the role of the central bank must be maintained so that we can pretend that everything can be reset to 2007 still. To be absolutely clear, that is not possible. Nor is it desirable. And the stories told are just that: fabrications not related to the truth.

Second, Labour still believes the myth that the markets are in charge. As Dodds said of the Bank's massive injection of QE in March:

The division of responsibilities has been important, because without the credibility of the Bank's interventions, the cost of public sector borrowing at such a precarious moment would have become highly contingent on the appetites of private investors, hampering the government's ability to put economic measures in place to support workers and businesses through the crisis.

This is simply not true: a Treasury could have acted in exactly the same way. In fact, no doubt it did, because the chance that the Bank created that QE without explicit Treasury consent is non-existent.

What is more, Labour has not noticed that QE does change everything. As Dodds noted:

The Bank's quantitative easing measures — on a scale that has seen asset holdings double in the last year, and its balance sheet set to represent half the stock of the UK's total outstanding debt — are, clearly, within its mandate, and consistent with the Bank's symmetrical inflation target.

If this does not change power relationships within the economy, and between Treasury and Bank, I am not sure what does. And yet, apparently, everything remains the same. And worse, no lessons are learned. Dodds said:

Andrew Bailey, the Governor has made clear that “[a]t no point [did the Bank believe its] job was just to finance whatever debts the government issues”. That clear division in responsibilities must continue. As Chancellor, I would ensure it would.

So the power of the government to create money to assist the UK economy is to be denied, and not used, even though in practice it is happening day in and day out.

As is the denial to be perpetuated that what has happened gives control to the government of interest rates - precisely because of the power of QE and the existence of central bank reserve account balances of about £800 billion. On this Dodds said:

For now, financial markets have priced in low rates for the long term. For as long as that is the case, government must make use of benign circumstances to avoid choking off recovery via premature and politically-motivated fiscal tightening — an issue I shall return to in a moment. But it would be an irresponsible economic policymaker who planned on the assumption that low interest rates will continue indefinitely.

Actually, it would be an irresponsible policymaker who did not note that interest rates are now under government control.

At a policy level, this was a disappointing speech. Labour is a very, very long way from where it needs to be on economic policy on the basis of these comments.