

Is the Bank of England really independent?

<https://www.taxresearch.org.uk/Blog/2025/04/30/is-the-bank-of-england-really-independent/>

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Is the idea of central bank independence all a game of smoke and mirrors designed to funnel money in the direction of the City of London? It's a question that has to be asked.

<https://www.youtube.com/watch?v=ZepZavKaMZw&si=VtdMd7aAjnctfBVT>

This is the audio version:

https://www.podbean.com/player-v2/?i=e739x-1894b93-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Is the Bank of England really independent?

Neoliberal politicians and neoliberal economists tell you that Central Bank independence is absolutely fundamental to good economic management of an economy. I question that and I question it for very good reason, which is I don't really think that we have, at least in the UK, an independent central bank, despite what Rachel Reeves and every Chancellor since 1998, when Gordon Brown made the Bank of England independent, has said. They are all making up a story that literally makes no sense at all.

Let's stand back a bit and go back to 1998 when the Bank of England Act was passed. The act in question was the brainchild of Gordon Brown, working with Ed Balls, who was not even an MP then. And what they believed in accordance with neoliberal doctrine was that the central bank of a country should be made independent of political control with the objective of ensuring politicians did not have a say on the monetary policy of the country in question so that the bankers could determine what interest rates should be within the country for the best overall wellbeing of the people as a whole, or perhaps as it's turned out, the bankers.

And that is my key point. There is this argument that the Bank of England is independent. But it isn't free of influence.

The Bank of England Act 1998 did in fact give the Chancellor of the day enormous power over the Bank of England, despite the appearance of independence being granted. There is a section in that Act that says, if a chancellor believes that the actions of the bank are contrary to the national interest, then at any point of time, they can, in fact, overrule, whatever it is that the bank decides to do, including on the setting of interest rates. And whilst they do need to go to Parliament to explain their position, they can have that position maintained for as long as they wish, if they think it is in the national interest to do so. So the pretence of independence was even built into the Act that made the Bank of England independent.

But we've seen two massive economic events since 1998 which have clearly proved that the Bank of England does not in, the event of a crisis, ever act independently of the UK government. The first was, of course, in 2008 when, because of failure on the Bank of England's part to anticipate the impact of moves in the economy in 2007, we had a financial crash.

Interest rates were kept far too high in 2007.

The Bank of England was far too optimistic about the state of the economy and the state of bank regulation, and we got the crash of 2008.

In consequence, the Bank did what it should always have done. It brought interest rates down, and they effectively reached 0% for a very long time thereafter, not rising again for more than a decade.

At the same time, they agreed, with the permission and direct authority of the Chancellor of the Exchequer, which showed exactly who was really in charge, to undertake quantitative easing.

And that circumstance was very similar to what happened in 2020 when we got Covid. The Bank of England offered the UK government an overdraft, which was terribly nice of it, given that it is owned by the UK government, after all, outright.

But it offered, first of all, an overdraft of £20 billion on what is called the Ways and Means account, which it maintains for the government.

Secondly, it then cooperated with another round of quantitative easing. The government issued another £400 billion of money into the economy via the Bank of England, basically to save the day and keep the economy going, and the Bank of England did exactly what the government wanted, and you would not have been able to tell the difference in policy between the Treasury and the Bank of England, because they were in effect one and the same.

So my point is this. When the chips are down, and that's when any policy created by the Bank of England really matters, they always do exactly what the Treasury wants. So, there is no obvious actual operational independence by the Bank of England.

And even in normal times, this is the case. The inflation target is set by the government for the Bank of England. It is only given the interest rate to play with to try to achieve that target.

It's got no other tool available to it, apart from quantitative easing and quantitative tightening, both of which, as I've already noted, are under the control of the Treasury, to actually achieve any of its goals.

And so as a consequence, the degree of real independence between the Bank and the Treasury is very low, especially when we take into account the fact that the Treasury does, of course, appoint the people who run the Bank of England. Everyone from the Governor to the members of the Bank of England Monetary Policy Committee, who set the interest rates, all of them are approved by the Chancellor of the Exchequer, and therefore they know who they need to keep happy. It is the Chancellor, and this is how soft power works.

Whatever the structure of the law might say, the reality is that the Bank of England operates as the Chancellor wishes. So, we are living in a world that is a sham, but what is the consequence?

First of all, the government still has political power over monetary policy. To pretend otherwise when we can see the evidence of the interest rates from 2008 to after 2020, and the reactions of the Bank to both the 2008 financial crisis and Covid makes it very obvious that the political power inside this scenario still rests with the Treasury.

So does the Bank of England then do what it is required to do by law and operate monetary policy in the interest of the economy as a whole? I think that's where we come to the real nub of the question about Bank of England independence, because unlike politicians, the Bank of England can ignore the electorate.

And it does ignore the electorate. You and I simply don't count to it. It keeps the base

rate high if it so wishes, as it is doing now, way above that which is required to maintain the economy in good order, because the Bank of England's primary focus is on appeasing the interests of the City of London, and not on appeasing the interests of you and I as the people who might vote.

So, in a sense, Bank of England independence has achieved everything that Ed Balls and Gordon Brown wanted of it. We have a central bank that does not operate in accordance with the whims of a politician, but does instead operate in accordance with the whims of the City of London. We have moved power from us, the electorate to the City of London, the unelected bankers, and that is what this Bank of England independence was always meant to achieve.

We did not get what we need. Therefore, we have a situation of supposed Bank of England independence, which is entirely contingent upon the whim of a Chancellor of the Exchequer to work, and therefore, frankly, is not independent at all, except to the point where the interests of the people of this country are taken into account where the politician has the most perfect excuse for saying that they cannot deliver the interest rate that people want because the Bank of England has set it independently, even though they know that's not true.

And the bankers get exactly what they want.

And let's also be clear about something else. The Bank of England still exists as what is called the borrower of last resort in the UK, and the borrower of last resort is, in fact, the person with whom the City of London will deposit its money when everybody else looks as though they might go bust. And in that sense, by guaranteeing the City of London that there is always a place where their money can be stored safely, the Bank of England, through its independence, guarantees that the power of the City of London will be maintained.

And that is what this whole charade is all about. This is the government being run for bankers rather than the government being run for people, and that has to end.