

Funding the Future

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We are told that central banks are neutral and above politics. The truth is, they're not. Central bank independence was created to remove responsibility from politicians and hand power to unelected bankers. This video explains why the idea is a con trick, how it undermines democracy, and why it's time to put money back under democratic control.

https://www.youtube.com/watch?v=mQ_U0IfSJAg?si=gMaBEJZxNH2ldCov

The [audio version is here](#), because the player will not embed in this post.

This is the transcript:

We don't need central bank independence.

I've always thought that.

Nobody's ever going to persuade me otherwise, and I think I'm right.

The fact is that central bank independence is just a neoliberal con trick put forward by politicians who don't want to be held accountable for their actions, and that represents a failure of democracy on their part, and that's not good enough.

But let's talk about what central bank independence is meant to be about and why it fails.

Central bank independence is a con trick because what it says is that politicians can't be trusted with managing the economy, and therefore, we must put the task of managing interest rates within that economy out to independent third parties who can be presumed to bring cool, calm heads to the table when they're deciding what rates should be imposed upon us, and they will make the decisions that politicians are simply

not up to making. That's what central bank independence is all about.

But the reality is that that idea is based upon an economic fiction which is deeply embedded within neoliberal thinking, but which is entirely false. And that is that there is a difference between fiscal economic policy and monetary economic policy. So let me go on to a little diversion for a moment and explain the difference between those two.

Fiscal policy is simply a term that is used to explain the difference between government spending and government taxation and other revenue, and the difference is called the deficit in a year and cumulatively, that difference is called the government's debt.

Let's be clear then. There's nothing desperately complicated about fiscal policy. It's just deciding by how much more the government wants to spend than it's going to get in income, and that's it.

Monetary policy, on the other hand, is all about supposedly trying to control inflation by setting interest rates that will keep that inflation rate down to 2%, which is a completely arbitrary target which has been set by the Bank of England, and it does so by trying to limit the impact of fiscal policy, because fiscal policy can, if spending is too much greater than taxation, boost the economy, and it can also cause recession if spending is too close to taxation revenue.

So monetary policy is, in fact, there to simply correct fiscal policy. And that's absurd. That's absolutely crazy, because the truth is that fiscal and monetary policy have to be coordinated together because they are essentially the flip side of each other.

The rate of inflation is the consequence of the way in which fiscal policy is set. It makes no sense at all to set interest rates to compensate for a decision the government has already made. So in that case, central bank independence literally makes no sense at all.

And the con trick is very real. We are told that these technocrats who run the Bank of England are neutral and objective and above politics, and that's their virtue. And that is why Gordon Brown, assisted by Ed Balls, who many people will still be familiar with because he's now a TV morning breakfast host, created this idea of central bank independence because they didn't trust themselves, or rather, they didn't think the media trusted them with managing the economy when Labour came into power in 1997.

But the truth is that central banks are deeply political. Almost all the people appointed to the central bank to decide on what interest rates we have are either long-term employees of the Bank of England, who have no real-world experience beyond it, which makes them decidedly narrow-minded, or they are economic professors who are almost invariably neoliberal to their core, or they are real-world bankers.

There's never been a trade unionist setting interest rates.

There's never been a pensioner on the board that sets interest rates.

There's never been a straightforward working person on there.

Instead, we just have people who think as the City of London does.

And the City of London is not neutral when it comes to politics.

And we know that these people also fail to understand money. Their thinking is that tax funds government spending. Their belief is, despite publications that the Bank of England has itself put out, is that banks take deposits from punters and then lend it out to borrowers, when we know that's entirely untrue. And they do not believe government has the power to create money, even though glaringly obviously, they were involved in managing the processes of quantitative easing in 2008 and 2020 and onwards, and yet they're in full denial of that.

Modern monetary theory actually explains how money works in the economy, but the Bank of England absolutely rejects the explanation of the reality that they operate, which MMT provides, preferring instead a work of fiction, and they manage the economy on that basis.

It's unsurprising that these supposedly neutral people have, as a result, made a complete and utter mess of almost everything they've done, and the UK economy is stagnating.

The consequence of that failure is clear. Any belief that the Bank of England is somehow our saviour has disappeared, because quite clearly, people no longer trust governments on the economy.

That loss of trust is threatening democracy.

That loss of trust is bringing in support for far-right extremists.

And voters are beginning to believe those far-right politicians that democracy is irresponsible by design because it has led to the outsourcing of responsibility to central bankers.

The fact is that if we are to have a democratic future, we cannot rely on unelected officials with their own political agendas that suit a tiny part of the population of the UK to run a significant part of our economic policy.

We trust democracy to decide on issues like war and peace, and health and education and rights and justice. Why then won't we trust democracy when it comes to controlling money?

Let's ask the fundamental question: Who benefits from independence now? Whatever the theory was, way back in 1997, when Ed Balls and Gordon Brown thought that this was a good idea, what is the reason for keeping independence? Who gains? In other words.

And the answers are obvious.

Financial markets gain.

Those who enjoy high interest rates, gain.

Inflation targeting often punishes workers, so big business gains.

And independence disciplines democracy in favour of elites by imposing austerity, and so the powerful in our economy gain from Bank of England independence.

The illusion of neutrality is then just that; it's a facade.

So what's the alternative? The alternative is to end the pretence of independence; to make central banks explicitly accountable to elected government.

Now, I'm not saying that that means that we shouldn't have central bankers.

I'm not saying that means we shouldn't have a central bank itself.

I do think we need a Bank of England. That's glaringly obvious.

I'm not saying that this means that we shouldn't employ advisors.

But I'm saying that the decision on interest rates that are aligned with full employment, a balanced real economy, price stability, and climate transition must be taken by politicians.

Only they can be responsible for those decisions in the end. And only they can be accountable for them, not least because nobody in the Bank of England has ever been elected to undertake these tasks.

So we need a better way forward, and that means that central banking must be more transparent and more accountable.

Central banking must serve society and be seen to do so via the democratic system, and they must be seen to be a part of that democratic system by being fully accountable to government. Central bankers are important, but not so important that they are outside our control.

This is the duty that we have to reform the process.

Central bank independence is a myth. It hides money from democracy. If democracy means anything, it must include control over money, and that means we no longer need central bank independence if it ever served a purpose. We need ministerial accountability for what central banks do, and anything else will sell us short now.

So what do you think? Do you think the time has come to end central bank independence, or do you prefer the idea of having bankers in charge? Can you think of something else, or do you just want time to think about it?

There's a poll down below. Let us know what you think.

Poll

[poll id="199"]

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One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.