

funding the future



THE RICHARD J MURPHY YOUTUBE CHANNEL

DEBATE AMMUNITION

Funding the Future | Issue # 4 | May 2026

TODAY'S TOPIC

The Failure of Central Bank Independence

THE CORE ARGUMENT

The inflation surge of 2021–22 was caused by supply-side shocks - pandemic disruption and Russia's invasion of Ukraine - and it eased when those shocks diminished, not because central banks raised interest rates.

Central banks reacted late, used the wrong tool for the wrong type of inflation, imposed massive social costs on mortgage borrowers and working people, and many economies are now stuck with structurally higher rates that may themselves be sustaining the residual inflation that remains.

The evidence from seven major economies does not support the claim that central bank independence delivered stable prices; it exposes that claim as a convenient fiction.

KEY STATISTICS

Statistic	Figure	Source / note
Peak Eurozone inflation while ECB held deposit rate at zero	Above 10%	Script — stated directly; ECB did not begin raising rates until July 2022

US inflation when the Federal Reserve began raising rates (March 2022)	7.5%	Script — stated directly; Fed described as reacting ‘a little earlier’ than the ECB
Bank of England’s first interest rate rise (December 2021)	0.15%	Script — described as ‘wholly inadequate’ given inflationary pressures already evident
Peak inflation in New Zealand, cited as the closest to acting in a timely way	Above 7%	Script — stated directly; described as ‘even there’ exceeding 7%

THE ARGUMENT STRUCTURE

Step 1 — Inflation rose and fell for supply-side reasons, not monetary ones:

Across all seven economies examined — the UK, the Eurozone, USA, Canada, Australia, New Zealand and Sweden — inflation surged due to COVID supply chain disruption and Russia’s invasion of Ukraine, then fell back before most interest rate rises were complete. The supply shocks eased of their own accord; central banks did not engineer the recovery.

Step 2 — Every major central bank was late, and none acted independently:

The ECB held its deposit rate at zero while Eurozone inflation exceeded 10%. The Federal Reserve began raising rates only when US inflation had already reached 7.5%. The Bank of England’s first move was a rise of just 0.15%. All seven banks then raised and cut rates in near-identical sequence, which is not independence, it is a shared institutional mindset producing the same errors at the same time.

Step 3 — Higher interest rates fed the inflation they were meant to cure:

When you raise the price of money, prices rise. Higher mortgage costs, higher business borrowing costs and higher government debt servicing costs all push up prices. Central banks applied a demand-suppression tool to a supply-side shock, and the result is that many economies are now stuck in a new equilibrium of structurally higher rates and persistent residual inflation, each reinforcing the other.

Step 4 — The social costs were enormous and fell on the wrong people:

Higher interest rates benefit savers, banks and holders of financial wealth. They penalise mortgage borrowers, indebted businesses and governments trying to maintain public services. The transfer of income from labour to capital that these rate rises produced is not an accidental side effect of monetary policy; it is one of its defining characteristics. Those costs appear to have been largely unnecessary.

THEIR ARGUMENT → YOUR REBUTTAL

They Say	Your Response
<p>“Central banks acted decisively in 2022 and brought inflation back under control. The policy worked.”</p>	<p>In every economy examined, inflation fell before most interest rate rises were complete. It fell because the supply shocks that caused it, whether pandemic disruption or Russia’s invasion of Ukraine, eased of their own accord. Central banks did not engineer a precise cure; their responses were late, inadequate, and the evidence does not support the claim of decisive action.</p>
<p>“Higher interest rates were necessary to anchor expectations and prevent a wage-price spiral.”</p>	<p>The inflation of 2021–22 was driven by supply-side disruption, not excess demand. Higher interest rates cannot unload container ships, pump more oil and gas into Europe, or reopen Ukrainian grain corridors. Applying a demand-suppression tool to a supply shock is the wrong cure for the wrong illness, and all the major central banks made the same error simultaneously.</p>
<p>“Central bank independence is essential to keep inflation-fighting free from political interference.”</p>	<p>Seven major central banks raised and then cut rates in near-identical sequence, at near-identical times. That is not independence; it is a single shared mindset operating across institutions that are supposed to be making separate judgements. And that shared mindset produced late reactions, excessive tightening, and social costs borne disproportionately by mortgage borrowers, indebted businesses and working people.</p>

<p>“Interest rates had to stay high to make sure inflation was fully defeated before cutting.”</p>	<p>High interest rates feed inflation directly: higher mortgage costs, higher business borrowing costs, and higher government debt servicing costs all push up prices. Central banks raised the price of money and then expressed surprise that prices rose. Many economies are now stuck with structurally higher rates and residual inflation that those rates may themselves be causing. The cure has become part of the problem.</p>
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THE ONE-LINER

“Central banks were late to act, used the wrong tool for a supply-side shock, imposed the costs on working people and debtors, and inflation fell when the original shocks eased — not because of anything they did.”

FURTHER READING — FUNDING THE FUTURE BLOG

Post	Date	What it covers
<p>Is it time to abolish the OBR?</p>	<p>4 December 2025</p>	<p>Examines the institutional framework of technocratic economic management which is directly relevant to the case against central bank independence.</p>
<p>All forecasts are wrong</p>	<p>18 September 2025</p>	<p>Challenges the precision with which central banks and the OBR present economic projections; the same false confidence exposed by the inflation episode.</p>
<p>Fiscal rules are as flexible as rubber bands</p>	<p>14 July 2025</p>	<p>The monetary policy failure documented here sits alongside the parallel failure of fiscal rules; two pillars of the post-1990s economic settlement that have both collapsed under scrutiny.</p>

The fiscal rules we need	18 October 2024	Argues for a framework built around real economic and social goals rather than the monetary aggregates that central banks have used to justify social harm.
Why fiscal rules stop change	8 September 2025	Documents how the broader architecture of supposedly independent economic management — of which central bank independence is a central pillar — is designed to prevent transformative policy.

ABOUT RICHARD MURPHY

Richard Murphy is a political economist, emeritus professor of accounting practice at Sheffield University Management School, a former professor of international political economy and, for 42 years, a practising chartered accountant. As a tax justice campaigner, he created country-by-country reporting which is now legally required for multinational corporations' tax reporting in more than 70 countries around the world to tackle tax haven abuse. He is one of the UK's most widely read heterodox economics bloggers. He is the author of the Funding the Future blog and runs the Richard J Murphy YouTube channel, which has more than 365,000 subscribers. He co-founded both the Tax Justice Network and the Green New Deal.

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