

Dear readers,

I hope the new year is off to a good start for you. It has been a busy time for me with wrapping up things at the university, bringing everything home from the office, and settling into a new rhythm of life. Hence the delay in publishing this issue. I will try to follow up with another short issue before the end of the month. As always, thank you for reading!

Sincerely

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AN ENTRENCHED DOCTRINE

The Trump administration's [criminal investigation](#) into Fed chair Jerome Powell brought out defenders of the doctrine of central bank independence in full force. There was a [letter by central bankers](#) expressing solidarity with Powell, claiming that "[t]he independence of central banks is a cornerstone of price, financial and economic stability in the interest of the citizens that we serve." Former policy and government types, including Bernanke and Greenspan, came out of the woodworks to [defend the doctrine](#), saying that "[t]his is how monetary policy is made in emerging markets with weak institutions, with highly negative consequences for inflation and the functioning of their economies more broadly."

The irony of course, is that the central bankers are having exactly the kind of moment Pakistan's intelligence chief had back in October 2022 when he gave [an extraordinary press conference](#) trying to assure the public that the military wanted to remain apolitical. Rather than having the reassuring effect it was intended to have, it proved the critics right. The central bankers' show of unity is deeply unimpressive and cultish. One wonders whatever happened to the orthodoxy's commitment to eschewing collective action, unionization and political statements. Turns out the AI tech bros don't have a monopoly on telling unconvincing stories.

All the old talking points have been trotted out, with Yellen saying in an [interview](#) that "once central banks lose their independence and are forced to help governments finance deficits, that's when we see that's always a precondition for high and even hyper inflation." No amount of gesticulating from central bankers explains what exactly the point of a government having its own bank is if it can't even create its own money and "finance its

deficits”, as they say. If the proponents of central bank independence are correct, we’d might as well privatize central banks as well. Especially in developing country contexts like Pakistan where privatization is hailed as a central tenet of smart economic policy, this is a real question. If privatization is good economics, then surely the business of money creation should be in private hands as well. Why not sell off the State Bank of Pakistan? Or is there something crucially, unique, and crucially unique about central banks that they must remain part of state structures?

The economic orthodoxy has no satisfying answers to these problems. These knots are, mind you, of the orthodoxy’s own making. And so Trump has refused to accept the argument that central banks are simply technocratic institutions. He knows that monetary space is sovereign space (as Geoffrey Ingham says). So do the economists who have written [a letter to members of the European Parliament](#) supporting a digital euro, arguing that “[a] strong public digital euro is not a nice-to-have, it is an essential safeguard of European sovereignty, stability, and resilience.”

And the uproar itself is not evidence for why the doctrine matters. It is only evidence of how much and how firmly the doctrine is embedded in the global public discourse and entrenched in the world of economic ideas. Everyone who thinks Jerome Powell is a hero needs to hear and read better stories, and also work on their comprehension skills. As [Jessica Burbank put it so succinctly](#), “[i]t is people like Jerome Powell are who make conditions ripe in America for fascism to take hold. He maintains a labor market where millions are unemployed. That suffering and struggle is what makes people angry enough to support a demagogue.” (Also see her brilliant explainer [“Powell v. Trump: CAVEMAN STYLE”](#).) It also bears mentioning that the Fed has allowed an AI bubble to form. When the bubble pops, central bankers and policy makers will swoop in, do the bare minimum to clean up the mess, and will continue to be treated like heroes despite doing nothing to reign in the AI tech bros from running wild.

Powell and his fellow central bankers are even now still being defended as if they are a sacred priestly class, and it’s happening while [“economists are facing a recession.”](#) Usually, priests of the system face a crisis of faith from their congregations as the system falters, which is arguably what has happened fairly consistently since 2008 and increasingly since the beginning of the pandemic. But this defense of central bankers and their independence makes sense: sensing that heterodox economists are enjoying a surge and growth in their flock, as tends to happen in periods of economic crisis and instability, the orthodoxy has dug in and doubled down in defense of its own. There is always a place for priests just as there is always a place for hype-men and cheerleaders.