
The Big Read Global Economy

The populist shadow hanging over central banks and QE

The massive bond purchases are being unwound at a time of fierce political criticism of the monetary authorities. The controversy could limit options in future crises

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The Federal Reserve has endured many insults from the Trump administration, but a new line of attack opened up last month when the Treasury secretary himself accused it of presiding over the monetary equivalent of a lab-created virus outbreak.

Writing in The International Economy magazine, Scott Bessent compared the “extraordinary” monetary policy tools used by the Fed after the financial crisis to scientific research that has gone awry. “[Lab experiments] can wreak havoc in the real world,” he said. “Once released, they cannot easily be put back into the containment zone.”

In Bessent’s argument, it was unacceptable “mission creep” for the Fed to use massive purchases of

assets to stimulate growth, the policy known as quantitative easing. Instead, he wrote, the central bank needs to return to a far simpler toolkit.

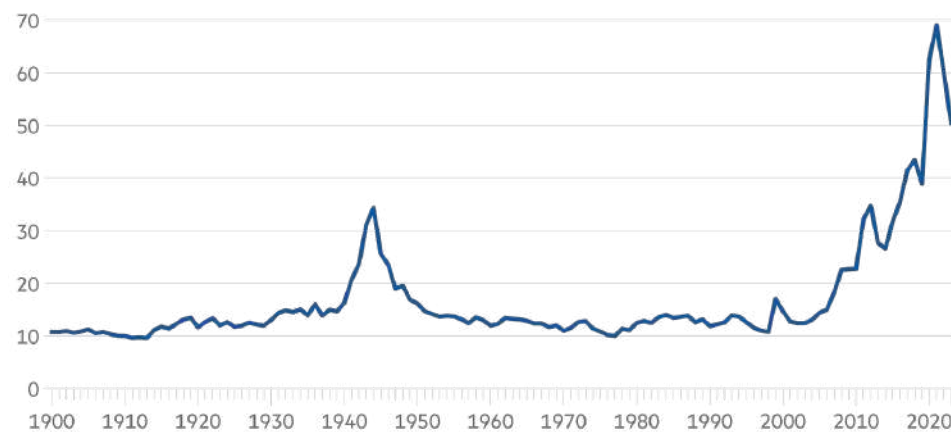
His complaints about distortions stemming from large-scale asset purchases mirror warnings from Kevin Warsh, a former Fed board member and one of the leading candidates for the next chair, who argued in April that bond-buying had become a “near-permanent feature of central bank policy and power” and was fostering irresponsible fiscal policy.

QE has been controversial since the start — from when central banks first started buying assets in the aftermath of the global financial crisis all through the next decade and beyond as the policy continued, with occasional pauses, until 2022.

But the new attack on QE, including from the US Treasury department, comes at a particularly acute time for [central banks](#).

The financial crisis and pandemic provoked an unprecedented response by central banks

Advanced economy* central bank assets, as a % of GDP



* Median of 22 countries
Source: BIS

Since 2022, the [Fed](#) and several other central banks have been unwinding some of those purchases by selling them or letting them expire — a process known as quantitative tightening.

This was always going to be a fraught exercise, given the potential for losses in some countries that have to be picked up by taxpayers, or for the balance sheet rundown to have an impact on interest rates.

But now central banks find themselves shrinking their holdings in the face of fierce criticism of their conduct from rightwing populist politicians, some of whom openly want to exert more political control over [monetary policy](#) decisions.

In the US, the independence of the Fed is being aggressively challenged by the administration. President Donald Trump is trying to fire Lisa Cook, one of the Fed board members, and has criticised its chair Jay Powell, whose term ends next year, for being too slow to reduce interest rates.

The fiscal costs stemming from the effort to unwind those policies are proving particularly

explosive in the UK — where the upstart Reform party is openly [attacking the Bank of England](#) over losses on its bond-buying programme.

“The unravelling of central bank entanglements with government debt was going to be complicated in the best of circumstances,” says Eswar Prasad, an economist at Cornell University. “These are clearly not the best of circumstances economically or politically.”



Scott Bessent, left, and Jay Powell at the G7 meeting in Canada in May. The US Treasury secretary has said that the Fed's QE policy under the central bank chair was 'mission creep' © Artur Widak/NurPhoto/Getty Images

Some of the complaints about QE have broad resonance among economists. There are legitimate arguments that the policy was taken too far in the years following the crisis — and particularly in the wake of the pandemic.

To critics, the massive balance sheets held by central banks have inflated asset price bubbles, fostered inequality, led to misallocation of capital, and masked unsustainable public finances.

Some economists see a risk that political antipathy could constrain central banks when the next economic crunch strikes, leaving policymakers with fewer options. At the very least, say some, central banks need to come up with a better set of guidelines to ensure they only ever use QE in the direst of emergencies.

Vincent Reinhart, the chief economist at BNY Investments, co-authored two research papers on QE with former Fed chair Ben Bernanke.

“We did not include a section on how to get out of the policy, or the risks stemming from it,” he says. “That was a mistake — it was a lot stickier than I thought going in and has opened up a range of complications and potential political influences on monetary policy.”

Sushil Wadhvani, a former Bank of England policymaker, says he was supportive of initial rounds of QE, which in the UK began in 2009, but that the tool was used to excess during the aftermath of the pandemic, with costly results for the public finances as it is unwound.

“They overstayed their welcome,” he says. “It is sad because it has poisoned the political economy

against using this weapon.

The use of central bank balance sheets in financial crises is far from a novelty — it has a history dating back hundreds of years.

At the end of the Seven Years' War between England and France in the 18th century, for example, the Bank of Amsterdam (a precursor to modern central banks) assumed a lender-of-last-resort function after a panic struck the local financial market.

The Bank of England had multiple forays into lender-of-last resort operations in the 19th century, including the “Black Friday” sparked by the failure of Overend Gurney, the largest discount house in the City of London, in 1866.

But the explosion in the size of G7 central bank balance sheets in the past decade and a half marked a historic departure from more targeted interventions during financial crashes.

While the initial phase of the central bank response was about emergency liquidity to the financial system in response to the Lehman Brothers crash, the goals quickly widened to propping up entire economies and fending off deflation.

As contagion spread, central banks conducted an unprecedented series of experiments including purchases of public and private sector assets, “forward guidance” pointing to prolonged low rates, and in some areas negative interest rates.

Bernanke acknowledged in his book *The Courage to Act* in 2015 that his use of QE as Fed chair was “probably the most important and definitely the most controversial tool we would employ” as the central bank, starting in 2008, hoovered up hundreds of billions of dollars in assets via so-called large-scale asset purchases.

The BoE in 2009 followed suit by unleashing its own government bond purchases, and its gilt

holdings ultimately peaked in 2022 at £875bn. The ECB started later but purchased a portfolio of mostly government bonds that was worth around €5tn at its peak.

Asset holdings of a host of advanced economy central banks including those of the G7 peaked in 2021 at a median of nearly 70 per cent of GDP, according to the Bank for International Settlements — five times the level 20 years earlier.

The appetite of central banks to “print money”, as the policy was often described, was politically combustible from the very beginning. In the US Senate, for example, purchases of government bonds were seen on the right as a dangerous innovation that could foster high inflation and stoke up fresh asset price booms.

Republican Kentucky senator Jim Bunning lambasted Bernanke in a hearing on Capitol Hill in late 2009, accusing him of “sowing the seeds for the next bubble” and failing to cook up an exit strategy from “all the money you have printed and the securities you have brought”.

BoE governor Andrew Bailey and ECB president Christine Lagarde at the Jackson Hole symposium in August. The central bankers are facing political heat because of the losses being incurred as they unwind QE © David Paul Morris/Bloomberg

On both the left and right politicians argue that by inflating asset values the Fed’s policy has exacerbated inequalities between those on low incomes and Americans who are sitting on large stockpiles of equities.

A staff paper by the Federal Reserve Bank of New York last year found that unconventional monetary policies such as QE reduced inequality within the bottom 90 per cent by lowering unemployment, but that they also widened the income gap between the top 10 per cent and the rest by raising profits and equity prices.

Anger directed at the Fed only intensified in the wake of the pandemic, at a time when inflation was a growing danger. Growth in the consumer price index ultimately peaked at just over 9 per cent in the US in 2022 before it subsequently subsided.

For all the controversy that has surrounded QE, however, Bessent’s attack on the Fed this year

marked the first time a sitting treasury secretary has launched such a direct and open assault on the central bank's expansive monetary operations.

In his view, QE stoked up inequality, blurred the lines between fiscal and monetary policy and damaged independence. He called on Powell to "commit to scaling back its distortionary impact on markets".

Warsh, the former Fed board member, levelled similar charges at a spring event held by the Group of 30 — a global body of financiers and academics — accusing the Fed of becoming "a general-purpose agency of government" rather than a narrow central bank, contributing to an explosion of federal spending by lapping up vast quantities of government bonds. The comments were met with rapturous applause.

The political heat surrounding QE has been rising in the UK as well. The Bank of England is the target of political opprobrium because of the losses being incurred as it unwinds QE. These are hitting taxpayers because the UK Treasury has to indemnify the BoE for losses as it runs down its balance sheet.

In a meeting with Andrew Bailey, the BoE governor, Nigel Farage, the head of the Reform party, and his deputy Richard Tice both complained about the scale of fiscal losses. In a letter ahead of the September 25 meeting, Tice told Bailey that the BoE was "unnecessarily wasting tens of billions of pounds of taxpayers' money, while enriching City institutions."

The Office for Budget Responsibility watchdog estimated in March that the UK would see a cumulative net lifetime loss of £133.7bn as a result of the BoE's balance-sheet rundown, according to projections running to 2033.

Faced with high UK government bond yields and anxious investors, the BoE slowed its balance-sheet reduction at its latest rate-setting meeting in September in a bid to "minimise" the impact of the programme on bond markets.

But this decision was highly divisive within the Monetary Policy Committee. Huw Pill, the BoE's

chief economist, warned the central bank should not be attempting to address structural challenges in government debt markets via its operations.

“It is when responsibilities are blurred that policymaker accountability and independence are most at risk,” he said.

Charlie Bean, the former chief economist of the BoE, says that while the initial phases of QE in the teeth of financial panics were merited, the “policy error” in the UK was the use of massive bond purchases for two years after the outbreak of the pandemic.

The BoE snapped up large quantities of government debt when yields were already very low. This paved the way for painful fiscal consequences, as the post-pandemic upsurge in inflation forced the BoE to jack up short-term rates, crystallising large losses on its portfolio.

In the Euro area, the fiercest opposition to QE has consistently come from Germany. In 2011, former Bundesbank chief economist Jürgen Stark resigned as ECB chief economist over his opposition to the central bank’s first bond buying during the Euro crisis.

Reform UK leader Nigel Farage and deputy leader Richard Tice during a meeting at the BoE last month complained about the scale of fiscal losses and said taxpayers were unnecessarily bearing the costs © Tolga Akmen/EPA/Shutterstock

Conservative policymakers from 2015 repeatedly filed motions to Germany’s constitutional court to stop the ECB’s asset purchases, arguing that the central bank was overstepping its mandate.

In a controversial 2020 ruling, the constitutional court decreed that the purchases were partially illegal. After the ECB started to unwind its bond purchases in 2023, the public discussion about the matter died down.

During the ECB’s monetary strategy review, some hawkish policymakers such as German executive board member Isabel Schnabel argued for limits on the room for future asset purchases outside of an acute crisis. But the reworded strategy statement continues to give the ECB more or less a *carte blanche* for asset purchases.

As Bessent winds up the interview process for the longlist of candidates to replace Powell as Fed chair in May 2026, the topic of central banking over-reach remains at the top of his agenda, according to people familiar with his thinking.

Some of those interviewed for the role said the Treasury secretary is sticking closely to the script outlined in his International Economy article, pressing for their views on whether they supported a smaller balance sheet and believed that QE had made the US's wealthiest wealthier at the expense of everyone else.

Yet while some at the Fed are open to a review of whether or not QE could be improved upon in future, they regard the tool itself as an essential means of staving off collapses in economic and financial confidence.

John Williams, head of the powerful New York Fed, has disputed Bessent's assertion in the article that the QE-era Fed operated as a hyper-confident "central planner" with "powerful new tools" with mysterious effects.

"These are not 'emergency', 'crisis' or 'break-the-glass' policies, but those that are well within the long tradition of monetary theory and practice," says Williams.

"Of course, how and when to use policies depends on the circumstances and the risks policymakers are facing," he says. "But this is a matter of tactics and implementation, not of principle or strategy."

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John Williams, head of the New York Fed

Donald Kohn, Fed vice-chair from June 2006 to 2010, says QE could have been implemented more effectively, "but the counterfactual would have been even worse".

Influential figures on Capitol Hill stress they would be supportive of QE in future — although only if it is used in highly targeted circumstances.

French Hill, a Republican Congressman who chairs the House Financial Services Committee, believes the combination during the pandemic of QE and ex-president Joe Biden's fiscal stimulus helped trigger the worst wave of US inflation for 40 years.

However, he maintains the US central bank should have the right to buy US Treasuries in massive quantities in times of crisis.

"I don't question the lender-of-last-resort capability to, in a very specific, tailored way, craft liquidity injections into an economy in an emergency condition," Hill told the FT, while adding that there were lessons to be learnt from the "tapering and tailoring" of the Fed's bond-buying operations.

The US Treasury secretary's tirade against government bond-buying by the Fed is seemingly at

odds with Trump's repeated calls for the US central bank to slash his administration's borrowing costs. Both Bessent and the US president say this can be accomplished with cuts to short-term interest rates, a strategy many economists doubt will work, given the importance of longer-term borrowing costs for the US government.

Larry Hatheway, global investment strategist at the Franklin Templeton Institute, says it would be “inconsistent” to think about sharply reducing the Fed balance sheet at the same time as trying to pull down debt servicing costs for the US government and homebuyers.

And by presiding over surging government debt, the White House is only intensifying the pressure on the central bank given the risk of fresh outbreaks of upheaval in government bond markets, which could force it to intervene.

“We see in the US a huge increase in the financing needs of the government and liquidity problems in the debt securities market,” says Prasad at Cornell. “It is practically impossible for a central bank to escape political opprobrium when it is trying to scale back its balance sheet, because it has fiscal and political implications.”

The attacks on central bank asset purchases have the potential to make unconventional monetary policy more politically charged if central banks find themselves at near-zero interest rates in the future.

Some analysts argue that greater caution would be well merited. DeAnne Julius, a former member of the BoE's policymaking committee, once warned that QE was like an extramarital affair — easy to get into but very hard to extract oneself from.

“They should be wary,” she says today. “I would consider generally it should be a least favoured solution and used infrequently and for financial stability reasons”.

Erik Britton, a former BoE economist who runs consultancy Fathom, agrees that central banks should only use QE in the most dire of emergencies — a lesson that he says has been lost in the past decade.

“If you do it, get out again quickly. You don't want to be applying shots of adrenaline to the patient for 15 years,” he says.

While Kohn, the former Fed vice-chair, acknowledges QE in the pandemic era lasted too long, he thinks that central banks will turn to bond buying again in the event of a major crisis.

“You can't sit there and let the economy go down the toilet.”

Data visualisation by [Keith Fray](#)