

The Fed chooses to back bankers

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The [Fed has increased interest rates](#). Several people have asked me what all the fuss is about. Can 0.25% make that much difference? My answer is yes.

First, there is no sign that this rate rise is needed. The US is growing, but hardly confidently. It has more inflation than we manage to create, but given the amount of money pumped into the economy, hardly any at all. And the risks surrounding its economy are enormous: stock and commodity markets both indicate serious downturn risk whilst in emerging economy banks the risk of default on dollar loans as QE funds dry up and refinancing of corporate loans looks to be getting harder appears to be significant, with major spillover risk. Nothing about any of that says a rate rise is needed.

Second, if this is signalling it is saying that the trend is up, and that means tougher lending and monetary climates ahead. That can only (unless the markets invert all previous experience) suggest lower lending and so reduced economic activity. In an economy that is far from overheating the need for that is hard to discern.

Third, as the main reserve currency, this signal on the dollar suggests that other central banks should be following. There is no other major reserve bank that needs to do so, or even can do so without massive risk. The UK has little inflation, and with falling commodity prices little chance of much of an upturn in inflation next year (a change in my expectation) and the euro and yen both face long term recessionary environments and deflation. The last thing they need is rate rises: increasingly negative rates are more likely. This then is a step no-one can follow without massive risk. So as a signal it fails.

Fourth, the domestic signal may also fail. If downturn is likely - and I think that as near certainty as it gets in economic terms - then this is a signal that will have to be reversed. That will show a weak Fed out of touch and out of control, which is not at all what the world needs.

So, why has it been done when it seems so bizarre to do it? This is the easy part to

explain. Bankers want it. Higher rates represents the old 'normal' where they can enjoy higher margins on money on deposit. I cannot see any saver benefitting.

And economists want it: positive rates make them feel comfortable that monetary policy might still work when in practice it has been mostly dead as a tool of economic management since 2009.

And politicians want it: this is a sign of virility aimed at the grey vote who have some savings who are now such key players in elections.

In that case this is all posturing by people who should know better and for whom the increase will come before a necessary fall, or at best the creation of a new normal at the new rate, with no further upward movement to come. They will all look silly, at best, in due course, but will go home for Christmas thinking that they have at last 'done something'.

The truth is, of course, they could have done something better. They could take direct fiscal action to reduce speculative lending. They could direct money to markets at risk. And they could have undertaken direct investment in the economy (that People's Quantitative Easing by any other name) with QE funds as they roll over to address the three issues of stagnant wages, significant poverty and failed infrastructure investment that plague the US economy. But instead they chose to appease bankers and the grey vote.

It's a mighty screwed up world when that's what happens.

All I can say is the next crisis really cannot go to waste like this one has done: next time it has to be different.