Funding the Future

The Bank of England is worried, and so it should be

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As the Guardian reported yesterday:

The Bank of England has told banks, credit card companies and car loan providers that they risk fresh action against reckless lending as it warned of a looming "spiral of complacency" about mounting consumer debt.

In its toughest warning yet about the possibility of a rerun of the financial crisis that devastated the economy 10 years ago, Threadneedle Street admitted it was alarmed about the increase in the amount of money being borrowed on easy terms over the past year.

"Household debt — like most things that are good in moderation — can be dangerous in excess", Alex Brazier, the Bank director for financial stability, said in a speech in Liverpool. "Dangerous to borrowers, lenders and, most importantly from our perspective, everyone else in the economy."

Four thoughts. First, unwinding QE is a bigger threat than this, as I explained yesterday. I do not deny the risks the Bank is talking about are real, but the greatest risk is in Threadneedle Street.

Second, if there is a personal debt crisis it has developed on Mark Carney's watch. Where is the mea culpa for failing to put appropriate measures in place to stop it developing? The signs have been there for some time, as I, amongst many others, have noted.

Third, why isn't the Bank being blunt in saying that the solution to this is to be found in fiscal policy, led by government investment that would boost real economy, actively increase productivity and drive up wages?

And come to that, why isn't it saying that this crisis is the consequence of austerity that has forced people into debt and what is needed now is a fiscal stimulus by relaxing that policy?

It seems to me that the Bank of England is worried, as it should be. My concern is that it's worried about the symptoms and not the causes and as a result is looking for solutions in all the wrong places. As usual, then.