Will Carney break the Bank?

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There is plenty of discussion in the financial media this morning on whether or not this will be the week when the Bank of England finally raises interest rates above 0.5%, which has been their ceiling for near enough a decade. The broad consensus is that they will. The broad agreement as to the reason is that pride requires that they do so.

The logic is that they have said they will ‘normalise’ rates for so long that if they do not now begin to do so then they lose all credibility as central bankers.

In addition, and more existentially, the Bank knows that if the only tool conventionally available to a Central Bank, which is to change interest rates, is unavailable to it, then the whole model of Central Bank independence, which has been core to the neoliberal model if macroeconomic management that sidelines both government and fiscal policy, is dead in the water forever.

So, the logic goes, the Bank has no choice but raise rates.

After all, to follow this line of logic, how could be rates be cut again if another crisis emerges unless rates are increased now?

I trust that it is apparent that I am not persuaded by any of these arguments. Pride comes before a fall. Raising rates now will help precipitate a fall. Normalisation is no more than belief in a dogma that glaringly obviously failed at enormous cost to the world in 2008. But Threadneedle Street has its pride, and we will all pay for it.

To support my argument let’s look at fundamentals.

Real wages are falling, again.

The savings ratio is at an all-time low as households are under threat of being unable to make ends meet.

Growth is modest and is not reflected in consumer spending.

The labour market is not tightening. There is no sign of wage pressure.

Brexit is reducing investment rates. And it is also creating situations of massive economic unease: no one needs to dampen exuberance when there is talk of troops on the street to ensure the maintenance of basic econipimic functions.

All of these suggest there is no reason for a rise now.

In fact the only economic indicator that suggests an interest rate rise is appropriate is the falling value of the pound, but it is declining as rapidly as the UK's trade prospects are. No interest rate rise will overcome Liam Fox's failings.

There is, then, no reason to increase rates this week. The most sensible move would be a cut in rates. But that would be merely symbolic if it were to happen. It would not deliver a stimulus.

The same might also be said of a 0.25% increase. That too would largely be symbolic. But we have to understand the symbolism in that case. The message it sends is clear. It is that the banking lunatics are still in charge of the asylum. That's all it does say.

But that means the need for a proper fiscal alternative based on an appropriate understanding of money, tax, inflation and their role in the economy is ever more pressing.

The UK will show it is in the grip of defunct economics if interest rates rise this week. And whilst this will be only one of the many distress signals we are emitting right now it should not be ignored because it says that as yet we are wholly inappropriately equipped to face the challenges ahead.

All that can be said is that Carney may deliver his increase. But if he keeps trying to do so he may well break the Bank by doing so. Or, at least, the Bank's power. And that's the only good thing that may come out if this.