

The Bank of England is getting ready to deliver austeri...

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The Governor of the Bank of England, Andrew Bailey, [gave a speech yesterday](#). It was intended to set out his view on the future direction of monetary policy. In it he said that:

The great strength of the MPC process is that nine reasonable and I would say well informed people can differ on these interpretations, and we do so transparently. But, all of us believe that there will need to be some modest tightening of policy to be consistent with meeting the inflation target sustainably over the medium-term. Recent evidence appears to have strengthened that case, but there remain substantial uncertainties and we are monitoring the situation closely.

This comment was offered in this context:

[A]ll of this group [who favour waiting to see what happens with labour markets] were of the view that the stimulus to monetary policy enacted in response to Covid would need to start to unwind at some point, that unwind should be enacted by an increase in Bank Rate, and if appropriate would not need to wait for the end of the current asset purchase programme.

In other words, even those who are presently opposing interest rate rises think they must happen soon. And if there is any doubt that it is interest rate rises rather than reversal of quantitative easing that will take place he said:

[T]he monetary policy response, if we need to make one, to the inflation pressure should involve Bank Rate not QE. There is no reason to beat about the bush on this point.

So, what we have learned is that interest rate rises are likely. February is now being pencilled in, and for good reason, I think.

I will ignore that the economic reasoning for this, which focuses on the relationship between unemployment and inflation as if these two are now related when very obviously there is a disconnect which makes the logic of the so-called Phillips Curve a

part of economic history now.

Instead, I will discuss the glaringly obvious, which Bailey ignored, which is that the causes of inflation are very obviously temporary, and have nothing to do with any issue that might be addressed by the use of monetary policy.

Increasing interest rates will not produce lorry drivers.

It will not address food shortages.

It won't change fundamental market failure due to Brexit.

It cannot correct the Northern Ireland protocol.

It can't tackle the uncertainty from Covid that persists.

It will not recreate free movement.

It will not end the cost of shipping goods through ports where many checks now have to take place.

In fact, none of the causes of inflation will be tackled by a rate rise, because they are all temporary, due either to international fuel price changes or, very much more often, Brexit.

But although people will already be facing significant additional burdens this winter, from extra costs, to cuts in benefit, to higher taxes, all of which will have a significant impact on demand Bailey wants to increase interest rates to reduce demand further because he believes two things.

The first is that demand is too high, when glaringly obviously the problem is on the supply side of the economy unless you happen to be in the very fortunate person al position he and his friends enjoy.

And second, he thinks things should return to 'normal' - which is even implicit in the economic references in this speech being to Friedman.

So, a man cocooned from the real world by a career in an exceptionally highly paid and very largely risk-free occupation that will provide him with income security for life behaves as if all are in the same place because he simply cannot comprehend that there might be those who do not enjoy his privilege. As a result he suggests that they must have their inflationary spending habits (which do not exist) kicked out of them by an interest rate rise.

This is economic callousness driven by incompetence writ large. No wonder Danny Blanchflower and I talk about the need for Mile End Road Economists - providing the

view from outside the City walls.

What the Governor announced is that life is going to get very much tougher for those already on the edge. That we are heading for a period of severe economic downturn - all deliberately manufactured by policy decisions - seems to be certain now. And Labour is more than happy to go along with this with its balanced budget fetish, so loudly proclaimed by Rachel Reeves yesterday. But then she began her career with ten years at the Bank of England. What else can we expect?