

If only the government preferred people to bankers we'd...

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I posted [this thread on Twitter](#) this morning:

This year the government will give the UK's banks £45 billion they have done nothing to earn. That's because of QE and interest rate rises. At the same time they say they can't afford decent pay rises for nurses, doctors, teachers and others. This makes no sense. A thread....

It's little understood that bailing out the UK's banks and paying for the Covid crisis was not a cost paid for with tax. Politicians say it was, but they usually talk a lot of nonsense and they most certainly are when they make this claim.

The way in which these two crises was paid for was with money creation. Quite literally, the Bank of England created new money out of thin air on the government's behalf - as every bank is capable of doing - and the government spent this into the economy.

That was the right thing to do. On both occasions the economy needed saving. Tax revenues could never have covered the costs. Money creation could do so. And it did so without ever creating inflationary pressure because at no time was the economy overheated as a result.

But, new money creation does have a consequence. This new money had to move from the government sector, where it was created, to the private sector, where it was used. This is done by increasing the balances owed by the Bank of England to the UK's commercial banks.

All that is required to make this happen is the making of a few entries with a lot of noughts on the end of them in the accounts of the Bank of England. When that process was complete commercial banks had almost £1,000 billion owed to them by the Bank of England.

Let's be clear that since all money is debt there is nothing unusual about this. Let's also be clear that some of this was essential to save the banks. It is much harder for them to fail now as a consequence, so they have gained enormously from having this new money.

And just to be clear, what they use this money for is to pay each other without ever having to borrow funds from the Bank of England to do so, and banks paying each other is normal and happens whenever we pay someone who does not bank with the same bank as us.

So, there have been real benefits to the stability of banking as a result of our commercial banks having this vast sum of newly created money placed in deposit accounts with their names on it by the government. But let's also be clear; the banks did nothing to earn this money.

Apart from the impact on bank stability none of this mattered too much when interest rates were well under 1%, which they were for more than a decade from 2009 to 2021.

And interest rates do matter when it comes to these accounts because the Bank of England treats them like deposit accounts and pays Bank base rate on them. And that base rate is now 5%, and the Bank of England says such rates are here to stay for some time.

It's fair to say that the balances on these accounts have now fallen a bit. They are now closer to £900bn. That's largely because the Bank of England has been selling off some of the government bonds it owns. But £900 billion is still a staggering sum.

What is more, five per cent interest on £900 billion is also a staggering sum. It is £45 billion. That might be the interest cost in these balances in the next year. And remember, the balances were gifted to banks because the government created new money.

Before rates started rising in 2021, this interest was paid at 0.1%. The interest cost for these accounts was less than £1 billion a year. Now it is £45 billion. That is a £44 billion increase. And it has happened because the Bank of England has decided to increase interest rates.

So, not only did the government choose to create this money and effectively gift it into bank deposit accounts owned by the UK's banks, it has also now chosen to gift them £44 billion extra interest a year on these balances. No wonder the banks are making such massive profits.

At the same time, the government has:

- Refused teachers a decent pay rise
- Denied nurses fair pay
- Preferred to negotiate with junior doctors
- Provoked the first ever hospital consultant's strike

- Imposed crushing austerity on the country.

None of this would have been required if £44 billion of total unearned income was not being paid by the government to our commercial banks via the Bank of England.

The government has, then, made a choice. It has chosen to favour banks over working people. It has chosen to reward wealth rather than work. It has chosen to shift income upwards in the economy. It has chosen to increase inequality. And none of this was necessary.

The simple fact is that the Bank of England does not need to pay Bank base rate on all these deposits it has created for the commercial banks that are held with it.

I am not disputing that to ensure the effectiveness of its interest rate policy it needs to pay Bank base rate on some of these balances. I suspect that £200 billion would be enough to do this. The rest could be paid a very much lower rate of interest - even 0.1%.

The saving from doing this would be well over £30 billion a year. That would be more than enough to pay inflation-matching pay rises to all public sector employees and to end austerity. In other words, it could be used to end considerable causes of untold misery.

And what I am suggesting - a two-tier interest rate on these deposits commercial banks have with our central bank - is entirely possible. Japan does it, as does the eurozone. Even we did it in the past. But right now, we choose not to. And that is just a choice. We could do it.

The cost of that choice is economic mayhem, rising bank profits, growing economic stress and the undermining of our vital public services. As choices go, this one is, in that case, beyond terrible. It is catastrophic.

So why is no one talking about this? Firstly, I suspect, because politicians do not understand it. Second, the Bank of England wants this (and the resulting stress) to happen. Third, no politician in this country seems to be willing to stand up to finance.

But most of all, I think nothing is being said because our politicians no longer care about inequality. Nor do they care about public services. And they seem entirely indifferent to the massively unfair treatment of public sector workers.

I also happen to think that true of both Labour and the Tories. Both favour banks over people. But they need not do so. One simple change to the rules on interest paid by the Bank of England to commercial banks could fund every pay claim and a great deal more.

Politicians who refuse to make that change - which would simply bring the UK into line

with international norms - are failing the people and public services of this country.

How did we get to the point that they all thought banks more important than health, education and so much else? That's one of the big questions of our age.