

## The economic insanity of the Bank of England goes on

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There appears to be a collective sigh of relief around the economy because the Bank of England has held its base rate at 5.25% today. But let me assure you that the insanity of their interest rate policy is continuing. A short thread....

I would love it to be the case that the Bank of England had at last begun to see sense on interest rates and that it had begun to end its ruinous decision-making that has as its one simple goal the driving of the UK into recession, but it really has not.

I do, of course, agree that the ending of interest rate rises, for now, is good news. But this was achieved by the slimmest of margins. There was a 5-4 split on this issue, with stability only being delivered by the vote of Governor Andrew Bailey.

That decision to hold rates might be better than an increase, but it was still the wrong decision. The right one would have been to cut rates. High interest rates are themselves driving inflation now - not least through their impact on rents.

High interest rates are also pushing up business costs - and so keeping price rises in the pipeline.

But worst of all, these rates are devastating for the households already facing them, or which will do so in the coming year. Terrifying increases in mortgage costs are devastating lives, and the problem is that the Bank of England indicated that this will continue today.

They did this by also deciding, unanimously, to sell £100 billion of the government bonds that they bought during the Covid crisis. There is literally no need for them to do that, except for one thing. This is that selling these bonds will support continuing high interest rates.

As markets are already indicating, they would like rates to go lower. Slight falls in mortgage rate offers suggest that mortgage lenders think this is the right direction of travel. It is exactly what should happen. The Bank of England clearly thinks otherwise.

By selling more government bonds the Bank will flood the market with these so-called gilts. The result is that their price will be lower than they would otherwise be. And in the case of these bonds there is an inverse relationship between the bond price and interest rates.

That is because the actual interest paid on these bonds is fixed throughout their life, but that means that if their price falls then the apparent interest rate on them appears to rise. There can be no doubt that this is what the Bank of England wants.

By selling far more of these bonds than the financial markets will really want to buy over the next year what the Bank of England is doing is forcing their price down to provide completely artificial support for continuing excessively high interest rates.

There are two reasons why this is a terrible idea. The first is the obvious one, which is that the economy very clearly needs a restoration of low interest rates to save businesses, employment and people who face the devastation of losing their homes because of mortgage costs.

The other is that if the government was to issue more bonds into financial markets it should not be doing so just to keep interest rates up and to cancel cash created in 2020 by the Bank of England. It should instead be doing so to help fund investment.

What do we need investment in? As yesterday's speech from Sunak made clear, we need investment in heat pumps, heat pump manufacture, and the National Grid upgrades to get renewable electricity online. Those would provide a good reason for issuing debt.

But we are not going to get anything like that for the debt issues that the Bank of England is going to make. Its sole intention is to take money out of the financial markets, create a credit squeeze and continue the misery of high interest rates.

Economic madness, and economic sadism, does not come more blatant than this. Instead of funding the economy and future we need with new sales of bond issues the Bank of England is going to issue bonds to make sure that we cannot have the future we need.

There is, then, nothing to cheer about in the Bank of England announcement today. All there is are long years of high interest rates to look forward to when hope, the chance of a better life, and personal well-being will be bled from the country by the Bank of England.

And Labour has so far not indicated its intention to intervene in this madness and is

instead stoutly defending the right of the Bank to impose such misery on us all.

We need a new economics. We need a new politics. We need a chance to live. And right now, I can't see where those things are coming from. There really is not a lot to celebrate in today's decision from the Bank of England as a result.