Funding the Future

We need a 2 per cent cut in Bank of England base rates ...

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Here are two Guardian business blog stories from this morning:

> **Interest payable on central government debt hits £7.7bn, a November record**
>
> **The cost of servicing the UK's national debt hit a record high for a November last month, helping to push up monthly borrowing to over £14bn.**
>
> Debt interest payments last month rose to £7.7bn, the ONS reports in this morning's public finances (see earlier post).
>
> That surpasses all monthly November figures on record since 1997, but is slightly lower than October's £8.1bn interest bill.
>
> The cost was driven up by inflation, as the interest rate on some UK debt is linked to inflation - specifically the Retail Prices Index.

Let's be clear that to blame this all on inflation is absurd and wrong. Some does have that cause, but then much of the current inflation (in housing, rents and regulated items) is directly down to cost inflation unambiguously caused by Bank of England interest rate rises, which means that to suggest inflation is at fault is to fail to ask the question as to why inflation is continuing. It also fails to ask the question about whether that inflation rate - and so this cost (including the also absurd cost of paying interest on central bank reserve account balances) could be controlled by government action.

The answer to that is, of course, that this inflation rate could be reduced now by cutting interest rates, and quickly, which the Bank of England says it will not do. But as the second story notes, markets do not believe them:

> **Investors bet on Bank of England interest rate cuts early next year**
>
> **UK interest rates could start to be cut as early as March, some City investors believe, after Wednesday's welcome drop in inflation.**
>
> The money markets are pricing in a sharp fall in UK borrowing costs, after the UK inflation rate dropped to 3.9% in November, a bigger fall than expected.
>
> Bank rate is currently 5.25%, a 15-year high. Investors now see a 40% chance that rates will be cut in March 2024, to 5%, with a cut by May 2024 now priced in.
>
> UK interest rates are seen falling below 4% by the end of 2024, with the money markets now pricing in almost 1.4 percentage points over the course of next year.

Markets are expecting interest rates of 4% or less in a year's time.

My suggestion is that the Bank of England deliver on that expectation now because interest rates are already strongly positive within the economy now and are creating a real drag on it. There is a need for a rate cut of at least 2 per cent to be put in place immediately. More should then follow.

That way, we might avoid recession.

And the cost of government borrowing, and all the excuses for austerity that flow from it, would disappear.

Some economic problems are easy to solve. This one really is.