

Interest rates should be as low as possible

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I [put out this video this morning](#) suggesting that the Bank of England is trying to force up interest rates so that they can keep them as high as possible. That's deeply threatening to our well-being by redistributing wealth upwards, reducing the amount of investment in the country and demanding austerity of government. Interest rates need to be as low as possible.

https://www.youtube.com/watch?v=A-mwE_UrlFQ

The transcript is:

Interest rates should be as low as possible in the UK.

I say that for very good reason. There is no natural reason why anybody should pay interest. You don't buy anything when you settle the interest liability on any loan that you have. You just hand over your money to somebody else for having been lent money that they, if they're a bank - in the vast majority of cases they will be - created out of thin air.

All banks create money out of thin air. You promise to repay them. They promise to pay, whoever you ask them to. And in that exchange of promises, money is created. It's as simple and straightforward as that. And yet, they charge you for the privilege of them making their promise and give you no credit for the value of your promise.

Instead, you have to pay interest. But what are you paying for?

Now, economists will say you're paying for the time value of money. The assumption is that somebody, a depositor with a bank, gave up their money so that you could borrow it from the bank and spend it now when that person didn't want to.

Therefore, they say you're compensating them for the fact that they can't consume now

and paying for the fact that you do want to spend now. But that argument is utterly ridiculous and totally untrue because banks never lend you other people's money. They create the money that they lend to you every time you get a loan. And there are no exceptions to that in all the major loan creating banks in the UK.

So why do we pay interest? Well, simply so that the banks can compensate themselves in two ways. One is so that they can actually cover their costs of making the loan. I accept that's a real thing that they should be paid for.

Secondly, the risk is that you won't repay them. I accept that's a risk that they should be compensated for.

And thirdly, there isn't a third thing. It used to be that they would say you've got to compensate their savers. But you haven't because they don't need to have any savings in their bank to be able to make you the loan in the first place and they never lend you other people's money.

So, that third argument disappears.

Therefore there is no reason why we should have high interest rates because you are not compensating anybody for the fact that you want to consume now. What we actually need are the lowest possible interest rates that we can get.

And, historically, interest rates are at the lowest possible rate they've ever been, and there's good reason for that. It's because risk is lower than it's ever been, because we have better information systems about the costs and risks of lending to anyone now, better than we've ever had in history, because, of course, we all have credit records.

So, as a consequence, interest rates could be very low, and they should be very low. And why is that the case? Because when interest rates are very low businesses can afford to borrow to invest. We do get optimal outcomes in society as a consequence because we have investment in the things we need. And we don't impose burdens on people for the excessive costs of borrowing for things like owning their own homes.

If we have high interest rates, all we're doing is moving wealth from those who have to borrow to live to those who have an excess to live on because they are able to save. But, their money is never used to create your loan, so this is a completely bogus claim that we've got to compensate them by paying them interest.

Low interest rates are good for the economy, good for households, good for young people, good for the delivery of social benefit and investment, and bad for all those who like to claim that they are lending people money when they aren't. Please, don't believe the arguments that we need high interest rates.

High interest rates exploit the borrower, and we shouldn't tolerate that.