A proposal I have long made has won a surprising supporter in the form of Chris Giles of the FT.

The proposal is to cut the interest paid on the central bank reserve account balances notionally held by the UK's commercial banks with the Bank of England, but which actually represent the money created by the Bank of England as a consequence of quantitive easing policies, which sums ended up being described as a new bank deposits held by those commercial banks with our central bank, but which were actually nothing of the sort. The balances in question were, effectively, gifted to those commercial banks by the government when. creating new money to keep the economy going during g periods of crisis.

I, along with a few others, like the New Economics Foundation, have been arguing for a long time that the payment of interest on most of these balances was quite unnecessary.

The transmission of Bank of England interest rate policy into the larger economy does not require that interest be paid on the vast majority of these sums, in my opinion.

Before 2006 no interest was paid on any touch balances, although they were insignificant at the time.

When interest payments were first introduced, no one argued that the balances have to amount to hundreds of billions of pounds to be effective, and evidence from other central banks, such as the European Central Bank, has shown that interest need not be paid on all such sums.

So, why has such interest been paid? That is because two exceptionally powerful lobbies have argued for those payments.

One of those lobbies has been the commercial banks, who have profited considerably as a result. Even now I would argue that they are profiting by more than £35 billion a year as a consequence. At one point that gain exceeded £40 billion a year.

The other powerful lobby has been the Bank of England who, I think, see their interests as being aligned with those of the commercial banks.

The case for reducing these payments is very obvious. Those payments have unjustly and wholly inappropriately enriched the banks at a cost to society at large, grossly inflating the interest costs due by the government. This means that they have entirely inappropriately induced an environment of austerity within the government's culture. The wrongheadedness of this has always been obvious.

Now, enter Chris Giles of the FT into the fray, rather unexpectedly. He has said that this matter could be resolved by changing the Bank of England's mandate. He suggests that six words be added. They are that it should “have regard for the public finances” so long as it can effectively implement monetary policy.

I agree with Chris, that would be useful. I would add a specific obligation to deliver full employment and sustainability as well: as usual, he does not go far enough.

But he then developed his argument by saying:

At present the BoE pays 5.25 per cent interest overnight on the money it created to buy government bonds under multiple waves of quantitative easing since 2009. It still holds roughly £700bn of bonds that were purchased and they earn a return of about 2 per cent. Netted off, the annual interest rate loss is around £23bn a year, a little shy of 1 per cent of GDP.

Chris gets his numbers wrong. There is no reason to offset interest received on bonds notionally owned by the government against interest paid: they are unrelated issues. So the cost is the gross sum, which is over £35 billion, as I have noted.

But the key thing is that he thinks that he thinks interest should not be paid "in the interests of the public finances". And to this extent, he is absolutely right. There is no reason for most of this interest to be paid.

How much does this release for public funds? Maybe £30 billion a year.

And will the banks suffer as a result? Yes, of course. So, too, will savers. But, c'est la vie: this is the age-old trade-off between appeasing the well-off and meeting needs, and those in need should win.

As for interest rate policy implications, the Bank might just realise that high interest rates really are not good for the economy after all. That would be an extra win.

But whatever happens, Labour will need to address this issue.