

If this is the standard of analysis at the Bank of Engl...

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I was intrigued by an article by Megan Greene, who is an external member of the Bank of England Monetary Policy Committee, in [the Financial Times yesterday](#). She noted that the response of consumers in the UK in the aftermath of the Covid crisis has been very different to that of consumers in the USA.

US consumers are now spending 13% more per annum than they were before the Covid crisis. In the UK, the increase is just 1.5%. Megan Greene seemed surprised by this, which left me very worried that she would display such an obvious lack of awareness in the pages of the FT.

There are two primary reasons for this difference in behaviour. One is down to the economic policies of the Biden administration. Credit has not been given to Biden for the approach that he took when stimulating the economy during and after the Covid era. The reality is that Biden's policy is entirely responsible for this increase in consumption, whether that is desirable for the sake of sustainability or not. Greene made no reference to this point, and nor did she contrast policy in the USA with that in the UK, where austerity remained in force. Her failure to do so was extraordinary. It is this that has had a massive impact on the differing approaches to saving that is apparent between the countries. The US consumer has been confident: the UK's has not.

There was a second major issue that she also ignored. She made the point that in the UK the increase in household incomes as a consequence of rising interest rates has exceeded the increase in overall household costs because sums deposited by savers are greater than outstanding loans to borrowers. She then noted, however, that savers do not spend their increased income from higher returns on savings, but simply increased their deposit as a consequence. Her tone suggested that she was almost surprised by this, which is really quite bizarre.

What she did not, however, discuss was the fundamentally different position of borrowers in the UK and in the USA when it came to increased interest rates. She did note that many UK borrowers have still not seen the consequence of increasing

mortgage rates,^p because many are still too renegotiate their fixed-term deals. She, therefore, expects there to be a long-term continuing downward pressure on consumption as a consequence of high interest rates in the UK.

She did not, however, draw comparison between this consequence of high rate setting by the Bank of England, for which she is partly responsible, and the situation in the USA, where almost all mortgages are taken on fixed rate terms for the whole life of the sum borrowed, meaning that whatever the Fed might have done with regard to changing interest rates there was very little impact on most households because their mortgage costs did not vary.

Not noticing this point when comparing differing consumption responses to otherwise similar situations appears to have been an extraordinary oversight on her part, or was it that she simply wished to ignore this point as an inconvenience that she would rather forget?

I think it was the latter because she also ignored the fact that this meant that Fed interest rate policy really did not have any significant impact on the inflation rate in the USA because it did not change consumption patterns; they were in fact only really changed by varying supply situations. If she had drawn the obvious inference from this, it would have been that the Fed interest rate policy could have had little or no impact on the elimination of inflation in the USA, but it has ameliorated nonetheless. Another explanation for its passing must then be sought, which is that it dissipated because of the simple passage of time and the consequent normalisation of the markets, as I have always said was the case.

Greene chose not to look at that issue. Instead, she claimed that because of the continuing impact of high interest rates on consumption, the consequence of which she claims is unpredictable, although it seems otherwise based on the evidence she herself presented, there must be a very cautious approach to cutting rates, even though it is apparent from her own analysis that all that it is producing is a recessionary environment.

As examples of critical thinking go, Megan Greene's article is dire. She failed to appraise the available evidence or draw any logical conclusions from it. What she did, instead, was manipulate that data to support her opinion that Bank of England interest rates must remain high. As economic negligence goes, this takes some beating.