Funding the Future

Andrew Bailey says rate cuts are coming, but they will ...

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As the Guardian notes this morning:

The pound has dropped to a three-week low this morning, after the governor of the Bank of England said it could make larger cuts to interest rates if the jobs market slows quickly.

AndrewBailey told *The Times* that “slack” was opening up in the UK economy, following the increase to employers’ national insurance contributions. That slack should create downward pressure on inflation.

Bailey insisted: “I really do believe the path is downward” for interest rates.

What are the problems? They are threefold.

Firstly, Bailey has also issued a warning that he will not go too quickly because the inflation rate is still above target. In other words, although it is very clear that the UK economy is facing a crisis which can only get worse, he is not willing to take the action to prevent that crisis developing. In that case, whatever cut we get will be too small.

Secondly, this rate cut will be too late. You cut in anticipation of a crisis, not when it is apparent that it has already emerged, as he is suggesting he might do.

Thirdly, interest rate cuts have a long time lag before they have any impact on any real economic activity. That lag can be up to two years. I have been forecasting that this crisis has been emerging for at least that long, but Bailey has ignored all the evidence. He is, therefore, part of the problem, and not a part of any solution to any economic crisis that this country might now have.

When will those who supposedly supply the UK with economic management learn the most basic things about macroeconomics?