

Increasing interest rates now is an action close to eco...

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As the FT [has noted this morning](#):

Eurozone inflation rose to 3.2 per cent in May, bolstering the case for the European Central Bank to raise interest rates for the first time in nearly three years as it seeks to contain price pressures unleashed by the conflict in the Middle East.

Tuesday's estimate, which was in line with economists' forecasts in a Reuters poll, was up from 3 per cent in April and marked the highest annual inflation rate since September 2023.

Let's be clear. It does appear, as a matter of fact, and using measures that are commonplace worldwide, that European inflation is rising, but only to very modest levels. No one, with any kind of sense, thinks that 3.2% is a high rate of inflation that should cause anyone concern.

That said, I also accept that the trajectory is upward. This is the chart, which does emphasise that the latest information is an estimate:



Now, I accept that, using the conventional logic of central bankers, an upward trend in

inflation suggests that there is action to be taken to stamp out the trend and return the inflation rate to what is either considered normal, for which there is a clear baseline in this data, or that which is considered desirable, which is stated to be 2%.

However, the question missing from this report and from the proposed action that the European Central Bank is thought to be planning is why?

Why take action now?

Why do so when there is already a shortage of demand inside European economies, and when it is known that raising interest rates can only work as a tool to tackle inflation when there is excess demand?

And why raise interest rates when this inflation is clearly being caused by a shortage of oil, gas, fertiliser, food, and other materials, none of which will in any way be made more available by increasing interest rates?

Has no journalist worked this out?

Has no member of the ECB worked this out?

Has no member of the Financial Times editorial team worked this out?

Have none of them realised that if you increase the price of money at a time when inflation is being stoked by an absolute shortage in the supply of essential commodities, all you can do is increase the rate of inflation?

I have [posted here recently](#) about the failures of our education system and the fact that it does not teach any form of critical thinking. I am, of course, aware that some people develop that ability for themselves, but it appears that in economics and related journalism, it is almost entirely absent.

Are we really going to have to suffer absurd policy decisions on top of the economic crisis that is already coming our way?

If so, everything will be much worse than it needs to be.

Educational failures have consequences, and this will be a massive one.