Funding the Future

# Why are interest rates so high?

Published: June 8, 2026, 6:01 am

---

UK interest rates are far too high, and the Bank of England is making a serious mistake by keeping them that way.

Mortgage holders are paying more, renters are facing rising housing costs, businesses are struggling to invest, and public services are under increasing pressure. Jobs are at risk.

The Bank insists that high interest rates are needed to control inflation, but does the evidence actually support that claim?

In this video, I look at almost a century of UK economic history and examine what happened to real interest rates during every major period of economic stress, from the Great Depression of the 1930s, through the Second World War and post-war reconstruction, to the crises of the 1970s and the financial crash of 2008.

The pattern is remarkably consistent. When the economy is under strain, governments have usually allowed negative real interest rates because they reduce pressure on households, support investment, make government finances easier to manage and help economic recovery.

Today, however, the Bank of England is doing the opposite. Despite ongoing economic weakness, a cost-of-living crisis, stagnant growth, unaffordable housing and rising business pressures, it has deliberately pushed real interest rates back into positive territory. The result is a transfer of income from borrowers to lenders and from ordinary households to those who already own substantial financial assets.

I explain why high interest rates cannot solve supply-driven inflation caused by energy costs, disrupted supply chains and geopolitical shocks.

I also discuss the role of Rachel Reeves and the government, why this policy choice matters, who gains from it, who loses, and why Britain may be heading towards a deeper recession than necessary if current policies continue.

If you have a mortgage, pay rent, run a business, work in a public service, or simply want to understand what is happening to the UK economy, this is a discussion that matters to you.

https://www.youtube.com/watch?v=nEwZ90D_XAY?si=laE8h4QlDaxQ-WKE

This is the audio version:

https://www.podbean.com/player-v2/?i=p7dq9-1ae236b-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition for this video will be available here.

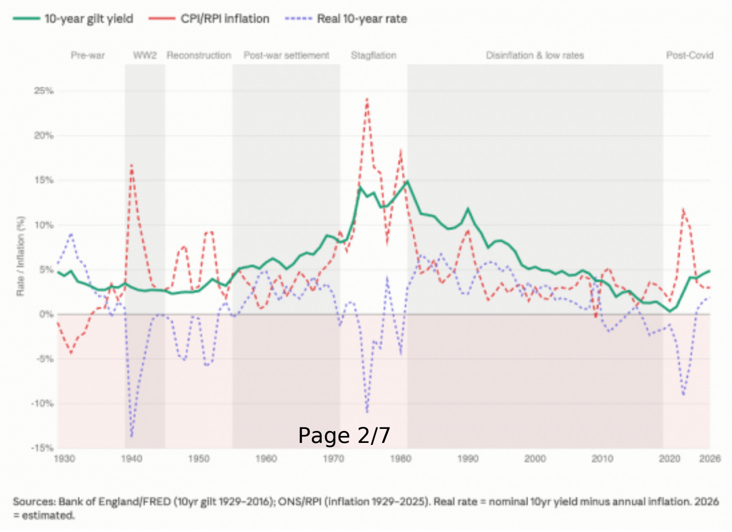
This is the transcript:

---

Interest rates in the UK are far too high at present, and the Bank of England is to blame. And this matters. We are in a period of economic stress. It's going to get worse, and in a period of economic stress, we should have negative real interest rates in this country. But instead, we have positive ones, and that is costing millions of people dearly, and that is all the fault of the Bank of England, as I will show in this video.

Mortgages are unaffordable. Rents are rising. Businesses are struggling. This is not bad luck. It's the direct consequence of deliberate Bank of England policy, and a century of data proves it does not have to be this way.

Look at this chart. It plots the UK 10-year gilt rate from 1929 to 2026. That's almost a century of data, and it reveals a clear pattern. It shows three things.



The first is the nominal interest rate that is paid on those 10-year gilts, and the 10-year gilt rate is the best approximation there is to the average cost of government borrowing in the UK. And then it shows the inflation rate, and the real interest rate is the difference between the two. If the nominal interest rate is 5% and the inflation rate is 3%, the real interest rate is 2%; that's how this works. And what you can see is that the pattern is consistent across nearly a hundred years of economic history. Real interest rates, what you earn or pay after inflation, depending on which side of the equation you are on, are the critical measure here. The relationship between those rates and economic conditions is not random.

Seven distinct periods on the chart show exactly when positive and negative real rates of interest have occurred over the last century.

In the 1930s recession, the government held interest rates low at around 2%. The result was negative real interest rates until just before the Second World War.

During that war, yields were deliberately suppressed, nominal yields that is, to around 3%. That was the rate paid on government war bonds, but inflation was very much higher. It reached nearly 17% in 1940 as the shock of war came in, and before rationing had a real impact. And that produced deeply negative real rates of interest.

Savers were effectively funding the war through silent expropriation of their funds in that case, and this was not an accident. It was a deliberate policy choice at a moment of deep crisis for the country. Priority was given to national recovery and not to returns on financial assets.

After the war, negative real rates continued through the period of rationing and recovery that lasted until about 1954. The government maintained tight control over interest rates during this period quite deliberately. It wanted to lay the foundations for recovery, and low interest rates, and low real interest rates, ensured that recovery was possible.

And then, from the mid-1950s, we see a very real change. Real positive rates of interest became a feature of the economy. This was genuinely a good period. Returns to almost everyone in the economy were good at this point in time. Wages were rising. Real interest rates were rising. Business was becoming more profitable. More houses were being built. Harold McMillan said, "You've never had it so good," and he might have been right. But whilst nominal yields rose steadily to track inflation, real rates remained stable. This was the period of the postwar settlement, and it lasted from the mid 1950s to around 1970.

And then the 1970s brought economic meltdown. The consequences of Vietnam, the collapse of the Bretton Woods agreements, and effectively the end of the gold standard. And then the oil price shock from 1973 onwards. Inflation in the UK hit 24% in 1975; I remember it well. Whilst the 10-year gilt rate reached only 13%. That produced a real interest rate of around minus 11%, not by design again, but through crisis.

The government had not yet understood that, as a fiat money issuer, they could fund themselves. And as a consequence, they did push interest rates up to try to secure the money they needed, as they thought they were dependent upon borrowing to be able to fund their activities, which was no longer true. But this created a period of social stress, financial stress, and political crisis. Confusion about economics has a consequence, and in this case, the consequence was the Thatcher era, the neoliberal era. That's what we got as a consequence of the 1970s confusion and the breakdown of certainties over money and the consequent disruption in interest rates.

The Thatcher period brought an era of change. From the early 1980s, both inflation and nominal yields on government bonds began to fall. But real rates initially surged, reaching almost 6% by 1983 and 1984. Thatcher had tipped the world on its head as far as the wealthy were concerned. She came in to serve the wealthy. She did serve the wealthy. She gave them very strong, real positive interest rates, and they were delighted, and that laid the foundation for her return to government in 1983, just as much as the Falklands crisis did.

This was a deeply painful period for borrowers, and it would've been devastating for government finances, but for the discovery of oil off Scotland. It was that which made Thatcher look economically successful. She wasn't, but the appearance of those oil flows and the fact that the UK was earning so much revenue from them, and so, so much tax was being paid as a result, made it seem as though she was successful, when in fact she was a bit of an economic disaster.

However, it was a period that was enormously profitable for those holding financial assets. The chart shows that. The 1980s were good for people who were wealthy. They were bad for everybody else, and no wonder inequality grew so sharply during this period as a result of deliberate government policy. It was structurally built into the interest rates that Margaret Thatcher enabled.

And this bias in favour of finance continued right up until the 2008 financial crisis. There were odd blips, but it was always there. There were positive real interest rates throughout most of that period, and they were only just disappearing when that crisis hit.

At that moment, everything changed again. We had a financial crisis, and we had an acceleration in a long decline in nominal yields as a consequence. Quantitative easing drove down the 10-year gilt yield to just 0.33% by 2020. In effect, we had zero real costs of government borrowing. Real rates throughout the 2010s were around zero or even mildly negative. A second era of financial repression as a consequence, and that was appropriate.

This was the price that finance paid for the excesses of the previous 30 years. And then things got worse. Brexit created inflation pressure through exchange rate consequences, which were very significant. Remember, nobody did more to crash the pound than Nigel Farage did, and that pushed real interest rates further into negative territory, and then COVID hit.

Economic activity fell, supply chains broke, and inflation surged.

After that, we got the war with Putin. By 2022, inflation reached 11.6%, whilst nominal yields on gilts were still suppressed.

And what we are seeing is a pattern here over six periods; I will come to the seventh in a moment. But over the first six periods that this chart looks at, there are negative real interest rates in every single period of economic stress. During the 1930s, during the war, in the immediate post-war period, and again post-2008. None of this is surprising. When we have a financial crisis, we should expect to have negative real interest rates. That is the pattern that a century tells us should be happening.

But we are now still in a period of economic stress, and yet, as the chart shows, the Bank of England has deliberately forced interest rates back into real positive territory. This is not what should be happening. It is the exact opposite of what we need at this moment. Policy should be to continue negative real interest rates at this moment, but that is not happening.

So the question is, who decided this and why? Negative real rates in a time of stress reduce the burden on borrowers, including households and the government. They also support business by making the cost of capital lower, and therefore, we get a higher rate of investment. They are the natural response to economic stress, shortage and reconstruction. In every equivalent period to that which we are now in over the last century, negative real interest rates have been the policy response to the situation the country has found itself in.

Positive real rates do the exact opposite. They transfer wealth to savers, and that is what is happening now. Households are suffering. The government is suffering. Investment is suffering. We are in a period of stress, and yet policy is running in the exact wrong direction by deliberate government choice, outsourced to the Bank of England.

But in this case, let's be clear, the government can veto the Bank of England; it hasn't. So this is by deliberate government choice.

And the Bank is using this opportunity of an inflationary period to try to change the whole pattern of what's been happening in past periods of shock. We've got a period of shock. Supply shocks to energy, food, and supply chains, and that is what created the crisis in 2022. That is what is going to make it all the worse now.

We know that, and we know that in this situation, raising interest rates does not fix the supply shock. It cannot increase the physical supply of goods and services in the economy in the way that is required to remove the inflationary pressure within it.

As a consequence, though, mortgage rates are too high, rents are too high, and the feedback into inflation continues. The Bank is exploiting this period of shock to act in the interest of banks and of wealth holders.

It is simultaneously pursuing a neoliberal agenda of squeezing the government to reduce the scale of public spending.

High real interest rates of the sort we've got now are not neutral. They're not economic policy. They are deliberate social policy designed to redistribute income from borrowers to lenders.

They benefit those with financial assets, and they punish those with debts or mortgages.

They impose fiscal pressure on government, whether that's justified or not and that then becomes a justification for cuts, which is what the neoliberal agenda requires.

They penalise those renting and those with mortgages, most of all, and they are what we might call average people, people who are not well financially endowed and who have to either borrow to acquire a house or have to rent one, and that is a real cost of living.

And this outcome is not accidental. It is the entirely logical consequence of the Bank of England choosing to impose positive real interest rates at this moment in history, contrary to everything that we learned over the last century. The ideology behind these choices prioritises saver returns over economic wellbeing, and that ideology serves some interests in the economy very clearly more than others.

Evidence is unambiguous. Negative real rates are the appropriate response to the current economic stress and would have ve been since 2022. We are in that stress, and yet we have positive real interest rates at this moment, and that is aberrational. There is no moment like this over the last century when anything of the current sort happened. The Bank of England has abused the powers it has got to create this situation, and it has chosen to impose a punishment on the economy, which has made our lives worse.

It should be cutting interest right now and, in my opinion, quite heavily, by more than 1%. But it isn't going to do that, and the cost of this failure is going to be borne by mortgage holders, renters, business, and of course public services because the government believes that there's a relationship between the interest it pays and the services it can supply.

The question is not whether this is happening. We know it is. The question is, why are we allowing this to happen? And why is the government letting this happen? And what will happen if we let it continue? We know we're heading for another recession right now, and if this policy of real positive interest rates is maintained, and I expect the Bank of England will try to do that, then that recession is going to be very much worse than it need be.

And Rachel Reeves is letting this happen. It's as though she thinks she's acting in the interest of savers, and she has no concern for the majority of the people in this country, the 70 to 80% who have very few savings at all.

The rich can always look after themselves.

The role of government is to look after everyone else.

But Rachel Reeves has forgotten that.

That's the crisis of this moment. That's why the Bank of England is wrong. That is why Rachel Reeves is wrong. That is why we need to cut interest rates now. That is why we might need further cuts when we head further into recession, which is going to happen soon. But will they happen?

The fact is that the Bank of England is clearly dedicated to working against our best interests. It is doing so at this very moment. It will take a brave chancellor to change that tack. I hope it happens because we need it to do so.

We are in trouble. It's going to get worse. And the Bank of England, if it carries on like this, is going to make miserable lives almost impossible lives. That's the net outcome they're going to achieve.

That's what I think. What do you think? There's a poll down below. Let us have your comments. Please like this video if that's what you do. Please do share it. And if you'd like to buy us a coffee so that we can continue to make videos like this, we'd be very grateful.

---

### Poll

[poll id="420"]