Funding the Future

Debate Ammunition: Monetary Policy Explained

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THE RICHARD J MURPHY YOUTUBE CHANNEL

DEBATE AMMUNITION

Monetary Policy Explained: The Bank of England, Interest Rates, and Who Really Benefits

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Topic

How the Bank of England's monetary policy operates, who it serves, and why reintegrating it with Treasury-led fiscal policy is essential for a coherent, democratic UK economy.

The video that this Debate Ammunition supports is available here.

The Core Argument

Monetary policy is never politically neutral. Every interest rate decision redistributes income, from borrowers, mortgage-holders, businesses and the state toward wealthy savers, banks and financial asset owners. The Bank of England is mainly run by bankers, and bankers benefit from high interest rates. Claiming this process is neutral is false.

Interest rates are a blunt and usually wrong tool for controlling inflation. Most UK inflation since 2020 has been caused by external supply shocks such as the pandemic, the war in Ukraine, energy price spikes, and Straits of Hormuz disruption by war, none of which respond to demand-side interest rate rises. Such rate rises take two years to work, by which time supply-driven inflation of those sorts has typically corrected itself without any intervention being required from monetary policy.

In the meantime, high interest rates can actively cause inflation by raising business borrowing costs, rents and lease payments that are passed straight on to consumers.

As a result, monetary policy must be reintegrated with fiscal policy under democratic Treasury control. The current split produces direct contradiction: the government pursues employment while the Bank of England deliberately creates unemployment to suppress demand. Fiscal policy should be the primary lever; the Bank should regulate banks, not dictate economic strategy from behind a screen of false independence.

Key Statistics

Statistic	Figure
Year Bank of England was granted independence over monetary policy	1997
UK overall unemployment rate — a deliberate Bank of England outcome	5%
UK youth unemployment rate	10%
Peak balance in commercial bank central bank reserve accounts after QE	~£900 billion

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Current approximate central bank reserve account balance

~£500 billion

Annual interest paid by Bank of England to commercial banks on reserve accounts

~£20 billion

Length of UK excess-demand data informing the inflation argument

Since 1210

The Argument Structure

Step 1 — Monetary policy always picks winners and losers:

Higher interest rates redistribute income upward toward wealthy savers, banks and financial asset owners and away from borrowers, businesses, governments, and the public services they fund. The Bank of England is predominantly run by bankers, who benefit from the policy they set. This is not neutral economic management; it is class-based redistribution by unelected officials.

Step 2 — The Bank deliberately creates unemployment:

Higher rates are used to reduce demand, and reduced demand means fewer jobs. This is known, intended, and never said plainly. The UK currently has the highest interest rates in the G7 and among the highest unemployment rates, including 10% youth unemployment. This is the predictable and designed outcome of Bank of England policy, in direct contradiction with the government's stated employment goals.

Step 3 — Interest rates cannot fix most UK inflation:

The Bank assumes all inflation is demand-driven and solvable by raising rates. But recent UK inflation has come from pandemic supply disruption, the war in Ukraine, energy price shocks, and Straits of Hormuz closures. Higher interest rates do not increase oil flows, wheat supply, or car production. They address none of these causes and make things worse by raising business borrowing costs, rents and lease prices that feed directly into consumer prices.

Step 4 — The Bank pays a hidden £20 billion-a-year subsidy to commercial banks:

Quantitative easing deposited nearly £900 billion into commercial banks' central bank reserve accounts. The Bank of England pays market interest rates on these balances, currently around £20 billion per year, even though banks have no choice but to hold them. This is a compulsory deposit earning a discretionary reward: a subsidy by any honest definition, and £20 billion per year diverted from housing, social security, and climate action to bank profits and bonuses.

Their Argument → Your Rebuttal

They Say

Your Response

The Bank of England must be independent to prevent politicians manipulating interest rates for electoral gain.

Independence has delivered higher unemployment, a hidden £20 billion annual subsidy to commercial banks, and a direct clash with government employment policy.

Unelected bankers making redistributive decisions that affect every UK household is not a feature of independence; it is its democratic failure.

Coordination with the Treasury does not mean politicisation. It means coherence. The question is not whether to trust politicians or bankers; it is whether economic policy should be accountable to voters or to the financial sector.

Raising interest rates is the standard and proven way to bring inflation down.

Standard, yes. Proven, not really. Historical UK data going back to 1210 shows that inflation returns to normal within roughly two years without interest rate intervention; supply shocks correct themselves.

Where rate rises do 'work', they work by creating unemployment and suppressing demand. Calling that a cure is like prescribing an illness as treatment.

And when inflation is supply-driven, as UK inflation has been since 2020, rates are not just ineffective, they actively worsen costs through higher business borrowing, rents and lease prices.

If we don't raise rates, the pound will collapse and imported inflation will soar.

The UK ran high rates for years, and the pound did not strengthen materially. Meanwhile, the inflation we experienced was import-driven, caused by energy prices and supply chain disruption, problems that higher rates cannot fix and may worsen by raising production costs.

The argument also confuses a market sentiment reaction with an economic necessity. A currency does not strengthen simply because rates are high if the underlying economy is being hollowed out by those same rates.

Commercial banks earn interest on reserves because they are taking on risk by depositing funds with the Bank of England.

Commercial banks have no choice but to hold central bank reserves; it is a regulatory requirement, not a voluntary investment decision. There is no risk being taken; the Bank of England cannot default on sterling reserves.

Paying market interest rates on balances banks are legally compelled to hold is a subsidy by any honest definition. At roughly £20 billion per year, this is one of the largest hidden transfers to the financial sector in UK history, and it is never debated in Parliament.

The One-Liners

“The Bank of England is mainly run by bankers — and bankers benefit from high interest rates.”

“Higher interest rates don't cure supply-shock inflation. They just create unemployment and call it medicine.”

“We pay commercial banks £20 billion a year in interest on reserves they are legally required to hold. That is a subsidy, not a service.”

“UK data going back to 1210 shows supply-driven inflation corrects itself. The Bank of England's cure is slower than the disease and more painful.”

“You cannot solve a Ukraine wheat shock or a Hormuz energy spike by making mortgages more expensive.”

Questions to Ask

If the Bank of England's independence is meant to protect us from political interference, why does its policy consistently favour banks and wealthy savers over workers and borrowers?

What evidence is there that UK inflation since 2020 was caused by excess domestic demand, and if there is none, what exactly were the interest rate rises supposed to fix?

Why is the Bank paying roughly £20 billion per year in interest to commercial banks on reserves those banks have no choice but to hold, and why is that never debated in Parliament?

If fiscal policy and monetary policy are in direct contradiction, with the government trying to create jobs while the Bank deliberately destroys them, which institution is actually serving the public interest?

Further Reading

Post

Date

What it covers

[Bank of England independence has been a disaster – and it's time for it to end]

23 Apr 2026

Makes the case for returning monetary policy to Treasury control, directly mirroring the video's central conclusion.

[Interest rates can't fix inflation now]

11 Mar 2026

Explains why supply-shock inflation is not amenable to demand-side rate rises, the core analytical argument of the video.

[Richard Murphy's Views On ... Inflation]

6 Jun 2026

A concise statement of the multiple causes of inflation and why a single interest rate tool cannot address most of them.

[It is time to end the massive government subsidy being paid to the UK's commercial banks]

11 Jun 2024

Sets out in detail why paying interest on central bank reserve accounts constitutes a hidden public subsidy to the banking sector.

[Why interest rate rises are fuelling inflation]

23 Jun 2023

Documents the mechanism by which high interest rates feed directly into business costs, rents and lease prices, causing the very inflation they are meant to cure.

[Why the Bank of England base rate should be no more than the rate of inflation]

17 Feb 2025

Proposes a principled alternative to current rate-setting practice, grounding the argument in what real interest rates should aim to achieve.