

Is the Bank of England intent on so-called 'creative de...

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The Bank of England made one terrible decision today, and hinted that it will make another the next time it meets. The chances of increased economic and financial stress in the UK grew considerably as a result, and I would even suggest that they have now put us on the path to another financial crash.

The terrible decision to come is that they gave the clearest possible hint that they will increase interest rates the next time they meet. [As they put it:](#)

Today, we've held Bank Rate at 3.75%. So far, higher global energy costs have had a limited effect on price and wage setting in the UK. But the longer this volatility persists, the bigger the impact it will have on inflation, and the more likely it is we will need to raise Bank Rate to ensure that inflation falls back to our 2% target.

On this occasion, three of the nine committee members wanted to increase rates now, but the remaining six prevented them from doing so, while making it clear that if inflation does increase in this country, they will have no hesitation in doing so. Since the current trajectory of fuel prices guarantees that this inflation increase will happen, it must consequently follow that there will be an inevitable interest rate rise in November. This will be disastrous for the UK and most households within it, but will maintain the well-being of the wealthy, banks, and larger companies without ever solving inflation or addressing any of the underlying economic problems within the UK economy. There will be a video to come on this issue tomorrow morning.

The Bank's terrible decision today is recorded in its minutes. [They agreed](#) with regard to quantitative tightening, that:

The Chair invited the Committee to vote on the propositions that the Bank of England should reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, to zero. This should be conducted through a multi-year plan, such that the remaining stock of £368 billion of bonds held for monetary policy purposes is unwound at an annual average pace of £46 billion by the end of 2034, through annual sales of £20 billion alongside maturing gilts.

If pursued, this programme might reduce the current scale of bond sales by the Bank of England, which could, as a consequence, slightly ease upward pressure on interest rates, but by very little. That is because the guidance given is almost as important when it comes to long-term interest rates, which is what QE and QT are meant to influence, and the clear indication given is that the Bank wishes to dispose of all the bonds that it acquired after the 2008 financial crisis and the financial crisis of 2020, which arose as a consequence of Covid.

This decision makes no sense at all.

First, it gives the clearest possible indication that the Bank of England is intent on keeping interest rates in this country above the level they would naturally be for years to come. Those high interest rates have already penalised households, pushed unemployment higher than necessary, reduced economic activity, suppressed demand, and, as a consequence, helped fuel the rise of far-right politics in this country. If the Bank of England had set out to support the rise of fascism, it could not have delivered a stronger indication of its willingness to do so.

Secondly, what this process will do is remove reserves from the banking system. In other words, the value of the central bank reserve accounts held by our commercial banks with the Bank of England to ensure that the banking system is liquid, can survive shocks, and can provide the interbank stability that is fundamental to the operation of the UK financial services system will be reduced as a consequence, to the point where bank stability will be compromised.

In addition, the pressure upon banks to retain reserves to replace central bank-provided liquidity will be high, and the result will be that they will provide even less credit to UK business than they do already, with a consequent reduction in the level of investment in this country, which we already know is far too low for comfort.

Again, if the Bank of England wanted to send out a signal that, in this case, they are trying to create a banking crisis in this country, their message could not have been clearer.

I can offer no rational explanation for what the Bank of England has done today because, try as I might, I do not think that any is available. I do, therefore, have to look for irrational explanations.

The first is that the Bank of England has no comprehension at all of inflation, or the impact of monetary policy on it.

The second is that the Bank just does not care. They think there is a required response to inflation, which is an increase in interest rates, and so they will do it, come what may. This, then, is not management; it is the abandonment of a responsibility.

The third is that the Bank of England has adopted Schumpeter's view that what the economy needs is an economic shock and that, without the so-called '[creative destruction](#)' that he described, the current economic malaise in this country cannot be resolved, and it is intent on supplying that from beyond the boundaries of democratic control.

Which of these is the most likely option? I see no reason to choose. I think all three might be true, but the last most of all. Nothing can easily explain what they are doing.