

The central banks begin their war on the innocent victi...

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The European Central Bank [raised its base interest rate](#) to 2.5% yesterday. This move is meant to control inflation arising as a consequence of the war between the USA and Iran, as well as food shortages arising from that same war and drought.

No one is suggesting there is excess demand in the Eurozone. However, inflation arising from excess demand, a phenomenon not seen in many economies for decades because so many people are having so many problems in making ends meet, is the only type of inflation that an interest rate rise can address.

When inflation rises instead because of an externally imposed shortage of real resources available in an economy, the resulting inflation is inevitably transitory as people take time to react to higher prices for the goods and services in question, which have the greatest impact when they are for essential items, as fuel and food are. What, however, centuries of history prove is that the transition always happens and price stability returns, but it usually takes a year or so for that process of change to work through the economy. This, though, is far less time than it takes for a change in interest rates to have an impact on inflation, if it ever does.

For these reasons, increasing interest rates at this moment might be described as an act of economic illiteracy. It might also be described as class warfare based on economic aggression, because its purpose is, in reality, to deter those on wage income from seeking pay increases to maintain their economic positions, while those who profit from the price increases are left to enjoy their newfound and unearned riches.

A metaphor might help here. What we are seeing is akin to a household suffering a reduced water supply because the pipe from the water main to the house is partially blocked or, more likely, leaking. The household is under stress, and the response from the water company is to increase the price of the water, rather than solve the leak or unblock the pipe in question.

The water company is now happy. Its loss of revenue and profits, resulting from the reduced supply to the household, has been addressed. The price increase restores its

well-being. However, nothing has been done to solve the household's problem.

Now imagine the European Central Bank as the equivalent of the water company. It is increasing the price of money to maintain the position of the owners of wealth at this moment, without in any way addressing the problems that the economy, or most people in it, are facing. The Bank of England will do exactly the same thing, very soon.

The required economic and political policy at this moment is very different, and threefold.

First, demand should be made that Trump and Israel stop their war. They are not just causing untold harm in the Gulf region; they are also exporting it around the world. The inflation Europe and we are facing is of their creation. That should be made very clear.

Secondly, essential action has to be taken to ensure alternative energy and food supplies since shortages of both are the cause of the inflation. Such supplies may be possible over time and with investment, but will be very much harder to deliver if interest rates are increased. The interest rate increase is, therefore, likely to be entirely unproductive because it provides no incentive for the problem to be solved.

Third, the current inflation has to be allowed to work through the system, whilst reassurance is provided that deliberate, interventionist action by the government in the economy will resolve the supply problems that are creating it.

What we need, in other words, is a government that is in control of its central bank, which understands that meeting need is its priority, that action is its obligation, and that preserving the interests of those with wealth is not an issue that needs to concern it when people are in need. We have the exact opposite, and that is going to make this winter very difficult if, as I expect, the Bank of England copies the action of the European Central Bank.