No to negative interest rates

I welcomed the arrival of the new Governor this Spring. He immediately responded rapidly and decisively to the pandemic induced collapse of demand and activity with a strong programme designed to generate fast money growth as an offset to the large contractionary forces brought on by lock down. Like the Fed but on a smaller relative and absolute scale, the Bank created money and bought up government bonds, lowering the interest rates in the process.

Money growth accelerated rapidly, hitting 13% on the wider M4 measure. This was a welcome contrast with the previous Governor's era when for the later years the Bank was busy slowing money growth well below a safe speed, which was duly reflected in and contributed to lower overall GDP growth. In the last couple of months it appears that the Bank has throttled back its money programme, which will become a problem as we face more regional and local lockdowns.

Maybe the Bank was unduly impressed by Chief Economist Mr Haldane's confident and positive forecast of a sharp V shaped recovery. My readers will know I never thought that likely. It must now be clear to Mr Haldane that this is not going to happen. All the time large sectors like hospitality, leisure, shop retail, travel , property and others are impaired and damaged by the Covid measures, there can be no early return to total output and incomes at February levels. The fear must be that recent news of the virus will depress confidence again and lead to substantial job losses as exposed businesses recognise there is no early return to full capacity working for them.

I read that the Bank is reconsidering using negative interest rates. The Governor wisely expressed scepticism about such a course in his earlier interviews. There is no evidence to suppose that the official rate of interest at 0.1% is too high or causing a problem. Taking it mildly negative will not provide a significant boost, nor will it allow businesses scarred by the pandemic measures to borrow more cheaply, as commercial banks will want a big margin to take care of loan losses from future bankruptcies and capital write offs. Countries that have gone negative have not shown any striking gains to output as a result. Despite its large issue programme the UK government can currently borrow very cheaply. That can continue and will be assisted by the Bank's bond buying programme.

The Bank has the tools it needs to support the economy in these worrying times. The main issue for the MPC to settle is the pace and scale of money creation and bond buying. Having started so well as the crisis struck, they need to look to that again now we have another knock to many businesses and sectors from the further measures being taken on health grounds.