Time to cut interest rates, not raise them as economic gloom deepens

T
here is news of pubs closing in York and in Dorset with industry groups warning of mass closures to come due to spiralling energy costs.

Heaven forbid, there is even talk that to survive they would have to charge fourteen quid a pint. The cost of borrowing is shooting upwards because the Bank of England is foolishly making matters worse raising rates with apparently lots more increases to come. This is only making matters worse. Rate cuts will have to come soon.

Small businesses across the UK are set to close in droves over the next few months – chippies, restaurants, care homes, butcher's shops, hairdressers and gyms to name but a few. Owners can't afford to pay the exploding heating bills and as consumer confidence has collapsed their customers are increasingly staying home. Even the RSPCA is being flooded with people bringing in their pets that they can't afford to keep. This is not a good sign as the economy heads toward the cliff.

The woman riding the Mile End Road omnibus can't afford to heat her house, she has maxed out her credit card and just lost her job at the pub round the corner which closed yesterday. The Mile End Road is a mile from the City of London where two worlds collide. Poor versus rich.

If twenty people struggle to pay their bills they have a personal problem. If twenty million people have a problem paying their bills the country has a ginormous problem. Can't pay won't pay. Up to a third of ratepayers refused to pay

the Community Charge during the poll protests that brought Thatcher down.

Read More

- Manufacturing sector shrinks for first time since May 2020 as recession looms
- Ovo founder unveils energy crisis plan and calls for urgent action
- UK house price growth cools as property 'market loses momentum'
- SPONSORED

The ultimate culture guide to Croatia

Truss is doing her King Canute impression as the tide comes in and which is about to envelop her. (Canute knew very well he couldn't turn back the tide – Truss is about to find she can't either). Screeching handbrake U-turns are coming. If not, I can't imagine how terrible things will be and even Boris agrees. Dogma hits reality.

My greatest hope is that the new PM follows her long tradition of flip-flopping – she already has done so on which political party to support, gone from Remain to Brexiteer and on so many other issues. I am hoping that faced with the harsh realities of life she will go from Mrs Stupid to Mrs Sensible in an hour and bloody do something to alleviate this crisis. I am discouraged to hear from the Chancellor, that he was working on a plan to present when Lizzie took office. Really? Plans should have been in place many months ago. Truss's plan for changing the remit of the Bank of England should have some effect by 2032 while corporation tax and income tax cuts might have a measurable impact by 2027.

As I suggested in an earlier column the markets will react and

already the pound has started tumbling'. Plus, the bond markets have been sliding already raising the costs of borrowing for the UK. Markets don't like clueless amateurs. And then there is Brexit which is making all of this worse: no other country has anything like this level of inflation, and they all have credible governments and finance ministers

So, what is to be done? Fast action is what is needed now to prevent freefall. The announced energy price rises have to be immediately reversed which may involve taking the energy companies over at least temporarily. Most importantly poor people especially need to get money NOW to avoid freezing to death or starving over the winter. The government could do this by directly putting money into their bank accounts and can pay for it by borrowing as it did with COVID. The UK is fighting another economic war. It is not the British way to throw in the white flag of defeat at the first sign of disaster.

Households that cannot pay for energy, food, their rent or mortgages and will stop spending on everything else. The knock-on effect of that on the retail, leisure and hospitality sectors will be significant. Many companies will fail. It is likely that millions of jobs will be lost. Mortgage repossessions and tenant evictions will increase. Public services in education, health and care will also be drastically impaired due to rising bills. The likelihood of a depression on a scale not seen since the 1930s is very high. Act now.

Professor Blanchflower was formerly on the Bank of England's Monetary Policy Committee