

Bank of England raises interest rates, plunging millions into financial distress

Laura Tiernan
3 August 2023

The Bank of England (BoE) has raised interest rates by 25 basis points to 5.25 percent, the 14th consecutive rise since December 2021.

The BoE's announcement Thursday, spelling financial disaster for millions, is a class war measure. It takes interest rates to their highest level in 15 years and deepens a brutal policy by the world's leading central banks to suppress wage demands which have fuelled a wave of strikes in the US, Europe and internationally since 2021-22 in response to the biggest cost-of-living crisis in decades.

Britain recorded 3.7 million strike days between June 2022 and April 2023, the highest since the 1980s. Amid an historic crisis of bourgeois rule, Rishi Sunak was installed as Party prime minister last October, after financial markets intervened to crash the premiership of Liz Truss who had replaced Boris Johnson as Conservative Party prime minister just 44 days earlier. Truss was punished for failing to outline a sufficiently ruthless austerity agenda to pay for her handouts to business. Sunak, formerly Britain's chancellor, has since backed aggressive rate hikes to cow workers from striking, using the whip of higher unemployment and extortionate mortgage repayments and rents.

The Monetary Policy Committee (MPC) voted 6-3 to raise interest rates by 0.25 percent. Two members were in favour of lifting rates to 5.5 percent, while another favoured holding interest rates at 5 percent.

In the summary of their decision, the MPC reported 12-month CPI inflation had fallen between May and June, with core goods and services inflation "lower than expected". But it found the labour market "remains tight", despite a 4 percent rise in unemployment in the three months to May.

Above all, the MPC focused on the dangers to the ruling class from continuing wage demands. Annual private sector pay growth of 7.7 percent in the three months to May was "materially above expectations". While earnings growth was expected to decline to around 6 percent by the end of the year, the MPC warned, "there is uncertainty around this near-term outlook."

While private sector wage growth was well below inflation (equal to a pay cut in real terms) for the MPC it was unacceptably high, "key indicators, notably wage growth, suggest that some of the risks from more persistent inflationary pressures may have begun to crystallise". The BoE assured markets, "If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required."

Britain's central bank and the Sunak government are reliant on the trade union bureaucracy to enforce wage restraint and stifle growing social anger. The Trades Union Congress (TUC) and its affiliated unions have suppressed a strike wave encompassing millions of workers this past year, isolating, dividing and betraying strikes on the railways, London Underground, Royal Mail, BT, the airlines, and action by lorry drivers, dock workers, oil and gas workers, and more than a million NHS staff, followed by school, college and university educators.

Union bureaucrats have wielded the threat of job losses and financial ruin to impose sellout pay deals, enforcing the Bank of England's aggressive rates policy against the working class. Frances O'Grady, TUC President from 2013-22, served on the Bank's Court of Directors since 2019, symbolising the partnership between the trade union bureaucracy and the financial oligarchy.

Engineering a recession

Ahead of the BoE's announcement, the FTSE 100 blue chip stock index slumped by 1.4 percent Thursday morning, while the pound hit its lowest level since June.

Critics of further rate hikes are nervous over the growing signs of recession. Wilko, one of Britain's largest retailers, has announced it was preparing to appoint administrators with 12,000 jobs threatened, the latest in a line of corporate bankruptcies. In the manufacturing sector, declines in factory output, new orders and employment all accelerated in July.

Raj Badiani, Economics Director in Europe for S&P Global, criticised the BoE's announcement, describing its monetary policy as "too restrictive" and predicting the British economy "is likely to buckle further, with shallow recession anticipated around the start of next year."

Julian Jessop, of free market think-tank the Institute of Economic Affairs, said, "The UK economy is like a frog slowly being cooked by ever higher interest rates. By raising the temperature further now, the Bank risks doing too much and, once again, only realising its mistake when it is too late."

The pro-Tory *Telegraph*, which has also opposed further rate hikes, warned that Britain is facing a Wile E. Coyote moment, "where the cartoon character keeps running long after he leaves

the edge of the cliff before realising there is no ground beneath him and plunging into the abyss.”

But the Bank is determined to hold the line. Inflation in Britain is still 7.9 percent, far higher than the Eurozone average of 5.5 percent, and higher than comparable economies such as Germany (6.2 percent), Italy (6.7 percent), France (4.5 percent) and the US (3 percent).

After the BoE raised interest rates to 5 percent in June, Andrew Bailey denied the Bank was “trying to precipitate a recession”, while declaring that wage rises “cannot continue”.

But Chancellor Jeremy Hunt’s office this week confirmed the government is willing to see a prolonged recession to bring inflation down to 2 percent, “We support whatever action the Bank deem necessary to control inflation.”

In June, JP Morgan’s Karen Ward, a member of Hunt’s economic advisory council, accused the BoE of being “too hesitant”, and called for further sustained rises to “create a recession”.

She told the BBC, “They have to create uncertainty and frailty, because it’s only when companies feel nervous about the future that they will think ‘Well, maybe I won’t put through that price rise’, or workers, when they’re a little bit less confident about their job, think ‘Oh, I won’t push my boss for that higher pay’.”

Between September 2022 and March 2023, Britain experienced seven months of double-digit inflation, peaking at 11.1 percent last October.

The persistence of comparatively high inflation is a symptom of Britain’s extreme economic weakness. The UK is a net importer of food and drink (the world’s third largest) and is reliant on imported gas to meet electricity and heating needs. It was therefore especially vulnerable to the surge in food and energy prices that followed Russia’s invasion of Ukraine and NATO’s proxy war. Brexit has left Britain doubly exposed to labour shortages and the global supply chain crisis resulting from the failure of capitalist governments to prepare for the pandemic.

Household wealth plummets

A study published last month by the Resolution Foundation think-tank, “Peaked interest? What higher interest rates mean for the size and distribution of Britain’s household wealth”, reveals the staggering decline in household wealth since the start of the pandemic, the highest fall ever recorded.

While the pandemic initially saw a surge in household savings, accompanied by substantial debt repayments—rising by £247 billion between February 2020 and May 2021—inflation and then rising interest rates saw household wealth plummet.

From early 2021 to early 2023, declining asset values (primarily pensions and property) reduced household wealth from 840 percent of GDP in early 2021, to around 650 percent. The report noted, “This is by far the biggest fall on record as a proportion of GDP, wiping out £2.1 trillion of household net worth in cash terms.”

The authors concluded, “the magnitude of the fall in wealth since 2021 has been historically unprecedented”, representing “the largest decline in household wealth as a proportion of GDP in the post-war era”.

Based on the BoE’s projections, the report warned that household wealth would continue to fall. By the end of 2026, for example, “almost all British households with a mortgage will have moved onto a higher rate, and are set to end up with annual mortgage bills £2,000 higher, on average, than in December 2021.”

Households are already digging into savings to cover food, energy and housing costs. In May 2023, (the most recent data available) “UK households drew down £4.6 billion from savings, the largest amount since monthly records began in 1997.”

Mortgage interest rates have more than doubled in the past year already, with the National Institute of Economic and Social Research warning the government that millions of households with mortgages face “insolvency”.

Responding to the Bank of England’s rate rise, Labour’s shadow Chancellor Rachel Reeves stated, “This will be incredibly worrying for households across the country. Responsibility for this crisis lies with the Tories. They’ve crashed our economy leaving people worse off.” She claimed, “Labour’s plans will boost growth and get bills down.”

But Reeves and Labour leader Sir Keir Starmer are preparing the most right-wing government in history. Starmer told a conference in May that Labour would go “further and deeper than New Labour’s rewriting of clause IV” and describing his own plans as “Clause IV on steroids”. He declared, “If you think our job in 1997 was to rebuild a crumbling public realm, that in 1964 it was to modernise an economy overly dependent on the kindness of strangers, in 1945 to build a new Britain, in a volatile world, out of the trauma of collective sacrifice—in 2024, it will have to be all three.”



To contact the WSWs and the
Socialist Equality Party visit:

wsws.org/contact