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A case for higher interest rates [1]

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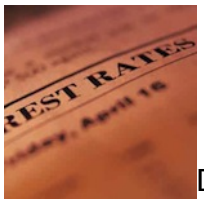

Does the Bank of England?s bank rate of 0.5% inspire confidence? For savers and investors (two sides of the same coin), confidence means belief in an adequate rate of return in an economy that rewards hard work and innovation and a belief that stores of value won?t be eroded by a debauched currency.

Near-zero official interest rates send just the opposite signal ? there is no faith amongst the economic cognoscenti that the economy can generate sound economic growth so rates are kept low that support otherwise bankrupt organisations and individuals.

Meanwhile, the presses are running fulltime, churning out new money out of thin air. And with inflation running consistently well above target, the Bank of England ignores its mandate to keep it under control. There?s always some special factor to be overcome first but, trust us, things will be fine in due course.

All this is terribly dispiriting for those wanting to do the right thing ? save and invest.

Take savers first. Confronted with the officially pessimistic view, they hesitate to put their money to work in riskier assets, choosing instead to shelter in unproductive but seemingly safe assets like government bonds. They also choose to save more than they might otherwise if they have been convinced that the future is, indeed, bleak and unpromising. Stash cash away now before things get really bad!

Good savers are also probably dutiful taxpayers and are further discouraged by what has happened to the government?s finances over the past decade. Where on earth has all the money gone that they have faithfully and unquestionably handed over, day after day, year after year? No wonder there?s so much gloom about.

The story is similar for those who must consider real investment opportunities. If the official view is so pessimistic, who are they to be optimistic? And if failed enterprises and individuals are kept on life support with low interest rates, how can new investment get a fair bite of the cherry?

The good guys now feel like fools and faith in traditional virtues is gone. Is it any wonder that gold is at record highs? Maybe it?s time to try something new, like a modest rise in the bank rate to 0.75% as part of a gradual return to normalcy and faith in the future.

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