

An independent Central Bank

I read various bizarre articles defending the Bank of England's independence against an imaginary threat from Liz Truss. I only know what she has said in public, where she issued no threat to Bank independence. She said she favoured a review of the Bank's mandate to see if it met best standards in the world of independent Central Banks, and to find out what can be learned from the Bank's failure to forecast or prevent the high inflation we now suffer. The inference was she wanted a tougher Bank, not a Bank that printed more money and artificially depressed interest rates to suit the government.

The articles are bizarre because they always ignore the radical change to Bank policy launched by Mr Brown and Mr Darling and continued by all subsequent PMs and Chancellors. They agreed with the Bank a policy of creating more money and buying up state debt to keep rates down. Right from their start of this policy it has been a dual control policy, with the Bank needing the consent of the Chancellor and requiring a full Treasury guarantee or underwriting of the transactions. As this policy has dominated money policy between 2008 and 2021 we cannot say the Bank was then genuinely independent. It does have and did have throughout the sole power to fix the official interest rate. No-one in this debate is recommending taking that power away.

Going forward I would like to see the Bank introduce quantity of money and circulation of money as important information to monitor and take into account when settling interest rates. It has proved difficult to control inflation whilst allowing a large increase in the money supply triggered by substantial Quantitative easing. The Bank may not want to go back to strict money targets that were used in the early 1980s to end the last big inflation, but monitoring money and showing an awareness of its importance might help them make better calls. The current money figures show they have now reined things in considerably. They do not need to overdo the tightening from here to make the opposite error to being too loose as they were in the previous two years. The IMF does usually call for monetary discipline when it puts in a recovery programme for a state that needs financial help.