[Bernanke needs to be radical in his review of the Bank of England]

Ben Bernanke knows a lot about Central banks getting things wrong. On his watch at the Fed he saw inflation hit 5.6% in 2008 before watching it collapse along with important parts of the banking system. He was there for the banking crash and great recession of 2008-10. He pioneered the money printing and bond buying policy that lies behind the wild ride the UK has experienced in inflation and growth 2019-24.

Recommending the same people on the MPC be asked to publish their own differing forecasts will not solve the problem, as there is too much groupthink on the MPC. Telling them to publish a range of scenarios does not help much either, because what we need and want to guide money policy is a reliable base forecast. How else can they set a good interest rate if they have no idea what inflation is going to be. That is why I have set out the need to completely change their forecasting models, to take money and credit seriously, and to recruit different people to provide diversity of thought.

1.The Bank should immediately conduct an internal review into its models and forecasting to find out why it got inflation so wrong and to propose amendments that would have produced better outcomes. It should back test changes to the model to make sure they would result in material improvements.

2.The Bank should produce an analysis of the role of money and credit in inflation and discuss how this can be monitored and used in helping make policy decisions about rates and money creation going forward.

3.The Bank should ensure in its future recruitment to senior roles on the staff and to external appointments on its committee that it appoints to obtain a greater diversity of views about economics and inflation. It should wish to have representatives of the main strands of economic thought on the important topics around the table.

4.The Bank should reward staff when it hits targets for accuracy of forecasts and success of out turns to policy decisions.

5.The Bank should reconsider its attitude to Quantitative quantitative tightening. If it is unimportant as an influence on inflation as it says and the
purpose is technical or tidying up it should stop selling bonds and let maturities gradually reduce its balance sheet. It should consider whether its bond sales do depress markets in ways which can disrupt them, consider the flow across to its tasks in maintaining banking sector stability and ask whether too many bond sales might make a recession more likely. Selling bonds at huge losses and sending the bills to the taxpayer is encouraging recession and preventing a growth policy.