

Can the Bank of England get it right?

The latest addition to the Monetary Policy Committee is an economist who mainly tweets on Greece and the USA. She comes to the task with some scepticism about the lurch from Quantitative easing to Quantitative tightening and with an understanding that tight money policies bring recessions. This scepticism is going to be much needed as she listens to the group think that brought us 10% inflation against a target of 2% and then forecast a five quarter slump. The Bank has a long history of getting it wrong. It has specialised in boom/bust policies all my adult life. It has a habit of running easy money for too long to get inflation up, then for overcorrecting to get it down doing great damage to jobs, output and sometimes to banks.

They recommended the European Exchange Rate Mechanism, the ultimate wild ride boom/bust machine. In the 1980s it meant selling pounds, keeping interest rates low and fostering excessive sterling money and credit, to be followed by buying up pounds, hiking rates too high and creating a big recession. The government, Opposition and CBI all supported this madness. I took the quoted company I led at the time out of the CBI at the start of this misery in protest at the policy.

They allowed low rates and fast money growth in the period 2004-7, telling us big banks had new ways of controlling risk which made it fine for them to lend large sums in relation to their capital. Then in 2008 they turned round and blamed the banks for the excesses they had helped engineer, hiked rates and watched as a banking crash unfolded, followed by the Great recession. Many of us predicted the folly of overexpanding credit and borrowing in the run up to the crash.

They rightly created plenty of money and bought bonds to depress rates during the covid lockdown of 2020, but then added fuel to the inflationary fires by carrying on with Quantitative easing throughout 2021 when some of us were telling them it would be inflationary. Inflation hit 5.5% before the invasion of Ukraine which they solely blame for the inflation that has inherent in their policy choice, and was absent in Japan and China despite energy prices.

Now they are following the austerity policy of Quantitative tightening long after their own forecasts tell them there will be a recession and inflation will tumble. Why? Either the forecasts are completely wrong or the policy is wrong, or both. My view is they have done enough to bring inflation down next year. They should tighten by not replacing bonds they own when they repay, but they should not be selling more bonds at a loss.