

# Controlling inflation

One of the principal misunderstandings of the Treasury is embodied in their comment in the Spring Statement that “The Bank of England is responsible for controlling inflation”. It is a very worrying mistake. The public thinks the government is in overall charge of the economy including the need to control inflation. The main policy the Bank has pursued in recent years which has triggered the inflation is the policy of printing loads of pounds and buying up government debt with them to keep the interest rates very low. This policy has to be approved by the Chancellor of the Exchequer himself on advice from Treasury officials. The Treasury is part of the wider government which controls around 40% of the economy through public spending. Government gets to set the prices, charges and taxes to pay for most healthcare, education, policing, defence and a range of other services. How it does this will have a direct impact on inflation.

The Treasury needs to see the 2% inflation target as a serious requirement binding on itself as well as the Bank. It needs to work in conjunction with the Bank to achieve it. The Treasury should have objected to the scale of quantitative easing being proposed last year when it went on for too long. It was a good response in 2020 to counter some of the damage of lockdown. It now needs to avoid increasing taxes at exactly the point where the Bank is tightening money and where the gas and oil markets are imposing a huge levy on consumers which is akin to a big tax rise. The economy will go from fast and inflationary growth to slowdown as a result of these important changes of direction. There is no need to overdo applying the brakes after a period of speeding.

The Treasury still promotes the idea that the Bank – and the OBR – are independent and that this guarantees good outcomes. As we can see, they are currently allowing or producing a bad outcome on inflation, which is way higher than their forecasts of a year ago. If they are independent and responsible then we should be asking why the big mistakes? It is also a mistake that they are independent. The Bank requires support in the form of a Treasury guarantee of its bloated balance sheet and needs Treasury approval for its main money policy instruments. The OBR works just for the Treasury and clearly has a series of privileged conversations with Treasury officials before Budget leaving scope for each to influence the other as they work on their parallel documents to be published simultaneously.