Establishment economics hits a new low

We live under the tyranny of the Bank of England and OBR. Politicians have given powers away to these so called independent bodies, only to discover they are unable to make accurate forecasts whilst recommending policies which lurch us from high inflation to no growth. Many of the electorate take the more traditional view that Ministers are elected to sift the advice and make good decisions. If inflation is too high or growth is too low voters blame the government. As we approach the next election voters face the problem that the main Opposition party thinks the problems of inflation and growth require more powers to be surrendered to the very bodies that have caused much of the bad outcomes so far. Why take more of the same medicine when it has proved to be harmful so far?

Over my time as an MP to date the record of the Bank of England has been poor for much of that period. The Bank along with the Treasury, the CBI and the Labour party nagged the Conservative government of the 1980s into the European Exchange Rate Mechanism. All the time I was Margaret Thatcher's economic adviser we stayed out of this system, which was obviously going to be destabilising and damaging as I set out in a booklet before the event. When they had their way it gave us first a rapid inflation as the Bank created money to try to keep the exchange rate down to the limits of the scheme, and then caused a deep recession when they had to arrest the inflation with an intense money squeeze to try to save the pound. That wrote off the period 1988- 94 and ended the Conservative government.

In the period 2005-8 the Bank allowed a massive expansion of credit as the Treasury went for an increase of spending and borrowing at the same time. The Conservative Opposition warned the government that this was dangerous and inflationary. So it proved. Then the Bank did the opposite and squeezed money and credit too hard, threatening the solvency of the banks. I warned against such an extreme lurch, but they were determined. Only when some of the largest banks in the land were teetering on the edge of collapse did they relent. They had to undertake a very expensive bail out of leading banks brought on by their own folly. As Gordon Brown was an important influence on the thinking behind decisions he ultimately had to take it was fitting Labour were thrown out of office for the big crash of 2008.

In the response to the covid lockdowns the Bank understandably made a large amount of money available to prop bond markets and offset some of the damaging economic consequences of widespread closures. Unfortunately the Bank continued with this policy throughout 2021, recovery year, in a way that was bound to be inflationary. So it proved. Now they are trying to overcorrect by taking large losses on bonds they paid too much for and reducing the money supply.

What a pity the experts of the Bank have not yet learned from these dreadful boom/bust swings that creating too much money or allowing too much credit is inflationary, and allowing too little brings on a recession. This is a clear case where expertise needs to be challenged, and experts with better forecasting records should be listened to more.