

Having a proper debate on the economy

Parliament has failed to have a proper debate on the economy for many years. The main reason is that it has fallen for the lie that the Bank of England is independent. Because many commentators and politicians think that they fail to debate the crucial reliance we have had on the Bank printing loads of money and keeping the government's borrowing costs very low. The Opposition keeps off all matters that the Bank is involved with and wishes to blame the government for any economic failing in a way which reveals a deep misunderstanding of how the modern Treasury and Bank work together.

Let me have another go at explaining. The Bank under the last Labour government at the end of its time in office, under the Coalition and under the more recent Conservative government has relied primarily on printing more money and buying bonds to keep rates low. There were times when this was the right policy, most notably in 2020 to offset some of the bad economic consequences of lockdown. There were times when this was a bad idea, as with continuing it throughout 2021 when it was bound to be inflationary. The crucial thing about this central economic policy is it is a combined responsibility of the Chancellor and the Bank. Indeed, the Chancellor not only has to give approval for the Bank's recommended money printing, but he has to underwrite the Bank against losses on the bonds it buys. So far the Bank in several bursts over the last thirteen years has created and bought up bonds to the value of £895bn.

Despite these enormous moves, Parliament has preferred to argue about the odd £10bn of spending or savings either way in a succession of budgets, or to laser in on individual spending programmes arguing over whether they are a few billion too light. The recent centre of the national debate has been £12bn of extra tax in a £2.2 trillion economy. The Treasury absurdly argued they needed exactly £12bn extra for social care and health, when they overestimated public borrowing for last year by a stonking £95bn. As they did not have much of a clue about how much revenue existing taxes would bring in it was a particularly precise nonsense to say they needed £12bn. Then in the Spring statement they decided they did not need a third of that £12bn after all so they raised the threshold before you pay national Insurance!

Such a pity we did not debate the £895 bn and its more recent inflationary impact. The Treasury says the Bank is independent and is responsible for controlling inflation. Now the Bank has visibly failed to control the inflation or to even predict it until recently maybe we are due a proper debate about economic policy.