

Money and the Bank

It is strange that the Bank of England has a Monetary Policy Committee yet declines to set targets for money and credit expansion. It does not normally comment on money and credit growth in its Reports, preferring to concentrate on past figures for GDP, inflation, estimated capacity utilisation and unemployment. Its forecasting record has been poor in recent years. It confidently expected inflation to stay down around 2% following its big monetary expansion and bond buying policy of 2020-21. It has only recently accepted inflation has greatly overshoot its target and forecasts, waiting for the overshoot before admitting it. It now forecasts inflation to fall well below target in a couple of year's time, yet still hiked interest rates higher as if it did not believe its own forecast.

Whilst it is true that any given monetary measure may become distorted if it is a target or prime interest of a Central Bank, it is also true that if we look at any of the great inflations they have been accompanied or caused by excessive money and credit creation in their early stages. Given the Bank's wish to interfere in the bond markets and to manage interest rates for various periods of borrowing from overnight to 50 years, you would have thought it would take an interest in how much money and credit is in circulation and in how far that might expand given its actions. If inflation is agreed by the Bank to be too much money chasing too few goods, they should not only study the too few goods (capacity) but also the too much money. Traditionally Central Banks have tried to control money and credit by moving interest rates, expecting commercial banks to lend less when rates are higher and lend more when rates are lower. More recently Central Banks have directly boosted money supply by creating bank reserves to buy up bonds. Much of this money initially found its way into asset prices, creating inflation in bonds, shares and property. More recently the inflation has spread into goods and services, as the money freed from the bonds has been spent.

The Bank should introduce some paragraphs in its commentary on rates of money and credit growth. They should explain why they think fast growth in these aggregates will not on that occasion produce inflation. Today they need to comment on whether there is enough money and credit around, given the slowdown and the dramatic change in money policy they have put the economy through.