

The Bank is responsible for the inflation mess

According to the government and all the political parties the Bank is independent and responsible for keeping inflation to 2%. Inflation is currently at 10%.

The constitution of course makes the Governor of the Bank report to both the Chancellor and to Parliament. Chancellors have private review meetings with the Bank and Parliament summons the Governor to be questioned by the Treasury Committee. Presumably these contacts are designed to influence and criticise the Bank, otherwise they are a waste of time.

The structure recognised the Bank might follow bad policies which could lead to too much inflation. If that happens the Bank has to send a public letter to the Chancellor and Parliament explaining why and setting out how they will handle the problem. The Chancellor then sends back a public letter commenting on the Bank's approach. The exchange of public letters allows for private exchanges to agree a common line. The Treasury Committee Chair could institute a review of the Bank failure.

On September 22 2021 the Governor wrote the first of a long series of letters reporting faster inflation. He reported inflation above 3%, forecast a further rise to 4%, said it would be temporary and proposed doing nothing about it. The Chancellor, Mr Sunak wrote back agreeing to inaction. Neither letter writer referred to the excessive money printing and ultra low rates that some of us thought likely to trigger inflation. They preferred to blame companies and markets for the price rises.

The Bank was clearly wrong and did not listen to those of us who said don't carry on printing money and buying bonds. The Chancellor could have insisted on a change of policy in private or sent a more critical and tougher letter in public. The Treasury Committee could have woken up and led a public enquiry into the Bank's policy failure. Is 10% inflation the nearest an independent Bank can get to a 2% target?