

The Bank of England was given a very limited independence by Gordon Brown

Gordon Brown made the Bank of England independent, as everyone thinks they know. Truth is it was a very limited independence.

He did it give it the sole power to settle the Base rate of interest. This is done by an independent Monetary Policy Committee coming up with its own forecasts of inflation and the economy. No-one is challenging that. Many just wish they would get better at it.

At the same time Gordon Brown took away the Bank's power to regulate individual commercial banks and gave it to a new Regulator, the FSA. This reduced the Bank's ability to influence credit and money.

In 1998 he gave the power to issue government debt to the debt Management Office, taking that away from the Bank. This reduced the Bank's influence over the bond market.

This system worked badly during the banking crash of 2008-9 with split responsibilities for the banks between the FCA, the Bank and the Treasury, ending with the need for Treasury bank bailouts on a grand scale.

The introduction of Quantitative easing or money creation by the Bank to buy bonds was thought too big a power to give to the Bank. The overall sum of money created and bonds bought had to be approved in advance by the Treasury and Chancellor. Any losses that the purchases might lead to were indemnified by the Treasury. There is no way this can be construed as an independent policy. The government has every right to ask the Bank to cut its losses.

The Bank has always accepted that it acted as an agent for the Treasury in building and managing a large bond portfolio. It has also always accepted that budget judgements over spending, tax and borrowing are for the Treasury and Chancellor. The decision of the Bank to incur large and needless losses by selling bonds intrudes on government control of fiscal policy. Money spent on bond losses is not available to spend on public services or tax cuts, or it drives up the public sector deficit x the Bank which is the key economic control number.