

The Central Banks want a recession

The Fed, the European Central Bank and the Bank of England made the same mistake last year. They each went on printing new money and buying up state debt to keep interest rates too low through 2021 when recovery was well underway. As a result they each triggered a 10% inflation against a target of 2%. It was not mainly the Ukraine war and energy prices that caused the inflation. Their inflations were well set in before the war. The world's second and third largest economies, Japan and China, kept inflation below 3% despite importing lots of dear energy because they did not create excess money and credit.

The three bad Banks have now decided to do the opposite and tighten money, sell some of the bonds they bought and jack up interest rates. This is now spooking the markets, who fear they intend to bring on a recession. Bonds fall in price to adjust them to the higher interest rates the Banks want, and shares fall in anticipation of a slump. All too often in last cycles these Central Banks have loosened near a peak to stoke the inflation more and tightened into a trough to make the recession worse. Unlike the asian Banks the three big Western Central Banks fly blind, refusing to monitor and target money and credit. If they did they would have seen excess last year and would see too little this year. yesterday was another bad day for share and bond markets in all three central bank areas.

There is a clear danger the Bank of England will lean too hard against government attempts to ease the squeeze and will engineer the recession they are forecasting. I believe their latest estimate that inflation will fall away rapidly next year so they can now pause their tough actions. Pressing on with selling bonds they have bought would be damaging at a time of a large external shock from energy prices. As this is a joint policy with the Chancellor they would be well advised to agree to delay it until recession is vanquished.