

The Economic establishment's errors

During my adult life so far I have witnessed three major UK recessions which did great damage to businesses and individuals, all from predictable policy errors. I have also lived through the false forecasts of a large rise in unemployment and fall in activity in the first two years after a Leave vote, where despite unhelpful policy the UK economy did not fall into a recession in those two years.

So we need to ask why has the UK economic establishment at the Treasury and Bank had such a bad time of it?

One of the recessions occurred under a Conservative government and two under a Labour government. Clearly none of the Chancellors and PMs involved set a policy to have a recession, and in each case they relied on the professional advice at the time. They were told right up until the recession had started that there would be no recession.

It is the case the Labour Ministers made the 1975-6 crisis worse by insisting on very high levels of spending and borrowing, which led to the run on the pound and the visit to the IMF to force a change of economic policy. In 2007-9 Labour Ministers seemed to be in lock step with official opinion, with both arguing for the wrong approach to managing banks cash and capital at a time of overextended balance sheets. Conservative Ministers willingly implemented the European Exchange Rate Mechanism policy which led to the humiliation of sterling, basing their case on the official and business advice in favour of membership. Ironically they called the ERM "the golden scenario", stating it would bring low inflation and growth. Instead it brought an expensive spike in inflation and recession.

So we do need to ask if senior officials specialising in economies should be under any pressure to get their forecasts right and to correct their positions if they are going wrong? I do not recall anyone in the Treasury or Bank apart from Ministers losing their job as a result of the disasters which hit the UK economy, though many hundreds of thousands of other people lost their jobs as a result of bad policy.

In each case the errors were mainly monetary. In the 1970s the UK lurched from too fast a build up of credit and bank lending to too hard a landing, leading to a property crash and a general recession. In the ERM again as I predicted the mechanism encouraged too rapid a build up of credit, triggering inflation, and then forced too rapid a correction, bringing the economy down. In the banking crash the same thing happened. Bank policy was too accommodating in the run up, as the Parliamentary opposition and various commentators warned. Then the authorities switched to too fast a correction, causing a great recession as I feared.

Tomorrow I will look at more recent Treasury and Bank thinking on the economy and ask if it is fit for purpose, and question why we have cut ourselves off from what Central Banks in the rest of the world are doing. Meanwhile we are

looking at another Establishment error, as they watch and do nothing about the current problems.