

The Monetary Policy Committee wants more monetary tightening

The MPC has a pessimistic view of the future of the UK economy. They think we can only grow at 1.5% per annum in future. It is true that like other advanced countries our growth rate since the Banking crash and Great recession has been a bit slower than the previous trend, but this figure looks unreasonably low given the scope for technology to carry on transforming our lives and the way we do business. It also offers us nothing for the extra spending at home once we cancel the EU subs, nor for the possible recovery of sectors damaged by common EU policies. They also need to take into account the continued expansion of jobs and the workforce. We have confirmation that the economy grew at 1.8 % in both 2016 and 2017, with the referendum vote making no difference.

Because it is pessimistic about the future, it therefore says it will need to slow our growth to avoid inflation. It's a circular argument. They say we think growth should be slow. If it turns out to be a bit faster they say we will need to slow it, because it will not be sustainable without inflation. That's a gloomy doctrine that does not allow for the possibility that our future trend growth rate may be higher than they think.

They stated in their latest report "Given the prospect of excess demand over the forecast period (i.e the economy doing better) the ongoing tightening monetary policy over the forecast period will be appropriate". The Bank did relax monetary policy a couple of months after the referendum vote, which helped demand and also pushed the pound down a bit more. More recently the Bank has tightened money by putting up interest rates again, taking action to reduce car loans, mortgages and consumer credit, and withdrawing special facilities for commercial banks. As a result the pound has gone back up against the dollar to where it was before the referendum vote and has even strengthened a little against a strong Euro. The Bank thinks a weaker pound caused inflation, so presumably they think this stronger pound will do the opposite, which should reduce their concerns. They don't say much about that.