

The need for a growth and an inflation objective

It is good news that the traditional media at last recognises there is both an inflation problem and a growth problem. I welcome recent converts to the cause of exposing errors by the Bank of England and the Treasury that have given us too high an inflation rate and now look as if they want to deliver us too slow a growth rate.

I see Liam Fox criticising the Bank and the cross party Treasury Committee daring to take a rare peek into the policy errors of a Bank they wrongly say is independent. That is the same Treasury Committee that insists on interviewing a potential new Governor of the Bank and deciding whether to approve the appointment! The Chancellor of course approves and indemnifies the Bank against all money creation to buy bonds under Quantitative Easing anyway.

I would like the various worthies of the Treasury and Bank establishment, official and elected, to conclude two simple things. One, the Bank and Treasury need to work together on a common policy. Two, that policy should target 2% inflation and 2% growth as the longer term average. If the Governor gets to the point where he or she thinks the Chancellor is inflating too much and will not listen they should resign. If the Chancellor thinks the Governor is deflating too much and will not listen he or she should remove them. All this would become public and allow debate and Parliamentary input.

Whilst printing too much money is usually inflationary and is mainly a matter for the Bank, running an economy with too little domestic capacity and enterprise can also be inflationary and mainly needs a government response. Inflation can come from excessive private sector credit build up, susceptible to Bank controls on the commercial banks and to interest rates. It can come from excessive demand and borrowing by the state sector, subject to government control of budgets.

Today Bank policy has corrected from the very inflationary. Government policy is insufficient to tackle capacity shortages. Neither Bank nor Treasury has rolled out a proper growth strategy which is much needed.