Treasury orthodoxy and Bank of England error

This government was right to express concern about Treasury orthodoxy and should have added Bank of England error. Together these terrible twins visited on us the European Exchange Rate mechanism which gave us boom/ bust 1998-92, gave us the boom/ bust of the banking crash of 2006-9, and now threatens to give us the Quantitative easing boom/recession of 2020-23. The government did need to cushion the blow of the energy crunch, and did need to offset the recessionary forces that have been unleashed by the surges in energy bills.

The Bank of England should take more of the blame for the slump in government bond prices from the Thursday of their rate rising statement through to the collapse the following Wednesday. Their decision to raise the official interest rate, to point to more rises to come and their decision to sell bonds to drive longer interest rates higher was the main cause of the bond sell off. To avoid spooking the markets again when they end their temporary prop to the markets they should announce they will not sell any bonds at these depressed prices to reassure markets.

Meanwhile the Treasury has resumed its belief that economic policy has to be steered by a commitment to get debt as a percentage of GDP down. In recent years pursuing this policy they have cajoled Chancellors to put in tax rises to do this. Instead a poorly performing economy has ended up with rises in state debt. The tax rises do not offset all the time growth stays low.

The government should switch economic control to their growth target and the 2% inflation target. That way we should allow lower tax rates as part of a growth strategy, and a counter inflation discipline that was sadly lacking 2020-21.