

# The Bank of England is data driven – it needs to be good judgement driven

Just like government explaining its line on the pandemic, the Bank tells us its decisions are driven by the data. As someone who does seek to provide sensible forecasts of inflation, growth and deficits going forward, I agree you start your task by assembling good data. You seek to understand the figure you are forecasting, so you are aware of the way it is compiled and what affects it. You need also to be aware of the imperfections in the data, and the quirks from the judgements made about how to define and compile it. As we saw in trying to compare different countries handling of the pandemic the definition of a covid death and how strenuously the authorities sought to record them mattered a lot to data outcomes. Forecasting inflation produces different results depending on whether you use CPI, RPI, core CPI or some other index.

It is however wrong to say policy decisions are data driven. If they are they will be always looking backwards. You cannot drive the car successfully by looking all the time in the rear mirror, though that will give you a perfect understanding of all the hazards you have just missed. You need mainly to observe what you can see through the windscreen ahead, but you need to judge or interpret what you see. Will the green light go amber? Will the child step off the pavement? Could there be someone dashing out from behind the parked car? Is the road ahead clear enough to accelerate safely? To drive well you need to choose the right data – data about the road ahead, not the road behind, but you also need to interpret it dynamically. So it is with the economy. Knowing inflation has been fast does not mean it will be next year. Seeing oil and gas prices surged last year does not mean they will surge again to keep the inflation rate up. You need to judge how prices will alter ahead. Putting rates up because last month's inflation was too high is not necessarily a good idea.

To make better judgements it helps to understand how prices rise. Here the Bank ignores money and credit, yet it is if there is an excess of money and credit around that you are most likely to get inflation through excess demand. The Bank does have a model of what might happen next based on a concept of capacity in the economy. They seek to judge how much capacity there is in the economy to make things and supply services and then compare that with demand. If capacity is fully used they expect inflation, if there is surplus capacity they expect inflation to subside.

There are several reasons why this is a very difficult way to judge the future. The first is it takes no account of the ability to import, yet an economy like the UK relies heavily on imports for marginal supplies of all kinds, so global capacity matters as well as domestic. The second is it is very difficult knowing what capacity is. A business may say it can only supply 200 widgets a day, but if pushed and offered more money it might be able to add a night shift to go up to 300. A restaurant might say it cannot do extra private dining, but could then discover it can hire more staff and

open for more hours to serve more meals. Another manufacturer might discover that although he can put on another shift he cannot get an increase in components for the next two months to immediately boost output. To make it easier the Bank often relies on unemployment as the best indicator, assuming higher unemployment means companies could expand easily if there was extra demand by taking on more labour.

I will look in a future piece at why it is wrong to ignore credit and money and how it is difficult to find a reliable proxy for capacity utilisation which works for the future.

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## [Reply from the Asylum Accommodation Team](#)

Please see below the recent reply that I have received from the Asylum Accommodation team following the meeting where I raised various points of concern

Dear John Redwood,

Thank you for attending the asylum accommodation MP engagement session on 23 February 2023. We hope that you found this informative and useful. This email is a follow up with points raised on that call. Please accept my apologies for not responding to your email sooner, my team is continuing to deal with a huge increase in correspondence and we are trying to balance getting responses with maintaining service delivery and regular engagement. I do hope this information is still relevant and of use to you.

As discussed on this call there are two hotels within your constituency which are being used to house asylum seekers – Double Tree by Hilton Reading and Flexistay Reading. There are currently no plans to decommission these hotels. There are also currently no plans in the pipeline to add further hotels within your constituency. However, as you will be aware with the current situation and pressure upon asylum accommodation that this could change fairly quickly. Do be assured however that we will inform you if there are any hotels we intend to use.

With respect to your questions on decision making, we are committed to reducing the time people spend in the asylum system and have a number of initiatives in order to do this.

Firstly, Asylum Operations is being restructured into three separate casework units, each with different responsibilities and overseen by a dedicated Deputy Director;

– Pre-2022 Act claims

- Post-2022 Act claims
- Children’s (both pre/post 2022 Act) and Secondary (including Further Submissions and Statelessness) claims.

The introduction of a new asylum operating model will enable all claims to be processed more efficiently, and we have also invested in a programme of transformation and business improvement initiatives intended to speed up decision making and reduce the time people spend in the asylum system. We are also continuing to develop existing and new technology to help build on recent improvements such as digital interviewing and move away from a paper-based system. We are streamlining and digitising the case-working process to enable more effective workflow, appointment booking and decision-making. Additionally, the Home Office have introduced specialist decision-making units, providing greater ownership and management of cohorts of asylum cases, and we also have extensive recruitment and training plans in place for our caseworkers, including career progression options.

In terms of our wider regional plans, all Local Authority areas in England, Scotland and Wales became an asylum dispersal area by default on 13 April 2022. This shift to ‘Full Dispersal’ will help to increase the number of suitable properties that can be procured for dispersal accommodation for destitute asylum seekers. Allocation plans have been developed in partnership with local government regions and nations, to agree a more equitable spread of dispersed accommodation across the UK. Most regions’ plans (9 of 11) are at 70% or more of the region’s procurement target. We will use regional governance to progress towards 100% through monitoring procurement against plans.

We also wrote to each Region/Nation on Friday, 20 January 2023 setting out the agreed Full Dispersal plan for each region/nation and confirming our position on the SMP principles. We are in the process of establishing governance and assurance framework that will monitor progress against plans and highlight areas where further work is required. We will continue to work collaboratively with LAs to agree regional plans for the implementation of full dispersal. All governance boards have now been established between HO, LAs and Accommodation providers to monitor the progress of property acquisition against the agreed plans. The first Governance Board for the South East was held on 21 March 2023.

If you have any further questions then please do not hesitate to contact my team.

Kind Regards,

Asylum Accommodation MP Engagement Team

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## [My Interview with Talk TV](#)

Please find below the link to my Talk TV interview with Mike Graham where I discuss central banks, inflation and economic growth amidst the Spring Budget announcements.

You can find it between 35:30-44:00

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## [Small boats](#)

Today and tomorrow the Commons will take the Committee stage of the illegal migration bill. There are various amendments tabled to seek to make the decisions about the future of illegal migrants proof against excessive delays and legal appeals. Whilst it is important that anyone claiming asylum should have a fair hearing and a right to an appeal if necessary, it is wrong to allow so many legal interventions that people arriving illegally get to stay here for years whilst endless legal processes are explored against the original decision, at the taxpayers expense. It is also important not to effectively give illegal migrants some priority or ability to get round the rules and to stay here regardless of where they came from when there are safe routes for legal entry from countries where they are at risk.

The government is promising to look at the suggested amendments with a view to strengthening its Bill. It is important it does so, as people will expect these legal changes to be sufficient so the government can deliver its promise to stop the boats.

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## [The Bank of England's mistakes](#)

Most MPs tell me the Bank of England is independent. They tell me its sole purpose is to keep inflation down to the 2% target Parliament has set it. Yet when inflation runs more than five times target most MPs have no wish to debate why or to venture any criticism of the Bank.

They ignore the fact that government and Parliament appoint the Governor, set the target, approve and underwrite all the bond buying the Bank has been doing which meant ultra low interest rates, and question the Governor through a Select Committee. It has been lonely criticising the Bank for printing too much money in 2021 and now for destroying too much money in 2023, though all this has been approved and indemnified by government.

It was therefore a pleasure to read the Daily Telegraph yesterday with a leader and a good article criticising the Bank for its role in creating and allowing the inflation to take hold. The paper should go on and criticise the Bank for disrupting the bond market with its large Quantitative tightening programme last autumn, having to reverse it temporarily when it saw the damage it did to the LDI/pensions market, and ask more questions about whether they have now lurched from money being far too easy to being too tight.

In future articles I will look at why the Bank has got so many of its forecasts of inflation wrong in recent years, how it could improve its track record and how it should now proceed. I will stress that in practice the Bank has three aims, not just one. It does need to consider growth as well as inflation, and above all needs to ensure financial stability in the banking system that it regulates and finances. It had a bad record in the period 2006-10 doing this.