Ways to damage the economy

Yesterday I published a study of the damage done to the UK economy by the boom and bust policies of past decades. It was part of a series of papers commissioned by the Centre for Policy Studies and published on Capx. It will be followed by a web based event next Wednesday at 5pm.

I looked at the Oil and Secondary banking crash of 1974, the Exchange Rate Mechanism boom and bust of 1989-92, and the Great Recession and banking crash of 2005-9. In each case the Bank of England allowed easy money and credit to excess, then reined it in too quickly, causing a damaging downturn and creating massive instability in the financial system.

I contrasted these big errors of the Bank with the more supportive policy of the new Governor, working closely with the government and so far keeping things liquid enough to avoid a financial and banking meltdown. I made my case that there is no such thing as an independent Central Bank serving a single country. All Central Banks are state owned and answerable to those who run the government. They can appear to be independent for a bit if there is political agreement about their task and their performance, but as soon as a major policy issue or disagreement about economic policy arrives action will be taken to make the Bank supportive of government.

Today the damage to the main economies of the wrold is the direct result of government policy to control the virus. The role of the Central Banks is to ensure the recessions brought on by lock downs do not turn into a financial crash as well. So far a hyperactive Fed and accommodating Central Banks elsewhere show they are determined to avoid a crash. They are also showing they wish to co-operate with their governments, seeing monetary and fiscal policy as important and complementary mechanisms.

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