

Boom and bust from the Treasury and Bank

History shows us that Treasury and Bank advice for the last fifty years has been poor, or in some cases Treasury advisers failed to prevent Chancellors making bad mistakes.

1970-73 The Bank allowed a massive explosion of credit, creating a secondary banking and property crisis. Inflation took off, and the Bank posted higher rates to contain it. A collapse was inevitable

1973-4 An oil crisis brought on by OPEC hike oil prices and cutting supply added to the inflation. Higher interest rates and the net income hit from higher prices took the economy into recession and brought the property and banking system into trouble.

The Conservative government followed pay and price policies which did not work and failed to control the boom/bust policy of the Bank of England over credit and property valuations.

JR view – too inexperienced to have a view of the policy errors.

1974-6 A Labour government came in thanks to economic failure by outgoing Conservatives. It decided to spend and borrow too much. Inflation continued and the government was forced into a visit to the IMF to borrow money to shore up the falling pound.

1976-9 Inflation and low growth stalked the UK economy , allied to a winter of strikes.

JR view I disagreed with the big uplifts in public spending and borrowing , especially through nationalised industries and saw them as inflationary and negative for growth

The Labour government followed a disastrous economic policy unconstrained by Bank or Treasury advice or maybe with their agreement.

1990-92 The UK joins the European Exchange Rate Mechanism. Economy enters a period of too much money and credit expansion, bringing on inflation, to be followed by a weak pound, excessive monetary tightening and a big recession.

JR view I wrote a pamphlet explaining how the ERM would be destabilising and argued the case against joining and against staying in.

The Conservative government was to blame for accepting strongly held Bank and Treasury advice to join and sticking with it after it was clear it was a disaster. Conservatives were evicted from government for 13 years for economic incompetence.

2004-7 Treasury, Bank and Gordon Brown allowed a big increase in credit and

expansion of commercial bank balance sheets, claiming this would not be inflationary. Balance sheets of banks and borrowers become very overextended and inflation rose. Bank, Treasury and government then reined in credit too abruptly, raised rates and forced write offs of debt leading to the great financial crash and recession of 2008-9

JR view I opposed with my party the big build up in debt, and I also opposed correcting the imbalances so abruptly in a way designed to bring on bank collapses.

The Labour government lost office, so far for 12 years, based on its economic incompetence.

During all this time of boom/bust and defeats of governments I do not recall much comment on senior Bank of England or Treasury officials offering bad advice. Some of these events were brought on by following official advice. There has been no proper enquiry into bad advice and wrong forecasts.