

The Bernanke Report

Let's start with some agreement. I agree the Bank needs to improve its forecasting and the communication of its findings.

I do not agree that all Central Banks made worse forecasts over covid and Ukraine. Mr Bernanke seems to ignore China, Japan and Switzerland who kept inflation down despite the swings of oil and food prices. Their forecasts remained nearer the mark.

I do not agree that more highly paid people and more spending will provide the answer. The Bank has a lot of intelligent well qualified people. They need to correct their errors and change their thinking. The models need improving, but they have the people to do that.

It would be a good idea for a Monetary Policy Committee to look at the quantity of money being created and the velocity of circulation, and to provide comment, if only to say they have a good reasons to think creating lots of money will not be inflationary or destroying lots of money will not be recessionary so others can challenge this. Those outside the Bank that did look at the ballooning of the Bank balance sheet and money supply and warned it could prove inflationary got the forecast right even if the Bank is still sure they got the reason wrong. It would be better to have this argument around the MPC table. Why did the MPC who think inflation comes from other sources not manage to predict what happened? The MPC itself needs greater diversity of economic thought. Having someone on it who got the inflation outlook right in recent years would be a good start.

It is also a big disappointment that Mr Bernanke did not consider the impact of the waxing and waning balance sheet of the Bank. Decisions about the bond buying and selling need careful consideration as well as the interest rates. Their strong connection to public finances is also important for their impact on the economy.