Post War Policy Errors that have Damaged the UK Economy

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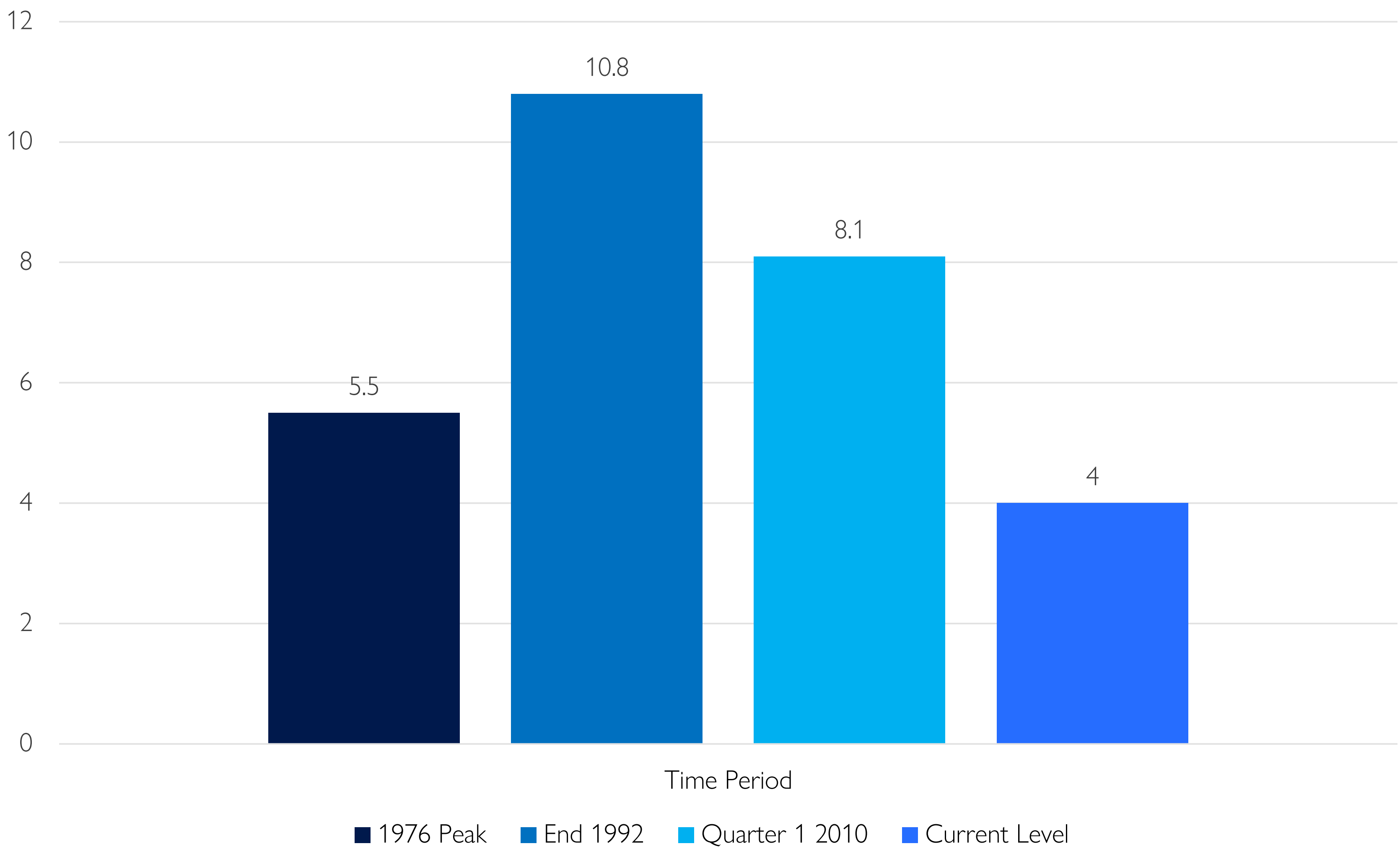
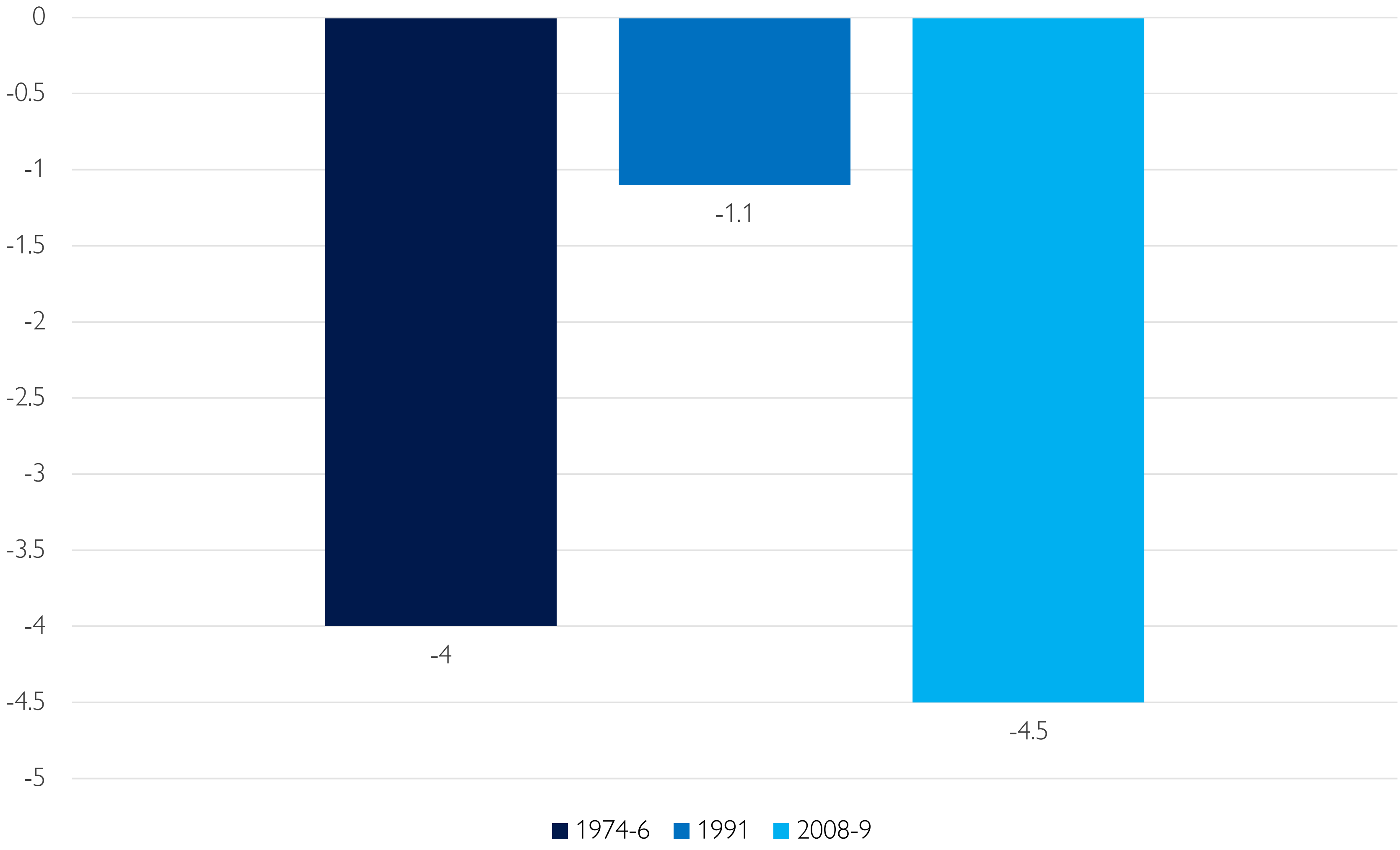
The last sixty years of UK economic policy making have seen a number of bad reccessions which were the result of policy errors

- 1974-6: Public spending crisis on the back of the oil price rises, with trip to the International Monetary Fund
- 1990-1992: Exchange Rate Mechanism crisis
- 2008-2010: Banking crash and Great Recession

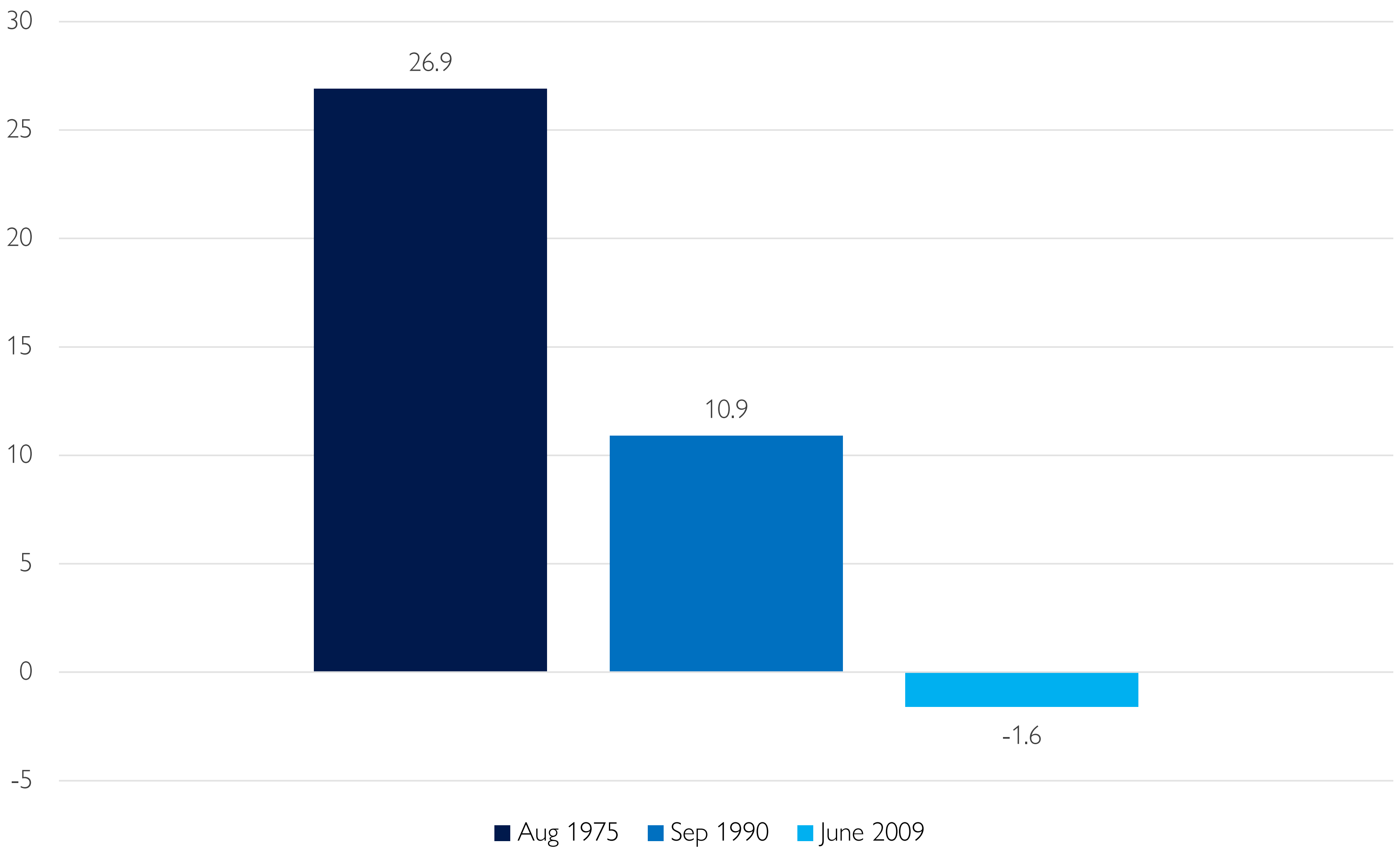
Unemployment



GDP Change



Inflation



The underlying causes of the mistakes: 1974-6

- A rapid monetary and fiscal expansion that caused a huge inflation
- The need to rein in both the monetary and fiscal expansion
- The crisis transmitted pressures through the exchange rate, leading to the need to borrow from the International Monetary Fund (IMF)
- The IMF imposed a public sector retrenchment programme

The underlying causes of the mistakes: 1986-92

- The UK switched from money targets to shadowing the Deutsche Mark (DM) in the mid 1980s.

- This first caused a big build up in money and credit, as the UK needed to sell pounds to try to keep the rate down.

- The policy was inflationary, which led to market fears of retrenchment.

- As the pound started to slide the authorities had to tighten money policy severely to prevent the falls.

The underlying causes of the mistakes: 1986-92

- Higher interest rates and the purchase of sterling with foreign currencies abruptly slowed credit and money growth
- Much of the hit was taken to output and jobs, as inflation gradually came back under control

The underlying causes of the mistakes: 2006-10

- The new model of large multinational banks was used as a reason to allow a big build up of credit and money growth
- By 2007 the authorities were concerned about excessive credit and weak banks
- They then switched to a very tough policy of retrenchment
- Various banks were judged to have too little cash and capital, and were lectured by the Central Banks who had allowed this development

The underlying causes of the mistakes: 2006-10

- Markets fell heavily, forcing bank reconstructions
- Money and credit stalled
- The economy moved into deflation and deep recession

Issues that arise from these disasters

- Should Central Banks be independent?
- Can Central Banks be independent in a democracy?
- Why did the Bank of England get its monetary policy so wrong on three separate occasions from 1974-2010?
- How far did fiscal policy exacerbate problems?

Issues that arise from these disasters

- How do the authorities square the wish to use a looser fiscal policy to offset monetary tightening and declines, with the need to run with prudent enough finances to avoid a sterling crisis?
- Why did both the Treasury and the Bank fail to predict these events, or fail to make accurate forecasts before the collapse struck?

The role of the EU in these matters

- The 1974-6 recession was worsened by the shock to British industry of all tariff barriers coming down on European Economic Community (EEC) membership.
- UK car output halved in the first decade of membership. Steel output fell sharply.
- The 1990-92 recession was caused directly by following the EU's Exchange Rate Mechanism policy. A UK based monetary policy with UK targets would have been much more stable.

The role of the EU in these matters

- The 2007-2010 crisis was mirrored by the European banking crisis in the Eurozone and by the US crash.
- 3 different Central Banks made broadly the same errors.
- The Euro made the position on the continent worse, so it went on for longer and caused a couple of specifically Euro crises in 2011 and 2013.
- These had a modest negative effect on our export activities to the continent.

What would work better

- Domestic set targets for money growth and inflation
- A Bank of England with sufficient wisdom and independence, that has to work within the general confines of Treasury policy
- A bigger role for economic critics of fashionable nostra in challenging policy in the Treasury and the Bank