Shadow Monetary Policy Committee

Email poll – June 2019

For immediate release

Shadow Monetary Policy Committee votes Five / Four to Hold Bank Rate

Based on its email conducted during early June 2019, the Shadow Monetary Policy Committee (SMPC) voted by a margin of five to four to keep Bank rate at 0.75%. As in May, the vote remains close, with four wanting a ¼ point rise.

Those voting to raise rates focussed on the strength of the consumer side of the economy, the resilience of the UK labour market and the rise in real earnings as signs that the economy no longer needs an ultra-loose monetary policy stance. Too many distortions are being created by persisting with low rates and further increases from the current level need to be done.

For the majority, worries persist about the economic consequences of Brexit uncertainty, slow growth in money supply and the fault lines in the global economy that seem to be leading to an easing rate of expansion. Indeed, the concern is that without low-interest rates, the current UK economic expansion of a little over 1% year on year would slow and bring price inflation further below 2%.

The SMPC is a group of economists who have gathered quarterly at the IEA since July 1997, with a briefer e-mail poll being released in the intermediate months when the minutes of the quarterly gathering are not available. That it was the first such group in Britain, and that it gathers regularly to debate the issues involved, distinguishes the SMPC from similar exercises carried out elsewhere. To ensure that nine votes are cast each month, it carries a pool of 'spare' members. This can lead to changes in the aggregate vote, depending on who contributed to a particular poll. As a result, the nine independent and named analyses should be regarded as more significant than the exact overall vote.

For further information on the content please contact:

Trevor Williams + 44 (0) 7841 497 791 trevor@trevorfwilliams.website
Andrew Lilico + 44 (0) 20 7269 2644 andrew.lilico@europe-economics.com

Votes

Vote by Phillip Booth

(St Mary's University)
Vote: Hold
Bias: No bias.

Vote by Roger Bootle

(Capital Economics Ltd)
Vote: Hold
Bias: No bias.

Vote and comment by Tim Congdon

(Institute of International Monetary Research)
Vote: Hold
Bias: No bias.

The case for cutting Bank rate as an earnest of measures to sustain money growth at a higher rate

In the three months to March the UK's M4x barely grew at all. The three-month annualised rate of increase was only 0.7%. This follows 2018, a year which saw several individual months in which broad money fell and delivered an annual rate of increase (i.e., in the twelve months to December) of only 2% or so. Meanwhile money growth in most other leading economies is at best moderate and sometimes is very weak. Examples of sluggish broad money growth include Japan (also a 2% annual rate of increase in most recent periods), and Australia and New Zealand (where the monetary authorities seem to have succumbed to the BIS/IMF orthodoxy that highly-capitalised banking systems are desirable, and the move from lower to higher levels of capital/asset ratios is painless). (Surprisingly, and against the Institute of International Monetary Research's expectations, money growth has been at a satisfactory positive rate in both the USA and the Eurozone in recent quarters.)

At any rate, the latest PMI reports from the major economies indicate a further recent weakening in demand, after a growth slowdown in late 2018 and the opening months of 2019. The growth slowdown is now widely acknowledged and was crucial in the Fed's re-appraisal of interest rates and monetary policy at the start of 2019. (And may I say that the BIS and IMF were utterly wrong in – for once – taking a bullish view on 2018 in that year's opening weeks? The pattern in the last few years has been for them to be pessimistic, with drivel about 'debt vulnerabilities', in every year's opening weeks, for Davos to then spread bearishness, etc. – and routinely the whole shebang to be misleading/wrong.)

I am in favour of a cut in Bank rate from ¾% to ½%, but the move by itself would matter little. More important is that it would represent an earnest of the Bank of England's commitment to steady but positive money growth, stable growth of demand and output, and on-target inflation. Measures may indeed be necessary in the management of public debt (that is, with increased monetisation of debt, a.k.a., so-called 'quantitative easing') to ensure that money growth returns to an annual rate of 3% -5%, which is the right sort of figure to maintain 2% inflation. (Yes, I know that many members of the Monetary Policy Committee are not interested in the quantity of money at all. Well, there have been like-minded chumps for decades at the Bank of England…yet anyone who checks the data can see the persistence of the standard quantity-theory relationships.)

The growth slowdown should not become a recession, but – for inflation control - there is no need for a persisting slowdown anyway.

Vote by Julian Jessop

(Independent Economist)
Vote: To raise by ¼%
Bias: To raise.

Vote by Graeme Leach

(Macronomics)
Vote: To Hold
Bias: No bias.

Vote by Andrew Lilico

(Europe Economics)
Vote: To raise by ¼%.
Bias: To Raise.

Vote and comment by Patrick Minford

(Cardiff Business School, Cardiff University)
Vote: To raise by ¼%
Bias: To raise.

Monetary policy is creating bad distortions in the real economy. Other policies – fiscal, tax cuts etc – should be used to stimulate the economy away from the zero bound.

Vote and comment by Peter Warburton

(Economic Perspectives Ltd)
Vote: To raise by ¼%
Bias: To raise Bank Rate in steps of ¼% to 1½% and announce a programme of £60bn bank of England gilt sales.

According to the mainstream view, the extension of the putative deadline for UK exit from the EU until 31 October represents another obstacle to the normalisation of UK interest rates as consumers and businesses hesitate over important decisions. However, the downward lurch in US and German bond yields offers an attractive opportunity for the Bank of England to buck the trend and discourage Sterling selling by announcing a rate increase and initiating a programme of quantitative tightening.

UK monetary trends remain subdued, but not unduly worrying. M4 (ex-IOFC) lending growth is steady at an annual 4 per cent pace and net capital issuance has remained positive. The Bank of England Monetary Policy should be emboldened by the resilience of the labour market and the consumer economy to press on with

measured rate hikes. The next 3 quarter points should be executed mechanistically to return Bank Rate to 1.5 per cent. An announcement of the phased reversal of the QE programme, initially to withdraw the £60bn added in 2016, should be implemented as soon as possible.

Vote by Trevor Williams

(University of Derby)
Vote: Hold.
Bias: No bias.

Policy response

1. By a majority 5 to 4, the Committee voted by email to keep rates on hold.

2. The vote remained close for a second month.

3. The bias of future policy reflected the overall vote: five had no bias while four had a bias to tighten.

Date of next meeting

16th July 2019.

Note to Editors

What is the SMPC?

The Shadow Monetary Policy Committee (SMPC) is a group of independent economists drawn from academia, the City and elsewhere, which meets physically for two hours once a quarter at the Institute of Economic Affairs (IEA) in Westminster, to discuss the state of the international and British economies, monitor the Bank of England's interest rate decisions, and to make rate recommendations of its own. The inaugural meeting of the SMPC was held in July 1997, and the Committee has met regularly since then. The present note summarises the results of the latest monthly poll, conducted by the SMPC.

Current SMPC membership

The Secretary of the SMPC is Kent Matthews of Cardiff Business School, Cardiff University, and its Rotating Chairman is Andrew Lilico (Europe Economics) and Trevor Williams (University of Derby). Other members of the Committee include: Philip Booth (St Mary's University, Twickenham), Roger Bootle (Capital Economics Ltd), Tim Congdon (Institute of International Monetary Research), Jamie Dannhauser (Ruffers), Anthony J Evans (ESCP Europe), John Greenwood (Invesco Asset Management), Julian Jessop (Independent Economist), Graeme Leach (Macronomics), Patrick Minford (Cardiff Business School, Cardiff University), Akos Valentinyi (Manchester University), Peter Warburton (Economic Perspectives Ltd), Mike Wickens (University of York and Cardiff Business School), Juan Castaneda (Institute of International Monetary Research and University of Buckingham).