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A post-Brexit economic policy reset for the UK is essential

Letters

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In the wake of June's Brexit vote, the outlook for the UK economy is more uncertain than at any time since 2008. Mark Carney has promised that the Bank of England will do "whatever it takes" to support growth. But with interest rates at historic lows, and questions being raised over the viability of additional quantitative easing (QE), it is unclear that the Bank of England has the tools to meet the challenges ahead. The new government's promised economic policy "reset" should involve a new collaborative relationship with the Bank, whereby the Treasury supports the design of alternative monetary policy tools.

The monetary policy committee is expected to cut rates and consider restarting QE at its next meeting on 4 August. But seven years of easier monetary policy has not yielded its desired effects. It is often forgotten that before 2009, interest rates had never fallen below 2%. Since then they have not increased above 0.5%. Further cuts in interest rates will not benefit the UK's economy. Similarly, a further expansion of the Bank's £375bn QE programme is the wrong solution for today's economic problems. QE was arguably required in 2009 to provide the banking sector with liquidity in the face of a frozen interbank lending market. The risks facing our economy have little to do with the availability of liquidity in the financial sector, and all to do with businesses and households cutting spending due to an increasingly uncertain economic outlook.

As well as being of limited effectiveness, ultra-loose monetary policy has come with harmful side-effects. Just before she became prime minister, Theresa May became the latest high-profile politician to recognise that lower interest rates and QE have increased inequality by inflating asset prices. Indeed, the success of both of these policies is dependent on the private sector taking on even more debt. These policies are being considered despite the Bank itself identifying household debt as one of the most significant risks to our economy. Responding to a potential recession by risking financial stability with more private debt hardly seems like a viable policy solution.

As the new chancellor looks to "reset" economic policy, new ways of conducting monetary policy should be considered. Instead of policies designed to fuel asset price bubbles and increase household debt, the Treasury and the Bank should co-operate to directly stimulate aggregate demand in the real economy. A fiscal stimulus financed by central bank money creation could be used to fund essential investment in infrastructure projects - boosting the incomes of businesses and households, and increasing the public sector's productive assets in the process. Alternatively, the money could be used to fund either a tax cut or direct cash transfers to households, resulting in an immediate increase of household disposable incomes.

In any of these policy scenarios, new money will be directly introduced into the real economy, stimulating aggregate demand and boosting employment, investment and spending. While it is a job for the Treasury to set up the framework for these policies to be deployed, it would remain a decision for the monetary policy committee as to the timing and size of any future stimulus.

After seven years of ineffective unorthodox monetary policy – which has created risks and adverse side-effects – we urge the new government to consider alternative policy approaches that will directly increase spending and investment in the real economy without burdening households with more debt.

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