Andy Haldane becoming more small (c) conservative.

Andy
Haldane once a bright young thing at the Bank of England, and currently its
Chief Economist, is maturing into something of a conventional member of the old
guard. This is important, as he is even an outside candidate to replace
Governor Mark Carney as head of the UK central bank.

He has a reputation as a champion of the poor and disenfranchised, ***arguing*** during and after the financial crisis that the London “Occupy” protesters had been morally and intellectually correct.

On July 23 he gave a terribly detailed ***speech*** about the slow but ultimately successful recovery in the unemployment rate and in the growth in total employment, but also noting that it has lacked any real growth in wages. This is obvious given the weak RGDP growth vs total employment: you can’t have growth in real wages unless RGDP grows faster than total employment, aka productivity growth.

As usual
for almost all central bankers, it cleared the central banks themselves of any
responsibility of both the terribly slow jobs recovery and the negative real
wage growth. As usual, it was all someone else’s problem, or, the “supply
side”. Weak aggregate demand is never to blame, as that would imply it is a
failure of central banking.

> *“A decade ago, central banks were the only game in town*

and monetary medicine was the right prescription. A decade on, the game has changed and so too might the policy prescription needed in dealing with any downturn. When the challenges, as well as the huge opportunities, lie on the supply-side of the economy, the right medical prescription is fiscal and structural policies. Super-charging the supply-side of the economy is what is now needed. That is every bit as true here in Scunthorpe as it is elsewhere across the UK."

This lack of self-awareness is no surprise, almost all central bankers think that low rates are accommodative and adding in QE means monetary policy is ultra-accommodative. They remain as blind as ever to their failure to manage aggregate demand and that expectations drive monetary policy. The future is everything, the past and even present policy actions are nothing. Until central bankers can see past interest rates as their main tool, we are all doomed to be suffocated by their ultra-shortsighted caution.

The fact is that UK NGDP growth has been in a trough for years, capping RGDP growth. The gap between trend NGDP and actual NGDP is now worse than ever. The expectations (shock, horror, not those!) are for negative 2019 Q2 RGDP growth. UK interest rates are expected to be cut to offset this fall.

The very latest CBI Industrial Trends survey for July 2019 was ***horrible*** – whether due to global or Brexit-related pressures, or both, is beside the point. Expectations are weak, yet they are everything, and it’s not helpful to see Haldane downplaying them. Facts are history. No one steers a car by looking in the rear-view mirror. The Bank of England pays little attention to market consensus, thinking it can beat the market in its economic forecasting. Of course it can’t beat the market, but thinking it can is highly dangerous when those forecasts are more optimistic than average.

He ended the speech with a comment that makes him seem like an old-fashioned monetary hawk and willfully deaf to market concerns – a deafness that can only add to market worries and thus weakness in aggregate demand.

> *“In these changed circumstances compared with a decade ago, it is important that monetary policy is not a prisoner of its past, that the monetary cavalry are not called at the first whiff of grapeshot, that a dependency culture around monetary policy is not allowed to develop.*
>
> *My personal view, though, is that I would be very cautious about considering a monetary policy loosening, barring some sharp economic downturn.”*

Not only would that be too little, it would be far too late. The “first whiff of grapeshot” is a far better guide to the future than the forecasts from the Bank of England’s Chief Economist. The damage would already have been done.