UK business & economy

BoE risks losing credibility, warns former deputy governor

Paul Tucker questions Bank's independence in wake of £300bn programme to avert Covid crisis

Paul Tucker said BoE and government should refine communications so it is clear how economic policy is being managed © Matt Dunham/AP

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Paul Tucker, a former deputy governor of the Bank of England, questioned whether the UK central bank's actions during the coronavirus crisis showed it had lost its independence in controlling inflation.

Speaking at a virtual conference hosted by the Royal Economic Society on Thursday, Mr Tucker said the BoE's

actions in printing money and buying government bonds were not necessary to stabilise markets nor needed to stimulate the economy, so it looked like the central bank was providing finance for the government.

In one of his first public interventions since leaving the BoE in 2013, he said the BoE risked losing credibility and warned the UK may have lost its reputation for sound finance.

"The question in the UK is whether the Bank of England still exists or whether it has now reverted to being the operational arm of the Treasury," he said.

Although all central banks have been taking extraordinary actions during the crisis, Mr Tucker, now an academic at the Harvard Kennedy school, singled out the BoE for scrutiny over its £300bn programme of money creation and purchases of government debt.

He said it was impossible to tell from the outside whether the BoE was simply financing the Treasury's actions or performing normal monetary policy actions in buying up the debt, but the scale of purchases was sufficient to cast doubt

on the central bank's actions.

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"It's not completely unfair to say the purchases [of government bonds] were on a far greater scale than would have been needed to maintain liquidity in markets — they weren't a classic market maker of last resort operation," he said.

"Also, they came too early to be easily identified with stimulating aggregate demand since, after all, the productive capacity of the economy was being closed down."

Mr Tucker's comments directly contradict those this week of Andrew Bailey, BoE governor, who said the purchases were needed to prevent the government running out of funds in the short term. Mr Bailey has bridled at suggestions he was doing the Treasury's bidding by financing a huge deficit.

Mr Tucker recommended that the BoE and the government refine their communications so that it was clear how economic policy was being managed if the authorities wanted to maintain market confidence.

"If this institution [the BoE] is independent under statute and if the Treasury has not exercised its powers to suspend its independence, then it is very important it should look and explain itself in terms of its mandate and I think that hasn't always been easy over the last few months," Mr Tucker said.

Mr Tucker, who has been sceptical of the unelected power of central bankers, did not blame the Treasury for possibly wanting greater control of economic policy in a crisis, but said that any power grab should be done openly.

The former deputy governor also intervened in the increasingly vocal debate over whether the Treasury should change the BoE's inflation target and replace it with one that sought to control the growth of total spending in the economy.

"Playing around with targets is typically a short-term game that only works for a short time and then everyone regrets it," Mr Tucker said, indicating that the BoE had more a problem of the instruments it tried to use to meet the current 2 per cent inflation target than a problem with the target itself.

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