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For Britain to Prosper, Monetary Policy Must Change!

Cheap credit should give way to tighter control of the money supply, says Douglas Carswell MP in Politeia's new publication

As 2014 opens, the news from the Treasury seems upbeat. Growth is back. Economic forecasts are being revised upwards. The mood has switched from gloom to boom.

In ***After Osbrown: Mending Monetary Policy***, **Douglas Carswell MP for Clacton**, who previously worked in fund management, warns all is not what it seems. The warning signs are already there: this may yet prove to be another credit-induced recovery. The UK is increasingly dependent on consumer spending and mortgage debt. Savings and investment are down. The UK's current account deficit is widening.

The Coalition appears to be repeating many of the macroeconomic mistakes of its Labour predecessor and the increase in the money supply through quantitative easing is a particular cause for concern. The credit-induced rise in output is unlikely to be more sustainable this time round than when Gordon Brown was Chancellor.

The author identifies the fundamental problem for the Conservatives: it is not just that they they seem to be replicating Gordon Brown's approach. But they are doing so because they lack a coherent, free market alternative – and have lacked one for almost thirty years.

Without a clear, free market framework for monetary policy, the party's economic policy has drifted - first in, then out of the ERM; then appearing to accept the mistaken view of Gordon Brown that low interest rates could make us rich. The upshot, says Mr Carswell, is that Conservatives have been left without a convincing response as the Brown bubble inflated. Once it burst they appeared to have had little to offer besides more 'candy floss credit'.

The author proposes an approach radically different to one of Continuity Brown, or reheated monetarism:

- **Real bank reform:** A free market monetary policy begins with bank reform. Government cannot control the money supply a long as banks can conjure money and credit out of thin air, Even if low, stable inflation, is achieved without real bank reform, the risk remains of wild credit bubbles and bank collapses.

  Instead of a vertical separation between retail and investment banks, the author proposes a horizontal separation. Deposits should be formally distinguished and the rules fit the type of deposit. For money paid in as a loan, banks could extend credit. For money paid in for safekeeping, they should not. This would prevent the destructive credit induced boom / busts that have characterised the UK economy over the past forty years.

- **Tighter monetary policy:** Like cholesterol, cheap credit has clogged up Britain's economic arteries. Tighter monetary policy would remove the malinvestment caused by low rates. Higher interest rates are needed to rebalance the economy, increase savings and prevent excessive consumption and debt.

- **Breaking up the banks:** starting with RBS, in which the state has a very large shareholding, the banks should be broken up. Banks not owned by the state should also be considered for break up.

***After Osbrown: Mending Monetary* Policy will be launched on Wednesday 15th January 1-2pm in the Jubilee Room, Westminster Hall, Palace of Westminster, London SW1A 0AA. Journalists are welcome to attend.**

Douglas Carswell MP, Conservative MP for Clacton, is co-author of *The Plan; 12-months to renew Britain* (2008) and *Direct Democracy – An Agenda for a New Model Party* (2005).

***After Osbrown: Mending Monetary* Policy** is published by Politeia, 33 Catherine place, London SW1E 6DY on 16th January 2014.

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