BANK OF ENGLAND

# News release

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## John Vickers speaks on Monetary Policy and the Supply Side

John Vickers, Chief Economist at the Bank of England and a member of the Monetary Policy Committee, is speaking on 'Monetary Policy and the Supply Side' at the Society of Business Economists in London this evening.

He addresses two questions:

What are the implications for growth of current and prospective supply side developments, in particular the ongoing revolution in information and communications technology?
What do they mean for inflation, and hence for monetary policy that targets inflation?
On the growth implications of current and prospective technological advances, John Vickers is a 'cautious optimist'. He says:

"Prospects seem good for a sustained recovery in UK productivity growth from its subdued level of recent years. It is possible that there will be a leap to a historically high productivity growth rate over the next couple of years - the horizon that matters most in setting monetary policy - but that would be rash to presume. Past growth has stemmed from the exploitation of past innovations, which were no doubt spectacular in their day, just as computers were yesterday and the Internet is today. And history teaches that the lags from innovation to growth tend to be long and variable - more so than for monetary policy. Hence the caution with the optimism. We can but wait and see, so neither an ostrich nor a lemming be".

On the implications for inflation, John Vickers says:

"If IT is bringing a supply side revolution, cannot monetary policy be eased for a while? That simply does not follow. Indeed, the arrival of an unusual supply side opportunity could easily expand demand by more than supply initially, so that the natural real rate of interest goes up, not down, in the short term. That does not lead me to presume that the IT revolution has upward implications for inflation and nominal interest rates, because other, possibly offsetting effects could also be at work, for example involving competition. But, equally, I see no strong grounds to presume that the overall effect on inflation is downward. The supply side cannot be expected to take care of the value of money. "

That is the task for monetary policy, and the reason why monetary policy is aimed at price stability, not a growth target. No-one knows how the supply side potential of the economy will grow, or the trajectory of demand in relation to supply. Inflation targeting - especially with a symmetric target - is a framework for a flexible and forward-looking response from monetary policy to these and other uncertainties in the light of unfolding data. Whatever the supply side may have in store, delivering low and stable inflation - and being expected to do so - is how monetary policy can give sustainable growth its best chance".

**Key Resources**

Monetary Policy and the Supply Side - Full Speech

**http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2000/speech75.pdf**