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The Policy Implications of Economic Imbalances – Speech by Kate Barker

Royal Bank of Scotland/Scottish Economic Society Annual Lecture - Kate Barker

In her speech today Ms Barker, a member of the Bank of England's Monetary Policy Committee, considers the present challenges facing the Committee. She notes at the outset that the catchword for the UK economy in 2001, has been 'imbalance' and that this was also true of the international economy to a lesser extent, even ahead of the terrible events of 11 September.

She describes the economic imbalances in the UK, placing them and their severity in context before outlining three possible ways a correction might come about. Ms Barker then discusses whether monetary policy should react to today's imbalances and notes, "it would be unwise to attempt to pre-judge or pre-empt the policy needed during possible adjustment....and the tragedy in the US pointed up one good reason for not taking too much account of risks ahead of the event, but rather setting rates according to what is needed to keep inflation on track in the absence of future shocks."

Although acknowledging it would be wrong to argue that policy should ignore imbalances, she says, "there are underlying fundamentals which will eventually drive that correction, and attempting to pre-empt this by policy action suggests that the policy makers have a high degree of certainty about where the imbalances ought to be at any point in time."

Summarising her view of the economy, Ms Barker concludes that it is more like a bicycle: "the rider is always being thrown off balance by bumps in the road or sharp corners - but Cont'd often manages to correct quite big shocks and only occasionally falls off. In that limited sense I am optimistic about the present situation in the UK. I am not convinced that the imbalances are so large, and so unlikely to self-correct, that we are about to fall off the bike. More immediately, I am concerned by the set of headwinds formed by the weak global background and the strength of sterling. In the short-term, our best efforts may not be able to maintain the speed of the bike, but there is every chance that combined with policy easing elsewhere they should bear fruit in bringing about a recovery. Policy-making today, as ever, is not about targeting imbalances, but how best to set interest rates in the short-term to keep inflation on track over the medium term."

Key Resources

The Policy Implications of Economic Imbalances – Full speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2001/speech147.pdf>