The Money Minders

In the crises of the past fifteen years, central bankers have become big public players in dramas that affect all our lives, including financial market crashes, public health threats and devastating economic downturns. Having played a lead role in the global financial crisis and the coronavirus pandemic, they are now being asked to broaden their portfolio of responsibilities. But their fundamental aim has always been one of simply ensuring monetary and financial stability. In this book, Jagjit S. Chadha opens up the world of central banking, explaining in accessible language the analytical techniques, policy toolkits and simple storytelling central bankers use to understand the economy, implement monetary policy and communicate their decisions to key decision makers and the wider public.

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The Money Minders
The Parables, Trade-Offs and Lags of Central Banking

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National Institute of Economic and Social Research
Cambridge University Press
978-1-108-83861-0 — The Money Minders: The Parables, Trade-offs and Lags of Central Banking
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Preface

Somewhere in the centre of a space that contains economics, history and politics lies a need for the state to control the value of money. The competence of the government and its central bank at this intersection seems to signal something quite important about the overall capacity of a state to deal with its collective problems. The signal of a failed state seems to be closely tied up with the collapse in confidence in its monetary and financial system, so much so that some consider sound money to be the ultimate public good – supplied by the state but of use to all private agents in their ongoing attempt to make plans for a future hampered by much risk and uncertainty. This is as much true in the year of lockdown and COVID-19 as it was during the financial crisis some dozen years ago, as well as the plethora of fluctuations in economic activity that central banks are called upon to judge the appropriate policy response.

Dull as it seems to most, money has fascinated me since, as a child, I tried to understand the move to decimal coinage from old shillings and pence and looked at the pamphlets and information films that explained the change. As I recall, the old coins looked a lot more interesting with florins and crowns minted in ancient years beating new pence hands down. But really I could not understand why it mattered so much and tried to explain to an audience of kind, but probably very bored, school parents how currency was just another way of counting, in order to win an English Speaking Board certificate. Mrs Keeley, our elderly neighbour whose supply of humbugs never seemed to run out, did understand better: these were the coins associated with Great Britain, and these new valueless coins were part of a country whose position was similarly depreciated. I did not, of course, begin to understand what she meant. In this introduction to monetary policymaking I am mostly motivated by the technical
rather than the political; it pays to bear in mind the importance of the value of money to the notion of the state.

The intellectual story of monetary policymaking is one that, surprisingly, I cannot find anywhere in terms of its basic concepts. Of course, there are many financial histories and central banking histories, and the daily grind of whether interest rates are too high or too low occupies us so fully that many think these judgements are the sum total of what economists actually do. It is an occupational hazard I now wear with some humour, but after the ubiquitous discussion on house prices (in the United Kingdom, at least), conversation quickly turns to my view on interest rates.

Although I actually have always known next to nothing – as many would say that is the way it should be – about the next step in policy rates, it is the only time that people ever seem to listen to me. And this may be in part because there is no clear guide, as far as I can tell, to the principles that structure monetary policy debate. So in this short book, I take on the heroic task of filling that gap.

But what I try to do is to spell out some of the little models, folk theorems and perhaps even parables that I think most central bankers have in their toolkits – grinding away and turning with the crunch of data revelations; or what I prefer to think of as their ongoing conversations and shared judgements with markets, politicians and the public. Central bankers have at their core an understanding of trade-offs and the difficult lags inherent to any policy decision. But most of all they agree that nobody can be sure they understand tidal patterns governing economic developments and, even with those models and judgements, they are prone to considerable error, so that caution becomes both a mantra and a first response to all events.
Acknowledgements

I have so many people to thank for helping me to write this book. From my earliest formal teachers of economics, Laurie Benge and Raymond Cobb, to Chris Heady, Wendy Carlin, Michael Stewart, Negley Harte, Charles Goodhart, Mary Morgan and Morris Perlman, and, latterly, to Robin Matthews and Brian Reddaway. And then to my many co-authors who have taught me so much: Norbert Janssen, Joe Ganley, Suzanne Hudson, Andy Haldane, Francis Breeden, Philip Schellekens, Charles Nolan, Nicholas Dimsdale, Lucio Sarno, Elisa Newby, Sean Holly, Hamid Sabourian, Peter Macmillan, Katsuyuki Shibayama, Philip Turner, Lucio Sarno, Luisa Corrado, Alain Durré, Mike Joyce, Ryland Thomas, Fabrizio Zampolli, Richard Barwell and Mick Grady.

I have also learnt just as much from my students (this should surprise no one who has taught), especially Chris Brown, Tom Bradbury, Jack Meaning, Alex Waters and James Warren, with whom I have developed many of the thoughts in this book. The very kind and forgiving Council of Gresham College gave me time and space to develop many of these ideas in a series of lectures given over 2014–2015. I am grateful to have had the regular, wise advice of Richard Evans, whose taste in football teams, though, is rather questionable. And since 2016 I have been lucky enough to observe the waves of quite astonishing economics news wash over the country from 2 Dean Trench Street, off Smith Square, in Westminster, as Director of the National Institute of Economic and Social Research. My colleagues Arno Hantzsche, Jason Lennard, Garry Young, Roger Farmer, Peter Dolton, Adrian Pabst, Hande Kucuk and Paul Mortimer-Lee have often corrected many of my misapprehensions. My three chairs of council, Tim Besley, Nick Crafts and Diane Coyle, as well as trustees, in the form of David Greenaway, Paul Tucker,
Stephen King, Tera Allas, Romesh Vaitilingam, Alan Budd and Neil Gaskell, have all been equally supportive. I especially want to thank the openness and generosity of the community of economists interested in abstract notions of money, starting with the wonderful Philip Arestis, Alec Chrystal and Peter Sinclair of the Money Study Group and Forrest Capie and Geoffrey Wood of the Monetary History Group. I am also grateful to my editors at Cambridge University Press, Phil Good, Chris Harrison and Dhivyabharathi Elavazhagan.

My first and last teachers have been my parents, Mohan and Manjit, and my wife, Sahar, and most recently my children, Nihal and Jasleen. Thank you.