Welcome Mark Carney, now here's what you need to do [1]

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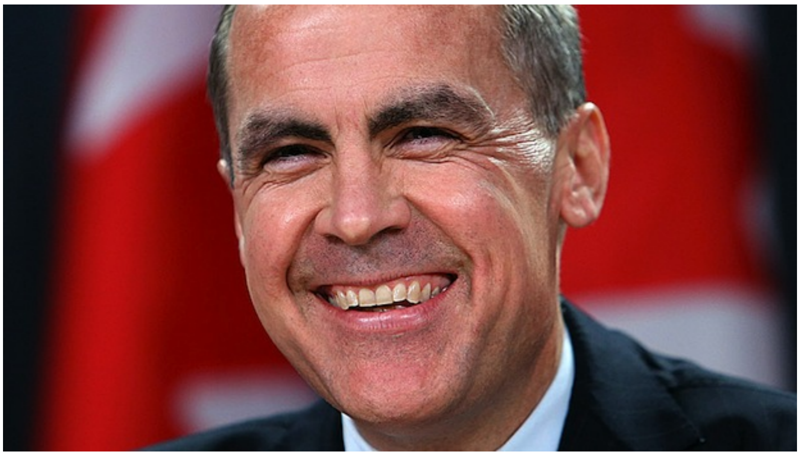

Today Mark Carney becomes the new governor of the Bank of England [3], gaining oversight not only of UK monetary policy, but also financial regulation, as part of the Bank's newly-expanded responsibilites [4]. When George Osborne revealed he had managed to persuade Carney to take on the role there was great fanfare and excitement. This was firstly because the Canadian economy has performed relatively well through the recession [5] and secondly because Carney has shown himself open to innovations in central banking, though he has not implemented any in his time at the helm of the Bank of Canada.

Carney talked up the benefits of targeting the level of demand in the economy?though only for exceptional times?in a recent speech [6]. And one would expect that the chancellor, for the £870,000 he has agreed to pay Carney, is open to significant change, notwithstanding the insignificance of the minuscule changes he himself made to the BoE's remit in the budget [7]. Put together, these facts give cause for some optimism for someone like me, who supports targeting the level of demand.

So instead of speculating on what the superstar economist actually will do, I will outline the basics of what Mark Carney should?and could do:

> **I.** Target levels instead of rates?this means bygones are not expected to be treated as bygones, and market actors do not worry about worse-than-expected outcomes because the central bank has committed to sorting them out
>
> **II.** Target NGDP (demand) instead of inflation?this means supply moves don?t lead to the wrong sorts of tightening or loosening of monetary policy, also means demand is stabilised directly, instead of an arbitrary part of the outcome of demand; stable demand means no recessions caused by nominal factors and no unsustainable booms
>
> **III.** Target the forecast instead of the outcome?this is what matters for expectations, which are basically all that matters for employment contracts, loan/debt contracts, investment etc. etc. Expectations are the key, so it?s insane to ignore them
>
> **IV.** Target market, not internal forecasts?set up an NGDP-linked bond, like the RPI-linked bond,

> and target the spread between the vanilla bond and the linked bond to get an objective idea of where to aim. Guesses where people have skin in the game are systematically better than the relatively costless estimates produced by private consultancies and the Bank?s internal team. But even if they?re wrong it doesn?t matter because expectations are all that count, and the spread between the bonds IS the market expectation. Driving that to a particular point is success, regardless of what happens.

In general the road ahead must be one of rules and discipline, not the translucent discretion of nine unelected barons [8].They must keep demand steady so we can focus on improving the supply capacity of the economy, and so there is no excuse for fiscal stimulus, with all its flaws [9]. If you still need convincing, read Scott Sumner's 2011 Adam Smith Institute monograph"The Case for NGDP Targeting" [10].

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