

[Kick the 'wise men' out of the Bank of England](#) [1]

Written by [Sam Bowman](#) [2] | Thursday 8 August 2013

In today's City AM, newly-minted ASI fellow Lars Christensen (aka [The Market Monetarist](#) [3]) [writes on the 'Carney rule'](#) [4]. The Carney announcement is a tiny step in the right direction, he says, but as long as the 'wise men' of the Monetary Policy Committee are running monetary policy, policy will be erratic and unpredictable, preventing adequate planning by firms and adding to market panic in economic downturns. Instead, we should have a strict rules-based system of [nominal GDP targeting](#) [5]:

A much better rule would have been to commit to stabilising the level of nominal GDP (NGDP), a measure of aggregate demand, keeping market expectations of NGDP growth on a 4 or 5 per cent growth path. This should be combined with an open-ended commitment to expanding the money base to hit this target. This would avoid the nitty-gritty of the Carney Rule and be clearer and easier to communicate to markets.

Monetary policy based on the discretion of 'wise men' leads to market uncertainty and panicky jolts as investors react to tiny changes in central bankers' pronouncements. Replacing the MPC with rules-based policy would bring discipline and predictability to the Bank of England far beyond what was outlined yesterday.

I would prefer to have no Bank of England at all, with money emerging from the market [as outlined by Hayek in 1976](#) [6]. Having said that, perfect is not the enemy of good ? replacing the discretion of 'experts' with predictable, market-led rules would be a huge step in the right direction. If Carney's new rule fails, it may come on to the agenda sooner than we think.

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