

Remarks for CIMF/MMF conference on
New Instruments of Monetary Policy
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Three main observations:

- i) issues of monetary policy instruments have been intimately bound up with choice of monetary policy strategy/framework in UK
- monetary targeting was bedevilled by unexpected levels of bank lending which could not be controlled
 - monetary targets had to be abandoned once overfunding discarded

ii) inflation targeting appeared to offer a plausible solution to these problems, with a clear assignment of one instrument to one objective; this framework is indeed appropriate for a first-best world

- but monetary policy should be designed for second-best world where financial regulation is imperfect, incentives inside banks may be misaligned, and banks may make choices which are not considered in either mechanical money multiplier analysis or New Keynesian models which exclude default and liquidity constraints

iii) in such a world the Bank of England should be able to consider a broader range of objectives as well as additional instruments like QE, but for that it needs goal as well as operational independence (+ cleanup of MPC appointments arrangements)