Why Andy should be CB Governor

(and probably Prime Minister too)

Andy Chaytor

June 2025

Time to stop being a critic

It is not the critic who counts, nor the man who points out how the strong man stumbles or where the doer of deeds could have done better
- Theodore Roosevelt

Pay no attention to what the critics say; there has never been a statue erected to a critic
- Jean Sibelius

Any fool can criticize, condemn and complain and most fools do
- Dale Carnegie

Before you criticize someone, walk a mile in their shoes. Then, when you do criticize that person, you'll be a mile away and have a free pair of shoes!
- Anonymous

For three years now I have stood on this stage and decried the authorities. I have told you all the things that the Central Bankers and the finance ministers are doing wrong.

I have told you all the dreadful ways it is going to end.

This year I have decided to tell you what I would do instead.

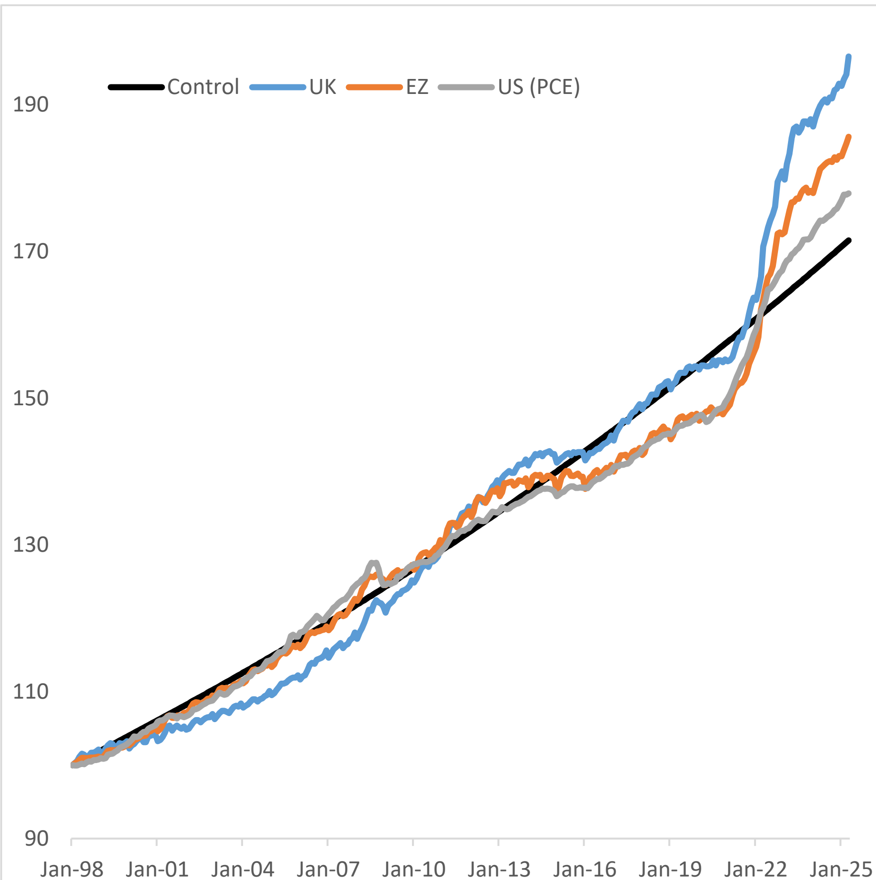
Monetary Policy

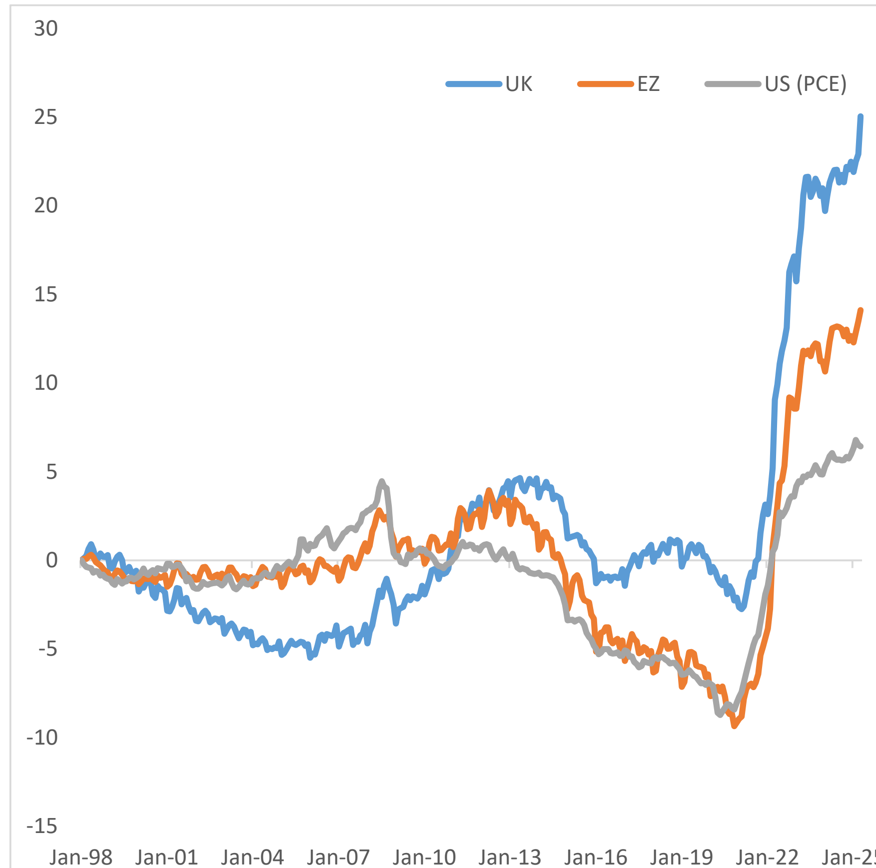
Finding a monster

BBC News

Inflation rates vs. a control

Central Banks have overseen a huge destruction in purchasing power. And there is a clear asymmetry in the reaction function – do you hear as many calls for Average Inflation Targeting as you did in 2018/19?

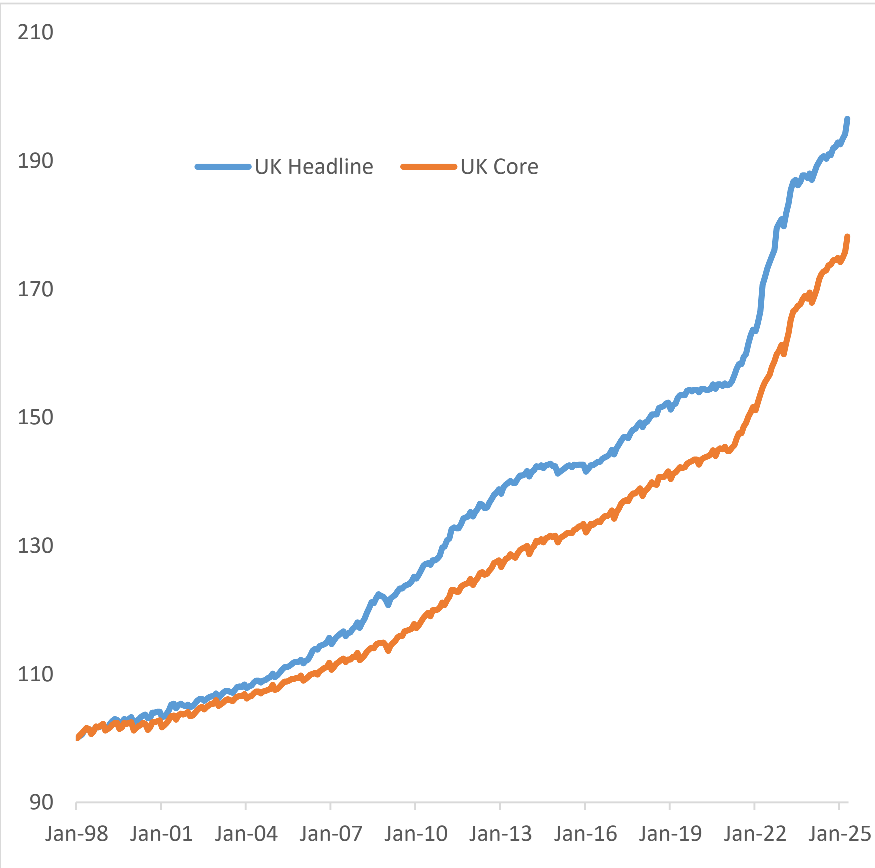


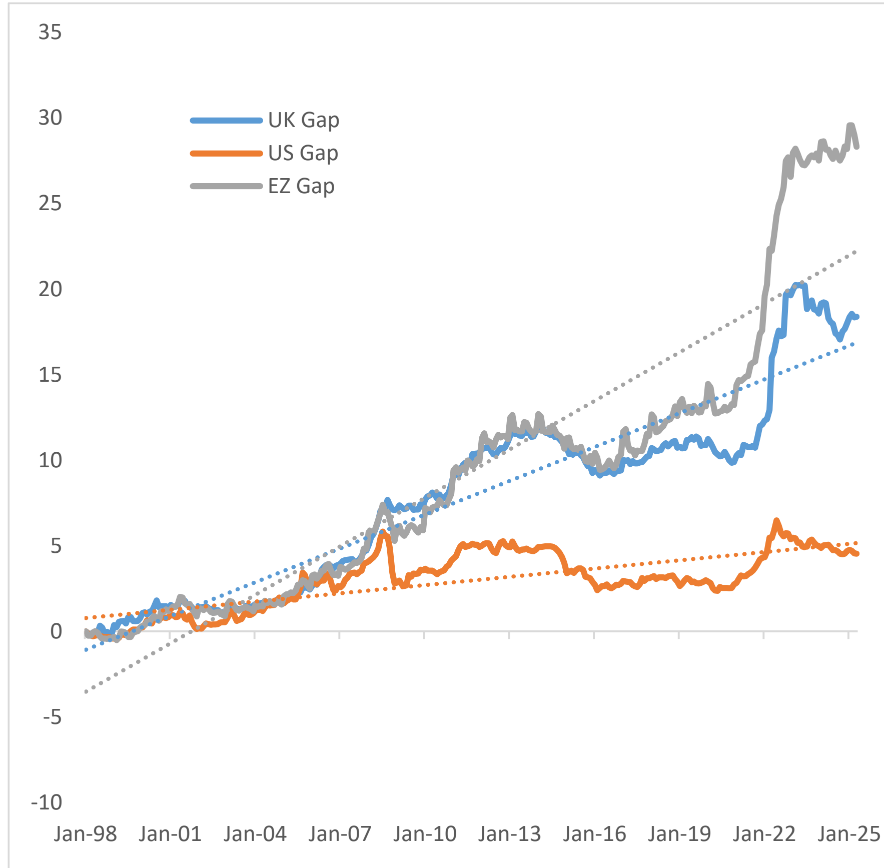


Bloomberg

Excessive focus on core

If your job is to preserve the purchasing power of citizens then focusing on a measure that excludes food, shelter, all other goods, holidays, hotels, utility bills and petrol seems…sub-optimal.

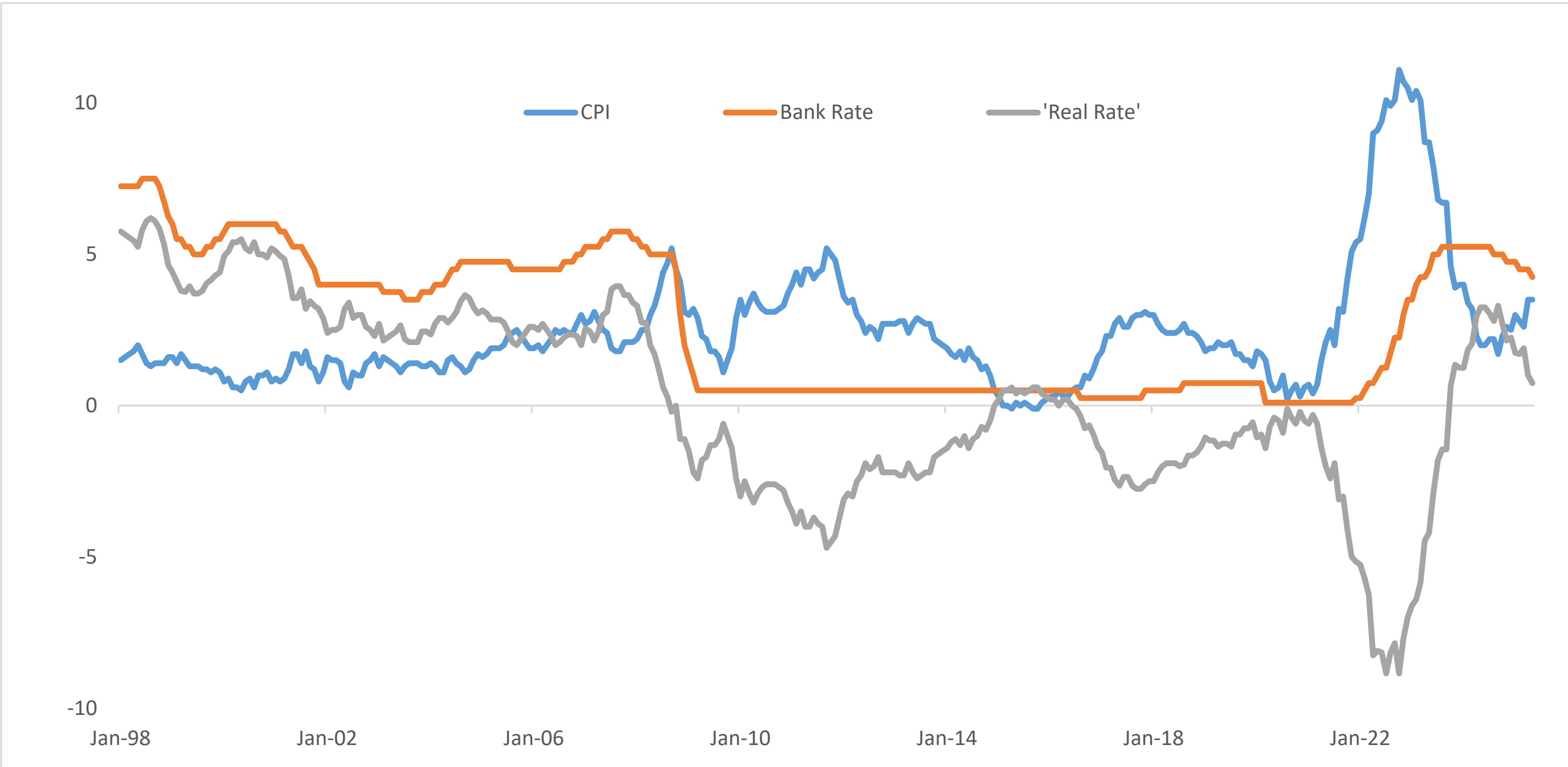




Bloomberg

‘Real’ rates is not the answer

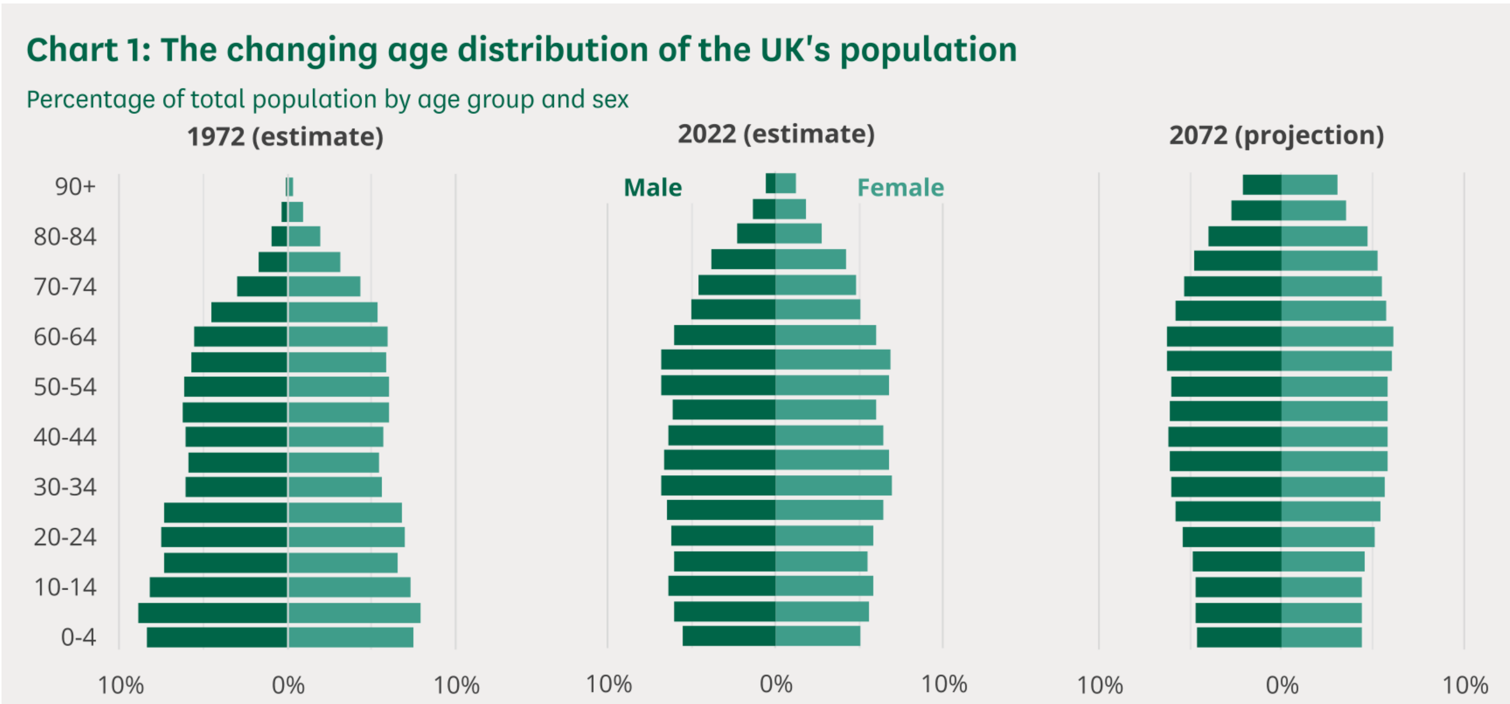
Approximately 110 billion humans have ever lived on our planet. And not one of them, ever, has said “I was going to borrow some money today, but then I saw inflation for last month was lower so the interest rate felt higher, so I didn’t.” Never happened. While we are at it, the neutral rate doesn’t exist. Nor the tooth fairy.



Bloomberg

Rates might not be the answer at all

Text books we read in the 90s/00s, written by people who lived through the 70s might not have kept up with the change in demographics. As we become older – and the balance of borrowers and savers changes – rates become less an aggregate tool and more a distributional tool

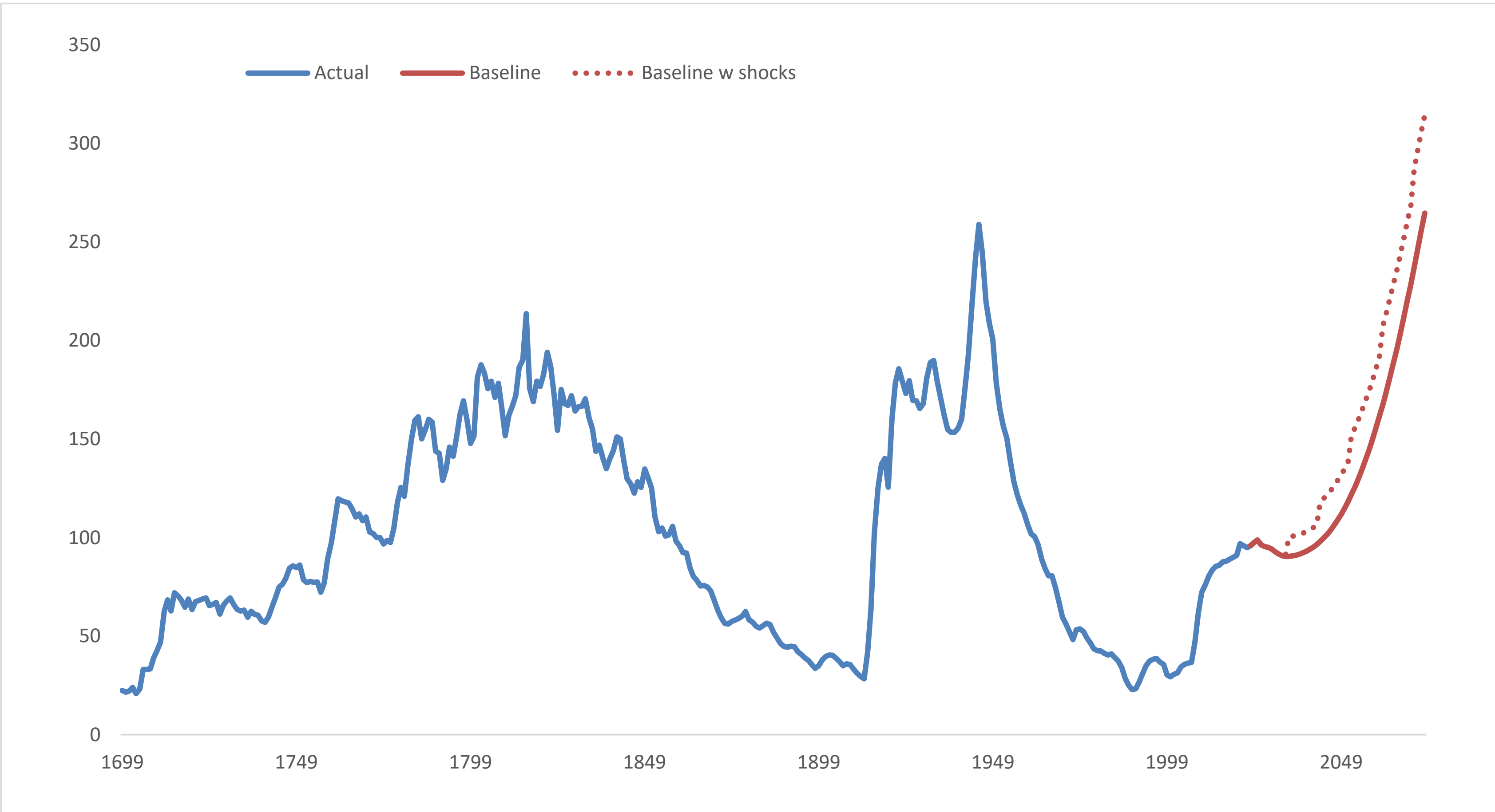


House of Commons Library

Fiscal Policy

The big problem

Debt is on a completely unsustainable path. I am forever surprised the amount of time we spend pretending that isn't true.



OBR / BoE

The little problem

If you are changing your fiscal rules every 5 minutes, they probably are not worth very much. Especially if they end up being a target on your back.

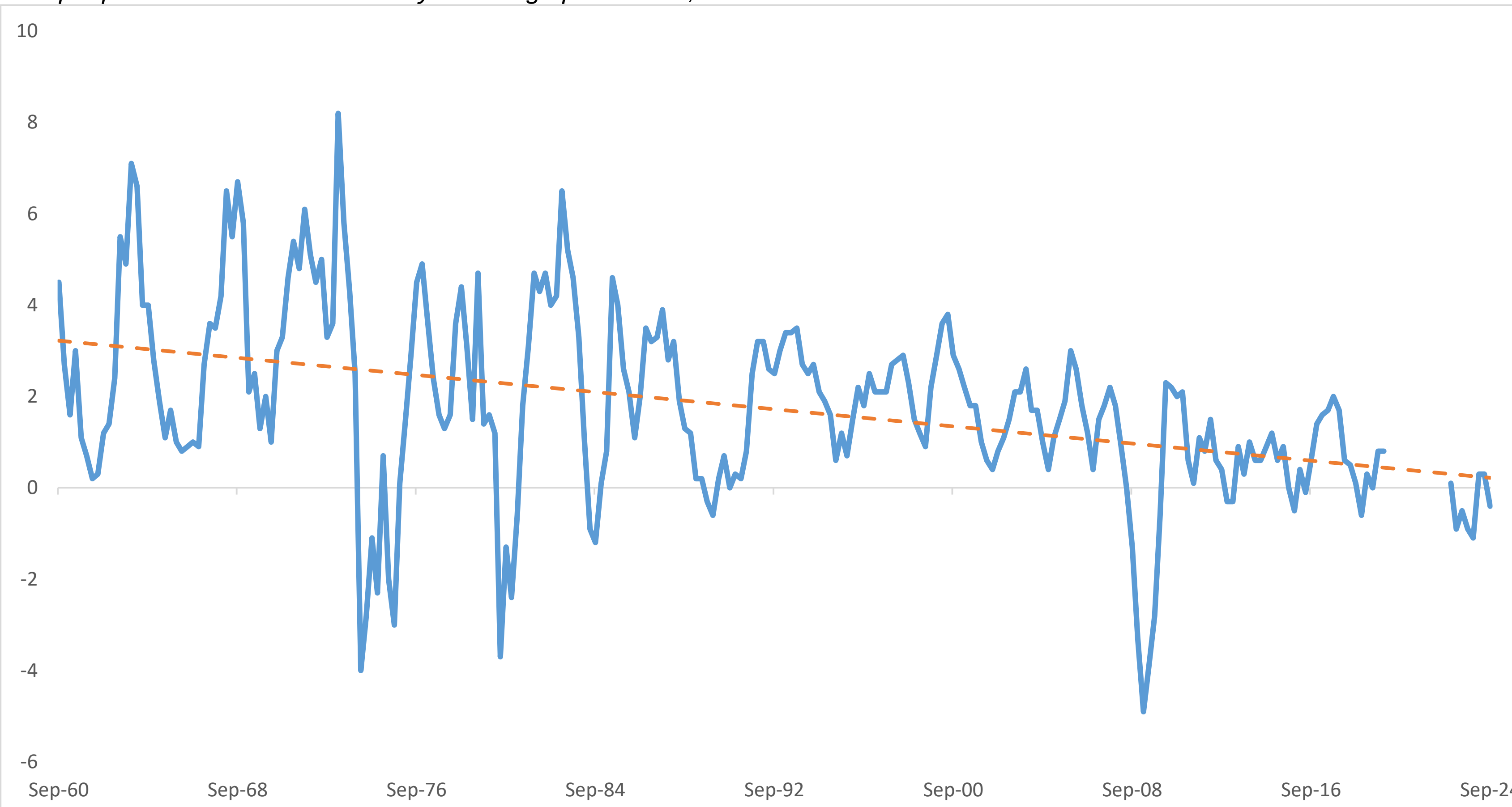
Dates active	Name of rule	Description of rule
1997–2009[3]	Golden rule	Revenues should cover day-to-day spending over the economic cycle
	Sustainable investment rule	Over the economic cycle, debt must average no more than 40% of GDP
2009–2010[4]	Falling deficit	For each year from 2010/11 to 2015/16, the deficit (%GDP) should be lower than the year before
	Halving deficit	The deficit in 2013/14 must be no more than half the 2009/10 level (% GDP)
	Debt rule	Debt (% GDP) to be falling in 2015/16
2010–2014[5]	Fiscal mandate	Cyclically-adjusted current budget should be in surplus at the end of a rolling five-year horizon
	Supplementary debt target	Debt (% GDP) to be falling in 2015/16
2014–2015[6]	Fiscal mandate	Cyclically-adjusted current budget should be in surplus at the end of the third year of the rolling five-year forecast period
	Supplementary debt target	Debt (% GDP) to be falling in 2016/17
	Welfare cap	Spending on working-age benefits must not exceed a pre-defined limit
2015–2016[7]	Fiscal mandate	Run a surplus in 2019/20 and in every subsequent year
	Supplementary debt target	Debt (% GDP) to be falling in each year
	Welfare cap	As above
2016–2019[8]	Fiscal mandate	Reduce cyclically-adjusted deficit to below 2% of GDP by 2020/21
	Supplementary debt target	Debt (% GDP) to be falling in 2020/21
	Welfare cap	As above
	Fiscal objective	Eliminate the deficit 'as early as possible in the next parliament'
2019–2020[9]	Current budget rule	Current budget should be in surplus by the third year of the rolling five-year forecast period
	Investment cap	Public Sector Net Investment should be below 3% on average over the five-year forecast period
	Debt interest spending rule	Debt interest spending must not exceed 6% of revenues
	Welfare cap	As above
2021–2022[10]	Net debt rule	Debt (% GDP, excluding Bank of England) should be falling in third year of forecast period
	Current budget rule	Current budget should be in surplus by the 3rd year of the rolling 5-year forecast period
	Investment cap	Public Sector Net Investment should be below 3% on average over the 5-year forecast period
	Welfare cap	As above
2022–2024[11]	Net debt rule	Debt (%GDP, excluding Bank of England) should be falling in fifth year of the forecast period
	Borrowing rule	Public Sector Net Borrowing should not exceed 3% of GDP in the fifth year of the forecast period
	Welfare cap	As above
2024–	PSNFL rule	Public sector net financial liabilities should be falling as a share of GDP by 2029–30
	Current budget rule	Current budget should be in balance or surplus by 5th year of forecast period
	Welfare cap	As above

Institute of Fiscal Studies

The real problem

If you can't get productivity up, you probably can't make your debt sustainable

Output per worker: Whole Economy % change per annum, SA



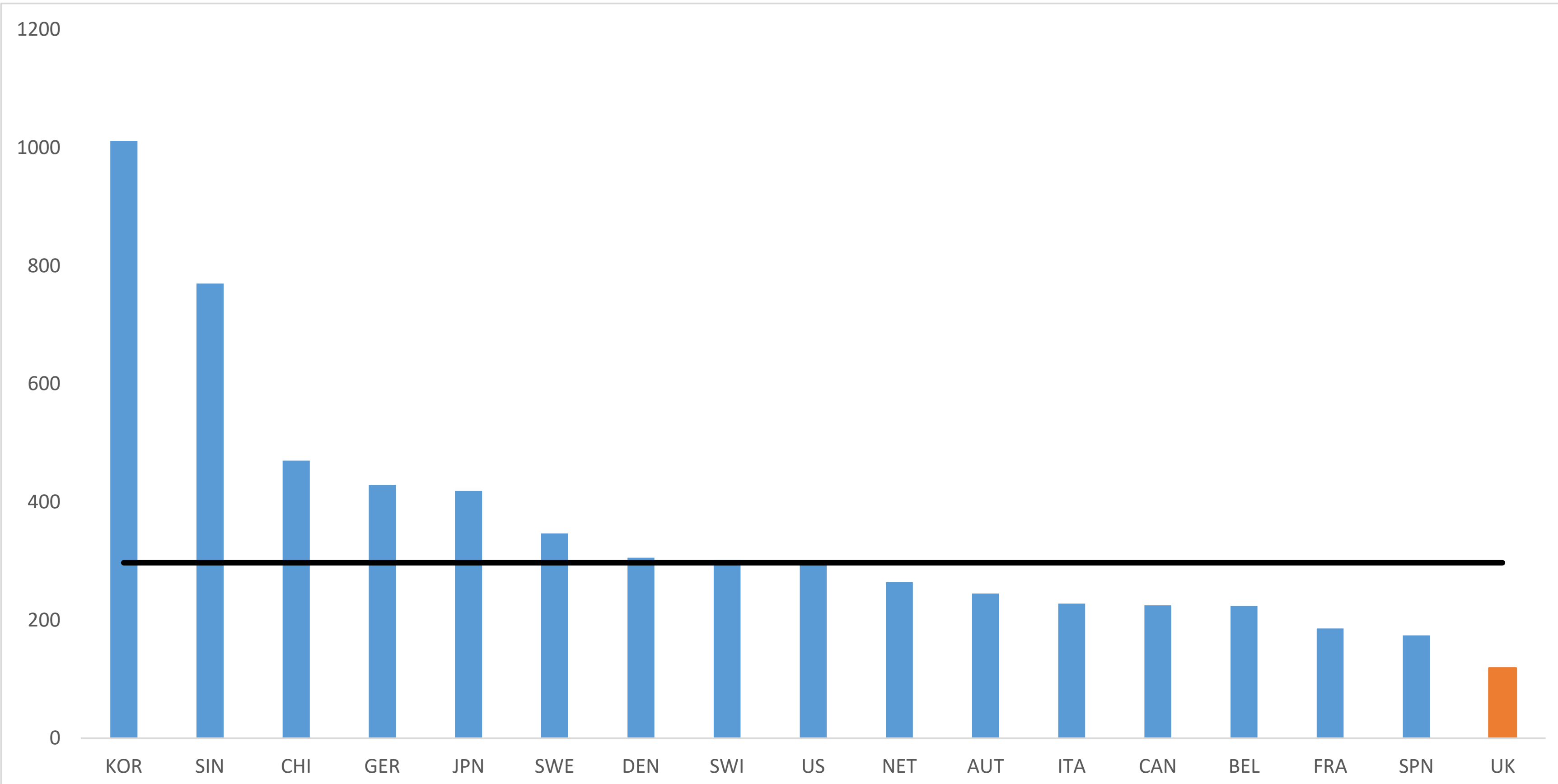
ONS

The solution?

NOMURA 100 YEARS

UK missed out on the robotics revolution. Exactly how stupid am I to think that AI could be the robotics of services?

Robot density eg number of robots per 10,000 workers



International Federation of Robotics

The near-term solution

Central Bank to target forecast of headline inflation and provide expected rate path on which that forecast is based.

Central Bank to treat upside and downside misses to inflation with equal contempt.

Central Bank to never refer to 'real' rates unless it is some concept of the expected forward interest rate against expected forward earnings. Seeing as that is complicated to work out, probably best to leave it.

Central Banks to never refer to 'neutral rates'. At all.

Fiscal authorities to avoid painting targets on their own back with fiscal rules.

Fiscal sustainability to be defined by running deficits when growth is below trend, flat when growth is at trend and surpluses when growth is above trend.

Fiscal authorities to use the time so saved to focus all efforts on increasing productivity via encouraging private sector investment.

Fiscal authorities to avoid trying to pick winners and losers. If you were good at that, you would probably not be a fiscal authority.