

Christopher Thackray

11 Brewery Mews
Market Place
Henley-On-Thames
Oxfordshire
RG9 2AA

+44(0)7444-788-545

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Mr Rishi Sunak MP
Chancellor of the Exchequer
11 Downing Street
London
SW1A 2AB

Dear Mr Sunak,

RE: Walking into a cost-of-living crisis

I am writing to you to represent the interests of members of the public suffering at the expense of ultra-loose fiscal and monetary policy since the 2008/09 Global Financial Crisis (the “GFC”), that is now having a material, yet unsurprising, effect on inflation and has triggered the worst cost of living crisis in generations. I hope to present compelling arguments in this letter to persuade you to trigger an independent investigation into the Bank of England’s (the “Bank”) handling of monetary policy since the GFC, where the Bank’s commitment to maintaining ultra-loose monetary policy has sparked a chain of events that will now jeopardise the livelihoods, social standards and wellbeing of millions of adults and children up and down the country.

The Bank has presided over exceptionally loose monetary policy since the GFC, fuelling a self-fulfilling prophecy among market participants that the Bank will act, regardless of the potential causes of dysfunction, to maintain the orderly operation of markets. This has led to progressive risk taking by market participants and overconfidence – which some may consider as complacency – by the Bank’s policy setters with the overriding view that markets will self-correct. The Bank is now forced to adopt an aggressive reactionary policy stance that will rapidly escalate levels of uncertainty for ordinary people around the country. The Bank is being reminded of lessons that are widely acknowledged to have contributed to the GFC, such as the inability of markets to self-regulate and temper excessive risk-taking in the absence of sound, forward-looking and adaptive monetary and regulatory policy.

A good indicator of current excessive risk-taking is seen in the equities markets, with some leading analysts estimating that equities could be overvalued by up to 75%. The rise of the narrative economy has contributed to the overvaluation of equities which should have been a major cause of concern for the Bank for several years, as markets adopted valuation models heavily biased towards a firm’s “potential” vis-à-vis its profitability¹. This fundamental shift has been supported, in part, by the market’s belief that the Bank, alongside its international peers, will maintain loose monetary policy with forward guidance providing market participants with the time to adapt to future policy changes before they are implemented. Said another way, the Bank has vastly reduced the need for market participants to act with caution prompting the overvaluation of assets and a build up of appetite for excessive risk. This

¹ An example of the narrative economy can be found in the market capitalisation of Uber Technologies Inc. (“Uber”). In May 2019, Uber listed on the New York Stock Exchange and generated an immediate valuation of ~\$75 billion. As of the 4th February 2022, Uber’s market capitalisation was \$71.8 billion. In the third quarter of 2021, Uber made a \$2.4 billion loss which accounted for write-downs in value of its Chinese venture. Adjusted earnings were \$8 million. This was the first quarter Uber made a profit (on an adjusted basis) in its 10-year history.

build up of risk has not occurred overnight but over several years as markets have tested the resolve of the Bank (and other central banks) to maintain favourable monetary policy that has supported perpetual risk taking.

Taken together, the Bank appears to have neglected to assess how its internal policies and beliefs have fuelled excessive risk-taking and overconfidence in the markets. This has led to the Bank being found asleep at the wheel of undercurrents that are now fuelling a critical and persistent inflationary risk across multiple sectors of the economy. The impact of such will cause material harm to innocent hard-working people who have in no way contributed to the current crisis but will suffer as a result.

Understanding inflationary drivers

I recognise current inflationary drivers are, in part at least, driven by global dynamics that are not all in the Bank's direct control. However, the Bank appears to have overstated this emphasis and thereby failed to address existing and new drivers of inflation within the UK economy. The Bank consistently stressed throughout 2021 the temporary nature of inflationary risk, underlining the Bank's misunderstanding of the undercurrents now widely accepted as triggering a longer-term impact to inflation. Examples of these drivers include:

- Permanent changes in consumer behaviours adopted during the COVID-19 pandemic that have triggered demand surges across industries and end-to-end supply chains.
- Major disruption across core industries triggered by significant advances in technology, with rapid acceleration in digital adoption during the pandemic as firms searched for new ways to reach clients and consumers.
- The rapid expansion of new entrants across industries as barriers to entry are reduced as a consequence of improving technological skills, such as new firms specialising in gaming applications, and consumer goods firms providing web hosted delivery services that has opened new buying channels for millions of consumers.
- A war-equivalent fiscal stimulus² triggered in response to the pandemic with continued large sums of stimulus as the Government implements its levelling-up policy.

The Bank's apparent disregard for understanding how these underlying currents are impacting the conventional functioning of the UK economy and the impact on inflation, gives rise to criticism of the Bank, notwithstanding the effectiveness of internal policies and beliefs held by the Bank.

In the case of the COVID-19 pandemic, both the Bank and UK Government could be criticised for appearing too willing to deploy policy stances that upheld the belief that markets would not be allowed to fail. This was demonstrated, in part, by Government backed loans during the pandemic which effectively eliminated the test of whether high street banks would – or could - continue to provide lending facilities during periods of severe stress, this of course being a core pillar of stress testing adopted across the financial services industry since the GFC.

The undercurrents that have contributed to the severity of the current inflation risk have clearly not been considered sufficiently or accurately by the Bank. It is in the public's interest that an investigation be undertaken to understand how and why the Bank's forecasts have repeatedly failed to provide accurate and actionable intelligence to promote pre-emptive and balanced policy actions. A core tenet of any such investigation should evaluate the Bank's principles and beliefs regarding the functioning of markets since the GFC and their understanding of new inflationary drivers.

As an Oxford economics graduate, I suspect you must be asking yourself how and why the Bank's forecasts have been repeatedly inaccurate. In November 2021, the Bank voted to keep interest rates unchanged on the premise that inflation would temporarily reach 5% before declining to within the

² Whilst the full cost of COVID-19 pandemic is still widely unknown, some initial data points provide an insight to the scale of the fiscal stimulus adopted by the UK Government during the height of the pandemic. The job retention scheme is expected to have cost the UK taxpayer around ~£70 billion (<https://www.statista.com/statistics/1122100/uk-cost-of-furlough-scheme/>) and the UK Government is set to write-off £10 billion of funds for unusable personal protective equipment (as publicised across multiple media outlets in recent weeks).

target range. In December 2021, the Bank raised rates from 0.1% to 0.25% whilst maintaining the position that inflation risks remain short-term. In January 2022, the Bank voted to raise the base rate to 0.50%, with four members of the Monetary Policy Committee voting for a more substantial increase, underpinned by forecasts that inflation will go up to 7% with higher above-target inflation levels becoming stagnant. The sudden change in forecasts combined with the fundamental shift in the committee's assessment of the risk, presents good reason for any Chancellor to be concerned.

The Bank appears unaware of the significance of the undercurrents that are changing traditional inflationary dynamics. This has resulted in the Bank being reactive to current inflation risk and being caught asleep at the wheel of monetary policy.

In 2020, I published a paper entitled *New Markets, New Models* (reference the enclosed). This paper explored the need for changes in conventional economic forecasting models as systemic changes in the functioning of economies alter conventional market fundamentals. I believe the Bank has failed to fully understand the undercurrents in the UK economy that have individually and collectively changed – and will continue to change – the makeup of the UK economy and the performance of the UK and international markets. Said simply, historical models are no longer reliable on their own to predict future economic cycles and cannot be solely relied upon for policy decision-making that affects the livelihoods of people up and down the country.

Lessons must be learnt.

A slow policy response to significant inflationary risks

Whilst significant attention is being placed on energy markets as the primary inflationary driver, for ordinary people up and down the country, the rise in the cost of living across every line item of daily expense is creating a very real threat to their livelihoods, social standards, and wellbeing. The steep rise in inflation has led to price increases in food, energy, fuel, travel, etc. The Bank's narrow view of the problems driving inflation, combined with their overreliance on historical and outdated models to predict market reactions, led to inaction throughout 2021.

The effect of the Bank's mismanagement of the material yet evident inflationary risk will have very real ramifications for people. Mistakes were made and hard-working people will pay the price.

On the 21st September 2021, Boris Johnson said the energy crisis is a "...short term problem" and that "...the market is going to start fixing it". On the same day, Kwasi Kwarteng, the Secretary for Business, Energy & Industrial Strategy, told Sky News that he had spoken to you about the pressure confronting households. Given it took until the 3rd February 2022 for the Government to act accentuates views that the Government, advised by the Bank, failed to fully appreciate the scale and severity of the inflationary risk facing the UK.

Can you explain why it took over 4 months for the Government to act?

In any other crisis, the Government would not delay at launching an investigation to understand the problem causes and address corrective actions to mitigate a future recurrence of the crisis. The current cost of living crisis is no exception. For millions of people in the UK, the current cost of living crisis will be more severe than the impacts of the GFC.

Public confidence in the Bank

I was disturbed by comments from the Governor of the Bank (the "Governor") advising the public not to request salary increases to help stem the tide of higher inflation and the impact on the cost of living. For hard working people on a salary near to the minimum wage – such as teachers, nurses, and carers – the Governor's advice underscores the tide of misjudgement that appears to be a systemic issue at the Bank. The Governor's comments were short-sighted and dangerous. Many members of the public are having to decide between heating or eating, and the very real challenge of providing for their children when faced with substantial reductions in real incomes. The Governor's remarks demonstrate just how far removed he is from the day-to-day realities of ordinary hard-working people. We must consider

whether a better appreciation by the Governor – and presumably other members of the Bank’s Monetary Policy Committee - of the financial difficulties faced by millions of hard-working people would have led to more proactiveness and risk-aversion in the Bank’s policy actions.

The public’s confidence in the Governor was severely damaged during his tenure as Chief Executive Officer of the Financial Conduct Authority (the “FCA”). The Governor was widely criticised for systematic failings in the functioning of the FCA that contributed to the collapse of Woodford Investment Management Ltd and London Capital & Finance plc, with both instances resulting in members of the public losing some or all of their savings and pensions. An independent report³ undertaken at the request of HM Treasury into the FCA’s regulation of London Capital & Finance plc identified “...significant gaps and weaknesses in the policies and practices implemented by the FCA”, the failure to “...consider LCF’s [London Capital & Finance plc] business holistically”, and the “...absence of appropriate internal policies”. In the absence of an investigation into the failings by the Bank to pre-empt and proactively address the current inflationary risk, members of the public will conclude that similar failures have occurred at the Bank. This conclusion will severely damage the reputation of the Bank and the public’s trust in the Bank to manage monetary policy in a safe and sound manner.

It is important for the millions of people who will fall into poverty as a consequence of the cost-of-living crisis that a thorough investigation be undertaken. Individuals in positions of influence found to have failed in their responsibilities must be held accountable.

Government action

As Chancellor, it is your duty to ask whether the Bank’s mismanagement of monetary policy leading up to the current cost of living crisis, and the Bank’s earlier inaction to mitigate severe harm to millions of people, is sufficient to launch an investigation. It cannot be disputed that the Bank has failed to act in an informed, balanced, and proportional manner to protect the interests of the public through sound monetary policy.

The Bank has failed the people of the United Kingdom. The spotlight is now on the Government and whether the Government has the resolve to take the necessary actions intended to uphold and protect the nation’s trust and integrity of this critically important institution.

I welcome the opportunity to discuss the issues raised in this letter further with you, and to present more detailed analysis regarding some of the points set out.

Yours sincerely



Christopher Thackray

Enclosed –New Markets, New Models whitepaper

CC – Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy

CC – Boris Johnson MP, Prime Minister

CC – Andrew Bailey, Governor of the Bank of England

³ Reference the Report of the Independent Investigation into the Financial Conduct Authority’s Regulation of London Capital & Finance plc, conducted by the Rt. Hon. Dame Elizabeth Gloster DBE, dated 23rd November 2020.