

SKIRTS RUFFLED FOR THE OLD LADY OF THREADNEEDLE STREET

Sometimes it can seem really hard to get it right. Abraham Lincoln probably came closest when he argued that you can't please all of the people all of the time. The Bank of England must feel exactly that way at the moment.

Has it judged the crisis correctly or reacted too late?

In the interim, perhaps the most important question is "How good is the analysis and who is in charge, the Bank or the Government?" Last week's 1.5% cut in the interest rate took us back to 1955. It also took our interest rates below the eurozone for the first time. So panic or shrewd policy? The jury remains divided.

The FTSE came off over 5.5% at the close following the announcement and the reason is not hard to find. On the one hand, interest rate cuts are good news...cheaper lending; easier borrowing etc, etc. On the other hand the sheer scale of the dramatic slashing of the rate....against the run of the play according to many commentators...left many people reeling from the sense that this recession really is going to be deeper and longer than even the economic Jeremiahs had predicted.

Acting too late and too aggressively are just some of the accusations being thrown around. The Monetary Policy Committee seemed to profess surprise last week about just how quickly the recession took hold and referred to a very marked deterioration in the economic outlook. How good is their information feed? Trawl through any media archive from early summer onward and you wonder where they had been. Production falling; house sales collapsing; consumer confidence ebbing; job losses increasing. Oh, and let's not forget the credit crunch. A sorry catalogue, indeed: but one that was being transmitted on many radar screens around the country. An open secret if there ever was one.

Was anyone at the Bank listening? The Bank has been praised for its academic level of analysis. But who was scanning the horizon to see what was happening in the real world? Policy produced in this sort of vacuum can have little connection with the realpolitik affecting the lives of ordinary people.

Then the Government emerged in the role of the 7th US Cavalry, and we know what happened to them. Pass on all the cuts or else. Or else what? Two of the biggest banks have set their faces against quasi-nationalisation and others have said they will pass on no more interest rate cuts in their entirety, but the Government persists. No room for tax cuts last week translate through what can only be assumed are No.11 leaks to all bets are off, even down to a basic rate adjustment, increase in tax credits etc. To reprise the Eurovision Song Contest: Inflation, nul points. Recession dix points. How the enemy has changed. The Pre Budget Statement is awaited with interest.

Not so much a policy then, more a way of fending off issues. What we are seeing now is much more about tactics on the day rather than strategy in the longer term. Not a recipe for success. When you face a crisis you have to set in place effective strategies otherwise you just keep on digging and the hole gets bigger.

There is a fundamental issue to be addressed here. Who is actually running the economy and, whoever they are, do they talk to one another. Do they have the radar tuned and do they have the ability to analyse events and develop strategy? The indications are not good. Everything points to reactive responses and not effective crisis management. Is anyone asking where the crisis is likely to take us?

Perhaps in the future, the whole role of sterling remaining outside the eurozone might be in the frame. But that's for another Future Imperfect. For now if the Government is lacking crisis management and the Old Lady has lost her inflation target, perhaps we have to start analysing worst case scenarios.

Meanwhile take heart from the words, loosely transcribed, of probably one of our greatest economists, J M Keynes. "All will be well in the long term; except in the long term we will all be dead". Let's hope we don't have to wait that long.

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