Lessons from Japan and the Bank of England: monetary po...

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As the FT reports this morning:

The Bank of Japan has ended an era of negative interest rates, raising borrowing costs for the first time since 2007 in a historic shift as the country puts decades of deflation behind it.

Kazuo Ueda, the BoJ governor, brought an end to more than a decade of ultra-loose monetary policy, abandoning a swath of easing measures that were put in place to stimulate Asia's most advanced economy.

That comment seems a little hasty to me. As the FT also noted in an email alert:

The central bank will continue with roughly the current amount of Japanese government bond purchases.

This is a very important point: around 54 per cent of Japanese government bonds are owned by the Bank of Japan—a level much higher than seen elsewhere. That level of quantitative easing is to continue, and that is still a very loose monetary policy.

So why has Japan done this? Because it has seen signs that there might, at last, be hints of inflation within the Japanese economy, which it has long sought but been unable to deliver.

To assume that all economies face the same problems is unwise, in other words.

But there is a point to be made nonetheless. Japan could not induce inflation through decades of loose monetary policy. It did not work. The Bank of England did not beat inflation with a tight monetary policy. It did not work.

Monetary policy is not a mechanism to control inflation is the obvious conclusion.

I hate to point out the obvious, but someone has to do it.