# Foreword

Have we learned all the lessons of the recent recession, which hit so many countries at different times after the banking crisis began in 2007? And were all the policy reactions to it correct? Even in 2017 it would be a bold man who answered those questions with a confident "yes". This volume of essays focuses largely on the role of monetary policy. That is hardly surprising since it has been brought together by Tim Congdon, one of the leading monetary economists in the UK. When I was Chancellor, and in 1992 set up a panel of economists to advise me, of course Tim was one of the automatic choices precisely because of his longstanding expertise in monetary economics. The book has many other distinguished contributors and the fact that they do not agree on all points adds to the importance of the collection.

One of the key questions discussed is how far the collapse of money in the period leading up to and during the recession was similar to what happened in the USA in the Great Depression from 1929. Further, was it, as Friedman believed of the earlier episode, a failure of official policy, particularly by the Federal Reserve? Tim Congdon argues that parallels do exist between the two episodes. In the recent recession, too, while bankers and financial institutions were far from blameless in their greed and recklessness, nevertheless equal blame belongs to policy-makers, particularly central banks. Tim argues that the global recession of 2008–09 was caused by the collapse in the rate of growth of the quantity of money; he analyses the data in the three jurisdictions of the USA, the Eurozone and the UK to make his point.

Another section of the book touches on different definitions of money, a controversy I remember well from the debates about government policy in the early 1980s. Several of the contributions also concentrate on what Adam Ridley calls "the New Regulatory Wisdom", the calls for ever more bank capital and increases in regulatory capital asset ratios to make the banks "safe". It does seem extraordinary that policy-makers seemed so insouciant about the apparent contradiction in pursuing policies that must inevitably shrink banks' balance sheets, while at the same time calling on and expecting the banks to lend more. It seems clear that regulators' policies of this kind were instrumental in collapsing the growth of money and exacerbating the recession at a crucial point. The impact on output was severe. Inevitably the names of Milton Friedman and Maynard Keynes are much invoked in these arguments, particularly in speculation about how Keynes might have interpreted the 2008–09 recession. This is a theme on which I have read Tim Congdon before. He has frequently emphasized the importance that money had in Keynes's work, where he made clear that Keynes was a strong supporter of stimulatory monetary policy in recession conditions. Keynes advocated central bank purchases of assets to draw down interest rates in a manner very similar to today's QE. In that respect Friedman was closer to Keynes than some so-called modern Keynesians.

Not everyone will agree with the views expressed in this volume. Nor, as Tim says, will the book settle every problem in quantity theory analysis. However, in its rigour and questioning it is an invaluable contribution to our attempts to understand what has happened.

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