Charlotte-Ann Schreiber interviews Sir Mervyn King...

Following the latest Bank of England's Quarterly Inflation Report we sent our resident economist Charlotte-Anne Schreiber to interview the Governor, Sir Mervyn King, to find out if she could get a simple explanation to some aspects of his statement.

"Sir Mervyn, I gather you've seen it. This must be a wonderful moment for you. But what exactly?"

"Well .... I think I've seen it. It is hard to tell at this stage until more facts and figures can be massaged, I mean analysed, but I am pretty sure I've seen it."

"This is wonderful news. At long last you've actually seen it. Congratulations! But what is it exactly? What does it look like?"

"Well, you need rose tinted spectacles to see it and I only caught a glimpse of it at a distance - on the horizon, so to speak. It looked like what we have been seeking all this time but there are a number of ups and downs along the road to be overcome before we actually get a clear sight of it and can say - 'Yes, this is it - it is back and here to stay.'"

"Can you give us any idea of what you've seen? Is it recovery and a return to growth?"

"It depends on whether we hit our target."

"A target? On the road? We want to hit it? I don't understand."

"Well, I can only repeat what I said in my statement - "We are not saying there is no chance of hitting target. There is quite a good chance of hitting the target. Inflation could go below target. It is very uncertain. If we saw evidence that inflation expectations were not consistent with the target in the medium term and the rate increases for example were picking up to levels that we thought were inconsistent with achieving the target in the medium term, then we would have to tighten the policy."

"I see. Well, actually, I don't. Does anybody understand what you are saying? I suspect the majority of us will think that this and many other statements in the report are - how shall I put it - just gobbledygook."

"Well, that's economics for you I'm afraid! If too many people understand the position we are in it will be bad for business."

"But just to be clear, then, you have seen signs pointing towards recovery in the distance. It isn't a mirage."

"Well it might be. You can never be sure of recovery until it is here. The road to recovery is long and there are many pot holes and obstacles in the way that have to be overcome before we can..."
definitely say - yes, we've arrived!"

"What sort of obstacles do you see?"

"Well, in the foreground there are price rises to negotiate, and that is always an uphill struggle. The question is do we have the spending power to get over them? Then there is the ever-present danger of inflation …"

"… inflation, it's a term we hear all the time but what does it really mean?"

"Well, quite simply, although we call it inflation what it actually means is a contraction, a drop or fall in the value of money. The pound in your pocket buys less and less but we call it inflation to try and hide the truth."

"So inflation isn't expansion it is a contraction?"

"Yes, it's hard to grasp and that's why we use it ad nauseam …"

"There is a rumour that it has something to do with the central bank printing money and thereby watering down the currency value."

"Please …"

"… I'm sorry, have I said something wrong?"

"You don't have to rub it in. I'm the one in charge of the money supply, remember."

"But not for much longer. Let's get back to what you have seen. To spell it out, what you have seen or think you have seen in the distance. Is it growth or isn't it?"

"Again I can only repeat what I said yesterday. If we are to see a return to growth and stability over the next 20 years we must find a way to a new equilibrium in which there is a rebalancing of world demand. Those are not challenges that can be resolved by monetary policy alone, nor can they be resolved by any one country alone."

"Well I think that is a sufficiently confusing note to end on, Sir Mervyn. Thank you for confirming that when it comes to understanding money and inflation it is not something for the faint hearted."