In 1998, founding Bank of England Monetary Policy Committee member Sir Alan Budd delivered a speech concerned with how many variables a central bank should consider when setting policy. His discussion is especially relevant now, almost 16 years later, as Governor Mark Carney flits between unemployment, slack and wages for the purposes of communicating the MPC’s likely policy stance. In practice, the BOE is a fox (it considers many things) but Carney can’t resist talking like a hedgehog (reducing the forecast to a single variable).

Sir Alan’s 1998 speech contains interesting contributions on a range of monetary policy issues. What stands out is his discussion of how many variables a central bank should consider in setting policy. He described two possible approaches to policy making at the BOE, drawing on an essay about Tolstoy, “The Hedgehog and the Fox,” by philosopher Isaiah Berlin.

The fox, Budd explains, knows many small things, so it prefers to consider a broad range of evidence to build up a bigger picture of the economic outlook and set policy accordingly. The hedgehog knows one big thing (perhaps that strong wage growth means the economy is overheating), so it tends to focus on one or a small group of well-understood variables.

Budd’s speech goes on to explain that, in his view, foxes do better than hedgehogs at forecasting because they are able to take on board more information that might be relevant to the outlook. However, he highlights a key temptation for the foxes: “They will always find another figure (for a hitherto ignored economic variable) that allows policy makers to postpone making an unpopular decision.”

Carney’s communications since taking over the helm at the BOE run the risk of being seen in this light:

- In August 2013 he launched his flagship forward guidance policy, stating, “The MPC intends not to raise Bank Rate at least until unemployment has fallen to a threshold of 7 percent.” At this point the BOE published unemployment forecasts for the first time.
- The emphasis began to shift in November 2013. “The MPC now expects the 7 percent threshold to be reached earlier than we did in August, what really matters is what we will learn about the economy along the journey to that threshold.”
- It was a short trip and the emphasis shifted further in February 2014. “The MPC said last August that, once unemployment had reached the threshold, we would assess the state of the economy more broadly, drawing on a wide array of indicators. That assessment is provided in today’s Report.” At this point, estimates of slack were published for the first time.
- Alongside this month’s inflation report, the Governor said, “In light of the heightened uncertainty about the current degree of slack, the Committee will be placing particular importance on the prospective paths for wages and unit labour costs.” To be fair, he did say a broad range of indicators would be monitored too (without naming them).

It hardly seems the motive behind Carney’s approach is to try delaying an unpopular decision. He doesn’t need to be popular, especially not in the U.K. And he is not a hedgehog, focusing just on one variable at a time – the nuanced discussion contained within the inflation report proves that, not to speak of the unpublished analysis which supports it.

Rather, in his press conference appearances, Carney tends to focus on one variable at a time because it is easier to communicate the outlook for policy that way, particularly to the majority of people who won't have the patience to get past the first page of the inflation report. So Carney is, in some sense, a fox wearing the clothes of a hedgehog, for the purposes of communicating the forecast to the wider public.

That strategy has had mixed success. The jury is out on whether his forward guidance policy was effective in meeting the BOE’s policy objectives. And, somewhat inevitably, reputational damage has been done because Carney has been held hostage to an unfavorable fortune. Nonetheless, for those considering what the Bank of England might do next, it will be worth remembering that its reaction function is that of a fox and not that of a hedgehog, despite the communications strategy.