

**Renewing Our Monetary Vows:
Open Letters to the
Governor of the Bank of England**

Renewing our Monetary Vows: Open Letters to the Governor of the Bank of England

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**Renewing our Monetary Vows:
Open Letters to the
Governor of the Bank of England**

Edited by Richard Barwell and Jagjit S. Chadha

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Foreword

Paul Tucker¹

For central banks, being the only game in town has turned out to be politically, even constitutionally, awkward. Among those interested in how power is distributed in our societies, there is concern that the monetary authorities are insufficiently harnessed to the public good. Depending on where critics stand on the political spectrum, the proposed remedies range from retreating to a more modest role to, very differently, contributing to a wider range of policy goals. Meanwhile, mainstream economists are preoccupied by less profound but nonetheless basic issues, fretting whether central banks will be able to maintain monetary stability when the next recession or crisis comes.

On the whole, those debates have been less engaged in Britain than in other advanced economies, which makes this book especially welcome.

While it concentrates on the objectives, instruments and accountability of monetary policymakers, those issues cannot be wholly detached from whether central bank independence is sustainable. On that, I hope we do not lose sight of the deep constitutional value – the separation of powers – served by independence. The state's monetary levers are latently instruments of taxation, and so should not be held by the elected executive. Over the long 19th century, the Westminster parliament achieved the necessary separation through the gold standard. That proved unsustainable after the move from a property-based assembly to full-franchise democracy, because it entailed too much volatility in jobs and economic output. After a long search, involving the executive branch experimenting with a series of ultimately unsuccessful regimes, the separation was restored by Bank of England independence in 1997.

¹ President of the National Institute of Economic and Social Research and Research Fellow at Harvard Kennedy School.

That way of looking at monetary regimes highlights the absolute necessity of central banks' delegated powers being subject to carefully designed statutory constraints. If most of the chapters of this book are about technical design, lurking in the background are questions about the regime's comprehensibility, the need to ensure power within the central bank is fragmented, and hence the public accountability of its individual policy makers.

I hope the book will generate demand for a follow-up volume, maybe again catalysed by NIESR. One of the biggest lessons of the financial crisis was that since the central bank is unavoidably the lender of last resort, it cannot sanely or safely be shut out of the prudential regimes for maintaining a safe and sound banking system. In the UK, that imperative was addressed through a major overhaul of the regulatory architecture, giving the Bank of England a more complete mandate for preserving *monetary system* stability. With its powers greatly increased, similar issues arise concerning design, transparency, and individual accountability.

Finally, I cannot say how glad I am that so many former Bank officials and advisors have contributed to this book. After independence, we hoped that turnover in the staff would, over time, create a community of concerned but deeply knowledgeable critics. It has, and alongside scrutiny from press and parliament, that in itself might help to sustain the principled insulation from day-to-day politics that is the very purpose of an independent Bank of England.

