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

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National Institute of Economic and Social Research
2 Dean Trench St
London SW1P 3HE
T: +44 (0)20 7222 7665
E: enquiries@niesr.ac.uk
W: niesr.ac.uk
Registered charity no. 306083

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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

2 DEAN TRENCH ST, SMITH SQUARE
LONDON, SW1P 3HE

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About the authors

Richard Barwell is the Head of Macro Research at BNP Paribas Asset Management. Previously, Richard spent almost a decade at the Bank of England working in both the Monetary Analysis and Financial Stability directorates. He holds a PhD from the London School of Economics, has written three books on the conduct of economic policy and has a particular interest in the communication of monetary policy and the design of macroprudential policy.

Jagjit S. Chadha is Director of the National Institute of Economic and Social Research. He has been Chair of the Money Macro Finance Group and was Mercers' Memorial Professor of Commerce at Gresham College from 2014 to 2018. As well as having worked at the Bank of England and BNP Paribas, he has held academic posts at the universities of Cambridge and Kent.

Chris Giles has been the Economics Editor of the *Financial Times* since 2004, reporting on the UK and global economy. Previously, he worked at Ofcom, the BBC and the Institute for Fiscal Studies. He writes a column at the *FT* on the UK economy.

Charlotta Groth is Global Macroeconomist at Zurich Insurance Group. Prior to this, she worked as a Senior Economist at the Bank of England. She holds a PhD from Stockholm University.

Michael Grady is Head of Investment Strategy and Chief Economist at Aviva Investors. Before joining Aviva Investors, he was Senior Economist at COMAC Capital, a global macro hedge fund. Prior to this, he spent a decade at the Bank of England in a variety of senior roles, latterly as a Senior Manager in the Markets Directorate. He began his career at the Australian Treasury.

Arnaud Marès is Citi's Chief European Economist. Prior to joining Citi, he was Special Adviser to the President of the ECB, Mario Draghi. He also spent an earlier part of his career at the ECB, as well as serving three years as Head of Policy of the UK Debt Management Office. Prior to returning to the ECB in 2012, he was an Economist and Managing Director at Morgan Stanley.

Paul Mizen is the Professor of Monetary Economics at the University of Nottingham, Chairman of the Money Macroeconomic and Finance Society, Fellow of the Office for National Statistics and a consultant to the Bank of England. His research focuses on the interaction between monetary policy, corporate finance, real activity and productivity using panel data from financial accounts and surveys. He is Principal Investigator in work with the Bank of England on the Decision Maker Panel and with the Office for National Statistics on the Management and Expectations Survey.

Ben Nelson is Senior Economist at Rokos Capital Management in London. Previously he was Senior Economist at the Bank of England, where he worked in a variety of policy and research roles. He holds a DPhil in Economics from Nuffield College, Oxford.

Huw Pill is a Senior Lecturer at Harvard Business School. Previously he worked at Goldman Sachs, the ECB and the Bank of England, as well as serving as Associate Professor at Harvard. Huw is a graduate of Stanford and Oxford universities.

Rebecca Riley is Director of the Economic Statistics Centre of Excellence. Previously, she was head of the productivity group and the UK economy forecast at NIESR. She has been an advisor to UK Trade & Investment, the Department for Work and Pensions and the Office for National Statistics, and is affiliated with the Centre for Macroeconomics and the Centre for Learning and Life Chances, UCL Institute of Education.

Paul Tucker is a Research Fellow at the Harvard Kennedy School, Chair of the Systemic Risk Council, President of NIESR and a former central banker. His book, *Unelected Power*, was published in 2018.

Tony Yates is an independent economist and former Professor of Economics at Birmingham University. Before that, he was a staffer at the Bank of England for 20 years. He is an adviser to Fathom Consulting and a Research Associate at the Resolution Foundation.

Karen Ward worked for HSBC’s investment bank for ten years in a number of roles including Chief European Economist. In 2016 she joined Philip Hammond, the Chancellor of the Exchequer, as his economic adviser. She is now Chief Market Strategist at JPMorgan Asset Management.

Foreword

Paul Tucker[1]

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.