



# Monetary Policy, Financial Stability, and a Prosperous Economy



Through monetary policy, the Bank of England, in common with other central banks has, in the past few years, made more substantial interventions in the economy than has been the practice in the past and they have also used more tools to do so. As such, central bank activity has become ever more central to the governing of the economy.

We have also seen increasing threats to financial stability, seemingly moving from one financial crisis to the next, while key economic objectives of investment-led and productivity-driven growth and improved distribution of wealth have not been achieved.

We therefore propose the following changes in central bank mandate, governance processes and transparency to improve performance and democratic legitimacy while maintaining the Bank of England's operational independence in monetary policy decisions.

## Mandate – Monetary Policy

The Bank of England shall have as its monetary policy objectives:

- To maintain price stability around a symmetrical target for annual inflation that is set by the government from time to time and to maintain stability within the financial system
- Without prejudice to the above, to ensure that its monetary policy decisions contribute to:
  - Investment-led and productivity-driven, sustainable economic growth
  - Maintain as close to full employment as possible
  - Contribute to decreasing wealth inequality across the UK population and regions

The Bank, through its Monetary Policy Committee, shall make monetary policy decisions independent of government intervention

## Process – Monetary Policy

To further assist the Bank in reaching its decisions utilizing broad-based inputs, we propose:

- Creating (or finance the creation within existing institutions such as think tanks) two independent bodies whose role is to shadow the work of the Bank's Monetary Policy Committee (MPC).
- These bodies will be composed of heterodox economists and economic sociologists as well as MPs from across the political spectrum drawn from the Treasury Select Committee
- Each body will produce its own monetary policy recommendations and submit them in confidence to the Bank in time for consideration at the pre-MPC meeting
- The Bank will publish these recommendations simultaneously with its announcements of decisions made by the MPC.

The Bank will publish on a regular basis:

- An evaluation of the effect of monetary policy on financial stability
- Evidence on the effectiveness of the transmission mechanisms to the real economy of its various monetary policy tools.
- Evidence of how its different monetary policy interventions contribute to investment-led and productivity-driven economic growth and employment.
- An evaluation of the distributional consequences of different monetary policy decisions and tools

The Bank shall present its findings on a regular basis to HM Treasury and the House of Commons Treasury Select Committee

## Regulatory Functions

Apart from the Bank's independently operated monetary policy function, the government may, from time to time, delegate certain regulatory functions to the Bank.

We propose to maintain the current arrangements:

- the Financial Policy Committee constituted as a sub-committee of Court
- the Prudential Regulatory Authority constituted as a subsidiary of the Bank

Additionally:

- the FPC will have a role in determining the extent to which the structure and function of financial markets are contributing to sustainable investment-led and productivity driven growth and to other government policy objectives such as improved distribution of wealth.
- In this context the FPC will develop a coordination mechanism with the privately run exchanges to monitor the formation of asset inflation and to propose necessary measures to prevent possible financial instability events.
- The FPC will develop a capability to oversee financial innovation. All existing financial innovation involving derivatives will be regularly reviewed for financial stability purposes with new ones subjected to a licensing process.
- the PRA will strengthen its focus on evaluating the impact of the non-bank sector on financial stability