Briefing: amendment to the Bank of England and Financial Services Bill

April 2016

The Bank of England and Financial Services Bill is currently awaiting a date for its report stage. Douglas Carswell has tabled an amendment which would establish a “money commission”.

The purpose of a commission would be to consider the wider social and economic impacts of the Bank of England’s monetary policy decisions. It would also consider what alternative monetary policy tools are available for the Bank of England to deploy if the economic outlook deteriorates. This briefing explains why Positive Money supports the amendment.

The Bank of England’s actions since the financial crisis have increased inequality and exacerbated the housing crisis

A growing body of analysis, including a study carried out by the Bank of England, [1] points to significant negative social and economic consequences arising from the Bank’s monetary policy decisions since 2008.

- A recent report by Standard and Poor’s argued that the Bank’s recovery policies have resulted in an **increase in economic inequality**. S&P explained that quantitative easing has boosted the price of existing assets, the ownership of which is highly concentrated. It was therefore the wealthiest households that felt the greatest benefit from the rise in asset prices after the onset of quantitative easing.[2]
- Former FSA chair Lord Adair Turner has warned that ultra-loose monetary policy [consisting of quantitative easing and record-low interest rates] can only be ultimately successful by re-stimulating the very **growth of private credit**, directed towards non-productive activities such as property and financial speculation, which caused the financial crisis in the first place.[3]
- By artificially increasing the price of financial assets, QE runs the **risk of creating bubbles** in the financial markets which could result in further instability. A recent report by the International Centre for Monetary and Banking Studies and the Centre for Economic Policy Research warned that prudential policies may not be able to mitigate the risks associated with ultra-low borrowing costs.[4]

These impacts are not subject to sufficient political scrutiny

Post-crisis reforms have concentrated much greater power within the Bank of England, and quantitative easing means that its direct involvement in the UK economy is much greater now than when it became independent. But the procedures for holding it to account remain unchanged.

MPs from across the political spectrum have expressed concern that parliamentary scrutiny has been limited. [5] Former Treasury Minister Andrea Leadsom wrote that “there has been no scrutiny of how the [QE system] is operating, what the risks are, and whether it should continue”. [6]

The primary responsibility for holding the Bank of England to account lies with the Treasury Select Committee. The committee regularly questions the Bank of England Governor and members of the Monetary Policy Committee, and has held two evidence sessions on the QE programme. Members of the committee have told Positive Money that they would like to investigate the wider impacts of monetary policy and potential new monetary tools, but are unable to do so because the committee’s attention has been occupied with the deluge of financial services legislation passing through the Commons in recent years. [7]

An independent commission is necessary to prepare for a future financial crisis

The deteriorating outlook for the global economy [9] raises the possibility that the Bank of England will have to deploy further unconventional monetary policy tools in the near future. It is of critical importance that the lessons from the UK’s recent history of monetary policy are learned and that new monetary policy tools are properly investigated and scrutinised before they are used.

The purpose of the commission is to convene an independent group of experts to investigate what impacts monetary policy has had on society and the wider economy and what new monetary policy tools should be available to the Bank of England. The commission would be appointed by the Treasury Select Committee, and its findings would assist the committee, and other members of the House of Commons, in scrutinising monetary policy decisions.

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[1] The distributional effects of asset purchases, Bank of England Quarterly Bulletin, Q3 2012
[2] Bank of England's recovery policies have increased inequality, finds S&P, The Guardian, February 2016
[3] Adair Turner at Making Money Work, Positive Money, September 2015
[4] Central banks urged to raise rates as asset bubble fears grow, Financial Times, October 2015
[5] Eg: Jonathan Edwards, November 2015, Hansard and Zac Goldsmith, November 2014, Hansard
[6] What future for our economy, Andrea Leadsom’s website, accessed March 2016
[7] This is based on off-the-record conversations with Treasury Select Committee members since the 2015 election
[8] Treasury Committee website, accessed March 2016
[9] Budget 2016: bleak outlook for economy as productivity downgraded, Financial Times, March 2016