To: Professor David Blanchflower, Dartmouth College 14.01.2016

Dear Danny

You asked for a contribution to your BoE mandate review. I take this for my purposes to be primarily about the mandate that governs monetary policy.

I write with reservation about the exercise. The mandate review seems to have been borne out of - and be an attempt to salvage something from - John McDonnell's pre-September 2015 beliefs that the BoE was in hoc to the city, and his support for People's Quantitative Easing. I reject both entirely. Partly as a consequence, I don’t think that the mandate has much wrong with that is worth the upheaval to bother fixing.

Dual mandate? I think the mandate allows for the right amount of attention to real activity so I am not in favour of a dual mandate. If, however, there was to a be a full scale overhaul of many aspects of the framework governing the BoE anyway, and the costs of upheaval and goalpost changing were thus anyway to be paid, I would not be too much against a dual mandate either, provided it were made clear that this was clarification, and not tilting the scales further towards real activity. My main concern about such a step would be that it would restrict attention that could be paid to other things that were important like the real exchange rate, nominal wages, separate weighting of different parts of national income, etc., all of which can be accommodated in the current mandate [though they typically are not by incumbent policymakers].

Alternative monetary policy targets: For the record, I am against nominal GDP targeting or price level targeting. Nominal GDP growth targeting would be insufficiently different from what the BoE does already. Levels targeting of any kind relies too much for its benefits on rational expectations, and credibility. The former is unrealistic; the latter not likely.

There are other respects in which I am in favour of some reform. How much falls under the remit of your review, I can’t tell.

Inflation target: a rise in the inflation target, to something like 4%, the level to be reviewed by some third party body, i.e. not BoE, not HMT, and to take effect 2-3 years after getting inflation back to the old target. This being the surest way to minimise future trips to the zero bound. Level to be reviewed every 5 years.

QE: some device to automate QE without the current system of discretionary letters; a formalisation that it's MPC as a whole not BoE execs who decide what assets, perhaps in consultation with FPC to ensure FS considerations are not disregarded.

Fiscal policy at the zero bound: legal device to trigger discretionary fiscal stimulus if BoE MPC considers it necessary at the zero bound, in the future, the amount to be based on BoE view of interest rate equivalent that the zero bound deprives them of,

translated into a fiscal plan by HMT/OBR.

External MPC members: create a majority of externals, by increasing from 4 to 6. This would eliminate the chance of the Governor wielding a block vote through internals seeking promotion, or of such a perception emerging. There should be provision that external MPC members cannot graduate straight away to the senior executive roles [as per Ben Broadbent], to eliminate the expectation that externals' views might in the future be tamed by seeking promotion. [I say this without prejudice to Ben, who did not, so far as I can tell, do anything other than speak his mind].

Constraints on senior staff public speaking: Something to proscribe topics on which executive members speak, to constrain them from straying off subjects that follow from the BoE's mandates. [Recent examples: climate change, economics of volunteering, inclusivity of capitalism, inequality].

BoE name: Dropping entirely the 'Bank of England' from BoE's name, and the notes, as a device to help avoid perception that monetary policy is tilted away from Scotland, NI, Wales.

Transparency and openness: the BoE ought to lose the blanket FOI exemptions it invokes that protects staff briefing and data from being disclosed to the public. The BoE ought also to be forced to disclose in entirety its current models and forecast judgements as they evolve [including yield curve models]. The BoE’s MPC and FPC chartpacks should also be published, except in so far as they include commercially sensitive or proprietorial information. These will also help reap a considerable public good created by the BoE at taxpayers’ expense.

I am heartily in favour of the MPC agreeing and disclosing an interest rate forecast too. However, I hesitate to recommend instructing the BoE to do this as such a step would arguably be too much of an interference in the operational, instrument independence of the BoE.

I'm very much against a **regionally constituted MPC**. Regional analysis can be conducted by the staff. Policy decisions should be taken for the aggregate. Regional seats on the MPC would greatly complicate and corrode the current process of ensuring diversity across disciplines of members.

I am also against **helicopter drops** and **People's QE**, which I think would ultimately undermine the credibility of monetary policy.

I haven't gone a great deal into my reasons here, but my thinking is not original or mysterious. My blog has covered all of these topics at some point.

I have posted this letter to my blog [with added links] in the interests of openness.

Best,
Tony Yates, Professor of Economics
University of Birmingham