OPINION

The Bank of Canada Act does, in fact, need an overhaul

DIANE BELLEMARE
CONTRIBUTED TO THE GLOBE AND MAIL
https://www.theglobeandmail.com/business/commentary/article-the-bank-of-canada-act-does-in-fact-need-an-overhaul/

Diane Bellemare, PhD, non-affiliated Senator from Quebec, economist, former professor at Université du Québec à Montréal, former member of the Economic Council of Canada and author of several books

The time has come to take a fresh look at the Bank of Canada Act. It received royal assent on July 3, 1934 – 85 years ago. Even though it has been amended over time, it needs to be reassessed. The act provides mainly organizational and operational clauses as well as a preamble that explains the reasons for its creation. This preamble states that the central bank should promote the “economic and financial welfare of Canada." It is very broad in scope. The act does not state the specific mandate of the bank nor mention the agreements between it and the federal government. It does not include either transparency or accountability obligations for the bank.

It is therefore not unreasonable to review the Bank of Canada Act. After all, it is 2019. In response to an inquiry I launched in the Senate on April 30, William Robson and Jeremy Kronick from the C.D. Howe Institute recently wrote in The Globe and Mail that the Bank of Canada Act doesn’t need an overhaul. Let me explain why I think otherwise and why I believe the central bank’s mandate should be broadened to include the pursuit of full employment.

When first created, the focus of the bank was to protect the value of the Canadian dollar and the stability of the financial system. But over time, price stability became the main preoccupation of monetary policy.

Let’s remember the aggressive monetarist strategy adopted between 1976 and 1990 to fight inflation. It kept interest rates very high so as to increase the unemployment rate above the natural rate of unemployment, which was believed in this period to be more than 9 per cent. At the time, it was not uncommon to see mortgage rates of 20 per cent and unemployment rates over 10 per cent in many provinces. Since 1991, the bank has entered into five-year agreements with the government that set out a specific inflation target.

Following the financial crisis of 2008, monetary policy in Canada has sought to support both job growth and price stability, even though the official mandate of the Bank was solely price stability. If the Bank of Canada is already managing monetary policy to maximize employment and price stability, why not make it official?

The Bank of Canada's current balanced and responsible approach deserves to be enshrined in law and included in the five-year inflation targeting agreement that the bank enters with the government.

By making this official, we will ensure that the current responsible approach of the bank endures.

Such a change would be consistent with developments in other countries. For example, since 1977, U.S. monetary policy pursues what economists call a dual mandate. It promotes stable prices on the one hand and maximum employment on the other.

Australia's Reserve Bank Act also stipulates that the central bank must pursue full employment and price stability. Recently, New Zealand revised the mandate of its central bank to include maximum employment.

These countries have also incorporated transparency obligations into their legislation.

In May, 2018, at the initiative of Mario Seccareccia, professor of economics at the University of Ottawa, more than 60 Canadian economists signed a letter to Bill Morneau, the Minister of Finance, asking him to amend the Bank of Canada Act to broaden its mandate to pursue full and productive employment. These economists also asked the Minister to add a provision in the act imposing transparency obligations to explain how the bank arrives at its decision from an economic, procedural and operational point of view.

The reasoning behind their letter is supported by research and facts. Inflation is not the problem it was 40 years ago when it was considered by central banks to be Enemy No. 1.

These economists share the view expressed on Jan. 4 at the annual meeting of the American Economic Association, by two former chairs of the U.S. Federal Reserve, Janet Yellen and Ben Bernanke, and by the current chair, Jerome Powell. They said that the trade-off between inflation and employment is no longer seen as a problem. Therefore, there is no need to achieve price stability at the expense of employment.

These days, Canada faces many other economic issues, such as the risks associated with slow growth, automation, climate change, protectionism and increasing income inequality. Monetary policy can help alleviate these pressing issues if Canada's central bank pursues a dual mandate.

By officially adopting a dual mandate, the bank would reassure Canadians that it truly manages monetary policy to promote the "economic and financial welfare of Canada."