

# Marketplace



**Tim Congdon**

**‘The government has sensibly decided to give back to the Bank of England its old job of regulator. But a clutter of extra institutions and committees is being proposed, none of which is the real boss’**

Almost everyone agrees about one important reason for UK officialdom’s disorganised response to the banking crisis of late 2007 and 2008. This was that responsibility was shared between three agencies: the Treasury, the Bank of England and the Financial Services Authority, collectively called “the Tripartite authorities”. As the nature and extent of each agency’s role had not been defined clearly in the relevant legislation, key officials were unsure what they were supposed to do and who was expected to take orders from whom.

One meeting of the House of Commons Treasury Committee has become notorious. When questioned about who was in charge of the Tripartite authorities in the Northern Rock rescue, Mervyn King, Governor of the Bank of England, asked: “What do you mean by ‘in charge’? Would you like to define that?” At a later session Alistair Darling said that “ultimately” accountability lay with him as Chancellor of the Exchequer. (Nevertheless, in mid-2007 the Treasury had hardly any officials with meaningful banking experience.)

Any sensible reform package ought therefore to clarify chains of command and lines of responsibility. But that is not what has happened. By general consent, New Labour made a foolish decision in 1997 when it took banking supervision away from the Bank of England, and transferred it to the newly created and untried FSA. The result was that the organisation with a balance sheet and financial resources, namely the Bank of England, did not have the information and expertise to understand particular banks’ problems, which lay with the FSA.

The coalition government has therefore sensibly decided to give back to the Bank of England its old job of being the UK’s main banking regulator. However, a clutter of extra institutions and committees is being proposed, in contrast to the relative simplicity of the pre-1997 situation when the Bank’s senior management had considerable discretion. The Bank already houses a Monetary Policy Committee to set interest rates and direct asset purchase programmes. Advanced stage plans now reveal that the Bank is also to host a Financial Policy Committee to oversee so-called “macro-prudential regulation” and to establish a subsidiary, the Prudential Regulation Authority, to take over “micro-prudential regulation”.

So the FPC and PRA are to align with the MPC in a *ménage à trois*, which—like most *ménages à trois*—may prove interesting. Of obvious importance is to know who will be boss. On closer inspection, it turns out that none of them is the real *capo dei capi*. According to the 2009 Banking Act, the Bank of England has a Court of Directors “to manage affairs other than the formulation of monetary policy”. The Bank’s website tries to reassure, saying that the 2009 Act introduced “reforms” which “modernised” and “formalised” the Court’s arrangements.

The Monetary Policy Committee and the Financial Policy Committee cannot, in practice, be independent of each other or take separate decisions. If the FPC resolves to increase banks’ capital/asset ratios that will have important monetary effects; if the Monetary Policy Committee determines to purchase corporate bonds one outcome might be to strengthen company balance sheets, which affects financial conditions. The MPC can do “financial” things and the FPC can do “monetary” things. They must cross-check and interact constantly. To put it bluntly, they would be best merged into one committee.

The Prudential Regulation Authority may collect the data on individual banks’ loan quality and that is definitely a job that has to be done somewhere, but what exactly is its role? Will its officials now decide to lend to cash-troubled banks or does that job remain with the Governor (or indeed the chairman of the FPC or even the Chancellor of the Exchequer, if he happens to be in the vicinity of Threadneedle Street)?

A standard practice of bureaucracies is to believe that action constitutes recommending new committees—particularly “committees of experts”—that are supposed “to do something” in an area of recent policy failure. The new committees are announced in press releases which, regardless of policy area, use an almost identical vocabulary. Typical nouns include “modernisation”, “reform”, “independence” and so forth, with “radical” serving as an all-purpose adjective. Does one have to remark that, in the present crisis, this tendency to multiply committees (promoted with such indistinguishable press releases) has gone to extremes? And is it meant to suggest that the proliferation of committees is not a sign of improvement, but of uncertainty?