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IS IT TIME TO EXPAND THE ROLE OF THE CENTRAL BANK?

Canadians are understandably frustrated with the federal government's slow response to the worsening economic crisis. First the Conservatives refused to acknowledge the gravity of the situation, then, when the opposition parties held their feet to the fire, the Conservatives prorogued parliament, effectively paralyzing government for more than a month.

The consequences of the Conservatives' economic and political miscalculations are already proving dire. Canada's unemployment rate now sits at 7.7%, a worrisome increase from the 2008 average rate of 5.9%. On March 11, the federal government's online job bank crashed under the stress of so many people looking for work. The real-life drama behind the increase is unfolding in households across Canada: people are losing their livelihoods, their houses and their hope. The companies that could potentially hire these people are unable to access credit as the big banks hunker down, in spite of the historically low Bank of Canada rate. With nowhere left to turn, Canadians wonder why their government has not acted to alleviate their concerns.

The CCPA Mb. analysed the Conservative federal budget and found it wanting in many aspects. Our main complaint is that it is heavy on tax cuts and light on spending, and will not, therefore, provide the stimulus needed in the present circumstances. To add insult to injury, the stimulus spending is further delayed by bureaucratic procedure and ideological barriers such as compulsory P3 assessments. It seems as if the money will never flow to where it needs to go. Is there not a quicker, more efficient way to implement relief?

We think there may be, and the solution comes from taking a fresh look at the mandate and powers of the Bank of Canada.

The Bank of Canada is Canada's central bank. It is the fiscal agent for the Government of Canada, managing the accounts of the Receiver General as well as foreign exchange reserves. The Bank advises the government on its debt management and issues Canada Savings and Premium Bonds. The Bank also lends money to Canada's private banks, making it the banker to the banks. In a nutshell, the Bank of Canada is responsible for Canada's monetary policy.

Monetary policy is one of the tools officials can use to manage the economy – the other one is fiscal policy. We tend to think of monetary policy as manipulation of the interest rate and the money supply, and fiscal policy as government spending and changes in taxation. The Bank of Canada looks after monetary policy and the government looks

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after fiscal policy. The Bank of Canada website confirms the Bank's role. The Bank is concerned (one could say obsessed) with its mandate to control inflation: "the goal of monetary policy is to contribute to solid economic performance and rising living standards for Canadians by keeping inflation low, stable, and predictable."

The Bank's obsession with inflation was particularly evident in its war against inflation in the 1980s and again in the 1990s. On both occasions the Bank set interest rates prohibitively high to fight inflation, so high that it accentuated the ongoing recessionary pressures that were already dragging the economy down. The result: double-digit unemployment rates and misery for millions of Canadian families. The Bank is so associated with managing the interest rate to bring down inflation that we have forgotten that it can, and should, use other measures to boost the economy.

It turns out that, thanks to the vision of the people who crafted and approved the Bank of Canada Act, the Bank can implement monetary policy in more creative ways than those being considered now. This crisis is the perfect time to dig deeper into the Bank's bag of tricks.

The Bank of Canada Act states that it can: "make loans to the Government of Canada or the government of any province, but such loans outstanding at any one time shall not, in the case of the Government of Canada, exceed one-third of the estimated revenue of the Government of Canada for its fiscal year, and shall not, in the case of a provincial government, exceed one-fourth of that government's estimated revenue for its fiscal year, and such loans shall be repaid before the end of the first quarter after the end of the fiscal year of the government that has contracted the loan."

Given that the Bank wishes to increase the money supply in the present crisis situation by buying corporate bonds, why doesn't it also increase liquidity through loans to the provincial governments? The Bank of Canada is silent on the topic of interest rates, so it wouldn't even have to charge interest.

The Bank should be able to flow money to provinces quicker than the government, allowing provinces to begin infrastructure spending immediately. Once the provinces receive the stimulus money, they could pay back the loans.

Although the Bank of Canada Act does not allow direct loans to municipalities, there is nothing prohibiting provinces from passing loaned money onto their municipalities. Of course details would have to be worked out, and the condition that loans be paid back within six months would affect timing. Nonetheless, it would allow money to flow six months before the money comes from the government, and in this crisis, every day counts.

Desperate times call for innovative measures. It is high time for the Bank of Canada to broaden its scope and do its part to put Canadians back to work as quickly as possible. We are in a crisis that needs far more than a low Bank of Canada rate (currently at the historical low of 0.5%). The government seems incapable of a quick response. The ability of the Bank to grant loans may well be the most efficient way to counteract the recession in the short run, because it both strengthens monetary policy and accelerates the fiscal initiatives in the January 26, 2009 budget.

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