



BANK OF ENGLAND

Report on the ESRC – Oxford Martin School International Macro Symposium, Oxford University, 1-2 October 2012

Summary of remarks made at the Symposium by
Paul Tucker, Deputy Governor Financial Stability, Bank of England

Paul Tucker (Deputy Governor, Bank of England) observed that, alongside bankers themselves, economists had got much of the blame for the crisis. The accusation was that mainstream models had made simplifying assumptions that had come badly unstuck. Mr Tucker doubted that many leading economists had seriously 'moved into' their modelled world. But in any case even if they had, they were not responsible for policy. By contrast, policymakers have a special responsibility to 'suspend belief' when employing models. All that should matter to them is grasping the way the world works, and helping it to work better. If economics cannot explain, with a structural model, something that is widely perceived to occur, policymakers should not ignore the phenomenon. Bubbles, the search for yield and, more or less, anything whose effects violate Modigliani-Miller arguably fell into this category in the past. There were two underlying problems. One was a lack of charity, within economics, in listening to views across disciplinary boundaries or schools of thought. Finance and macro, in particular, were too far apart. The other, deeper problem, he argued, was epistemological. 'It is no good policymakers counting as 'knowledge' only those things that are accepted as robust features of the data or as 'results' from a structural model.'

Some things can be 'known' by, for example, financial market practitioners in the same way that GE Moore knew he existed when, famously, he waved his hand at his philosophy class in Cambridge approaching a century ago. That kind of 'informal' knowledge should prompt our curiosity and engagement as economists and policymakers.

Another possible example is the so-called 'risk channel' of monetary policy. Until recently, policymakers have had a tendency to doubt suggestions that persistently accommodative policy fuelled risk taking. But there is emerging evidence that monetary policy can affect term premia. Both Jeremy Stein and Paul Tucker himself had set that out publicly. He mentioned this not because monetary policymakers should necessarily avoid policies that affect risk taking, but rather because the other, financial-stability side of our brains – in the UK, the Bank's Financial Policy Committee – should be alive to those effects when setting regulatory policy for banking. Making a success of that, he argued, calls for curiosity and generosity of spirit in our enquiries and work. If nothing else, this conference would surely have helped to foster that spirit.