

Bank of England

Mark Carney, Governor
Speech at TUC Congress, Liverpool
9th September 2014

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Mark Carney, Governor:

Thank you, thank you very much Taj, I'd like to thank the Congress for that welcome and for this opportunity. It is truly a great pleasure for me to address this Congress; it's a pleasure to be back in Liverpool and it's an important time, it's an important time to discuss conditions in the UK labour market. And that's what I'm going to focus on exclusively in my prepared remarks.

I'm going to do that because, as you well know, the growth and distribution of jobs and incomes matter to everyone. Employment does much more than provide the means to support families; it is essential to personal fulfilment and to human dignity. And part of that dignity is being paid a living wage.

Over the past year ...

Applause

Over the past year at the Bank of England, we have ensured that we pay all of our staff at least a living wage. And we have recently brought up all our contracted service staff in central London to the London living wage.

Applause

And because it's important to get this absolutely right, we're going through our final review. But I want to make it absolutely clear, that by the time of the next TUC Congress, our intention is to become an accredited Living Wage employer; so you don't just have to take my word for it.

Applause

Now of course, the Bank of England's responsibilities for promoting the good of the people of the United Kingdom go

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much, much further than being a responsible employer. We manage monetary policy to achieve price stability; in other words, low, stable and predictable inflation. And we promote financial stability by regulating and supervising banks, as well as taking action to ensure against unsustainable indebtedness, such as we did earlier this year for the housing market.

By maintaining price and financial stability we put in place the foundations for sustainable job creation and income growth. And it's that stability that gives workers the confidence to invest in skills or to change jobs. And it gives businesses the confidence to hire new workers, to invest in new equipment, to introduce new products, or to pursue new markets. We obviously need the right workers with the right skills, and we need our companies taking the strategic initiatives to grow productivity, because it's productivity that will secure the real wage increases that British workers deserve over the medium term.

Now as I've started to explain and I think it's clear, the labour market is central to the Bank's decisions - decisions which have to take into account both short-term fluctuations in employment and profound changes that are sweeping labour markets across the advanced economies.

These changes include powerful demographic forces, notably the ageing of the workforce, increases in longevity, and increased female participation. They include, as you were just discussing I think, how globalisation and new technologies are splitting production chains not just across companies but across borders; how financial risk is steadily shifting to employees from employers and from the state; and finally how job polarisation is increasing, that is the phenomenon that the employment share of middle-skilled

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jobs is being reduced relative to higher and lower skilled employment.

So collectively all of these forces have been acting for some time. They all affect the dynamism of our labour market and they affect the spending patterns of families. And so as a central bank, the Bank of England has to assess the extent to which these structural changes have an impact on the economy, on labour markets, on the economy, on inflation and we're grappling with what it means for monetary policy. And that's not unique to us that's the same across the advanced world, it's the same in the US, it's the same in Europe.

And the answers to these questions, the weight of these forces are different in different economies and that's one reason why monetary policy in the United States, in the euro area and here in the UK can be expected to be less synchronised in the future than they have been in recent years.

Indeed, despite common underlying influences, differences in how the labour markets of major economies have performed in response to the Great Recession have been striking. Let's take the world's largest economy, still the United States, let's take that as a benchmark. Unemployment there more than doubled during the recession. And that rate, that unemployment rate has recently fallen back, but the headline is much better than the details.

The number of Americans in work has only just returned to where it was before Lehman Brothers failed six years ago, even though there are now 14 million more Americans of working age. And much of the fall in the unemployment rate in the United States is the result of workers in their prime

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actually leaving the labour force, in other words giving up and stopping looking for work.

In addition, far more vacancies are unfilled than usual, indicating that there are big mismatches between skills in the labour market - skills and jobs in the labour market. And fewer people are switching jobs, suggesting a reluctance to take risks. In short, the American labour market still isn't working as it used to.

Turning to the UK, even though times for many families here have been very tough, in comparison to the United States, the UK labour market has performed well. Despite a recession that was deeper and more prolonged than the United States, unemployment didn't rise as much in the UK and it has fallen back almost as sharply as it did in the US.

As important, or in fact more importantly, in contrast to the United States, this rapid fall in unemployment here has been accompanied by significantly higher participation rates. There are now one million more people in work in the UK than at the start of the crisis.

But as this Congress knows, as the theme of this Congress illustrates, that exceptional employment performance has come at a cost. Wage growth has been very weak; in fact adjusted for inflation wages have fallen by a tenth since the onset of the crisis. And in order to find such a fall in the past, you would have to go back to the early 1920s.

What's happened in effect has been the weakness of pay has purchased that increased job creation. The burden - said another way - the burden of the Great Recession has been shared across this country. Profits have been squeezed almost as much as labour costs; employees have seen their

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real incomes reduced, but more people are at work as a result.

What has made the performance even more remarkable is that we have faced the additional challenge - unlike the Americans, we've faced the additional challenge of rebuilding competitiveness.

If you look over the Channel to the euro area they had a similar challenge, but they had to face that challenge with less flexible labour markets, and less flexibility in their currency. And the results have been dire.

Euro area unemployment has risen sharply through two recessions; it now stands at over 11%. It is over 14% in Portugal, 20% in Spain, and 25% in Greece. And there is a clear danger of a misplaced, if not lost, generation of workers in the US as well as the euro area.

Britain's labour force and Britain's trade unions deserve great credit for ensuring that this risk, this risk of a lost generation is much lower here in the UK. By sharing the burden of the recession, our economy is better positioned for the future. But the question, the question you're asking is whether we will seize this opportunity.

Now before I talk a bit about how we could seize that opportunity I think it is helpful to understand a bit more why the UK labour market outperformed, or at least outperformed in terms of employment.

What happened was - when the recession hit naturally the demand for work fell, but surprisingly the potential supply of labour appears to have increased at the same time. The number of additional people wanting to work actually overwhelmed the longer-term effects of population ageing.

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So why was that the case? Well it appears that greater risks and financial burdens that many families are now facing have been driving this phenomenon. Changes to pension arrangements have encouraged people to work longer. Reforms to the UK's welfare system, including attaching job search conditions to welfare payments, are prompting those affected to seek work.

But on top of all of that sharp falls in wealth and increased uncertainty about future incomes following the financial crisis have undoubtedly forced many people to retire later in order to compensate. And the scale of the debts weighing on British households has undoubtedly encouraged more people to work, and to work for longer. So the strong performance of the UK labour market reflects in part people feeling compelled to work for financial and other reasons.

Now again, to their great credit, your great credit, when British workers have been challenged, they haven't given up. Some have taken on less productive or lower-skilled jobs. Others are working part-time. Some have become self-employed. Others are prepared to do the same work for less than they would have done.

If you bring that together to wage pressures, wage pressures based on past relationships are as low today as if the unemployment rate were 10%, not the 6.4% rate it currently is.

Basically with more people - more workers at competitive wages, companies have been encouraged to hire, and they have substituted labour for capital across the economy. This dynamic - substitution of labour for capital - has lowered productivity. But that's not the result - that weak productivity growth isn't the result of laziness on anyone's part. It's the natural consequence of so many people wanting

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to work and companies employing them instead of investing in capital.

One of my points is that, although this adjustment has been painful, trading off lower productivity and lower wages for much higher - and it is much, much higher - employment, on balance that trade - that trade-off provides a solid foundation for a durable expansion. By staying in work individuals retain and learn new skills, and they are better placed to participate in the expansion as it gathers force.

So the consequence of all this is that Britain has an opportunity, seldom seen after a deep and prolonged recession, to reach and sustain a higher level of employment than in the past. And workers have an opportunity now to maximise their pay prospects.

But you are rightly asking - when will this start? When will Britain get a pay rise? Well as employment approaches its new higher level, wage pressures should increase and capital investment should continue to recover; productivity growth should pick up, bringing the higher sustainable pay rises that British workers deserve.

Specifically, the Bank's latest forecast expects real wage growth to resume around the middle of next year and then to accelerate as the unemployment rate continues to fall to around 5.5% over the next three years.

By the end of our forecast, we see 4% nominal pay growth on average across the economy. And this is consistent both with our inflation target, which is our core mandate - consistent both with our inflation target and with the economy's potential. Now I'll touch on at the end of my remarks how workers and employers can raise that potential and as a consequence raise the size of that pay rise.

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But let me first turn to the implications of all these developments for monetary policy. As I said at the outset, one of our roles at the Bank of England is to deliver price stability and do so in a way that supports jobs and growth. Our price stability objective is clear - an inflation target of 2% Consumer Price inflation.

Supporting jobs means helping the economy reach the maximum sustainable level of employment. And what we have to recognise, and the reason I went through all those dynamics and forces in the labour market, what we have recognise is that sustainable level of employment changes over time.

A little more than a year ago, even though inflation had been above target for almost five years, even though growth was returning and was poised to accelerate, the Bank of England didn't raise interest rates from their historic low of half a percent.

We didn't raise interest rates because we recognised that the UK had a huge number of unemployed and under-employed workers. We didn't raise interest rates because we knew the economy was running below full capacity. We didn't raise interest rates because we expected inflation to fall back. We didn't raise interest rates because we saw that confidence might have been returning, but knew it remained fragile. And in short we didn't raise interest rates because we knew the nascent recovery that began about 15 months ago, that recovery was not yet secure.

So what we did do was to use the flexibility in our remit, the flexibility in our mandate to return inflation to target over a longer period than usual in order to support sustainable jobs and growth.

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And in order to make our intentions clear, the Bank committed not even to think about raising interest rates until unemployment fell back to at least 7%. That so-called forward guidance gave businesses the confidence to hire and invest and it reassured households that the costs of servicing their debts were not about to rise suddenly just because the economy was returning to growth.

The effectiveness of that policy was reinforced by actions taken to help heal the banks and the rest of the financial sector. And the resultant recovery has exceeded all expectations. This recovery has momentum. Over 800,000 jobs have been created in the past year alone. And we expect robust economic growth of 3.5% this year and 3% next.

But that's not enough. The challenge now is not to nurture a nascent recovery; we've done that. The challenge now is to secure a durable expansion and to make sure this economy realises its full potential.

Now an obvious question is - what does that mean for interest rates? We're in a position where many of the conditions - many, but not all - many of the conditions for the economy to normalise have now been met, and with that the point at which interest rates also begin to normalise is getting closer.

In recent months the judgement about precisely when to raise Bank Rate from its historic low has become more balanced. But the Bank doesn't have a pre-set course; the timing of these moves will depend on the data, will depend on how the economy evolves.

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Moreover, the precise timing of the first rate rise is much less important than our expectation that, when rates do begin to rise, those increases are likely to be gradual and limited. Interest rates will only go up as far and as fast as is consistent with price stability, as part of a durable expansion, with the maximum sustainable level of employment.

For a variety of reasons ranging from the weakness in the euro area, to that ongoing repair of household balance sheets that I spoke about a moment ago, we are not expecting interest rates to head back to the levels seen before the Great Recession.

Now the actual path of interest rates will be determined by the balance of aggregate supply and demand in the economy. Before the crisis - before the crisis hit these decisions were somewhat easier, monetary policy largely tracked developments in aggregate demand because the structural dynamics of labour supply and the rate of productivity growth in the economy, both of those were relatively constant. But in the wake of the crisis, the supply side of the economy has been anything but predictable.

Now if I'd been here a year and a half ago, I would have said that we thought at that point the major uncertainties on the supply side centred around productivity growth. But as we've observed wages, employment and productivity evolve in recent quarters, we're increasingly of the view that there has been a material labour supply shock for the reasons that I have just discussed.

So our forecast for the next three years - our economic forecast for the next three years, and hence our judgements about interest rate decisions, are based on some key judgements about the labour market, particularly that the number of people participating in the labour force will

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continue to rise. Secondly that the unemployment rate that the economy can sustain without generating accelerating inflation will return to where it was before the Great Recession in contrast with some other major economies. And thirdly that there's scope for average hours worked, or for the average hours that people work to continue to increase.

In short, unlike the US and unlike the euro area, the British economy is likely able to sustain a higher level of employment than in the past. And our uncertainty is less about the direction of this change than about the magnitude. And in order to assess the magnitude of this change, this higher level of employment, and to assess its implications for inflation, we are tracking a range of indicators, including those of the prospective paths for wages and unit labour costs.

Now, actual wage growth, as you've been discussing, is currently very weak; it's just 0.6%, excluding bonuses. There are beginning, however, to be some leading indicators that point to a modest pick up in coming quarters. For example, job to job flows have been increasing and some surveys of pay growth have picked up more sharply in the last year. This offers some encouragement of better wage prospects for those changing or finding new jobs.

But of course, the pay of existing employees needs to pick up as well. After all, what matters for economy-wide inflation is the average wage relative to economy-wide productivity. And to that end, the Bank will be monitoring closely pay settlements that are bunched towards the turn of the year and will be taking a steer from the pay of new hires, more as a potential leading indicator of broader pay pressures.

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Now some observers have discounted the implications for inflation of the recent weakness of pay growth, because some of it stems from the types of jobs that are being filled. But these are real jobs being performed by real people, and an increase in lower skilled, lower wage jobs is one consequence of working-off the labour supply shock. And we also need to be mindful of those longer-term trends I spoke of at the start. We also need to be mindful in other words, that this could represent part of a trend towards greater job polarisation.

The point is - what matters for inflationary pressures, irrespective of the type of job, is the relationship between wages and productivity. And that relationship is captured by unit labour costs. And when we look across the economy at the moment, wage growth is barely above productivity growth. And soft unit labour costs indicate there is further to go before we reach the new sustainable level of employment.

In other words, there is still slack in the labour market. That slack is wasteful and if it were to remain, inflation would remain below the 2% target.

Now our best current collective judgement is that, while it has narrowed rapidly - while the degree of slack has narrowed rapidly, slack remains broadly in the region of 1% of GDP. As I said a moment ago, as this margin of slack continues to narrow, we expect wages to pick up slightly faster than productivity. However, we expect that it will take a better part of three years for this to happen materially enough to bring inflation back to target.

With inflation at 1.6%, continuing downward pressure from past depreciation of sterling, and with that margin of slack remaining, the current inflation environment is benign. But it won't remain benign if we don't increase rates prudently as the expansion progresses.

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The Bank's latest forecasts show that, if interest rates were to follow broadly the path expected by markets or at least the path expected by markets in August, that is beginning to increase by the spring and thereafter rising very gradually, inflation would settle at around 2% by the end of our forecast and a further 1.2 million jobs would have been created. In other words, we would achieve our mandate.

Now that's a forecast, and there is always uncertainty about the future. But uncertainty does not mean stasis. You can expect interest rates to begin to increase. The exact path of interest rates will depend on the economy and the Bank's assessment will undoubtedly change as the economy evolves and of course policy will be adjusted if geopolitical events have a material impact on the outlook.

If indicators suggest that the economy is moving more slowly towards our goals, we will have learned that we are further from sustainable capacity. Prospective wages and unit labour cost growth will be weaker and rates will go up later and more gradually.

But if we see faster progress, prospective wages and unit labour cost growth will be stronger, which will suggest we are closer to maximum capacity in the economy and that the economy can sustain higher rates sooner. But in all of those scenarios rate rises can be expected to be gradual and limited compared to the experience of the UK in the past.

So let me conclude, and we'll get to questions. Look, we are under no illusions, the Great Recession was a calamity and British workers have borne many of the consequences.

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Our job at the Bank of England is to maintain price and financial stability, because price and financial stability support sustainable growth in jobs and incomes.

But monetary policy cannot do it alone. Others, including trade unions, governments and businesses - you will determine the potential of this economy. You will ultimately determine the size of Britain's pay rise.

Those in work need to be able to seize new job opportunities in a world where technology and globalisation cause labour markets to shift rapidly. As you've been discussing over the last day and a half and much, much longer, skill levels need to be raised continually. That is first and foremost clearly about education. But crucially it also means access to lifelong learning, both on and off the job and access that's available to all.

And the TUC's engagement with the UK's skills agenda is a major contribution to achieving that imperative. As just one example in the past year alone, unionlearn helped more than 200,000 people to invest in their skills.

And these are the types of investments are absolutely crucial for the durability of this expansion and for Britain's future. These are the type of investments that will help deliver long-term productivity, so that the British people get the pay rise they deserve.

Thank you very much for your attention, I'll take your questions.

Applause

Mohammad Taj:

Mark I would like to thank you for your address and before I ask Frances to join you to facilitate a question and answer

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session, let me just say that every year, every president has a theme to choose and mine this year was 'End Low Pay' I just want to thank you for ending low pay for your employees; well done.

Applause

Mohammad Taj: I'm now inviting Frances to join and facilitate a question and answer session.

Frances O'Grady: Thank you very much, President, and I hope President with your agreement we might go on a little bit longer just so that we can get a few questions in.

Mohammad Taj: Agreed. Thank you.

Frances O'Grady: But the brisker and shorter those questions are, and if I group them, then hopefully the Governor can answer them concisely too. So could we kick off first please with two questions on the public sector from UNISON and SoR.

Ash Walthamson, UNISON: A report for UNISON by Landman Economics found the cost to the government of increasing public sector pay is significantly less than might be expected. This is partly due to the extra demand generated as pay increases. Every 1% increase in public sector pay injects between £470m and £880m of extra value into the economy. Given the Governor's previous concerns around the need to see wages improving before interest rates are raised, would he therefore agree that much more need to be done to boost the take home pay of public sector workers?

Applause

Steve Herring,

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Vice President, SCoR:

Our question is - our members in the NHS are facing yet another pay freeze, the fourth in five years, while average earnings growth across the economy continues to lag behind price increases. What are the consequences for long-term economic stability if working people are denied the benefits of an improving economy?

Applause

Mark Carney, Governor:

A very important question. Let me say at the outset, absolutely recognise that I quoted the figure which is an aggregate economy-wide figure. Everyone is aware of this but a 10% fall in real incomes since the crisis, but that's across the economy. The hit in the public sector has been larger and we're well aware of that.

And that creates real difficulty. It's one of the reasons why we are very conscious about the pace and degree of potential interest rate increases, the timing, pace and degree of potential interest rate increases. We need to see the prospects of wage growth coming in, real wage growth across the economy including through the public sector.

Now let me just stress two other points. First is that ultimately wage growth in the public sector and wage growth across the economy is going to be determined by productivity, so what we're doing is trying to put in place the conditions to maximise that and ensure that it flows through. And I'll emphasise that, from a financial stability perspective, because you raised the second question on financial stability, this is something we are taking very seriously. It's one of the reasons why we acted on housing earlier this year, because we had concern about in an environment of low pay growth, amongst other factors, that the debt burden that could be built up through the housing market would weigh on this economy, not just next year and the year after that, but

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much further out and very materially reduce incomes and livelihoods, not just for public sector workers but workers across the UK.

Frances O'Grady:

Thank you very much. I've got a group of three questions, two on interest rates from Unite and GMB, and then one from Equity on investment.

Dawn McAllister,

Unite Scottish Executive Member:

Good afternoon. Millions of people are over indebted and my union Unite has highlighted how many people have to borrow from payday lenders to get through the month because of low wages and cuts in real wages. An interest rate rise is likely to have a wide social and economic fallout as people can no longer make ends meet, and many will face the prospect of losing their homes. How much is the Bank of England going to consider this and whether wages have increased, when looking at whether to raise interest rates?

Applause

Kath Farr, GMB Scotland:

You said that when unemployment rate fell below 7%, interest rates would rise as part of an economic strategy on inflation. You did not follow that through. Is this because of the impact a rise in interest rates would have on millions of working people, or was it something to do with the pressures politically not to support interest rates this side of an election?

Applause

Linda Rooke, Equity:

Is there a place for regulation to ensure economic stimulus is delivered to the wider UK economy as opposed to only the financial sector? For example, to the powerhouse that is the creative industries, which delivered 15.6% of GDA in 2012. Thank you.

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Applause

Mark Carney, Governor:

If I try to group them, there are three aspects here. The first - and I welcome the focus because it's absolutely essential - this focus on indebtedness of British households, the sensitivity to interest rates and what that means for monetary policy. Because ultimately what it means for growth, the pressures on inflation, what it means for monetary policy.

We are very sensitive to this. We conduct extensive analysis of not just economy-wide indebtedness, but cohorts or groups of people within the economy and how indebted they are. We see that through surveys and other analysis. It's 40% of British households feel acutely the weight of their indebtedness, and we look at how they would adjust to potential rate increases. It's one of the factors that influences without question the path of monetary policy and durability of the recovery, or the expansion rather.

So what's important is that there is a prospect of wage increases. There's a real prospect of wage increases and those wage increases are coming through, because that helps to reduce the burden of that indebtedness. And what I was concentrating on in the speech is the dynamic is - as this extra workforce finds employment, in economist speak as the slack is used up - a terrible way to talk about it, but as it's used up in the labour market, then we start to see those prospects. But we are very alert to this issue and it influences all our policies. That's the first point.

The second point, because both there was the reference to payday lenders, but then there was the reference to bank lending, and particularly I think to the creative industries which is an important point, there is a radical restructuring

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going on which isn't finished, but it is in train, of the banking sector in this country.

We have fundamentally changed the cost of banking to the banks of various activities. It is much, much more expensive for banks to engage in trading in the City, investing in financial markets, as opposed to lending to the real economy. Now these are big, somewhat lumbering institutions and it takes them a while to adjust, but they need to be successful, they need to build the skills to lend to businesses.

And as you know, inequality you know that much of the future of this country is in the creative industries, is in industries where the basic assets are human capital and ideas and imagination, and so those banks need to be able to make the credit decisions around lending into those industries. It will take them a while, but the incentives are there and they're much more resilient in order to be able to do that vis-à-vis payday lenders and others.

What's important is that there are new banks that can come in and compete against these very high rates of interest and very ineffective rates of interest for households. And so we have streamlined the ability of new banks to come in, and we've had a fourfold increase in the amount of applications and the number of new challenger banks that are coming through. Again, we have to do more but that's a focus for us.

And then this last point just on interest rates and politics is the way I would term it. The first thing to say is we're absolutely indifferent to the political cycle, to who's in government, who might be in government, who was in government. We're given a specific mandate, it's basically unchanged since 1997, to achieve that 2% inflation target. And we manage monetary policy in order to achieve that, and if we need to raise interest rates before, or lower them for

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that matter, before a vote or an election or a referendum or anything, we will do what is necessary in order to achieve that target. We are technocrats so we do what's necessary.

If you don't mind, I just want to clarify one thing. I think most people are clear, but our commitment about not raising interest rates, our commitment was not to raise interest rates at least until unemployment got to 7% because we wanted to secure that recovery. And what we said was we - once the unemployment rate got to 7%, we would then look around, take stock and decide where monetary policy needed to go.

And when we looked around and took stock, we saw a lot more people who wanted to work than had jobs, we saw a lot of people working part time that wanted to work full time, a lot of people working self-employed that wanted to be in regular employment. We saw a lot of people on zero hour contracts. We saw a lot of flexibility - a lot of additional capacity in the labour market. It didn't make sense to raise interest rates was our judgement then, and it's been absolutely vindicated by the performance of the economy since.

Frances O'Grady:

Thanks very much, Mark. Two more questions. One from PCS on taxation, and one from SCP on housing.

Question:

Thanks, Frances. Good morning, Mr Carney. PCS represents over 50,000 workers in Revenue and Customs. An estimate is that there's over £120bn in tax avoided, evaded and uncollected. We hope you're making the case with the government that in this situation HMRC should employ more staff rather than cut jobs, in order to enable this tax to be collected.

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But our question to you as the Governor of the Bank of England is this: the richest 10% pay a lower share of their income in tax than the poorest 10%. Do you believe there is a case for making the tax system more redistributive?

Applause

Patricia Schooling, The SCP:

Ordinary people are struggling to buy their own homes as a result of the so-called housing bubble. This is a huge problem for young workers who are low paid and often paying off university debts. Is the Bank of England planning to take any steps to take the heat out of the housing market? And will the rise in interest rates make the situation better or worse?

Applause

Mark Carney, Governor:

Let me - I'll start with the housing and then I'll go to inequality. Let me say first about housing, we have a range of tools at the Bank of England. The Bank of England has changed in recent years. It used to be that we basically could just vary interest rates, and one of the challenges was there might be a temptation to use interest rates against an issue such as you're describing in the housing market, unsustainable growth as described in house prices.

We now have another range of tools that we can use and so we can preserve interest rates, monetary policy for achieving inflation, but achieving the inflation target in a way that supports jobs and growth, and that's what we're doing.

So what are we doing on housing and how do we view that situation? What we did on housing in June was that we took a series of steps that in effect took out insurance against developments in the housing market that wouldn't be consistent with the long-term growth of this economy. We

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restricted banks' ability to make risky loans, risky pay, risk mortgages, we capped the amount of those mortgages that they could do. Working with other agencies, we're making sure that banks do proper credit checks and credit analysis so they're concentrating their resources on people who deserve those mortgages, and we're making sure that those mortgages are being shocked to higher interest rates, so that when people get a new mortgage they know that they can pay that mortgage if interest rates adjust.

The consequence of all those measures, the intent was not to target house prices per se; it wasn't to stop the housing market in their tracks. There's a number of you here who know that housing markets in your region are just beginning to recover. But it was to make sure that certain housing markets - and certainly the housing market across this country - doesn't move unsustainably, supported by unsustainable debts. That's what we can do on the housing market; we can take other steps. But let me also acknowledge our limitations. We can't build houses. The fundamental problem in this housing market is a lack of supply, and that's going to take efforts from many others for many, many years in order to address the lack of supply.

With respect to inequality, I'm afraid on fiscal policy and tax policy it's not our responsibility. We have many responsibilities and I've just talked about housing, but it's not one of our responsibilities. So I'm not going to drift into dictating tax policy. But these issues have real consequences for our policies. The shift in wage growth, more rapid wage growth at the upper end, tepid or negative wage growth at the lower end, that affects inflation. We need to understand that. That affects our monetary policy. It's one of the reasons why one would expect this more gradual path even though the economy is growing.

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And I am going to repeat myself that again it goes back to - who has the debts in this economy? What's their ability to service those debts? What does that mean if there's too rapid of an adjustment in interest rates? And what does that mean for the sustainability of the economy? We're trying to do everything we can to put in place the conditions so that there is that growth that's going to bring into place sustainable wage increases for all.

Frances O'Grady:

Thanks very much, Mark. We've had lots and lots of questions on the cost of living, so we've got just two now, NUT and UCU.

Louise Regan,

National Union of Teachers:

International studies show that the greater the inequality in a country, the worse its educational outcomes. In your interview with William Keegan printed in our conference programme you talked about your worries about a waste of human capital in the UK. Do you accept that greater state intervention to strengthen the economy and reduce inequality will improve our children's education and life chances?

Applause

Mahmoona Shah,

University & College Union:

The recent ONS upwards revision of the numbers on zero hours contracts and the growth in low paid self-employment revealed that the labour market picture is not as rosy as previously thought. How will the Bank reflect this reality of low pay and a disappearing middle in the quality of labour market data, and plan for a fair and sustainable economy?

Applause

Mark Carney, Governor:

On the - let's talk about the near term which is what you're raising, zero hour contracts, self-employment, part time,

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other figures. We're taking all of those very much into account, because if one just looked at the movement in the unemployment rate and the speed of the movement in the unemployment rate, one could draw a conclusion of a very tight labour market, very tight dynamics in the labour market. But by looking behind, by looking at the number of people who want to work full time but still can only find part time work, people moving into self-employment, the increase in the participation rate, in the participation in the labour market, more people coming in looking for work, and the prospect of more of those coming, taking all of those factors and others into account, that's why we do still see slack in this labour market, this 1% number I quoted.

Now there's a lot of uncertainty around that and we're learning with every day about exactly where that is, but that's why we see that and that's why the judgement, the collective judgement of the MPC, which is the committee of the Bank that makes these decisions, has been to keep interest rates where they are.

Now what I'm saying today is, consistent with what we've said recently, is you can expect interest rates to start to go up at some point, but it's within the context of how that slack is used up and what the prospects are for not just wage increases but, you know, labour costs.

On - absolutely crucial questions around education. I can't stress enough, and you'd know this from your work and from your colleagues, how wasteful - you know there's nothing worse than wasting human capital. Now I sound like an economist in saying it that way, but wasting a life, wasting skills and people losing that.

Now there were two challenges. The first challenge after this recession was first to keep people in work as much as

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possible, because people lose their skills if they're out of work, it's just a reality, it's an unfortunate reality. And we in the UK have done better than others, versus anyone else, in keeping people in work. But that's not enough. The whole point is around lifelong learning, building on the base that the teachers give employees. And it is from early childhood education, it's through formal education, but it is very much a skills agenda that evolves through lifetime, and it's not just for those in work, it's for those out of work and it has to be available for all which is why I wanted to stress that at the end.

And I'll just hammer the point if I may, which is that our contribution to the pay rise for which you're looking, is to ensure that you get that which the economy today can sustain. But it's not clear you should be satisfied with that. That's the extent of what the Bank of England can do. The question is how do you raise the level of pay that the economy can sustain? And part of the way you do it is through that - through a very equal and broad based investment in skills throughout an individual's lifetime.

Frances O'Grady:

Okay, thank you, Mark. I'd like to take a question from USDAW next on independence.

Jeff Broome, USDAW:

With less than two weeks until the people of Scotland vote in the independence referendum, would an independent Scotland be able to remain in the currency union with the rest of the UK? And if not, what might be the consequences to the Scottish economy?

Mark Carney, Governor:

Well you know I went to Edinburgh in January and I gave a speech on this subject, on the economics of currency unions. And basically in that speech I said there are three components of a successful currency union. First you have to

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have free movement of capital and labour, and goods and services, trade across the various parts of the currency union.

Secondly you need something called the banking union, in other words you need the same regulation, the same supervision, the same standards in the banking sector. And you very importantly need the institutions that stand behind those banks, the lender of last resort which is the central bank, deposit guarantee scheme, if it's credible. You need all those institutions to be common.

And thirdly you need some form of fiscal arrangement. So you need tax, revenues and spending flowing across those borders to help equalise to some extent the inevitable fluctuations, differences in the various economies. I think we only have to look across the Channel at what happens if you don't have all of those components in place. So that's just the economics of it, that outlines the economics of it.

You know, I've said this before, but we take note of the positions of all the major Westminster parties to rule out a currency union between an independent Scotland and the rest of the UK. So it's in that context, just to put it together, in that context a currency union is incompatible with sovereignty.

Frances O'Grady: Okay, thank you.

Applause

Frances O'Grady: I think we can sneak in just one more from Prospect please.

Lorna Daniel, Prospect: Good afternoon, Mr Carney. Last July when you announced that Jane Austen would be featuring on the £10 bank note you also made a welcome commitment that future bank notes should celebrate the full diversity of great British historical

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figures, and their contributions in a wide range of fields. Do you think this commitment to greater diversity should include the composition of the Monetary Policy Committee?

Applause

Mark Carney, Governor:

Well I do actually; I think I've said that. No, let me say a couple of things. First it was striking when I first came to the Bank that the level of the gender balance in the senior ranks of the institution was not what I would have expected, nor does the staff of the Bank yet fully reflect the diversity, the broader diversity, of the United Kingdom. And so what have we done? And I should note that decisions of who is on the Monetary Policy Committee or any of our other committees are not for the senior management of the Bank, but for the government, for the Chancellor. And that in the last year I am very pleased that Kristin Forbes and Minouche Shafik both have joined and they're both excellent colleagues.

What we can influence though at the Bank, and what we have been influencing, is the composition of our workforce. And here's what we've done, and you know it's 15 months but here's what we've done. The year before in our graduate intake about a quarter of new hires were female. In the most recent graduate intake which came in in August, just under half were female. In our senior management ranks, the top 50 senior managers, a fifth were female. Now it's about a third.

We've set up specific taskforce targets. We're actively recruiting to get a balance. As you would expect, we have a strategic plan. This is one of our fundamental objectives of the strategic plan is that our workforce at the Bank of England fully reflects the diversity of the United Kingdom, because it's not just the right thing to do, it will make us much, much more effective. And it's going to take years to

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do it. We've made a good start but it's - I'm glad to end with that question because it's fundamental to what we need to do. So thank you.

Frances O'Grady:

Thank you.

Applause

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