

Tories want to give Bank of England greater powers over Britain's financial system

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Global Research, August 06, 2009

[The Telegraph](#) 20 July 2009

Region: [Europe](#)

Theme: [Global Economy](#)

The Conservatives have pledged to hand the Bank and its Governor Mervyn King power to control the balance sheets of all Britain's major banks and finance houses, as well as regulation of the broader financial system. With its existing power to control interest rates, the proposed reforms will mean the Bank will rival the US Federal Reserve as one of the western world's most powerful central banks, with a reach that extends from controlling the speed of the economy to the behaviour of its banks.

Few other central banks have almost untrammelled independence to set both interest rates and to oversee banks. Indeed, under the Conservative plans, the Bank would be significantly more powerful than before Labour came to power in 1997.

Richard Lambert, CBI Director-General, said: "This is a very radical blueprint. The Conservative proposals would give the Bank of England the most wide-ranging powers of any central bank in the major economies.

The proposals were contained in the Conservatives' "White Paper" produced as an alternative to the Treasury's own mooted reforms for the system of financial regulation. The plans contrast sharply with the Government's announcement to strengthen the tripartite in particular the FSA.

At the launch of the report, David Cameron said: "The decisions that led to this crisis represent a policy failure of historic proportions. We now need deep, wide-ranging reform that matches both the magnitude of the crisis and the scale of the hardship inflicted on the British people."

He added: "I'm afraid the Government's proposals that all we need are a few more tweaks and a little bureaucratic tinkering are totally inadequate and risk preventing a recovery."

If the Tories in the general election, Mr Osborne said they would:

- Scrap the tripartite system of regulation and abolish the Financial Services Authority
- Create a new Financial Policy Committee to work along side the Monetary Policy Committee and tasked with maintaining financial stability
- Set up a separate part of the Bank called the Financial Regulation Division responsible for micro-prudential regulation of Britain's banks, building societies

and insurance companies.

- Appoint a Treasury minister to fight for Britain's interests in Europe. Mr Osborne said: "The recent proposals from the Commission would damage London and undermine confidence. The Treasury is not fighting hard enough for our national interest."
- Create a new Consumer Protection Agency charged protecting the consumer far more conspicuously than the FSA has done. The Tories say it will be "much more consumer-orientated, transparent and focused body than the FSA." He added: "Like the Obama administration in the US, we will force financial institutions to be more transparent about their retail consumer charges."

The proposals were met with caution in the City. While there is recognition that change is necessary following the crisis there was concern about regulatory uncertainty.

Lord Myner said the plans would cause "considerable disruption".

Others criticised Mr Osborne for ducking the issue about banks that are "too big to fail". He said: "I believe there is a case for separating some of the riskiest investment banking activities - such as large scale proprietary trading - from retail banking. But it would not be sensible or indeed effective to impose that separation unilaterally, so we will continue to examine the case internationally."

Mr Osborne said: "If we can bring stability to our banking system and reward long-term returns over short-term bonus chasing then we will have put in place a key foundation stone of a powerful, productive economy."

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