Why the Bank of Canada needs a dual mandate to also pursue maximum employment

By Diane Bellemare
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Many economists, including myself, believe that it is time to broaden the Bank of Canada's mandate to include the pursuit of maximum levels of employment or full employment. It's not a new idea. Australia, the United States and New Zealand have legislated that the mandate of their central banks is both price stability and full employment.

In economist's jargon, this is what is referred to as a dual mandate. Canada has an opportunity now to do the same.

In the next Speech from the Throne, the federal government can decide to announce a review of the Bank of Canada Act and the adoption of a dual mandate. In fact, in 2021, the government must renew its five-year agreement with the bank. For almost 30 years now, the Department of Finance and the bank have been signing an agreement that provides for specific inflation targets. The target rate is flexible and the objective is an annual average increase of 2 per cent in the consumer price index.

The bank has succeeded in its gamble and inflation is under control. However, the institution could do more to maintain Canada's economic health.

Inflation is no longer the problem it once was, and most experts agree that galloping price increases are not on the horizon. Fiscal and budgetary policy are currently more effective than monetary policy in stimulating the economy. However, to be successful, the government needs the support of a monetary policy that focuses on the health of the labour market and not just a monetary policy that targets inflation alone.

On March 10, I tabled a motion in the Senate proposing that the Standing Senate Committee on Banking, Trade and Commerce study the need to review the Bank Act to expand its mandate to notably include the pursuit of maximum levels of employment or full and productive employment. This position is shared by more than 60 economists who, in May, 2018, asked the then minister of finance, Bill Morneau, to review the Bank Act.

It is important to note that the agreement to be renewed is a practice and not a legislative obligation. The Bank Act, which received Royal Assent in 1934, does not contain any section specifying its mandate nor the agreement to be signed with the government pertaining to the preferred target rates.

Perhaps it is time to modernize the Bank Act and bring it more in line with the current practice?

On Aug. 26, 2020, in preparation for the next agreement with the government, the bank held an important conference regarding the renewal of the monetary policy framework. The adoption of a dual mandate was discussed at length. Interestingly, based on analyses conducted by the bank, professor emeritus of economics Pierre Fortin and senior deputy governor Carolyn Wilkins pointed out that the desired inflation targets would have been equally achieved with the adoption of a dual mandate.

Prof. Fortin also noted that in the United States, where a dual mandate has been in place since the mid-1970s, the unemployment rate has been generally lower than in Canada. Pursuing a dual mandate appears to be a win-win on both fronts.

As a matter of fact, the adoption of a dual mandate presents as many, if not more, policy and operational options for the bank as the current framework does. It would encourage the bank to act pragmatically, as it has done in recent years. It would also provide assurance to businesses and economic actors that the bank will pursue the well-being of society as a whole, including the labour market.

The government would be well advised to announce in the next Speech from the Throne a review of the Bank Act and the adoption of a dual mandate for the bank. This would certainly not be unorthodox. After all, if the chair of the U.S. Federal Reserve can announce with great fanfare, as he did on Aug. 27, that U.S. monetary policy will prioritize the health of the labour market for a long time to come, the Bank of Canada could well do the same.

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