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## Asian Central Bank Mandates: What about Equality?

**Economy, Trade, and Finance**



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## Foreword and Acknowledgements

2020 was a year like no other as the pandemic changed many aspects of our lives. In a sense, that made early 2021 an ideal time to ask the question: how would you address some of the biggest challenges in Asia in the coming decade? In January 2021, the Asia Business Council joined hands with Nikkei Asia and the Blavatnik School of Government at the University of Oxford to launch the Asia's Challenge 2030 Global Essay Competition, open to students aged 18–22 anywhere in the world.

Given the many obstacles facing young people pursuing their studies during a global pandemic, we did not know how many essays we would receive. Yet we were impressed by thoughtful submissions from universities across Asia and as far afield as California and London. We pored over essays on topics ranging from artificial intelligence and aquaculture to smart cities and virus sequencing and learned a lot in the process.

The essays reflect a generation that is asking hard questions about the challenges facing Asian societies and optimistic about the prospects for creating a better world through new modes of doing business and innovative approaches to policymaking.

Young people from Asia are increasingly globally aware. They want policymakers to adopt international best practices in public health and environmental protection, especially in areas like sustainable finance and mental health awareness. But they reject the uncritical adoption of Western models, from urban design to economic development. Many call for a celebration of their unique national and regional identities, whether through locally inspired architectural designs or the increased representation of indigenous perspectives.

Participants in the Economy, Trade, and Finance category want to improve existing economic models so that a balance is struck between economic growth and a fairer, more sustainable, and more stable world.

In the Public Health and the Natural Environment category, respondents called for holistic approaches to health. Concerns about mental wellness reflect the pressures brought about by increasingly competitive academic and professional environments, while essays about communications and interpersonal relationships demonstrate the desire for a more intentional focus on modeling healthy relationships. Still other submissions addressed the existential crisis posed by climate change and the complicated web of interrelated challenges, from plastic waste to fossil fuel use. Proposed solutions range from changes in consumer behavior to an entirely new model of development.

In the Cities and Urban Development category, the essays we received reflected a desire for smarter, more walkable, climate resilient cities, and urban environments that reflect their unique local character. Whether as consumers, as employees, or as entrepreneurs themselves, this younger generation will demand that businesses and governments adopt sustainable practices and modes of operation that benefit their communities.

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This global essay competition would not have been possible without the support of the former and current Chairmen of the Asia Business Council, Lim Boon Heng of Temasek and Daniel Tsai of Fubon Group. We are also indebted to Vice-chairman Tak Niinami of Suntory Group and Council Trustee Nazir Razak of Ikhlas Capital, who made key introductions to Nikkei Asia and the Blavatnik School.

Special thanks must also go to Shigasaburo Okumura and Daisuke Akazawa, Editor-in-chief and Chief Producer of Nikkei Asia, and Ngaire Woods and Luna Sidhu, Founding Dean and Director of Development of the Blavatnik School, for making this competition possible.

We would also like to thank our judges who generously volunteered their time and energy.

Economy, Trade, and Finance category:

- Nobuyoshi John Ehara, Co-founder, Unison Capital
- Emily Jones, Associate Professor, Blavatnik School of Government
- Katsuhiko Hara, Chief Desk Editor, Nikkei Asia

Public Health and the Natural Environment category:


- George Tahija, Principal, PT Austindo Nusantara Jaya Tbk
- Maya Tudor, Associate Professor, Blavatnik School of Government
- Futoshi Kuwamoto, Business & Market News Editor, Nikkei Asia

Cities and Urban Development category:

- Zhang Xin, Founder and CEO, SOHO China
- Sir Paul Collier, Professor, Blavatnik School of Government
- Shin Nakayama, News Editor, Nikkei Asia

Finally, we would like to acknowledge the assistance of Ashleigh Au of SOHO China Scholarships and Ruth Collier of Oxford University in publicizing the contest.

There is no doubt that this generation will be profoundly shaped by the experience of living through the world-altering events of 2020 during their formative years. But most essays took the longer view instead of focusing solely on the pandemic, looking ahead to the challenges of the next decade and beyond. Policymakers and business leaders around the world should take note of their ideas as this young generation comes of age and begins to lead local and international development in multiple fields.



**Pauline Yeung**  
Program Director  
Asia Business Council



**Colleen Howe**  
Program Associate  
Asia Business Council

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## Award-winning Essays

### Economy, Trade, and Finance

**Krati Gupta** (India)

*Rajiv Gandhi National University of Law*

The Three Pillar Multi-Stakeholder Approach to Responsible Financing:  
Addressing Asia's Challenges in the "Decade of Action"

**Chloris Jiaqi Kang** (Singapore)

*National University of Singapore*

Private Money for the Public Good –  
Unlocking Private Equity for Asia's Sustainable Finance

**Henry Michael Mayhew** (United Kingdom)

*University College London*

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### Public Health and the Natural Environment

**Hanun Thalia** (Indonesia)

*Universitas Indonesia*

KomU as a Strategy to Improve Family Communications

**Yao Yuanchen** (China)

*Tokyo University of Foreign Studies*

Meeting the Challenge of Plastic Waste Recycling in Japan and China

**Suzu Yokoyama** (Japan)

*Tsuda University*

Tackling Unrealistic Beauty Standards in Japan and South Korea

### Cities and Urban Development

**Matthew Flores** (Philippines)

*Ateneo de Manila University*

Indigenous Cities: Reframing Modernity and Our Cities

**Rya Jetha** (United States)

*Pomona College*

Reinventing the Asian Megacity: Absorbing Climate Change with Sponge Design

**Ranita Ma Tsz Yu** (Hong Kong SAR)

*Chinese University of Hong Kong*

From a City-scale Beauty Pageant to a Continent-wide Diversified Gallery

**Ashley Faith Santoso** (Indonesia)

*Atma Jaya Catholic University of Indonesia*

The Neglected Effects of Gender-based Violence towards Jakarta's Urban Walkability



# Asian Central Bank Mandates: What about Equality?

## Problem

Asia has seen widening inequality which is harmful to long-term economic stability. One contributing factor is the increasing use of Unconventional Monetary Policy (“UMP”) by Asian Central Banks (“ACBs”). ACBs have contributed towards increasing inequality because of UMP’s different distributive effects – meaning that the distributive benefits of expansionary monetary policy can no longer be seen to be passive. This is an area of oversight for ACBs because to date, they do not consider the long-term consequences of these new distributive effects. Change is important because there is growing scholarship that shows that higher inequality impacts economic stability, which is crucial for Asia’s continued competitiveness. Indeed, the status quo is an oversight due to the institutional limitations of ACBs – there is currently no mandate to consider equality as an area of consideration. In face of this institutional gap, the legislative bodies of Asia can leverage Covid-19’s political climate to widen their central banks’ mandates to include equality as a secondary area of consideration.

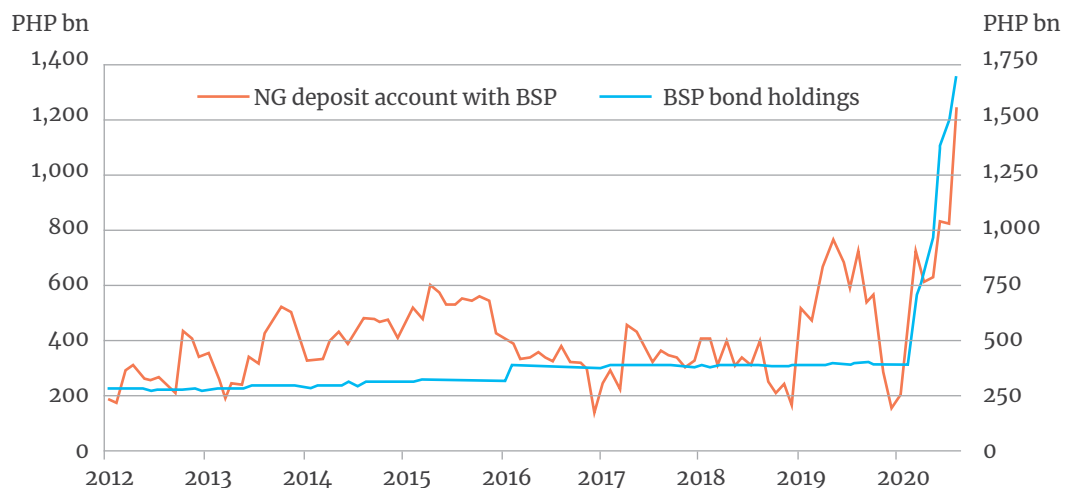
Having elaborated on the scope of the problem, the rest of the essay will be organised as follows. Section 2 will include a discussion of the problem placed into the unique context of Asia and why the status quo is inadequate. After this, Section 3 will include an outline, detailing the proposed reform of widening ACB mandates. Section 4 meanwhile will consider the feasibility of the reform.

## Context

UMP is typically only associated with Japan. This is because Japan pioneered UMP, with the Bank of Japan being one of the first to pursue negative base rates. In addition, it was one of the first to establish a QE programme, which now has a purchasing commitment of Japanese government bonds of ¥80 trillion per year—roughly 15% of GDP.

However, the truism that Japan is the only country engaging in UMP no longer holds for the Asia Pacific at large. This is because Covid-19 has meant that both developed market and emerging market central banks are experimenting with UMP. To illustrate, across Asia, there been increasing use of UMP in countries such as the Philippines, Indonesia, India, and Korea. As an example to show this sort of experimentation, Figure 1 displays the Philippine central bank’s balance sheet, showing that it engaged in QE by purchasing PHP 1.1 trillion worth of bonds from the market, equating to 5.6% of GDP. This new use of UMP is unprecedented and expected to continue as more ACBs reach the zero lower bound (where nominal central bank base rates are close to 0%).

## Philippine central bank balance sheet



Amidst this rise of UMP across ACBs, what is less well known is that these unorthodox measures have led to novel and compounding distributive effects. This is because the use and expected escalation of UMP increases income and wealth inequality. This effect occurs as UMP increases asset prices greatly, which is disproportionately to the benefit of higher-income households. As a result, UMP increases income inequality as higher-income households hold more assets in their portfolios in comparison to lower-income households – which thereby compounds into wealth inequality.

The increasing use of UMP and its more unequal distributive effects means that ACBs' status quo mandate is antiquated for the new environment that Asian economies find themselves in. Whilst the majority of ACB mandates include price and financial stability, there is an institutional gap due to the vagueness of "financial stability," which does not include equality as an area of consideration. This is a pressing problem – quantitative analysis has shown that increasing inequality contributes towards economic instability because of the increased risk of financial crises. However, to date, ACBs do not explicitly factor in the new distributive effects in their decision-making processes.

This poses a serious issue for ACBs because the continued use of UMP will compound the unequal distributive effects, and thus compound the risk of economic instability. Change is pressing as the use of UMP is likely to continue in the foreseeable future in part due to the liquidity shock that Covid-19 has had. Facing this issue, the central banks of Asia must adapt.

## Widening the Mandate – Equality!

The previous section highlighted how the status quo is inadequate because the rising inequality from UMP increases the risk of economic instability. To conquer this oversight, this essay proposes that the legislative bodies of Asia initiate reform to widen their central banks' mandates to take into account equality as an explicit secondary area of consideration. I will first explain in-depth what the recommendation is and then why it would help overcome the problem that the status quo mandates bring.

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The widening of the mandates would mean that there would be multiple objectives for ACBs. This is because within the proposed reform, equality as an area of consideration acts as ACBs' secondary objective. As such, the objective of equality would be tiered. As a result, this would mean that the main objective would still be to continue pursuing monetary policy that achieves the status quo mandate, but the decision-making procedure would be widened to include considerations of policies' distributive effects. Importantly, this widening to include equality is to supplement the status quo mandates since greater equality leads to increased price and financial stability.

It is important to note that the secondary aim of equality is left intentionally broad. This is so that equality is only pursued in accordance with price/ financial stability to avoid politicisation of ACBs. There is considerable debate on what the "just" or "correct" level of inequality should be, and the recommendation does not make explicit claims to the "appropriate" level of inequality. Indeed, this appropriate level should be left to the government, as decided by its voters. The widening of the mandate is simply to supplement ACBs' status quo mandates. As a result of this intentional broadness, normative claims with regards to the correct level of inequality are avoided. Considerations of inequality are only there so that the monetary policies that encourage the most stability can be pursued. Understood as such, the reform would make ACBs' already implicit mandate explicit, through a public announcement that the institutions intend to include equality as an area of consideration.

In making equality more of an explicit consideration, it helps to overcome the problem of the status quo mandate by shifting the default position of the ACBs. This is because pre-reform, ACBs would not explicitly consider equality and thus would discount the distributive effects of monetary policy. Indeed, pre-mandate reform, consideration of anything other than the narrow primary aims of central bank mandates would incur legal and ethical problems. However, post-reform, the central banks would now additionally consider the compounding distributive effects of UMP policies. The benefit arising from this is that any "unnecessary" inequality is avoided. This is because by widening the mandate, ACBs would have increased flexibility to pursue monetary policy that would acknowledge and consider its own distributive effects. Hence when considering policy options, central banks could *ceteris paribus* decrease inequality, when they previously would not have been able to do so. Due to this, further financial stability is achieved as any "unnecessary" inequality will be avoided – unnecessary here when considering its impact on economic stability. Overall, widening the mandates of ACBs would help supplement ACBs' status quo mandates. This would help further Asian economies, and thus competitiveness, by putting in place a more effective mandate.

### Feasibility: Electoral Risk from Business?

A feasibility constraint comes from the potential electoral risk arising from pushback from business. This is because internationally oriented business groups tend to have preferences for monetary convergence. Monetary convergence here means that they would prefer if ACBs had a base rate that is close to the global average. Hence, the widening of mandates might be perceived as going against monetary convergence. As a result, within the respective legislative bodies, it might be perceived as electorally risky to oppose the interest of an important supporter base.

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However, this electoral concern is mitigated by two factors. Firstly, the purpose of having equality as a secondary area of consideration is that it addresses the risk of inequality affecting financial stability. Hence, it would be in the interest of Asian businesses to approve of the mandate reform. To explain further, having equality as a sub-target whilst potentially going against monetary convergence in the short-term, fulfils a greater common goal of long-term financial stability. Hence even if the monetary policy may diverge from the world average for a short period of time, as highlighted above, it helps toward further financial stability in the long run – the key foundation for Asia’s economic interests.

Secondly, the concern is mitigated on another level with regards to electoral risk. This is because the timing of the policy proposal coincides with a window of opportunity opened by Covid-19. This window of opportunity opened by Covid-19 has meant that what is electorally possible has changed due to the policy-feasibility constraint known as the “Overton Window” being widened. The effect of the widening Overton Window is that businesses are now said to have a more long-term view of survivability post-Covid. As such, they would further be incentivised to support the proposal recommendation as it is in their own interest for longer term stability. Hence, concerns about electoral risk arising from business perspectives are mitigated.

### Feasibility: How About Asia’s Ageing Demographic?

Asia is experiencing rapidly ageing demographics, with the number of elderly people expected to double from 535 million in 2015 to 1.3 billion by 2050. This ageing demographic is important as they have a distinct group preference with regards to monetary policy. This is because the elderly tend to have lower inflation rate preferences due to savings and pensions that benefit from a low-inflation environment. This could translate into a great number of elderly voters who want low inflation rates. Yet, widening ACBs’ mandate might be interpreted as the institution wanting to increase inflation rates to pursue the sub-target of equality.

However, this concern is assuaged when considering the practical effects that the widening mandate would have. The design of the sub-target of equality means that it can only be pursued *ceteris paribus* to ACB policies’ effects on status quo mandates. To explain further, it is effectively subservient to the main objective of price and financial stability. As a result, any monetary policy choices that ACBs make will still have to consider price and financial stability as its main objective. Indeed, as highlighted above, any consideration of equality as a secondary target is for the aim of promoting long term stability. Hence upon closer examination, the policy recommendation poses little electoral risk to the elderly if the purpose of adding equality as a secondary ACB target is properly communicated. The widening of the mandate is to support the long-term stability of the Asian economy, which is in the self-interest of the growing elderly population in Asia.



## Conclusion

Overall, this policy proposal has highlighted the weaknesses of ACBs' status quo mandates. The proposal offers Asia a solution to improve this through legislative bodies widening ACBs' mandate to include equality as an area of secondary consideration. It has shown that widening the mandate would further promote ACBs' independence and credibility. This in turn would further support Asian financial stability and competitiveness. This would be achieved through having the institutional flexibility to jettison any "unnecessary" inequality *ceteris paribus* to their primary mandate objectives. The proposal has also shown how this reform would not pose electoral risk to core supporters, including to businesses and the growing elderly population.

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