



House of Commons
Treasury Committee

**Bank of England
Monetary Policy
Committee:
appointment hearing
for Professor David
Blanchflower**

Eighth Report of Session 2005–06

Report, together with formal minutes

*Ordered by The House of Commons
to be printed 24 May 2006*

The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury and its associated public bodies.

Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)
Angela Eagle MP (*Labour, Wallasey*)
Mr Michael Fallon MP (*Conservative, Sevenoaks*), (Chairman, Sub-Committee)
Mr David Gauke MP (*Conservative, South West Hertfordshire*)
Ms Sally Keeble MP (*Labour, Northampton North*)
Mr Andrew Love MP (*Labour, Edmonton*)
Kerry McCarthy MP (*Labour, Bristol East*)
Mr George Mudie MP (*Labour, Leeds East*)
Mr Brooks Newmark MP (*Conservative, Braintree*)
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)
Mr Mark Todd MP (*Labour, South Derbyshire*)
Peter Viggers MP (*Conservative, Gosport*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk. The Committee has power to appoint a Sub-Committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-Committee, and its Chairman is Mr Michael Fallon.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997-98 onwards are available on the Internet at www.parliament.uk/parliamentary_committees/treasury_committee.

A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Dominic Lindley, Andrew Staines and Adam Wales (Committee Specialists), Lis McCracken (Committee Assistant), Mandy Sullivan (Secretary) and James Clarke (Senior Office Clerk).

Contacts

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Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
2 Professor David Blanchflower	6
Background to the appointment	6
Background on Professor David Blanchflower	6
Role as member of the MPC	6
Other roles and responsibilities	7
Assessment of personal independence and professional competence	7
Formal minutes	9
List of witnesses	11
List of written evidence	12

Summary

The Treasury Committee has established a practice of holding hearings with persons appointed to the Monetary Policy Committee (MPC) of the Bank of England and reporting on those hearings. This practice enhances the transparency of the appointment process and increases the level of information available to the public and to Parliament about the functioning of the MPC. We have held a hearing with Professor David Blanchflower on his appointment to the MPC. We are satisfied that Professor Blanchflower meets our criteria for appointment and wish him every success in his new role.

1 Introduction

1. In our First Report of Session 2005–06, we indicated our intention to continue with the practice of holding hearings and issuing short Reports on appointments to the Monetary Policy Committee (MPC) of the Bank of England.¹ This practice enhances the transparency of the appointment process and increases the level of information available to the public and to Parliament about the functioning of the MPC.

2. We have resolved to restrict questioning to issues of the appointee’s personal independence and professional competence. We have also decided to send a preliminary questionnaire to each appointee prior to the hearing requesting information about the appointee’s career and views on relevant economic issues.²

3. In this Report, we have considered the suitability of Professor David Blanchflower for his role as a member of the MPC. We have not considered the appropriateness of the current appointment process for members of the MPC. We have also not commented on the overall composition of the MPC. We have previously indicated that we may return to these topics at an appropriate time,³ which we now expect to be in the course of 2007.

4. We took evidence from Professor Blanchflower on 24 May 2006. This evidence, for which we are most grateful, will be published shortly, together with his answers to our questionnaire and his curriculum vitae.

¹ Treasury Committee, First Report of Session 2005–06, *The Monetary Policy Committee of the Bank of England: appointment hearings*, HC 525-I

² Treasury Committee, Third Report of Session 1997–98, *Confirmation Hearings*, HC 571

³ Treasury Committee, Third Report of Session 2005–06, *The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve*, HC 861, para 3

2 Professor David Blanchflower

Background to the appointment

5. On 22 March 2006, the Chancellor of the Exchequer announced to the House of Commons that he had appointed Professor David Blanchflower to the MPC to succeed Professor Stephen Nickell.⁴ Professor Blanchflower's appointment will take effect on 1 June 2006.

6. Professor Nickell served as a member of the MPC from 1 June 2000 to 31 May 2006 and gave oral evidence to the Committee on the Bank of England's inflation reports on several occasions. We would like to thank Professor Nickell for his contribution to the work of the MPC and for the evidence that he has given us and our predecessors.

Background on Professor David Blanchflower

7. David Blanchflower has been the Bruce V Rauner Professor of Economics at Dartmouth College, Hanover, New Hampshire, USA, since 2001, and a Professor of Economics at Dartmouth since 1993. He was also a Research Associate at the National Bureau of Economic Research, a Research Fellow at the Centre for Economic Studies at the University of Munich and a Research Fellow at the Institute for the Study of Labour at the University of Bonn. He was previously an Associate Professor of Economics at Dartmouth from 1989 to 1993. He was born in the United Kingdom and holds a bachelor's degree from the University of Leicester, a masters degree from the University of Wales, both in economics, and a PhD from the University of London (Queen Mary and Westfield College).

8. Professor Blanchflower has published wide-ranging research across a host of different economic and social questions. However, a considerable part of his work has focused on understanding how wage dynamics and unemployment are related. He has also published articles on youth unemployment, trade unions, job creation, employment growth, the housing market, self-employment and small businesses. Professor Blanchflower has recently published several papers on well-being and happiness with the aim of understanding why, despite rising gross domestic product, time series measures of well-being are remarkably flat.

Role as member of the MPC

9. In view of the economic and political importance of the MPC, there is a considerable degree of informed interest in both the general stance of its members and their individual positions at meetings. MPC members play a key role in representing that body to a wide range of audiences around the country and in gathering views from market participants.

⁴ HM Treasury, press notice, *Appointment to the Monetary Policy Committee*, 22 March 2006

10. We therefore questioned Professor Blanchflower about his general stance on interest rate decisions and his approach to such matters as inflation expectations, household debt and the labour market.

Other roles and responsibilities

11. External members of the MPC are appointed to the Bank staff and are expected to spend the equivalent of about three days per week on MPC-related work. However, they may engage, with the permission of the Chancellor of the Exchequer, in outside activities that do not present a conflict of interest to their role on the MPC.

12. Professor Blanchflower noted in his answers to the preliminary questionnaire:⁵

I will continue to keep an office at Dartmouth College but will have no teaching duties and will be on 'leave on own charges'. I will also have a part-time visiting appointment at the University of Stirling and will give a few classes a year to graduate students in the Scottish Graduate Programme in Economics. I will continue with my consulting practice in the United States which involves work as an expert witness in public sector wage setting and as a consulting expert for a variety of public entities on the operation of programs for Disadvantaged Business Enterprises in the construction industry.

13. We questioned Professor Blanchflower on the possible practical difficulties in combining his roles as an academic and consultant with his work as a member of the MPC. Professor Blanchflower assured the Committee that, despite working in both the United Kingdom and the United States, he intended making regular speeches and regional visits in the United Kingdom, and that he would make himself available to this Committee in order to give evidence on the Bank of England's inflation reports.

Assessment of personal independence and professional competence

14. Professor Blanchflower brings considerable relevant experience and knowledge to the MPC, in particular on labour market issues. In addition, Professor Blanchflower has considerable experience of the economy of the United States and his continuing experience of the US economy will be useful in MPC discussions on the global factors influencing the United Kingdom economy. We note that Professor Blanchflower intends to maintain working commitments in the United States. In setting interest rates, it is important to take account of the whole range of regional factors in the United Kingdom economy. In addition, the credibility of the MPC is enhanced through members meeting with members of the public and business leaders, both to explain the reasons behind MPC decisions and to gain further insight into the British economy. Accordingly, we would expect Professor Blanchflower to take an extremely active role in the Bank's efforts to communicate with business people and others in the United Kingdom economy, notwithstanding his working commitments in the United States. Indeed, the fact that Professor Blanchflower will be dividing his time between the United Kingdom and the USA means that he will need to devote particular energy to

⁵ Ev [reference to evidence]

fulfilling diary commitments in the regions of England and in Scotland, Wales and Northern Ireland.

15. We are satisfied that Professor Blanchflower fulfils our criteria for appointment of personal independence and professional competence. We wish him every success in his new role as a member of the MPC.

Formal minutes

Wednesday 24 May 2006

Members present

Mr John McFall, in the Chair

Mr Colin Breed	Kerry McCarthy
Jim Cousins	Mr George Mudie
Angela Eagle	Mr Brooks Newmark
Mr Michael Fallon	John Thurso
Mr David Gauke	Mr Mark Todd
Ms Sally Keeble	Peter Viggers
Mr Andrew Love	

Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower

Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower: Professor David Blanchflower gave oral evidence.

The Committee considered this matter.

Draft Report (Bank of England Monetary Policy Committee), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 7 read and agreed to.

Paragraph 8 read, amended and agreed to.

Paragraph 9 read and agreed to.

Paragraph 10 read, amended and agreed to.

Paragraphs 11 and 12 read and agreed to.

Paragraphs 13 to 15 read, amended and agreed to.

Summary read, amended and agreed to.

Resolved, That the Report, as amended, be the Eighth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Tuesday 6 June at 9.45 am

List of witnesses

Wednesday 24 May 2006

Professor David Blanchflower, Monetary Policy Committee member

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List of written evidence

- 1 Completed Treasury Select Committee questionnaire
- 2 Professor David Blanchflower's curriculum vitae

List from the Treasury Committee Reports during the current Parliament

Session 2005–06		Report
First Report	The Monetary Policy Committee of the Bank of England: appointment hearing	HC 525
Second Report	The 2005 Pre-Budget Report	HC 739
Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pensions Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778