

Oral evidence

Taken before the Treasury Committee

on Wednesday 24 May 2006

Members present:

Mr John McFall, in the Chair

Mr Colin Breed
 Jim Cousins
 Angela Eagle
 Mr Michael Fallon
 Mr David Gauke
 Ms Sally Keeble
 Mr Andrew Love

Kerry McCarthy
 Mr George Mudie
 Mr Brooks Newmark
 John Thurso
 Mr Mark Todd
 Peter Viggers

Witness: Professor David Blanchflower, gave evidence.

Q1 Chairman: Professor Blanchflower, welcome to the Committee and congratulations on your appointment. Maybe you have read the papers this week and think you have been prejudged; let me tell you, as Chairman, you have not been prejudged and you have got a very fair hearing here, as any witness has, so we welcome you on that basis. At the appointment hearings we focus on two issues, in terms of your professional competence and your personal independence, and it is those angles from which we are coming; so welcome. As well as that, we have quite a range of questions. How were you appointed to the MPC and when did the appointment process begin and what did it entail?

Professor Blanchflower: I was contacted first by the Permanent Secretary, who asked me if I was interested in the appointment; then there was a period of about a week where I had a return conversation with him and they suggested that they would like to offer me the appointment and further conversations took place. Eventually I talked to the Governor and we made sets of arrangements and eventually I agreed. The whole process took about 10 days and it was done prior to the announcement in the Budget.

Q2 Chairman: Thank you. It has been reported that you have agreed to travel from the USA for the purposes of attending MPC meetings. Do you intend having your main residence in the UK or will you commute from the USA?

Professor Blanchflower: My main residence is going to be in the US, my family and my children are there, but I am going to be here for the time of the appointment, so the arrangements are that I will be here for the 12 days a month that are necessary for my appointment, to do all the meetings.

Q3 Chairman: Your time commitment to the UK will be 12 days every month?

Professor Blanchflower: The appointment is three days a week and I will be here for those, but I have no other teaching responsibilities and so I will be doing work as well while I am at Dartmouth.

Q4 Chairman: You have a link with Stirling University?

Professor Blanchflower: I am going to teach a couple of classes a year to the Scottish Economics Graduate Programme.

Q5 Chairman: You envisage yourself being here for more than 12 days a month?

Professor Blanchflower: I think so, yes.

Q6 Chairman: Probably half and half?

Professor Blanchflower: Yes. My daughter is at college here, my family are here, my eldest daughter is here, so the intention is I will be here to do my commitments to the MPC but my family are all here.

Q7 Chairman: Who will bear the cost of your travel from the USA; has that been arranged?

Professor Blanchflower: Yes. The Bank is going to take account of that.

Q8 Chairman: How do you respond to concerns that your teaching and consulting commitments in the USA will make it difficult for you to have the same level of knowledge of the UK economy as that of other members of the MPC?

Professor Blanchflower: I have no teaching commitments in the US. I simply have an office. I am on what is called 'leave of own charges' so this is my primary responsibility. I have just an office and no responsibilities there. My consulting work is essentially on the other two days a week but entirely flexible, with very few commitments, other than one or two days a year I have to attend hearings. My focus in most of my research over the last 25 years has been primarily on the UK, it has been on other things but if you look at my publications, either in the title or in the content, they have been greatly about the UK, often UK-US comparisons, but I have been very close to movements in the UK labour market and other markets too, and to others, including the US. My focus I think certainly can be fully here.

Q9 Chairman: You have some arrangements, I think, with the Chicago public schools; is that your consulting business?

Professor Blanchflower: I have been doing consulting work over the years for the city of Chicago and currently for the city of Detroit. I have been their expert in a number of matters particularly to do with school segregation and programmes for small businesses. I advise those cities, yes.

Q10 Chairman: Again, concerns are expressed that maybe you will not have your ear close to the ground. How many UK regional visits do you plan to undertake each year?

Professor Blanchflower: I intend to do a lot, actually. The great tradition in labour economics, unlike in monetary theory or other things, is really to be very close to the ground and to hear about how businesses behave and how individuals behave. Currently I have two visits being organised now; my intention is to do four or five, or more.

Q11 Chairman: Where are they to?

Professor Blanchflower: The plan is to go to Scotland for one and to Wales for one, and they are being scheduled at the moment, that is between now and November, and obviously when I am in post more will come about.

Q12 Chairman: You will be doing English regional visits?

Professor Blanchflower: Yes; that is my intention. It just happened that Wales and Scotland were available so I said I would do those and I was happy to do them.

Q13 Chairman: On that basis, how important are regional considerations in setting monetary policy, say, in the USA, which you know well, and to what extent do regions of the USA differ in terms of inflationary pressures and expectations and can you have a read-across to the UK?

Professor Blanchflower: That is a tough question. I think the strength that I bring, in many ways, is that my research has a great deal to do with regions. I have spent a lot of time worrying about disaggregation of things. I think my expertise is in the micro foundations of macro. I have studied a lot of regional stuff in the UK, and most recently in the US. It is very hard really to get very good details on inflationary pressures by regions, but I think the expertise that I have is relevant in that regional things are important. An example would be the current issue about net migration. Migration from the US to the UK of, say, 250,000 people has very different implications if all those folks came to London from if they went to Scotland. I have regional knowledge. We have relatively little information about inflationary pressures area by area, but I have expertise in those areas.

Q14 Chairman: You are described as a happiness guru and one of your researches indicates, and I am reading here: "Increasing the frequency of sex for

women from once a month to once a week generates as much happiness as would a \$50,000 *per annum* pay rise." Does that apply in all cases?

Professor Blanchflower: No, I would not say I was a happiness guru. My interest is a technical one. I have been interested in well-being and trying to understand what impacts well-being and trying actually to measure the effect that money has on happiness. That happens to be just one part of what I do, it is one small paper of many that I have written. It is about really trying to value well-being, trying to think about how much happiness a unit of money would bring and then trying to scale it against other things. It has been fairly sensationalised but it is a very small part of what I do.

Q15 Chairman: We will describe it as empirical determinants of happiness?

Professor Blanchflower: I think that is how we would describe it. I am a type that measures things.

Q16 Chairman: To what extent do you believe that your appointment signals a greater official recognition that growth should not be measured solely in monetary terms?

Professor Blanchflower: Obviously, I do not know what the Chancellor's thinking on it was, but certainly my research has to do with trying to think about well-being, distress and thinking about growth, in a sense that, as an intermediate good, if you like, growth *per se* is not the thing we care about, it is well-being, living standards, impacting on people. I think you might signal obviously that there is an interest in it, because that is the kind of work that I do and obviously it is of current interest. I know about some of these issues. How you should signal it I am not exactly sure, maybe you should ask the Chancellor.

Q17 Chairman: The Committee have been discussing this issue amongst ourselves, so maybe at some future date you could be an expert witness?

Professor Blanchflower: I would be happy to do that. I think this is a growing area and obviously interesting questions come from this kind of work. I was one of the early people to work on it, so I know about it.

Q18 Chairman: I do not want you to offend either myself or Mr Thurso, but you have said that "Scots may be brave, but they are neither healthy nor happy." Why? We have a balance of numbers: half the Committee are getting upset here.

Professor Blanchflower: Chairman, this is not a value judgment, this is merely an observation in the data. In a sense, it related to your previous question.

Q19 Angela Eagle: It is the fried Mars Bars.

Professor Blanchflower: The Scottish Parliament had said that we need to push for growth in GDP and I had tried simply to look to see what were the other measures, what other things did there appear to be in the data, and on happiness measures the

24 May 2006 Professor David Blanchflower

Scots did not appear as happy as some others. It is not a value judgment, Chairman, it was just what the data said.

Chairman: You will find a buoyant, happy bunch here. Over to Michael.

Q20 Mr Fallon: You said the Bank was picking up the cost of your flights; are they also picking up the cost of your hotels when you are here?

Professor Blanchflower: They are, but that is taxable and obviously I am paying tax on that.

Q21 Mr Fallon: I understand that. My question is, if you are not a home-owner here and you are not renting a property here, is it right that you are setting mortgage rates, effectively, for my constituents, not bearing those housing costs yourself?

Professor Blanchflower: I think the question the Chairman raised was that the nature of this appointment has to do with competence and independence and I hope to be able to persuade you that I have a strong background, am highly competent in the fields in which I work and that I am independent. I think your constituents would want to have the best person, if you like, someone capable, to do that job.

Q22 Mr Fallon: Obviously you have followed interest rate decisions here recently, from the MPC; there was a three-way split last time. Which way would you have voted?

Professor Blanchflower: Actually I attended the pre-MPC for that meeting. I heard some of the discussions. I think the way that I would say it is, to make these decisions you need to look down the microscope. I have not done that, I was there for only two hours, for the first meeting, so at this point I do not think I could say where I would go. I am a very strong data reader and I think it is a judgment call, so I think you need to look at the data, and I saw some of it, and I think you need to hear the discussion from other members. I heard none of those so I am going to keep an open mind on it. You could see arguments in all directions, I could say that, but I think it would be foolish of me to say what I would have done, as I had not heard the discussion.

Q23 Mr Fallon: Fair enough, but the current debate seems to be about the size of the output gap, seems to be the argument. What is your view of the size of the current output gap in the United Kingdom?

Professor Blanchflower: I guess there is one way to think of things, as an output gap; as a labour economist, you might think an alternative is the unemployment gap. I tend to think more like that, they sit reasonably together. There does not seem to be large evidence that there are substantial gaps. My view is that at the moment there are some series which point in a direction of change. For an empirical person like me, it is really the question is this cycle or is this trend, and I think the answer is it is too early to tell, I have not had the full discussion with the Bank. There are some worrying things going on, but a blip or a couple of data points do not make a trend, and the question is, is it going to.

Obviously, some of the issues have to do with oil prices and we are going to have to see how this feeds through, but at the moment I think we have to wait and see, with the data; that is my position.

Q24 Mr Fallon: You are replacing Professor Nickell, who was also a labour market specialist, and it was his belief that the rise in unemployment had created the extra slack which would dampen down inflation. Do you agree with that?

Professor Blanchflower: At this moment, I am not persuaded one way or the other. I know Steve has taken that position. Steve is very eminent. I have spent 25 years as a colleague of his and heard his discussions. I am going to wait and see, at this moment. I think, again, there are still some more arguments that I need to hear. There is some evidence in that direction but there is counter evidence as well; so I think you would say, yes, there is some evidence of spare capacity, but David Walton has made the point that there are other pieces of evidence too. I think it is a time really to be cautious, look at the data, be briefed by the Bank and try to make an independent decision, and not prejudice the question.

Q25 Mr Fallon: Fair enough; but your position at the moment, therefore, is that you are not convinced there is sufficient extra slack in the economy to dampen down inflation. Would that be a summary?

Professor Blanchflower: No, I did not say that. I said that there are moves in a number of directions. I do not think I have been briefed sufficiently to know the right response to that. The trends have been flat and expectations seem to have been nice and constant, but now there are some fluctuations going on, we need to understand the source of them and quite what is going on. I do not understand that yet, but I think I am going to have to and I want to.

Q26 Peter Viggers: When the concept of a single European currency was first mooted, later known as the euro, what was your view of the concept and how has your view evolved, if it has?

Professor Blanchflower: It is a very good question. Obviously, there was a strong debate about whether one should join the euro. I was not really party to that debate. I am not an expert on those kinds of areas. I do not have a strong view really. Maybe I should have had one. I am not an expert there; really I have not had a strong view about it, I am afraid.

Q27 Peter Viggers: It is one of the biggest single decisions in the field of economic activity.

Professor Blanchflower: My expertise has been broad-ranging; it has not been in that area, I am afraid.

Q28 Peter Viggers: How do you view the differences in interest rates between the UK, the European Central Bank, the dollar, the yen; how does the UK fit into the international pattern of interest rates, how much do they interrelate?

Professor Blanchflower: Obviously, living in America, I have been watching the changes in interest rates. First of all, I experienced for quite a while quite a significant difference between the interest rates in the US and those in the UK. Obviously I am intrigued and interested in how these two things impact together. The piece of evidence that you see, I think, in the US has been very strong—evidence of significant changes and also, at the same time, a change in the Chairman of the Fed—so I think you have seen some degree of instability in the markets and some concern about what is going on, more instability in the US than you see in the UK. How those two things impact together obviously is complicated, but I think we have seen quite a lot of instability in world markets, partly because of what is happening in the US. I get the sense, from living in the US, that the markets are less clear about what the Fed is going to do. The latest inflation numbers in the last few days seem a little worrying and it appears that interest rates now are going to rise in the US, but it appeared perhaps a month or so ago that they were not going to. The question of how the two sets of things interact together is an open question which I am going to think more about.

Q29 Peter Viggers: Which are the areas where you sense the greatest stress? You have mentioned that the United States possibly has market-led difficulties; would you identify the United States economy as being one of the greatest worry areas for you?

Professor Blanchflower: Certainly the current account deficit in the US of 7%, or so, appears to be unsustainable. There have been concerns obviously about the budget deficits that are being run, and certainly the latest numbers on changes in the CPI seem to be particularly destabilising. My experience is that, though obviously there are other issues in the world, but it seems to me that what was going on in the US in the last three months or so is worrying, in some ways.

Q30 Peter Viggers: What are the factors which concern you most about stability in the UK economy?

Professor Blanchflower: The best evidence we have had so far is that this mechanism has worked very well, this great stability that has gone on, certainly since 2000. I think the question is how well the economy and the mechanisms are set up to sustain large shocks which potentially will come. We have seen one oil shock, and it seems to have sustained itself pretty well; the question is how well are the mechanisms set up to sustain shocks. Sitting in the US, seeing hurricanes Katrina and Rita, unpredictable, uncertain events, these things are going to happen, and events like this are going to happen on my watch. The stuff I want to think about, what potential shocks might come and what we might do about them, I am mindful of that and have started to think about that already.

Q31 Angela Eagle: Your particular expertise is in the labour market and you say in your application that the labour market here is historically tight. Do you want to say just a bit about how you have come to that view?

Professor Blanchflower: I would say, probably, I am an applied economist with a specialism in labour markets, because I have written on various areas, you might think on the edges of labour economics but that is really my particular expertise. Unemployment has actually trended down significantly, I think really since about the mid nineties we have seen a strong trend down. *Ex ante* I do not think we would have expected that. *Ex post* I think we could say probably it has been driven by changes in productivity; but *ex ante* I do not think really we would have known that was going to come. I think we have seen permanent changes in the equilibrium unemployment levels and they have remained in the UK, unlike most other places, they appear to have remained, unemployment remains relatively constant since 2000 and inflation has remained relatively constant. It does not look to me that we are very far away from the NAIRU or the equilibrium rate.

Q32 Angela Eagle: That has actually gone down over the years, that we have a fuller level of involvement in the labour market?

Professor Blanchflower: Yes, I think that is right.

Q33 Angela Eagle: Was that supply side changes?

Professor Blanchflower: My judgment is that it has to do with changes in productivity, potentially brought by technology. In many senses, it is hard, until it is finished, actually to realise that has happened. I see it being quite close to the equilibrium rate. When a series runs along steady for five years and remains relatively flat and pressures do not seem to be coming from it, it suggests you are pretty close to the equilibrium rate. There are lots of ways of calculating it, but given that they all come out pretty much with the same answer then you have a flat trend.

Q34 Angela Eagle: Professor Blanchflower, you have done some interesting work on the wage curve with Andrew Oswald, which comes up with a conclusion which is opposite to what the free market, neo-classical approach actually would suggest. It is very intriguing that the higher the wages the lower the local unemployment and the lower the wages the higher the local unemployment. That is an interesting finding, an empirical finding that you have done, with good, hard, microeconomic analysis, across 12 different countries. What implications do you think that has for approaches to wages policy here, and particularly can you say something in terms of skills and upskilling?

Professor Blanchflower: There are lots of parts to the question; let me try to take them through, and I will try not to forget this skill part. The work we have done on the wage curve, which has gone back now for nearly 15 years, started out in the UK, went eventually to the US and we have done work on a

24 May 2006 Professor David Blanchflower

dozen or so countries. The wage curve now appears to exist in over 40 countries and, what is interesting, there is not a single country, where it has been tested, that it does not appear. Some people think of it as a piece of evidence in search of an explanation; its constancy is something that we have remarked on and it does not seem to be reasonably explainable by market competitive models. It has implications I think for the transmission mechanism from unemployment to wage inflation and we argue that some of the transmission mechanisms are less than other people think; so this is obviously testable. In some sense, our specifications say a tightening of the labour market feeds through less to inflation than perhaps other people in the past had thought. This is obviously directly relevant to the kinds of things that happen here; some of it we do not understand but I am working on that.

Q35 Angela Eagle: It is interesting, because the caricature of the American labour market is that because there is virtually no regulation there is mass creation of jobs at very low wages. The wage curve would tend to suggest, at least in one segment of the labour market, that is not true?

Professor Blanchflower: The surprise, first of all, that I would have predicted when I started this work, because we started out to get a wage flexibility index, was that you would get something very different in the US than you get in the UK; you do not. However, in the disaggregated sense, you do get some differences. I think the implications of it are hard to draw, but this is ongoing work, I think important work, that we have documented. It does appear that the wage curve is that there is more flexibility, more responses to wages for least-skilled workers than there are for higher-skilled workers. In some sense, our idea is to try to think about wage flexibility of countries, wage flexibility of areas, but in some sense this is filling in the pieces of how the labour market works. We do not have the answers but many people think this is a significant step forward.

Q36 Angela Eagle: And the implications for skills?

Professor Blanchflower: I think, potentially, there are.

Chairman: Forgive me, but we are moving on from that.

Q37 Mr Todd: To what extent does migration play a part in this analysis as well? You will be aware that the UK has, by European standards, a relatively free market in labour, with migration relatively easy to achieve, and of course you work in a country where, to a greater or lesser extent, there is a similar approach. To what extent does that affect the inflationary expectations and wage patterns?

Professor Blanchflower: It is a very good question, in fact, exactly something that I am working on at the moment. Some of the issues that we are dealing with obviously have to do with flexibility of labour markets, the interaction between migration, housing markets and labour markets, so we are working on exactly these kinds of pressures, and particularly to

what extent do the housing markets make labour markets less flexible. Also we are working on the mobility of workers, how the mobility of workers impacts on how an economy works, on wage inflation, and so on. Part of that has to do with migration of workers within a country, because that is particularly relevant in the US, people argue that it has to do with, much of the benefit of the US is, if you like, migration across areas, and part of the work has to do with migration into a country from abroad, so I am actually working on the implications of migration into the UK. Part of the work that we have done as well has to do with immigrants into the US and particularly the movement of illegal immigrants into the US. It sounds a strange connection but a lot of the work I have done on Chicago relates to immigrants and illegal immigrants, because in the early years the immigrants came into the US and went to California and to Arizona and to New Mexico, but in recent times we have seen them spreading out. Since 1990, a million Mexicans arrived in Chicago, so some of the work that I have been doing there relates to how migrants come in, the mobility of labour, how that impacts on wage pressures, and so on. I have been working on these; these are very big questions but the Bank is interested in them and I have been working on them both in the UK and in the US and it is a huge area.

Q38 Mr Todd: Our questioning of both MPC members and Bank officials revealed a perhaps surprising level of ignorance about the impacts of inward migration into the UK and the UK economy as a whole, and that included obviously 'on demand' patterns because that is a function of "Well, these people arrive and they don't just provide labour they buy things too." You have a substantial contribution to make in that particular area perhaps?

Professor Blanchflower: I think I do, actually. Part of it is to do with the work that I have been doing in some of the places in the United States, as I say, particularly in Chicago. I am aware of and have been involved in a lot in the discussions about the impact of immigration into the US, things like the Mariel boat lift, what did that do to particular labour markets. Actually I have been well-versed in those kinds of issues in the US and I am starting to work now, I have talked to the Governor, I want to work on those issues here and that is one of the things I am going to work on.

Q39 Mr Todd: You did touch on, in the previous line of questioning, to Angela, the issue of skills but then did not actually return to it, the importance of that dimension within the labour markets and the meaning of that in terms of inflationary impacts and wage expectations. What research have you done in that area?

Professor Blanchflower: The area of skills shortage is an important one. I think it goes back to some of the earlier questions about regional considerations. If 250,000 migrants went to a particular place where there was a shortage of labour, that was going to

have a rather different impact than if they went to a place where there were fewer shortages. I think the question of how these migrants have moved, how they impact particular groups and how the labour market impacts different groups is the benefit of someone like me; that is what I do. My expertise at the micro level has to do with, instead of thinking about the aggregate issues, going to the lower level and thinking about skilled groups and less-skilled groups.

Q40 Mr Todd: Just to turn to rather concrete thinking on that, there is a conventional view that we are interested in high-skilled migration into this country, people with particular skills to offer; whereas the evidence of living, say, in the city that you are speaking in now is that people with relatively low skills migrating here have very significant contributions to make to the local economy. Where do you place this part of your analysis?

Professor Blanchflower: I think obviously that is important. You asked me about my experience in the US. There has been a huge debate about, first of all, if you have immigrants, how many do you have, and then what kind of policy do you have in the sense of matching skills. I have done some work, actually I worked for Microsoft on some of these questions, trying to advise them about how you acquire workers with the particular skills that you need to match your demand, so I have some expertise in the consulting world on those kinds of questions. It is a tough question; matching skills shortages is particularly important in an expanding, growing labour market, but I have worked on those questions.

Q41 Mr Breed: To ask a slightly different question, do you believe that the £1.1 trillion of personal debt, which is now amassed in this country, is vulnerable to any modest rise in interest rates?

Professor Blanchflower: I am a person who has worked on capital constraints. In some sense, I think the developments that have occurred in the UK economy actually are lifting some of those constraints, so individuals who take on debt, on the one hand, you might think this is of concern, but, on the other hand, you might think this is a freer access to capital, it frees up people to do as they wish. Obviously the mortgage debt has risen, but I think of that as part of the move to freer capital markets and allowing people to do what they want to do. The concern has to do more with unsecured debt and has to do with some evidence of growing insolvencies, and perhaps that debt has affected the low-income groups I think you have to be concerned about, but my view is that the opening of the capital markets is probably a good thing. You have to be cautious, in some sense, and obviously we need to be concerned about people taking on perhaps too high mortgages, and if there were to be a fall in house prices negative equity might have consequences. I do not see the change in debt as a fundamental problem, if you see capital markets working properly, and I have written several things about fully-functioning capital markets.

Q42 Jim Cousins: The last meeting of the Monetary Policy Committee did not see any significant pressure on wages, which is your special field; on the other hand, of course, in the public sector, wage bargaining is national. What is your feeling about that; do you think that national pay bargaining is damping down inflationary pressures or increasing them?

Professor Blanchflower: There are arguments, one might think, there is literature which should suggest that national pay bargaining may have dampening effects, in the sense that possibly union leaders are more aware of macro pressures and consequences. I do not see particular evidence strongly supporting that one way or the other. I have done some work here on how pay should be set in the public sector. My view is, in some sense, if the pay in the public sector follows the pay in the private sector then we are going to be less concerned about its consequences. I think you have seen a decline in unionisation, you have seen a decline in national bargains and closed shops, and I think what you end up seeing is that pay tends to be rather more flexible to changes in macro conditions and that gives the economy more flexibility and more bounce to absorb shocks. Pay settlements which reflect macro conditions seem to me to be important. There is some difference between the UK and the US. In the US I am involved with discussions about three- and four-year-long contracts, which seem to be complicated, particularly when there are benefits in there, but national pay bargains are on the decline. There are issues within the public sector and there are issues about acquiring staff in the south, when you have national pay bargains, but I have tried to answer the question.

Q43 Jim Cousins: Interestingly, the Chancellor himself has questioned national pay bargaining in the public sector and has been seeking higher levels of flexibility, and, as I understand your answer, you would be supportive of that?

Professor Blanchflower: I have written several things and done quite a lot on how probably you should set pay in the public sector across regions, and my view is—I say it in the US and I say it in the UK—it is hard to think that you need to compare directly to the public sector. The right thing to do probably is to see what happens in the private sector, because the private sector will reflect out the workings of the market, and try to reflect that. I think the problem you have seen in the UK has to do with payment to public sector workers in this great city, and that is something which clearly is an issue.

Q44 Jim Cousins: Yes; but just thinking about it, because your academic colleagues in the UK at the moment are engaged in a significant national pay bargaining issue, do you think that national pay bargaining in the public sector, in the UK, has the potential to be inflationary?

Professor Blanchflower: Honestly, I think it depends really upon whether it is connected to the GDP growth in the economy and how it reflects the private wage-setting. The public sector is not independent of

24 May 2006 Professor David Blanchflower

the private sector, and if the public sector is underpaying it is not going to be able to get the quality of workers that it needs. I do not believe *per se* that it is going to be inflationary necessarily, I have not thought hugely about that question, but there are adjustments both in quality and price that are made, and in quantity. My view is, as long as the national pay settlements reflect what is really going on in the private sector and what the economy can afford then not necessarily; but pay settlements that are way beyond productivity are not sustainable.

Q45 Mr Gauke: You mentioned in the response to the Treasury Committee questionnaire that you felt the UK monetary policy procedures were favourable compared with the US system. Could you outline briefly why you think that is the case?

Professor Blanchflower: One of the things I have done quite a lot in the last three or four weeks is try to think more about that exact question and try to read some of the literature. I have talked to Tim Geitner, I think currently he is the Vice Chairman of FOMC, and also to Alan Blinder, who was one of the previous ones, and tried to think about the benefits of this system compared with the US one and think about what has happened given the transition from Greenspan to Bernanke. I think actually there are very strong benefits, and the literature seems to be going in the direction of benefits of this system here, with a declared target and with majority voting. I think the evidence is that Bernanke himself is pushing—whether he will go there or not is another thing—more towards that. In some sense, there is a sort of informal statement of the target. The other issue which I think is very strongly in favour of this system is the principle of majority voting, in the sense that it gives less surprise to the markets. I think a vote of five to four gives the markets some information. Vice Chairman Geitner was telling me that what happened in FOMC has been that Greenspan spoke for the Committee and then, of some 80 or so votes, there were only seven times when any individual voted “No,” so it was unanimous all but seven times. Under Greenspan, I think Greenspan talked to the markets well; with the transition to a new Chairman it is much harder, as we have seen over the last few days. I think the system here, with my appointment, the transition to me I do not think has quite the implications perhaps that Bernanke has. The literature, I think, if you read Blinder’s work, is supportive of set targets, majority voting and being clear about people’s views.

Q46 Mr Gauke: Can I raise also the issue of accountability to Parliament and in particular the fact that MPC members come to this Committee regularly and give evidence: how important do you think that is?

Professor Blanchflower: I think that is incredibly important. The democratic process working, as in this hearing here, is important, important to come and communicate to Parliament and to the people and to the markets what the thinking is, how the process is moving forward. My view is that this system works well in that it tries to avoid giving the

market surprises. I think the accountability is what we should be doing, speaking to Parliament but also making it clear that there is not a surprise coming: “This is our thinking; this is how we’re moving forward.” That is the judgment that I have.

Q47 Mr Gauke: Can I ask about the procedure as far as appointments are concerned, given that you are in the middle of it, and I appreciate it is a slightly difficult one, but you will be aware that there has been some controversy, as much about the procedure as anything else. *The Guardian* reported that Threadneedle Street had been deeply irked by the lack of transparency in the process of making appointments and the Chancellor’s habit of leaving decisions until the last minute. As someone in the middle of it, how do you feel about the process? You are here a week before you start; do you think there is sufficient scrutiny for appointments of new members?

Professor Blanchflower: It is a matter for Parliament and it is a matter for the Chancellor.

Q48 Chairman: We are going to have a review of the MPC appointments next year; it has already been projected.

Professor Blanchflower: I have an idea which I think might be helpful. One of the differences you see is that appointees come to the Senate in the US and usually the week before their hearing they go and meet the members of the committee. I am suggesting that actually it might have been quite useful to have come and met you folks, perhaps a week or so before, come and have lunch with you. I think the process, in some sense, is a shock.

Q49 Mr Gauke: Have you felt it has been a bit rushed?

Professor Blanchflower: Perhaps.

Q50 John Thurso: Can I ask you about your answer to Colin Breed about personal debt; you made the very correct point that a lot of borrowing is simply an efficient use of capital, whether it be corporate balance-sheet, whether it be a mortgage against an asset, but in this country there is a growing amount of unsecured debt. Could I ask you therefore to focus on that? There have been recent reports in Scotland of some worrying trends of bankruptcies and the amount of unsecured credit card debt; there was a report the other day that virtually everybody over 50 has got an overdraft, they are probably not lucky enough to be unsecured. Are you concerned at the rise in unsecured debt and the fact that people are therefore very susceptible to rises in interest rates?

Professor Blanchflower: Yes, absolutely, I am very conscious of the rise in unsecured debt, especially as it tends to fall on the lowest income groups and may well have particular consequences; so, yes, I am worried about it. In fact, the paper I wrote about Scotland actually has some evidence about what has happened at the very low end. In some sense, the benefit of a micro person, who does the micro foundations of macro, is that they look, I look to these kinds of issues and I am concerned about them,

on a regional basis and on a skill basis and on particular income groups. Some of the work that I have done has to do with “Let’s look at the less-skilled; let’s look at the lower groups,” if you like, and it is those groups, and there was a question earlier about migration and so on, unskilled immigrants coming into a particular area might well impact those particular groups, so the impact across the distribution is going to grow. I am concerned about that and I have thought about it and I have seen the data on insolvencies, and so on, and obviously that is a concern. I share your first statement, which is that we want to free up capital markets, we want to free up product markets and the labour market essentially might think they will follow.

Q51 John Thurso: You talked earlier about voting. Stephen Nickell said to us in oral evidence earlier this year that one of the keys to the success of the Committee was that it was composed of individuals who came to an individual view and then used majority voting to arrive at a decision. He went on to say that would be reinforced if there was a section of the minutes that was owned by each member of the Committee. Do you think that would be a valuable contribution and would help in the process of transparency?

Professor Blanchflower: I have heard Steve has said that. In some sense, this is more towards transparency and I am in favour of that. Obviously, I have not been to a vote yet, I have not sat down and thought about how the minutes are going to be written. I think it is something worth looking into. I do not know exactly the answer to that. It might delay the processing of the minutes. I am all in favour of transparency. I do not know what my view is yet. Perhaps the next time I come and speak to you I can talk about whether it is feasible. I share your view that transparency is good; whether it is practically possible I do not know.

Q52 John Thurso: I will ask you again in a year’s time.

Professor Blanchflower: Ask me again; that is fine, we can put that one on hold.

Q53 Kerry McCarthy: You have mentioned, throughout the dialogue we have had, that you need to do a bit more reading on this, or you have gone away and done some reading on that; what would you say are the main gaps in your knowledge of the UK economy at the moment?

Professor Blanchflower: The main gaps. I think probably the financial markets is probably the area that I need to think rather more about; the financial and money markets probably, although I have written some things. Particularly we talked earlier about the capital constraints, I have written things about credit cards and so on. I would say probably the operation of the financial markets and, particularly in the context of being a member of the MPC, trying to learn about how the model works and how the forecasts work. I have a full set of briefing meetings already organised. I am going to

get briefed by all the individual sets of people in there, so how the Bank works, how the markets interact together. I think the benefit I have is that my interests have been broad-ranging, but there are some areas that I need to fill, so I have a full set of briefings going on to fill that. Probably it is more about the financial markets but I think I have quite a broad interest and knowledge.

Q54 Kerry McCarthy: In terms of the regional visits, does London count as a region and does the City count as a region?

Professor Blanchflower: Absolutely. That is one of the areas that I need to think about. I need to try to understand the market for derivatives and I do not really know very much about it. I need to start to think about those things. Absolutely, thinking about what the City is doing is important, and I think it is the economics of walking about, it is an honourable tradition, there are lots of things to learn. The surveys of businessmen’s expectations are important and interesting; talking to business folk is important. Obviously, modelling what people say is what I do, so I come from that great tradition, you are pushing against a swing door.

Q55 Kerry McCarthy: What sort of input do you have; when you talked about the regional visits that you are going to undertake, to Scotland and Wales, it sounded almost like the programme had already been drawn up and you would just fill in the slot to go there? What sort of input do you have in deciding which sectors you will go to visit, what sorts of companies you will go to visit?

Professor Blanchflower: The Scottish one happened because I am interested in it. I have just been writing about it and it seemed to me a sensible thing to do, and there were personal reasons.

Q56 Kerry McCarthy: Was the programme already, you are the person who decides where you are going?

Professor Blanchflower: No. I just said “I think I would like to start . . .” just because I had been thinking about Scotland. As I had been thinking about Scotland, I thought I would like to start with Wales, and they said there were vacancies to go and do that, and I thought, “Right; that’s for me.” That does not preclude anything else. It is just that is what I am going to start with.

Q57 Kerry McCarthy: I am just interested to find out more about which sectors you feel that there is a need to go and visit, rather than geographical locations, and what input you have in actually drawing up the programme, or is this something on which somebody else is advising you?

Professor Blanchflower: I do not know yet. Maybe again I will have to ask. I just said, “Please could I go and do that?” and we are going to work out the details. I do not know quite. I am the wrong person to ask, but next time perhaps I can help, once I have been there.

24 May 2006 Professor David Blanchflower

Q58 Kerry McCarthy: Are there any particular sectors, other than the City, where you think it will be useful for you to start visiting companies operating in that sector?

Professor Blanchflower: I was thinking about that the other day and I thought, obviously, going to Scotland, actually I am quite interested in the oil sector, it seemed like a sensible sector to go and think about, so I am going to suggest perhaps that when I go to Scotland maybe I should go to Aberdeen. I have broad-ranging interests and I want to hear what the regional agents have to say and make suggestions; and hopefully it will be a dialogue rather than them telling me where to go to.

Q59 Kerry McCarthy: There are three relatively new members on the MPC. What impact do you think that will have on the dynamics of decision-making and do you think that, as somebody who has been based outside the UK for a long time, you are going to be able to hold your own in discussions, particularly with the Governor and people who are not external appointees?

Professor Blanchflower: Obviously, I have not been involved in the dynamics. The contacts I have had so far with the members of the Bank and other members of the MPC, I have met all of them apart from Paul Tucker, we have got on extremely well. I would say, my reputation is I am not a shrinking violet.

Q60 Mr Newmark: Professor, do you think giving regular speeches by MPC members adds to the public's understanding of the role of the MPC and also transparency around their thinking?

Professor Blanchflower: Absolutely, I believe that. I think I said so in my written responses, and in some sense in the response to Mr Gauke's question. I think it is very important to do that, and obviously it continues the tradition that I have done. I do lots of academic things, but the tradition is, if you look in my work, I have done a lot of things trying to make it amenable to the public to understand what I do. Absolutely I share that view, I think it is crucial to what we do, and I think it is one of the great benefits that compares here with the United States, in that we do not know what Geitner's view or Blinder's view on a particular decision was, and in some sense that makes it harder for the markets to understand and to be signalled as to what is going on. I think it is important in transparency terms, but I think it is important in terms of the operation of the setting of interest rates, so I think it is absolutely crucial that one should do that.

Q61 Mr Newmark: That brings me on to my next question, the setting of interest rates. Again, just to get a better understanding of the way that you think, what red flags will you be looking for in the economy which will trigger your decision whether to move interest rates up or down?

Professor Blanchflower: I think of it as sort of lexicographic.

Q62 Mr Newmark: What is behind it? I am trying to figure out whether you are a hawk or a dove when it comes to that sort of thing.

Professor Blanchflower: Certainly I have not labelled myself and I do not think one could label me in any way there. The lexicographic preferences are we need to focus on inflation, so when you have a target of inflation, I think I said the word 'band' but a 2% target of inflation in the longer term, there is going to be random noise in that number. I am going to focus on that.

Q63 Mr Newmark: Standing behind that inflation figure and getting just a little bit more granularity to what you are thinking, what will you be looking for in that index of inflation figures that will make you think, "Gosh, we must be thinking about raising interest rates," or lowering them?

Professor Blanchflower: I think, first of all, you are going to look at the figures on the CPI, you are going to look at the source of them, because you do not get just an aggregate number, you get to see what is driving that change.

Q64 Mr Newmark: It is those drivers that I am trying to elicit from you.

Professor Blanchflower: Yes. I think we need to get to the disaggregated drivers and try to think what is causing that to increase and then look to other markets. I would be looking obviously at what is happening in the labour market, is there evidence of wage changes, is there evidence that there is tightening in particular labour markets, where, in which sectors, so in which sectors do we see these changes. This is the disaggregated experience that I have, this is what is driving the change; is this to do with an external thing, like oil prices, that in a sense the Monetary Policy Committee cannot control, or is it something to do with a tightening of the London labour market.

Q65 Mr Newmark: You would still be able to respond to it by raising or lowering interest rates?

Professor Blanchflower: Exactly. I think the crucial thing is, what you do depends upon the source, which in some sense goes back to my earlier discussion. You need to have a full microscope at the source of the change and the source of the push, if you like, and then you think of the remedy.

Q66 Mr Newmark: On this question of transparency, because you kept raising it and Colin raised the issue of personal debt, which is over a trillion, looking at public sector net debt, there is a headline figure which I think is around £435/£450 billion, but it just seems there is a trend of putting more and more debt off balance-sheet, with PFI, looking at public sector pension liabilities, and so on. There is some analysis which says there is almost two pounds off balance-sheet for every one pound on balance-sheets. Do you think there should be far more transparency, as you have alluded to, when it comes to giving out to the public the true state of the public debt which is out there today?

Professor Blanchflower: I do not really know the answer to that question, about how much transparency there has or has not been.

Q67 Mr Newmark: We always hear the headline figure, which is what is on balance-sheet, but it just seems to me the Government is putting more and more off balance-sheet. I am not criticising the technical reasons for doing that; my question is should there be greater transparency with respect to how much debt is actually off balance-sheet versus on balance-sheets, because there does not seem to be any today?

Professor Blanchflower: I am not an expert at all in that area. In general, my principle is, transparency is better.

Q68 Ms Keeble: I want to ask just a bit more about inflation again. In the response to our questionnaire, you noted that in February 2006 the Bank of England Survey of Inflation suggests that inflationary expectations are on the rise. How concerned are you about that, or do you see it as just a sort of blip?

Professor Blanchflower: I am concerned enough about it that I have started to work on the data. These are so-called micro-surveys and I have started to look at those data, for the reason that it looks like a blip; there is a sudden jump in February 2006 in the proportion of people who say, "In the next year I think price rises are going to be above 5%." I was sufficiently concerned about that to start to try to look at the data and understand what is going on.

Q69 Ms Keeble: Do you think that is people's expectations, which are not always reality, or do you think that it reflects some sort of underlying reality of upward pressure?

Professor Blanchflower: That is obviously the question. In fact, I was talking to the Governor yesterday about this, because I am quite interested in what people say, so this is an area I am going to work on. The whole idea of working on well-being, if you think that people say how happy they are, the question is do you believe that; they say certain things. I have an expertise in trying to think of that so I have been trying to look at who said it, why they said it, and just one piece of information is that it is not just people who think that price rises in the current period are high, it is others as well, and that is a concern to me that I am trying to understand. I do not understand it yet. I have just started to think about it, but the Bank is concerned about it and we are trying to think about it.

Q70 Ms Keeble: You have talked about the need to disaggregate some of the measures, in particular on earnings growth that you have talked about previously, the link between that and inflation, because earnings growth is still being subdued, and also energy costs and the extent to which that will carry through?

Professor Blanchflower: I think it is important to look at the disaggregated nature of things. A good example might be, let us think about, we have seen a

spike in wages just because of, in the recent period, bonuses in the City; you might think that is less of a concern, you might think of this as productivity-driven bonuses. In a sense, we want to look at, sector by sector, what is driving this wage increase in the sectors where productivity has risen; that is less of a concern than in sectors where it has not. I do not see particular concerns about the blip in wage growth because the City brokers, and so on, have been more efficient; that seems to me rather different from non-productivity-based increases. I think one needs to look at what the source of the wage increase is.

Q71 Ms Keeble: Do you think that interest rates have been kept at a slightly higher rate in anticipation of continuing upward pressure from energy prices?

Professor Blanchflower: I do not think there is a great deal of evidence for that. The Bank has held interest rates fairly constant for quite a time. In the US it has been rising. We have seen interest rates remaining relatively flat here. We have not seen a push on inflation, and I think it is a surprise. If I had been sitting in front of you in, say, 2002 and said, "Suddenly what is going to happen is a doubling of oil prices," I do not think I would have predicted what we have actually seen, but that is good. What we have seen is much more muted a response than perhaps this Committee might have expected, or I might have expected, a couple of years ago.

Q72 Ms Keeble: Can I come back on your one point, which right the way through you have said "I'm working on that; I'm working on that; I'm working on that," and you have talked a lot about being a data reader. I think one of the things behind a lot of Kerry's questions was, obviously, there is a difference between that and actually seeing it for real, as it were. How do you intend to structure or go about familiarising yourself with the regional differences in the UK economy and the different sectoral pressures, including, for example, manufacturing?

Professor Blanchflower: I think it is a very good question. I have tried, obviously, in my work, to think about these regional questions. A great deal of my work has to do with what is going on in regional areas. I have written stuff about the South East, I have written about Scotland, but I think it is crucial to talk to people, to talk to the agents, listen to that and go out and speak to people.

Q73 Ms Keeble: There is a big bit of the north of England between the South East and Scotland; it has got very clear dynamics?

Professor Blanchflower: I did not mean in any way to suggest that those are the only regions; those are just the ones I have looked at. My intention would be to look at each of them and to focus on other ones. I am sorry. I did not mean to imply that; it just happens that I have worked on those two. The pressures from each of the areas and their different industry structures and the different pressures that they are under are crucial. In a sense, I am starting at the

24 May 2006 Professor David Blanchflower

beginning and I am crossing off, these are the first two and there are more coming; it is in alphabetical order.

Q74 Chairman: You are going to visit everywhere?
Professor Blanchflower: That is my intention.

Q75 Chairman: You are going to get your Hitchhiker's Guide to the MPC; right?
Professor Blanchflower: I hope, not all before Christmas, not to get a Hitchhiker's Guide.

Q76 Chairman: Can I just finalise the questions. Over the past few days, some of the major global equities markets, including the London Stock Exchange, have shown unusually high volatility. What do you think are the main factors causing this volatility and to what extent was the volatility caused by concerns over future inflation in the United States?

Professor Blanchflower: Certainly it seems, in the last week or so, that there has been quite a lot of volatility in the US. The reports from the G7 about unacceptable balances in the US have been a problem. The latest CPI data suggests jumps in the inflation rate. There are some uncertainties about what the position of Bernanke is, in terms of monetary policy. I am not able to understand, in the very short run, exactly what is going on. An example would be, in the UK the dollar exchange rate has changed by about 8% in the last three weeks. It is hard to understand exactly what the source of that is. Certainly I think that a lot of the instability has to do with pressures in the US economy. It is very hard, as a modeller and an economist, exactly to understand the source of that, but it does seem that the imbalances, if you like, and instability in the US, is sort of tumbling over to other places.

Q77 Chairman: Do you believe the volatility signals the end of the bull market, or is it merely just a short-term adjustment?

Professor Blanchflower: Really I do not know. It is very short-term. I think we are going to have to wait and see. In some sense, you might think of it as noise;

noise occurs, but every fundamental change is probably going to start this way. It might be just noise; I do not know.

Q78 Chairman: Given your arrangements, you can have one ear in the US market and the other ear in the UK market, will it not be helpful?

Professor Blanchflower: I think we need just to watch and take a longer-run view. I always tell my students, two data points, you can draw a line between them, it does not tell you anything.

Q79 Chairman: The labour market representative on the MPC has been seen traditionally as being a dove, for example, Steve Nickell; is that connected to the appropriateness of a microeconomist?

Professor Blanchflower: I think so. In some sense, you might say, some of the big issues that the MPC is going to face have to do with labour markets, housing markets, these issues seem to be important, and the growing areas in these things are micro-based, so I think it is important to have that view. Increasingly, in labour, people do the kind of work that I do, and Steve Nickell does that sort of work and I follow in his tradition.

Q80 Chairman: You mentioned to us that meeting members is a good idea, but we did go to the Bank, as a Committee, just after the general election and had a good morning and lunch with the members, and it is something we will keep in mind, keeping that contact. Maybe one idea that I could put to you is, given that members of the MPC report here but they do not come all the time, do you think the idea of an annual written report from each MPC member to the Treasury Committee would enhance accountability?

Professor Blanchflower: I think, probably it would.

Q81 Chairman: Why do you not take that back for the first meeting of the Committee and get their views on it?

Professor Blanchflower: Yes.

Chairman: I will look forward to your correspondence on that. Professor Blanchflower, can I thank you very much for taking the time to come this morning. It was very helpful to us and, as a Committee we wish you every success as a member of the MPC. Thank you.

Treasury Committee Questionnaire ahead of appointment hearing for Professor David Blanchflower

A. PERSONAL AND PROFESSIONAL BACKGROUND

1. *Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in carrying out your duties as a member of the MPC? Are there any relevant personal or other factors of which the Treasury Committee should be aware in considering your appointment?*

No. 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.

2. *Do you intend to serve out the full term for which you are appointed?*

Yes.

3. *Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the MPC?*

My PhD at Queen Mary College, University of London was funded by an ESRC Collaborative Award in the Social Sciences (CASS) and co-sponsored by the Department of Employment who provided me with invaluable access to data and expertise. That provided me with “hands-on” training in the collection of data, including survey data, at both the level of the individual and the workplace as well as useful insights into the workings of the UK labour market and public policy. Since that time I have worked as an applied empirical economist interested in the workings of international labour markets with emphasis on the UK. My particular expertise involves the analysis of macroeconomic problems from their microeconomic foundations with special concerns for aggregation and missing variable biases. My knowledge of the workings of the US economy is likely to be particularly helpful and different.

I have chaired the Economics Department and acted as Associate Dean of the Social Sciences at Dartmouth. I have consulted for many public and private organisations around the world. I have acted as an expert witness in many legal cases in the US which has included significant amounts of trial testimony. I have been involved in wage setting for groups of public sector workers in the US, including economists, bankers, judges, police and teachers as well as private sector firms in both the UK and the US. Further, I have advised a number of UK public sector organisations on the operation of the Area Cost Adjustment (ACA) and the Market Forces Factor (MFF), which sets budgets for local authorities and health authorities respectively. In the mid 1990s I acted as advisor to the Elliott Commission which examined the operation of the ACA.¹

4. *To what extent will membership of the MPC require a different approach from that required in academic research, with regard to the discharge of the duties and responsibilities involved?*

I don't believe my membership of the MPC will require a very different approach than that required from my academic research, which is applied rather than theoretical in nature. At the simplest level the focus of the work on the MPC is on a single issue, how to set interest rates to keep inflation in a narrow band. My academic research, on the other hand, has been wide ranging across a host of different economic and social questions. However, a considerable part of my work has focussed on understanding one single issue—how wage dynamics and unemployment are related, which is clearly central to the work of the MPC.

My work is highly practical and related to questions of the day—the role of profit sharing; the impact of unions; the causes and consequences of growing wage inequality; the causes of unemployment, how to set public sector wages and so on. I have a broad range of experience outside academia. My consulting work has involved applying much of my academic work to the real world. For example, a large part of this work has involved examining wage setting in the public sector, especially for police, including the NYPD. Further, I have consulted for the Board of Governors of the Federal Reserve and the Farm Credit Administration on the setting of pay of economists and other executives. I have also advised approximately twenty state and local governments in the US on the adoption of policies toward small businesses, another area of focus of my academic work.

5. *Which of your publications or papers are of most relevance to your future work on the MPC?*

The publications of most relevance to my future work on the MPC relate to the workings of the UK labour market in general and wage inequality, wage setting, wage dynamics and wage inflation in particular. The work on the wage curve—the relation between wages and unemployment—is of special interest. The wage curve work emphasises the importance of using microeconomic data in macroeconomics in contrast to aggregated time series methods. The wage curve has now been documented as existing in similar form in over forty countries. I have recently been doing further work on the relation between wages, unemployment and the housing market.

Of relevance also is the work I have done on youth unemployment, trade unions, job creation, employment growth, the housing market, self-employment and small businesses plus the role of capital and liquidity constraints. In recent years I have published several papers on well being and happiness with the aim of understanding why, despite rising GDP, time series measures of wellbeing are remarkably flat in both the UK and the US.

¹ Elliott, R F, McDonald, D, R MacIver. July 1996. *Review of the Area Cost Adjustment*, Waverley Press, University of Aberdeen and the Department of Environment.

B. ACCOUNTABILITY

6. *How important do you think it is for MPC members to be subject to ex post parliamentary accountability? What are the strongest and weakest parts of the current procedures in the UK? How favourably do you believe the UK system compares with the US system?*

I believe it is vital that members of the MPC are accountable to Parliament for their actions. The MPC does this in a number of ways including issuing minutes of each meeting; publishing a quarterly Inflation Report; writing an open letter to the Chancellor if inflation deviates by more than one percentage point from target; giving speeches and interviews; writing academic articles and technical papers plus appearances before the Select Committee.

The greatest strength of the current procedures, I believe is (a) its transparency (b) the fact that there is a single symmetric target (c) that there is majority voting rather than the need for a consensus. The procedures in the UK seem to me favourable to the US system where there is no single target and the lack of majority voting sometimes makes it difficult for the Fed to convey a clear message. The current procedures appear to have worked very well.

7. *If you were to make yourself available for reappointment to the MPC at the end of your term, what criteria should be used to assess your individual record as an MPC member?*

The main criteria must surely be how well the MPC had been able to hit its inflation targets. I would hope to be judged on my voting record, my ability to communicate my decisions as well as my ability to work with other members of the MPC and my contribution to internal discussions.

C. OTHER PROFESSIONAL ACTIVITIES

8. *What other professional activities do you expect to undertake in addition to your position on the MPC and how do you intend reconciling these activities with your position as a MPC member?*

I will give a few lectures to graduate students in the Scottish Economics Graduate Program. I will continue to do some consulting work in areas I have traditionally worked in, including wage setting of public sector workers, goal setting for programmes in public sector purchasing, primarily in construction and desegregation of Chicago public schools. I intend to keep this work entirely separate from my work on the MPC. I will also continue as a research associate at (a) the National Bureau of Economic Research, (b) CESifo and (c) IZA. I have been associated with these research organisations for a number of years.

9. *Outside of MPC meetings, what activities do you intend undertaking in order to add to the public's understanding of the role and decisions of the MPC?*

I intend to undertake regional visits, speak with businesses, academics and the media and make speeches regarding my interest rate decisions and other matters. I plan to continue to write technical papers on a variety of economic issues as well as attending and presenting papers at academic conferences and seminars.

D. MONETARY AND ECONOMIC POLICY

10. *How might the system of control over monetary policy in the UK, in place since 1998 be improved? Is the framework of an explicit symmetrical inflation target the best within which to conduct policy?*

It is early days for me as I have not yet been involved in any vote and have not seen the process working in its full complexity, but it appears that the current system is working well and is contributing to economic stability. The existence of an inflationary target appears to be particularly helpful in impacting inflationary expectations. I support the existence of a symmetric target because it means that risk of an excessively tight policy is treated by the MPC in the same way as the risk of too loose a policy. Majority voting also appears to have had a calming impact on inflationary expectations. The current framework seems to have worked well. I hope the MPC is as successful during my term as it has been over the last few years in reaching its inflation target with steady growth and low unemployment.

11. *How great is the risk to UK growth and inflation posed by high nominal oil prices? How should monetary policy react to higher inflation caused by increased oil prices?*

The current episode of high oil prices has, so far, only had modest effects on UK growth and inflation. Why has this been the case? The general view seems to be that the economy is now less reliant on oil relative to the 70s, and that in the current episode oil prices have increased more gradually. In addition the current monetary regime has helped to anchor medium-term inflation expectations. In some ways this has been surprising to me as I had expected to see somewhat larger effects on both prices and unemployment.

On monetary policy, I think that the current received wisdom is that lags in the transmission mechanism mean that monetary policy is unable to affect the direct impact (or first round effects) of oil prices on consumer prices. So central banks have to tolerate these. But central banks need to carefully monitor the potential second round effects. For example, it is possible that increased consumer price inflation resulting from the higher price of oil can dislodge inflation expectations. My worry would be that increased oil prices might feed through to unemployment; although the very recent downward movement in oil prices below \$70 is encouraging. The concern would be if there were to be a significant further increase in oil prices which drove up inflation and inflationary expectations and had major effects on employment and unemployment. The February 2006 Bank of England Survey of Inflation Attitudes suggests that inflationary expectations are on the rise. The MPC will clearly have to monitor the future impact of oil prices very carefully.

12. *What consideration should be given to the exchange rate and to asset prices, including house prices, within the framework for inflation targeting? In particular, how should monetary policy react to asset price bubbles?*

The role of asset prices in the conduct of monetary policy remains a controversial issue. The majority view is that monetary policy makers should only react to asset price movements in so far as they affect forecasts of inflationary pressures. The alternative view suggests that monetary policy makers can do more. Namely, by reacting to asset price bubbles, over and above considerations of their impact on inflation, monetary authorities can improve macroeconomic performance.

It doesn't seem to me that monetary policy can act to minimize the likelihood of macroeconomic instability arising from large movements in asset prices, including house prices. This is because it is nearly impossible to identify an asset price "bubble". How does one know if the rise in asset prices has occurred because of fundamental factors, non-fundamental factors, or both? In addition, there are a number of practical concerns that have been raised. For example, the appropriate timing of a proactive monetary policy response is difficult to determine, the size of the interest rate rise needed could lead to a significant downturn and there is the historically relevant risk that a bubble once "pricked" could degenerate into a panic. Exchange rate movements can feed into inflation, but then the inflation-targeting policy would need to kick in.

13. *How would you describe the state of the UK labour market at present? In particular, how has net migration impacted on growth and inflation in the UK?*

The UK labour market remains historically tight. Employment levels have been rising and unemployment has remained at low levels for several years at or slightly above the natural rate. Recently the participation rate has started to increase. Wage settlements have held steady between three and four percent although there has been a recent spike due to bonuses. There is, however, some evidence of softening since the middle of 2005 with small increases in the claimant count and in ILO unemployment. There have also been declines in the number of vacancies although most recently there has been a levelling off. The cause of this recent softening and whether it is a start of a new trend remains uncertain.

The overall impact of higher net migration on inflation and growth in the medium term are not clear-cut. This is because there are two offsetting effects. On the one hand, a rise in net migration will raise the potential supply of the economy. But on the other hand, migrants are consumers too, and their spending will raise aggregate demand. These two effects may cancel each other out, but even if they do not the impact is likely to be modest at the level of the economy. At a disaggregated level such effects may be more discernible. For example, if immigrants help to ease skills shortages in particular areas, it is likely that the wages and prices of that sector will grow less quickly than they would have otherwise done. The trouble is, of course, that one will never observe that counterfactual, so it is very hard to measure the effect. The bulk of the academic literature in the US and UK has focussed on the labour market effects of immigration. Economic models suggest that net migration is likely to temper wage growth. But most economists have struggled to find any significant empirical evidence to support these models.

14. *Do you believe that the natural rate of unemployment is a useful concept? On your assessment, where is unemployment currently relative to the natural rate?*

I believe the natural rate of unemployment is a useful theoretical way to think about equilibrium in the labour market. A good way to think of it is the normal rate of unemployment around which the unemployment rate fluctuates. It is difficult to measure empirically, and there are a number of procedures one might use. It seems that the natural rate in the UK fell during the 1990s, likely because of improvements in productivity but has remained relatively flat since then. I calculate that the natural rate is slightly less than 5% which is just below prevailing unemployment levels.

15. *How would you describe, and account for, the recent performance of business investment growth in the UK and the USA?*

Investment growth is generally pro-cyclical and more volatile than GDP and, like profits, very difficult to model. The investment recoveries in the UK and the euro area appear weak relative to previous cycles. US business investment appears to have been a little stronger than that observed in the UK most recently. There is no single, clear explanation for this observation; rather it is likely to be a combination of several, quite complicated inter-relationships. First, there may not actually be a puzzle, since investment, particularly recent investment is subject to a significant degree of measurement error. It is perfectly feasible that the recent path of business investment will eventually be revised upwards. Second, if there is a divergence, it seems likely that cyclical factors can explain some of the difference, such as greater corporate debt in the UK, or less clearly, because of stronger business confidence in the US. But it may also be the result of structural differences, with US producers having potentially anticipated an increase in productivity not expected in the UK. Recent concerns about rising oil prices and worries about pension fund deficits may also have impacted business investment in the UK.

16. *To what extent should fiscal policy play a demand management role alongside monetary policy in the short run?*

I don't believe that fiscal policy can successfully play a short run demand management role. I believe that demand management should be left to monetary policy. In my view government spending and borrowing is about having a good health service, schools and public services generally, not principally about trying to "fine tune" the economic cycle itself.

May 2006

Professor David Blanchflower's Curriculum Vitae

CURRICULUM VITAE

NAME	David Graham BLANCHFLOWER
DATE OF BIRTH	2 March 1952
NATIONALITY	Dual US and UK citizen
QUALIFICATIONS	1973 BA Soc Sci (Economics), University of Leicester, UK. 1975 Postgraduate Certificate in Education—Cert Ed Pass with distinction in teaching; University of Birmingham, UK. 1981 MSc (Econ), University of Wales, UK. 1985 PhD, University of London (Queen Mary College) UK. 1996 MA (Honorary), Dartmouth College. 1996 Honorary member of Phi Beta Kappa, Dartmouth chapter.
PREVIOUS POSITIONS	Institute for Employment Research, University of Warwick, UK Research Officer, September 1984–July 1986 Department of Economics, University of Surrey, UK Lecturer, August 1986 to August 1989
CURRENT POSITIONS	Member Monetary Policy Committee, Bank of England, June 2006— http://www.bankofengland.co.uk/monetarypolicy/overview.htm Department of Economics, Dartmouth College Associate Professor, July 1989 to June 1993 Professor, July 1993 to present Department Chair, July 1998 to June 2000 Associate Dean of the Faculty for the Social Sciences, July 2000 to June 2001 Bruce V Rauner 1978 Professor of Economics, 2001– Research Associate, National Bureau of Economic Research http://www.nber.org Research Fellow, CESifo at the Centre for Economic Studies at the University of Munich in Germany http://www.CESifo.de Research Fellow, The Institute for the Study of Labor (IZA) at the University of Bonn in Germany http://www.iza.org
EDITORIAL POSITIONS	Member of Editorial Board of <i>Small Business Economics</i> , 2000–05. Member of Editorial Board of <i>Scottish Journal of Political Economy</i> , 2000–05.

Member of Editorial Board of *Industrial & Labor Relations Review*, 1996–99.

PRIZES Princeton University’s Richard A Lester Prize for “the most outstanding book in Industrial Relations and Labor Economics published in 1994”.

TEACHING Statistics, Labor Economics, Advanced Labor Economics, Microeconomics and Econometrics.

BOOKS/MONOGRAPHS

1. With Bernard Corry, *Part-time employment in Great Britain 1980*, Department of Employment Research Paper No 57, 1987.
2. With Peter Elias, *Occupational earnings and work histories: who gets the good jobs?* Department of Employment Research Paper No 68, 1989.
3. With Andrew J Oswald, *The Wage Curve*, published in 1994 by MIT Press, Cambridge, Massachusetts. A full article-length review of the book written by David Card was published in the *Journal of Economic Literature*, June 1995.
4. *The role and influence of trade unions in the OECD*, report to the Bureau of International Labor Affairs, US Department of Labor, August, 1996.
5. With Richard Jackman and Gilles Saint-Paul, *Swedish labor market policy: an evaluation. Report of a Non-Nordic Institution*, published by the Swedish Ministry of Labour, Stockholm, Sweden, 1995.
6. With Richard Freeman (editors), *Youth employment and joblessness in advanced countries*, University of Chicago Press and NBER, 2000.

CONSULTING REPORTS

1. With Andrew J Oswald and London Economics, *The Area Labour Cost Adjustment: Disaggregated Estimates, Supplementary Annex, Project A*, The Review of The Area Cost Adjustment, 1996. London Economics, June 1996.
2. With Andrew J Oswald, Berkeley Hanover Consulting and London Economics, *Review of The Area Cost Adjustment, Project A—Final Report*. London Economics, June 1996.
3. With Andrew J Oswald, Bill Baker and Jonathan Sandbach, *The Area Labour Cost Adjustment: Analysis and a New Approach: Project B*, A Report to the Department of the Environment, National Economic Research Associates, London, April 1996.
4. With Andrew J Oswald and London Economics, *Wage Levels in the Regions of Britain. A Report for Tesco by London Economics*. London Economics, September 1996.
5. With Andrew J Oswald, Bill Baker and Jonathan Sandbach, *The Area Labour Cost Adjustment: Empirical Analysis and Evidence on a New Approach: Project C*, A report to the Department of the Environment, National Economic Research Associates, London, April 1996.
6. With Bill Baker, Anna Capaldi, Richard Hern Andrew and J Oswald, *Area Cost Adjustment: Specific Cost Approach*, Final Report for Associations of Local Government in London and the South East, National Economic Research Associates, London, August 1998.
7. With Bill Baker, Richard Hern Andrew and J Oswald, *Estimating Regional Wage Differentials with Fixed effect Methods*, Final Report for Associations of Local Government in London and the South East, National Economic Research Associates, London, September 1998.
8. With Jin H Park, Jon S Wainwright, and Colette Holt. *Disadvantaged Business Enterprise Availability Study*, prepared for the Northeast Illinois Regional Commuter Railroad Corporation D/B/A METRA, National Economic Research Associates, Inc. & Colette Holt & Associates, 28 March 2000.
9. With Jon S Wainwright. *Disadvantaged Business Enterprise Availability Study*, prepared for the State of Maryland Department of Transportation, National Economic Research Associates, Inc. 31 July 2000.
10. With Jon S Wainwright. *The Utilization of Minority Business Enterprises by the State of Maryland*, prepared for the State of Maryland Department of Transportation, National Economic Research Associates, Inc. 8 January 2001.
11. With Andrew J Oswald and Brian Williamson, *Estimated Regional Wage Differentials for England & Wales*, A Report for South East Area Cost Adjustment Group & Association of London Government, National Economic Research Associates, London, 9 January 2002.
12. With Jon S Wainwright. *Disadvantaged Business Enterprise Availability Study*, prepared for the Illinois Department of Transportation, National Economic Research Associates, Inc. 11 February 2002.
13. With Jon S Wainwright. *Report on Statistical Disparities in Capital Markets Facing Minority-Owned and Woman-Owned Business Establishments in Construction and Related Industries in the Jacksonville Metropolitan Area*. Prepared for the City of Jacksonville, Florida. National Economic Research Associates, Inc. 5 February 2003.

14. With Jon S Wainwright. *Statistical Disparities in Minority and Female Business Formation and Earnings in and Surrounding Jacksonville, Florida*. Prepared for the City of Jacksonville, Florida. National Economic Research Associates, Inc. 2 April 2003.
15. With Jon S Wainwright. *Statistical Disparities in Minority and Female Business Formation and Earnings in and Surrounding San Francisco, California*. Prepared for the City of San Francisco, California. NERA Economic Consulting. 2 May 2003.
16. With Jon S Wainwright. *Statistical Disparities in Capital Markets Facing Minority-Owned and Woman-Owned Business Establishments, 1993–98*. Prepared for the City of San Francisco, California. NERA Economic Consulting. 2 May 2003.
17. With Andrew J Oswald. *Wage Levels and the Government's System of Regional Funding: A Report for Croydon County Council*, January 2004.
18. With Andrew J Oswald. *Calculating an Appropriate Regional Funding Adjustment for Worcestershire. A Report for Worcestershire County Council*. January, 2004.
19. With Andrew J Oswald. *Calculating an Appropriate Regional Funding Adjustment for Worcestershire—Part 2. A Report for Worcestershire County Council*. April, 2004.
20. *A Study of Minority and Female-Owned Firms in Baltimore. A Report Commissioned by the City of Baltimore*, April 2004.
21. With Andrew Oswald. Does the Market Forces Factor treat the South-East fairly? A report commissioned by Thames Valley Strategic Health Authority, July 2004.

PUBLICATIONS IN REFEREED JOURNALS

1. “Comparative pay levels in domestically-owned and foreign-owned manufacturing plants: a comment.” *British Journal of Industrial Relations*, July 1984, pp 265–267.
2. “Union relative wage effects; a cross-section analysis using establishment data.” *British Journal of Industrial Relations*, November 1984, pp 311–332.
3. With Peter Elias, “Male part-time employment.” *Labour Market Quarterly Report*, 1985.
4. With John Cubbin, “Strike propensities at the British workplace.” *Oxford Bulletin of Economics and Statistics*, February 1986, pp 19–40.
5. “Wages and concentration in Great Britain.” *Applied Economics*, vol 18, 1986, pp 1025–1038.
6. “What effect do unions have on relative wages in Great Britain?” *British Journal of Industrial Relations*, vol 24, 1986, pp 196–204.
7. With Andrew J Oswald, “Profit sharing: can it work?” *Oxford Economic Papers*, vol 39, pp 1–19, 1987. Reprinted in P Sinclair (Ed), *Prices, Quantities and Expectations*, Oxford University Press, Oxford.
8. With Neil Millward, “Trade unions and employment change: an analysis of British establishment data.” *European Economic Review*, 32, pp 717–726, 1988.
9. With Andrew J Oswald, “Internal and external influences upon pay settlements: new survey evidence.” *British Journal of Industrial Relations*, 3, pp 363–370, 1988.
10. With Andrew J Oswald, “Profit related pay: prose discovered”, *Economic Journal*, September 98, pp 720–730, 1988.
11. With Andrew J Oswald, “Comment on house prices”, *Oxford Bulletin of Economics and Statistics*, pp 137–143, 1989.
12. With Andrew J Oswald, “The determination of white-collar pay.” *Oxford Economic Papers*, 42, pp 356–378, 1990.
13. With Andrew J Oswald, “The wage curve”. *Scandinavian Journal of Economics*, 92, pp 215–235, 1990. Reprinted in *Unemployment and wage determination in Europe*, edited by B Holmlund and K G Lofgren, Basil Blackwell and *The economics of unemployment* edited by Junankar, P N, Volume 4. 2000, pp 339–59, International Library of Critical Writings in Economics, vol 122. Cheltenham, UK and Northampton, Mass, Edward Elgar.
14. With Andrew J Oswald and Mario Garrett, “Insider power in wage determination”, *Economica*, 57, pp 143–170, 1990.
15. “Bargaining into the 1990s: where now?”, *International Journal of Manpower*, 11, 7, pp 32–39, November, 1990.
16. “The economic effects of profit sharing”, *International Journal of Manpower*, 12, 1, pp 3–9, January, 1991.
17. With Andrew J Oswald and Neil Millward, “Unionism and employment behaviour”, *Economic Journal*, July 1991, pp 815–834.
18. “Fear, unemployment and pay flexibility.” *Economic Journal*, March 1991, pp 483–496.
19. With Richard Freeman, “Going different ways: unionism in the US and other OECD countries”, *Industrial Relations*, Winter 1992, pp 56–79 reprinted in *Labor Market Institutions and the Future Role of Unions* edited by M Bognanno and M Kleiner, Blackwell, 1992.

20. With Andrew J Oswald, "Testing for a U-shaped wage curve: a response to Sessions", *Scandinavian Journal of Economics*, 1993, 95(2), pp 245–248.
21. With Jim Sargent and Ardis Olson, "Adolescent obesity and subsequent labor market performance: do fat children earn less as adults?", *American Journal of Diseases of Children*, 1993, 147(4).
22. With Andrew J Oswald, "Estimating a British wage curve, 1973–1990", *Economic Journal*, September, 1994, pp1025–1043.
23. With Bruce Meyer, "A longitudinal analysis of young entrepreneurs in Australia and the United States", *Small Business Economics*, vol 6, no 1, pp 1–20, 1994 reprinted in *Small firms and economic growth* edited by Acs, Zoltan J, Volume 2. 1996, pp 460–78, International Library of Critical Writings in Economics, vol 61, Edward Elgar, Cheltenham, UK.
24. With James Sargent, "Obesity and stature in adolescence and earnings in young adulthood", *Archives of Pediatrics and Adolescent Medicine*, 1994, 148, pp 681–687.
25. With Andrew J Oswald, "An introduction to the wage curve", *Journal of Economic Perspectives*, Summer, 1995, pp 153–67.
26. With Simon Burgess, "Job creation and job destruction in Great Britain: 1980–1990", *Industrial and Labor Relations Review*, October, 1996, pp 17–38.
27. With Stephen Machin, "Product market competition, wages and productivity: international evidence from establishment level data", *Annales d'Economie et de Statistique*, 41/42, pp 220–253, 1996.
28. With Andrew J Oswald and Peter Sanfey, "Wages, profits and rent sharing", *Quarterly Journal of Economics*, February, 1996.
29. With Richard Freeman, "The attitudinal legacy of communist labor relations", *Industrial and Labor Relations Review*, April 1997, vol 50 no 3, pp 438–459.
30. With Simon Burgess, "New technology and jobs: comparative evidence from a two country study", *Economics of Innovation and New Technology*, vol 5, 1998.
31. With Andrew J Oswald, "What makes an entrepreneur?", *Journal of Labor Economics*, January, 16(1) pp 26–60, 1998.
32. "Self-Employment in OECD Countries", *Labour Economics*, 7 September 2000, pp 471–505.
33. With Andrew J Oswald and Alois Stutzer, "Latent Entrepreneurship Across Nations," *European Economic Review*, vol 45, no 4–6, May 2001, pp 680–91.
34. "Unemployment, well-being and wage curves in Eastern and Central Europe" *Journal of Japanese and International Economics*, vol 15, no 4, December 2001, pp 364–402.
35. With Andrew L Klein and Lisa M Ruggiero, "Locality Pay Differentials, Not Just For Low Paid Jobs Anymore," *Workspan*, The Magazine of World at Work, (<http://www.worldatwork.org/>), 06/2002, pp 36–40.
36. With Andrew J Oswald, "Well-being over time in Britain and the United States", *Journal of Public Economics*, Volume 88, Issues 7–8, July 2004, pp 1359–1386.
37. With Phillip Levine and David Zimmerman, "Discrimination in the market for small business credit", *Review of Economics and Statistics*, November 2003, 85(4), pp 930–943.
38. With Alex Bryson, "What effect do unions have on wages now and would Freeman and Medoff be surprised?", *Journal of Labor Research*, 25(3), Summer, pp 383–414 and in *What do unions do?: the evidence twenty years later*, edited by James T Bennett and Bruce E Kaufman, 2004.
39. With Andrew J Oswald, "Money, sex and happiness", *Scandinavian Journal of Economics*, 106(3), pp 393–415, 2004.
40. "Self-employment: more may not be better", *Swedish Economic Policy Review*, vol 11(2), Fall, 2004, pp 15–74 and "Reply to Magnus Henrekson".
41. With Andrew Oswald, "Regional pay scales," *Public Service Review: Central Government*, Autumn 2004, pp 138–140.
42. With Andrew Oswald, "Regional wages and the need for a better Area Cost Adjustment," *Public Money and Management*, 2005, 25, pp 86–88.
43. With Andrew Oswald, "Happiness and the Human Development Index: The Paradox of Australia," *The Australian Economic Review*, Volume 38, Number 3, September 2005, pp 307–318(12).
44. With Andrew Oswald, "On Leigh-Wolfers and Wellbeing in Australia," forthcoming, *The Australian Economic Review*.

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1. With Peter Elias, "Local labour market influences on early occupational achievement," in Ian Gordon (Ed), *Unemployment, regions and labour market reactions to recession*. Pion Press, 1987.
2. With Andrew J Oswald, "International patterns of work", in *British Social Attitudes: International Comparisons*. Edited by R Jowell and S Witherspoon, Gower Press, 1989.

3. With Andrew J Oswald, "Self-employment and the enterprise culture", in *British Social Attitudes: the 1990 Report*, edited by R Jowell, S Witherspoon and L Brook, Gower, 1990.
4. "Gli effetti economic del profit sharing in Gran Bretagna" in *Salari e Productivita. Esperienze Internazionali e Italiane* edited by G Della Rocca and L Prosperetti, Aisri/franco Angeli, Milan, 1991.
5. With Bruce Meyer, "Young entrepreneurs in Australia and the United States", in *Youth in the Eighties. Papers from the Australian Longitudinal Survey Research Project*, edited by R G Gregory and T Karmel, CEPR, Australian National University, 1992.
6. "Part-time employment and industrial relations in Great Britain in the 1980's," in *Working Part-time: Risks and Opportunités*. Edited by B Warne, L Lundy and K Lundy, Praeger, New York, 1992.
7. With Lisa Lynch, "Training at work: a comparison of US and British youths", in *International Comparisons of Private Sector Training* edited by Lisa Lynch and published by University of Chicago Press and NBER, 1994.
8. With Richard Freeman, "Did the Thatcher reforms change British labour market performance?" in R Barrell (Ed) *The UK labour market. Comparative aspects and institutional developments*, Cambridge University Press, 1994.
9. With Larry Katz and Gary Loveman, "A comparison of changes in the structure of wages in four OECD countries", in *Differences and Changes in Wage Structures* edited by Larry Katz and Richard Freeman and published by University of Chicago Press and NBER, pp 25–65, 1995.
10. With Andrew J Oswald, "International wage curves", in *Differences and Changes in Wage Structures* edited by Larry Katz and Richard Freeman and published by University of Chicago Press and NBER, 1995, pp 145–174.
11. "Job creation and job loss: research questions arising from the use of establishment based data", in *Job Creation and Loss. Analysis, Policy and Data Development*, OECD, Paris, France, 1996.
12. With Richard Freeman, "Growing into work", *Employment Outlook*, OECD, July, 1996.
13. "Youth labor markets in twenty-three countries: a comparison using micro data". In *International Perspectives on the School-to-work transition*, edited by David Stern and Daniel A Wagner, Hampton Press, 1999.
14. "Changes over time in union relative wage effects in Great Britain and the United States", in *Essays in honour of Bernard Corry and Maurice Peston. Volume 2. The history and practice of economics*, edited by Daniel, Sami; Arestis, Philip; Grahl, John, Edward Elgar, 1999, pp 3–32.
15. With Matthew Slaughter, "The causes and consequences of changing earnings inequality", in *Growing apart; the causes and consequences of global wage inequality*, edited by Albert Fishlow and Karen Parker, Council on Foreign Relations, 1999.
16. With Andrew J Oswald, "The rising well-being of the young", in *Youth employment and joblessness in advanced countries*, edited by David Blanchflower and Richard Freeman, University of Chicago Press and NBER, 2000.
17. With Richard Freeman, "The declining economic status of young workers in OECD countries", in *Youth employment and joblessness in advanced countries* edited by David Blanchflower and Richard Freeman, University of Chicago Press and NBER, 2000.
18. With Richard Freeman, "Introduction", in *Youth employment and joblessness in advanced countries* edited by David Blanchflower and Richard Freeman, University of Chicago Press and NBER, 2000.
19. With Alex Bryson, "Changes over time in union relative wage effects in the UK and the US revisited", *International Handbook of Trade Unions*, Edward Elgar, edited by John Addison and Claus Schnabel. NBER Working Paper #9395, 2003.

OTHER PAPERS

1. With Andrew J Oswald, "Shares for employees: a test of their effects." Centre for Labour Economics Discussion Paper No 273, February, 1987.
2. With Robert Crouchley, Saul Estrin and Andrew J Oswald, "Unemployment and the demand for unions", NBER Working Paper No 3251, February, 1990.
3. With Peter Elias, "Ability, schooling and earnings; are twins different?" Paper presented at the American Economic Association Meetings, Anaheim, January, 1993.
4. "The bifurcated labor market". Paper prepared for a meeting of the Panel of Economic Advisors, Congressional Budget Office, 15 November 1993.
5. With Andrew J Oswald, "Supervision, youth and the wage curve". Paper written for the NBER conference on Disadvantaged Youth, Konstanz, 17 May 1996.
6. With Andrew J Oswald, "Labour market theories on trial", *New Economy*, 1995, vol 2, no 3, Autumn.
7. With Richard Freeman, "Creating jobs for youth", *New Economy*, 1997, vol 4, no 2, pp 68–73.
8. With Richard Freeman, "Youths get a raw deal", *Centrepiece*, 1997, October, Centre for Economic Performance, London School of Economics. 33.

9. With Andrew J Oswald, "Efficiency wages and the German wage curve" (in German), *Mitteilungen aus der Arbeitsmarkt-und Berufsforschung*, v29, n3, 1996.
10. With David S Evans and Andrew J Oswald, "Credit cards and consumers", mimeo, Dartmouth College, June 1998, National Economic Research Associates, Cambridge, MA.
11. With David S Evans and Andrew J Oswald, "Credit cards and entrepreneurs", mimeo, Dartmouth College, July 1998, National Economic Research Associates, Cambridge, MA.
12. "International Comparisons", Rapporteur report to an International Symposium on linked employer-employee data, *Monthly Labor Review*, July 1998, vol 121 no 7, pp 59–60.
13. With Andrew J Oswald, "Entrepreneurship and the Youth Labour Market Problem: A Report for the OECD", September 1998.
14. "What can be done to reduce the high levels of youth joblessness in the world?", a report commissioned by the ILO, 1999.
15. With Andrew J Oswald, "Job security and the decline in American job satisfaction", mimeo, Dartmouth College, 1999.
16. "Globalization and the Labor Market", Report to the Trade Deficit Review Commission downloadable at (<http://www.ustdrc.gov>), 2000.
17. With Andrew J Oswald, "Is the UK moving up the international wellbeing rankings?" April 2000.
18. With Andrew J Oswald, "Is something wrong with work-life balance? a look at international data," June 2000.
19. With David Bell, "The Scots may be brave but they are neither healthy nor happy", resubmitted to the *Scottish Journal of Political Economy*.
20. With Andrew Oswald, "The wage curve reloaded", NBER Working Paper #11338.
21. With Andrew Oswald, "The wage curve an entry written for The New Palgrave, 2nd Edition," Dartmouth College Working Paper.
22. "A Cross-Country Study of Union Membership," Dartmouth Working Paper.
23. "An Analysis of the wage impact of trade unions in the UK public and private sectors.," Dartmouth College Working Paper.
24. With Jon Wainwright, "An analysis of the impact of affirmative action programs on selfemployment in the construction industry," NBER Working Paper 11793.

CONSULTING ACTIVITIES

1. Governments and Government Departments

- (a) UK Departments of Employment (1983–1989) and the Environment (1995–96).
- (b) US Department of Labor, 1996.
- (c) Swedish Ministry of Employment, 1995.
- (d) Congressional Budget Office Panel of Economic Advisors; expert witness, 1994.
- (e) Swedish Parliament: gave expert evidence. Also acted as a member of international commission appointed by the Prime Minister of Sweden to examine the Swedish labor market.

2. International Bodies

- (a) Organisation of Economic Cooperation and Development, Paris, 1994–2000. Consultant on labor market issues.
- (b) International Labour Organisation, 1997–99.

3. Banks

- (a) New York Federal Reserve Bank, 1996. Consultant to help improve the Bank's research methods.

4. Consulting Firms

- (a) National Economic Research Associates, Cambridge Massachusetts, 1994–2006.
- (b) National Economic Research Associates, London, UK, 1994–2006.
- (c) London Economics, London, UK, 1994.
- (d) New Bridge Street Consultants, 1986–87.

For all of these firms I help to write reports and provide general assistance as needed on labor market issues, with special emphasis on pay determination and discrimination.

5. Law Firms

I work for various law and consulting firms preparing evaluations of losses of earnings in personal injury, medical malpractice, discrimination and wrongful death cases for both defendants and plaintiffs.

6. *Private sector firms*

- (a) London Electricity (UK), 1993. Provided a report on the appropriate wage structure to use in evidence to the government Regulator.
- (b) Tesco (UK), 1996. Acted as consultant for the biggest retail chain in the UK to help them in determining an appropriate pay strategy.
- (c) Visa, 1998. Writing a series of papers on the role of credit cards. In collaboration with NERA.
- (d) Microsoft, 1999–2000.

7. *Trade unions*

- (a) General, Municipal and Boilermakers Union, UK—consultant.
- (b) Union of Shop, Allied and Distributive Trades (USDAW), UK—consultant.

8. *Public Sector Bodies*

- (a) New York State Judicial Pay Commission. Consultant on how to set the pay of New York state judges, 1997.
- (b) Board of Governors of the Federal Reserve. Consultant on how to set the pay of executives in the Federal Reserve Banks and Branches, 1998–2002.
- (c) Associations of Local Government in London and the South East. Consultant on pay setting. In collaboration with NERA, London, 1998.
- (d) Farm Credit Administration. 2001. Consultant on pay setting.
- (e) I have also worked for a number of states and municipalities on cases related to minority and women-owned businesses and public contracting. These include.
 - (i) State of Texas Department of Transportation (TXDOT).
 - (ii) State of Maryland Department of Transportation (MDOT).
 - (iii) Chicago METRA.
 - (iv) State of Nebraska Department of Transportation and US Department of Transportation (Gross Seed).
 - (v) State of Minnesota Department of Transportation and US Department of Transportation (Sherbrooke Turf).
 - (vi) City of Chicago (BAGC vs City of Chicago).
 - (vii) City of Jacksonville.
 - (viii) City of San Francisco.
 - (ix) City and County of Denver.
 - (x) City of St Louis.
 - (xi) State of Illinois DOT.
 - (xii) City of Baltimore.
 - (xiii) State of Missouri DOT.
 - (xiv) State of Washington DOT.
 - (xv) Metropolitan Pier and Exposition Authority, Chicago.
 - (xvi) State of Massachusetts.
 - (xvii) Chicago Public Schools.
- (f) City of New York in a dispute with the United Federation of Teachers, 2001.
- (g) City of New York in impasse disputes with the Patrolmen's Benevolent Association, 2001, 2004–05.
- (h) Worcestershire County Council, UK, 2004, 2005.
- (i) Croydon Council, UK, 2004.
- (j) Thames Valley Strategic Health Authority, 2004.
- (k) City of Detroit, Michigan in a Michigan Act 312 arbitration dispute with the police, 2006–.
- (l) Wayne County Michigan in a Michigan Act 312 arbitration dispute with sheriff's deputies, sergeants and lieutenants, 2005–.
- (m) Chicago Public Schools on issues regarding segregation of public schools, 2006.

May 2006