The Monetary Policy Committee of the Bank of England: appointment hearings

First Report of Session 2005–06

Volume I
House of Commons
Treasury Committee

The Monetary Policy Committee of the Bank of England: appointment hearings

First Report of Session 2005–06

Volume I
Report, together with formal minutes

Ordered by The House of Commons
to be printed 13 October 2005
The Treasury Committee

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

Current membership

Mr John McFall MP (Labour, West Dunbartonshire)(Chairman)
Lorely Burt MP (Liberal Democrat, Solihull)
Jim Cousins MP (Labour, Newcastle upon Tyne Central)
Angela Eagle MP (Labour, Wallasey)
Mr Michael Fallon MP (Conservative, Sevenoaks)
Damian Green MP (Conservative, Ashford)
Ms Sally Keeble MP (Labour, Northampton)
Susan Kramer MP (Liberal Democrat, Richmond Park)
Mr Andrew Love MP (Labour, Edmonton)
Kerry McCarthy MP (Labour, Bristol East)
Mr George Mudie MP (Labour, Leeds East)
Mr David Ruffley MP (Conservative, Bury St Edmunds)
Mr Mark Todd MP (Labour, South Derbyshire)
Peter Viggers MP (Conservative, Gosport)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/parliamentary_committees/treasury_committee/treasury_committee_reports.cfm.
A list of Reports of the Committee in the last Parliament is at the back of this volume.

Committee staff

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

Contacts

All correspondence should be addressed to the Clerks of the Treasury Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769; the Committee’s email address is treascom@parliament.uk
# Contents

## Report

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td>3</td>
</tr>
<tr>
<td><strong>Introduction</strong></td>
<td>5</td>
</tr>
<tr>
<td>The role of the Monetary Policy Committee</td>
<td>5</td>
</tr>
<tr>
<td>The composition of the MPC</td>
<td>5</td>
</tr>
<tr>
<td>The role of the Treasury Committee in relation to appointments</td>
<td>5</td>
</tr>
<tr>
<td>The Treasury Committee’s methodology</td>
<td>6</td>
</tr>
<tr>
<td><strong>Our approach in a new Parliament</strong></td>
<td>7</td>
</tr>
<tr>
<td>The appointment of Mr David Walton</td>
<td>8</td>
</tr>
<tr>
<td>The re-appointment of Mr Paul Tucker</td>
<td>9</td>
</tr>
<tr>
<td><strong>Annex: Reports relating to MPC appointments, 1998–2005</strong></td>
<td>10</td>
</tr>
<tr>
<td>Conclusions and recommendations</td>
<td>11</td>
</tr>
<tr>
<td><strong>Formal minutes of the Committee relating to the Report</strong></td>
<td>12</td>
</tr>
<tr>
<td><strong>List of witnesses</strong></td>
<td>13</td>
</tr>
<tr>
<td>Reports from the Treasury Committee since 2001</td>
<td>14</td>
</tr>
</tbody>
</table>
Summary

In the last two Parliaments the Treasury Committee has established a practice of holding hearings with persons appointed to the Monetary Policy Committee (MPC) of the Bank of England and reporting on those hearings. We have decided to continue this practice, which enhances the transparency of the appointment process and increases the level of information available to the public and to Parliament about the functioning of the MPC. We have held hearings with Mr David Walton about his appointment to the MPC and with Mr Paul Tucker about his re-appointment. We are satisfied that Mr Walton meets, and that Mr Tucker continues to meet, our criteria for appointment.
Introduction

The role of the Monetary Policy Committee

1. On 6 May 1997 the Chancellor of the Exchequer, the Rt. Hon. Gordon Brown MP, announced the establishment of a new monetary policy framework for the United Kingdom, with operational responsibility for meeting monetary policy objectives transferred to the newly created Monetary Policy Committee (MPC) of the Bank of England. Operational responsibility was transferred immediately, but the change was given statutory effect in the Bank of England Act 1998, which established objectives for the Bank of England in relation to monetary policy and made detailed provision about the composition and operation of the MPC.

The composition of the MPC

2. The MPC is composed of the Governor of the Bank of England, the two Deputy Governors of the Bank, two members with relevant executive responsibilities within the Bank appointed by the Governor after consultation with the Chancellor of the Exchequer (“the internal members”) and four members appointed by the Chancellor of the Exchequer (“the external members”). The Chancellor of the Exchequer may appoint external members only if he is satisfied that the person has knowledge or experience which is likely to be relevant to the MPC’s functions.1

The role of the Treasury Committee in relation to appointments

3. In 1997 the then Treasury Committee proposed that there should be statutory provision for confirmation of the appointment of the Governor and Deputy Governors of the Bank of England and of other members of the MPC by the Committee.2 Although the subsequent Bank of England Act 1998 did not make such provision, the Committee decided to instigate hearings and make reports on appointments.3 The Treasury Committee in the 2001–05 Parliament continued the practice of its predecessor of holding hearings into appointments to the MPC and making reports arising from those hearings.4

4. Between 1998 and 2003, successive Committees held 20 appointment hearings with members of the MPC, including one hearing with a re-appointed member.5 A full list of

---

1 Bank of England Act 1998 (c. 11), section 13. An “external member” is “external” in his or her background; he or she becomes a servant of the Bank (Bank of England Act 1998, Schedule 3, para 4(1)).


5 The “re-appointment” hearing related to Mr Ian Plenderleith: Treasury Committee, Fifth Report of Session 1998-99, The Monetary Policy Committee of the Bank of England: Confirmation Hearings, HC 476–I, paras 5–7. On other occasions, members re-appointed to the MPC were not the subject of hearings. The Committee did not hold a separate appointment hearing with Mr Mervyn King following his appointment as Governor of the Bank of England because he was already a member of the MPC by virtue of his former position as Deputy Governor, although the
the Reports arising from those hearings is set out in the Annex. In only one case did the Committee call an appointment into question. 6

5. The Treasury Committee in successive Parliaments identified the following three main advantages arising from its practice of holding hearings and issuing short reports on appointments to the MPC—

- the practice provided an element of transparency in the appointment process, thus encouraging those responsible for making the appointments to appoint persons with the qualities required;
- the Treasury Committee’s involvement assisted in enhancing public awareness of the operation of the MPC and the roles played by its individual members; and
- the holding of evidence and the production of reports by the Treasury Committee secured the closer involvement of Parliament in an important process. 7

6. The Government has itself noted that “Appointments to the MPC are subject to external scrutiny, ex post, by the Treasury Select Committee”. 8

**The Treasury Committee’s methodology**

7. In 1997 the then Treasury Committee concluded that candidates for membership of the MPC “should be selected to meet the twin requirements of demonstrable professional competence and personal independence from the Government”. 9 When the Committee subsequently determined its approach to hearings with appointees, it resolved to restrict questioning to issues of the appointee’s personal independence and professional competence. 10 It also decided to send a preliminary questionnaire to each appointee prior to the hearing requesting information about the appointee’s career and views on relevant economic issues. 11 At the start of the 2001–05 Parliament the successor Committee decided to maintain the restriction on questioning to the two criteria of professional competence and personal independence, and also continued the practice of asking each prospective member of the MPC to complete a preliminary questionnaire. 12

---


Our approach in a new Parliament

8. At our first meeting of the new Parliament, we decided that we would continue the practice of our predecessors in the last two Parliaments of holding hearings with new or prospective members of the MPC. We also decided to hold hearings with members re-appointed to the MPC wherever practicable. We share the view of the Treasury Committee in the last two Parliaments that hearings with appointees to the MPC and subsequent reports on those hearings represent an important mechanism for securing greater transparency for the processes of appointment to the MPC. Such hearings and reports also represent one means—although not the only means—by which this Committee can fulfil its duty to secure proper accountability for the work of the MPC.

9. We intend to adopt the same methodology as previous Committees. In particular, we will seek answers to preliminary questionnaires from appointees and will restrict questioning to matters which bear upon the twin criteria of professional competence and personal independence. We may also examine the appointment process more generally in the course of this Parliament.
The appointment of Mr David Walton

10. Mr David Walton took the place on the MPC vacated by Ms Marian Bell. We would like to thank Ms Bell for her contribution to the work of the MPC and for the evidence that she has given to our predecessors. The appointment of Mr David Walton as an external member of the MPC was announced by the Treasury on 26 May 2005. Although Ms Bell’s term of office ended on 31 May 2005, she agreed to stay on for a further month. Mr Walton took up his post from 1 July 2005 and attended his first meeting of the MPC on 7 July 2005. His term will expire on 31 May 2008.13 Our predecessors have expressed concern about delays in making appointments to the MPC.14

11. Mr Walton began his professional career as an economist with the Treasury in 1984. From 1987 until he took up his appointment on the MPC, he worked at Goldman Sachs, eventually becoming Chief European Economist. Between December 1997 and the end of the 2001–05 Parliament he also acted as a Specialist Adviser to the Treasury Committee on monetary and fiscal policy, regularly giving oral evidence to our predecessors.

12. We took evidence from Mr Walton on 13 October 2005. This evidence, for which we are most grateful, will be published shortly, together with his answers to our questionnaire and his CV.

13. In view of the economic and political importance of the MPC, there is a considerable degree of informed interest in both the general stance of its members, and their individual positions at meetings. MPC members play a key role both in representing that body to a wide range of audiences around the country and in gathering views. We therefore questioned Mr Walton about his general stance on interest rate decisions and his approach to such matters as inflation expectations, the response of monetary policy to oil prices and central bank communication. We are satisfied that Mr Walton fulfils our criteria for appointment and wish him every success in his new role as a member of the MPC.
The re-appointment of Mr Paul Tucker

14. Mr Paul Tucker was appointed as Executive Director of the Bank of England for Markets by the then Governor after consultation with the Chancellor of the Exchequer, with effect from 1 June 2002. As such, he became a member of the MPC at that time.\textsuperscript{15} His initial appointment was announced on 4 April 2002 and the then Treasury Committee took evidence from him about his appointment on 22 May 2002. Although the then Committee sensed “a degree of obscurity in some of the responses” it received on that occasion from Mr Tucker and another appointee, it was satisfied that Mr Tucker fulfilled the Committee’s criteria for appointment.\textsuperscript{16}

15. On 19 May 2005 Mr Tucker was re-appointed to the MPC by the Governor of the Bank of England, after consultation with the Chancellor of the Exchequer, for a further three-year term with effect from 1 June 2005.\textsuperscript{17}

16. We took evidence from Mr Tucker on 13 October 2005. This evidence, for which we are most grateful, will be published shortly, together with his answers to our questionnaire.

17. Given the importance of MPC members being individually accountable for their votes, we questioned Mr Tucker on the reasons for his votes at recent MPC meetings and his approach to such matters as household debt, inflation expectations and oil prices. In his capacity as Executive Director for Markets we also questioned him on the progress of reforming the way the Bank operates in the Sterling money markets. \textbf{We are satisfied that Mr Tucker continues to fulfil our criteria for appointment and wish him every success in his second term on the MPC.}

\begin{itemize}
  \item \textsuperscript{15} Bank of England Act 1998, section 13(3)(b).
  \item \textsuperscript{16} HC (2001–02) 880–I, paras 5–6.
  \item \textsuperscript{17} Bank of England News Release, 19 May 2005.
\end{itemize}
Annex: Reports relating to MPC appointments, 1998–2005

Between 1998 and 2005 the Treasury Committee in successive Parliaments published the following Reports arising from MPC appointment hearings:

<table>
<thead>
<tr>
<th>Session</th>
<th>Report</th>
<th>Appointees and date of hearing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997–98</td>
<td>Sixth Report, HC 822</td>
<td>Mr John Vickers, Professor Charles Goodhart, Mr Mervyn King, Mr David Clementi, Mr Ian Plenderleith, Professor Willem Buiter (16 March 1998); Mr Eddie George, Dr DeAnne Julius, Sir Alan Budd (18 March 1998)</td>
</tr>
<tr>
<td>1998–99</td>
<td>Fifth Report, HC 476</td>
<td>Dr Sushil Wadhwani and Mr Ian Plenderleith (re-appointment) (24 May 1999)</td>
</tr>
<tr>
<td>1999–2000</td>
<td>Seventh Report, HC 520</td>
<td>Mr Christopher Allsopp and Professor Stephen Nickell (22 May 2000)</td>
</tr>
<tr>
<td>1999–2000</td>
<td>Tenth Report, HC 940</td>
<td>Professor Charles Bean (30 October 2000)</td>
</tr>
<tr>
<td>2000–01</td>
<td>Eleventh Report, HC 449</td>
<td>Ms Kate Barker (1 May 2001)</td>
</tr>
<tr>
<td>2001–02</td>
<td>Fourth Report, HC 880</td>
<td>Ms Marian Bell and Mr Paul Tucker (22 May 2002)</td>
</tr>
<tr>
<td>2001–02</td>
<td>Ninth Report, HC 1189</td>
<td>Sir Andrew Large (25 September 2002)</td>
</tr>
</tbody>
</table>
Conclusions and recommendations

1. We share the view of the Treasury Committee in the last two Parliaments that hearings with appointees to the MPC and subsequent reports on those hearings represent an important mechanism for securing greater transparency for the processes of appointment to the MPC. Such hearings and reports also represent one means—although not the only means—by which this Committee can fulfil its duty to secure proper accountability for the work of the MPC. (Paragraph 8)

2. We are satisfied that Mr Walton fulfils our criteria for appointment and wish him every success in his new role as a member of the MPC. (Paragraph 13)

3. We are satisfied that Mr Tucker continues to fulfil our criteria for appointment and wish him every success in his second term on the MPC. (Paragraph 17)
Formal minutes of the Committee relating to the Report

Thursday 13 October 2005

Members present:

Mr John McFall, in the Chair
Lorely Burt                        Susan Kramer
Mr Jim Cousins                    Mr Andrew Love
Angela Eagle                      Kerry McCarthy
Mr Michael Fallon                 Mr David Ruffley
Ms Sally Keeble                   Mr Mark Todd

*****

The Monetary Policy Committee of the Bank of England: appointment hearings

The Monetary Policy Committee of the Bank of England: appointment hearings: Mr David Walton and Mr Paul Tucker, members of the Monetary Policy Committee, gave oral evidence.

The Committee considered this matter.

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

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

Paragraph entitled ‘Summary’ read and postponed.

Paragraphs 1 to 17 read and agreed to.

Postponed paragraph entitled ‘Summary’ read again and agreed to.

Annex agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

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

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

[Adjourned till a date and time to be fixed by the Chairman]
Witnesses

Thursday 13 October 2005

Mr David Walton and Mr Paul Tucker, members of the Monetary Policy Committee

List of written evidence

Completed Treasury Select Committee Questionnaires: Mr David Walton and Mr Paul Tucker
List of Reports from the Treasury Committee since 2001

Session 2004–05

First Report  The 2004 Pre-Budget Report  HC 138  HC 483

Second Report  Credit card charges and marketing  HC 274  HC 508

Third Report  Work of the Treasury Committee in 2004  HC 335  —

Fourth Report  Excise Duty Fraud  HC 126  HC (2005-06) 360

Fifth Report  Cash machine Charges  HC 191  HC (2005-06) 359

Session 2003–04

First Report  The Transparency of Credit Card Charges  HC 125  HC 431, HC 761

Second Report  Child Trust Funds  HC 86  HC 387

Third Report  The 2003 Pre-Budget Report  HC 136  HC 478

Fourth Report  Annual Report for 2003  HC 386  —

Fifth Report  Restoring confidence in long-term savings: Endowment mortgages  HC 394  HC 655

Sixth Report  The 2004 Budget  HC 479  HC 654

Seventh Report  The Administrative Costs of Tax Compliance  HC 269  HC 1054

Eighth Report  Restoring confidence in long-term savings  HC 71  HC 1119

Ninth Report  Merger of Customs & Excise and the Inland Revenue  HC 556  HC Debates 8 Dec 2004 cols 1169–1181

Session 2002–03

First Report  National Statistics: The Classification of Network Rail  HC 154  HC 550

Second Report  The 2002 Pre-Budget Report  HC 159  HC 528

Third Report  Split Capital Investment Trusts  HC 418  HC 651

Fourth Report  The Handling of the Joint Inland Revenue/ Customs and Excise PFI Project  HC 184  HC 706

Fifth Report  Annual Report for 2002  HC 491  —

Sixth Report  The UK and the Euro  HC 187  HC 1004
Seventh Report  The 2003 Budget  HC 652  HC 1028

Eighth Report  Appointment to the Monetary Policy Committee of the Bank of England of Mr Richard Lambert  HC 811  —

Ninth Report  Appointment of Ms Rachel Lomax as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee  HC 1011  —

Tenth Report  Inland Revenue Matters  HC 834  HC 1181

Session 2001–02

First Report  The 2001 Census in England and Wales  HC 310  HC 852

Second Report  Budget 2002  HC 780  HC 1075

Third Report  The Office of Government Commerce  HC 851  HC 1217

Fourth Report  Appointment to the Monetary Policy Committee of the Bank of England of Mr Paul Tucker and Ms Marian Bell  HC 880  —

Fifth Report  Banking, the Consumer and Small Businesses  HC 818  HC 1218

Sixth Report  The Financial Regulation of Public Limited Companies  HC 758  HC 1219

Seventh Report  Parliamentary Accountability of Departments  HC 340  HC (2002–03) 149

Eighth Report  Inland Revenue: Self Assessment Systems  HC 681  HC 1220

Ninth Report  Appointment of Sir Andrew Large as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee  HC 1189  —

* Government Responses are usually received in the same session as the Report was published. Accordingly, the HC number refers to that session unless otherwise indicated.