



House of Commons  
Treasury Committee

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

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First Report of Session 2005–06

*Volume I*





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Treasury Committee

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

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First Report of Session 2005–06

*Volume I*

*Report, together with formal minutes*

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## 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](http://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](http://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

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## Summary

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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

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## 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.<sup>1</sup>

## 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.<sup>2</sup> Although the subsequent Bank of England Act 1998 did not make such provision, the Committee decided to instigate hearings and make reports on appointments.<sup>3</sup> 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.<sup>4</sup>

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

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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)).

2 Treasury Committee, First Report of Session 1997–98, *Accountability of the Bank of England*, HC 282, para 47.

3 Treasury Committee, Third Report of Session 1997–98, *Confirmation Hearings*, HC 571, paras 1–3. See also HC (1997–98) 282, para 49.

4 Treasury Committee, Fourth Report of Session 2001–02, *Appointment to the Monetary Policy Committee of the Bank of England of Ms Marian Bell and Mr Paul Tucker*, HC 880–I, para 2.

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.<sup>6</sup>

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.<sup>7</sup>

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

## 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”.<sup>9</sup> 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.<sup>10</sup> 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.<sup>11</sup> 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.<sup>12</sup>

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Committee did examine Mr King in general terms on the prospects for his Governorship: Treasury Committee, Ninth Report of Session 2002–03, *Appointment of Ms Rachel Lomax as Deputy Governor of the Bank of England and member of the Monetary Policy Committee*, HC 1011, para 3.

6 Treasury Committee, Seventh Report of Session 1999–2000, *The Monetary Policy Committee of the Bank of England: Confirmation Hearings*, HC 520–I, para 5.

7 Treasury Committee, Sixth Report of Session 1997–98, *The Monetary Policy Committee of the Bank of England: Confirmation Hearings*, HC 822–I, para 1; Treasury Committee, Ninth Report of Session 2000–01, *The Monetary Policy Committee—An End of Term Report*, HC 42, para 52; HC (2001–02) 880–I, paras 1–2; HC (2002–03) 1011, para 1.

8 Government Response to the Second Report of the House of Lords Select Committee on Economic Affairs, Session 2002–03 (HL Paper 66).

9 HC (1997–98) 282, para 46.

10 HC (1997–98) 571, para 6.

11 *Ibid*, para 8.

12 HC (2001–02) 880–I, para 2.

## Our approach in a new Parliament

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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

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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.<sup>13</sup> Our predecessors have expressed concern about delays in making appointments to the MPC.<sup>14</sup>

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.**

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<sup>13</sup> HM Treasury Press Notice, 26 May 2005.

<sup>14</sup> See, for example, Treasury Committee, Ninth Report of Session 2001–02, *Appointment of Sir Andrew Large as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee*, paras 9–10.

## The re-appointment of Mr Paul Tucker

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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.<sup>15</sup> 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.<sup>16</sup>

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.<sup>17</sup>

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. **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.**

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15 Bank of England Act 1998, section 13(3)(b).

16 HC (2001–02) 880–I, paras 5–6.

17 Bank of England News Release, 19 May 2005.

## Annex: Reports relating to MPC appointments, 1998–2005

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

Session	Report	Appointees and date of hearing
1997–98	Sixth Report, HC 822	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)
1998–99	Fifth Report, HC 476	Dr Sushil Wadhvani and Mr Ian Plenderleith ( <i>re-appointment</i> ) (24 May 1999)
1999–2000	Seventh Report, HC 520	Mr Christopher Allsopp and Professor Stephen Nickell (22 May 2000)
1999–2000	Tenth Report, HC 940	Professor Charles Bean (30 October 2000)
2000–01	Eleventh Report, HC 449	Ms Kate Barker (1 May 2001)
2001–02	Fourth Report, HC 880	Ms Marian Bell and Mr Paul Tucker (22 May 2002)
2001–02	Ninth Report, HC 1189	Sir Andrew Large (25 September 2002)
2002–03	Eighth Report, HC 811	Mr Richard Lambert (16 June 2003)
2002–03	Ninth Report, HC 1011	Ms Rachel Lomax (15 July 2003)

## Conclusions and recommendations

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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

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**Thursday 13 October 2005**

Members present:

Mr John McFall, in the Chair

Lorely Burt

Mr Jim Cousins

Angela Eagle

Mr Michael Fallon

Ms Sally Keeble

Susan Kramer

Mr Andrew Love

Kerry McCarthy

Mr David Ruffley

Mr Mark Todd

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## ***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

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*Page*

**Thursday 13 October 2005**

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

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## List of written evidence

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Completed Treasury Select Committee Questionnaires: Mr David Walton and Mr Paul Tucker

## List of Reports from the Treasury Committee since 2001

		Report	Govt Response*
<b>Session 2004–05</b>			
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
<b>Session 2003–04</b>			
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
<b>Session 2002–03</b>			
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	<i>HC 1028</i>
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	<i>HC 1181</i>

## Session 2001–02

First Report	The 2001 Census in England and Wales	HC 310	<i>HC 852</i>
Second Report	Budget 2002	HC 780	<i>HC 1075</i>
Third Report	The Office of Government Commerce	HC 851	<i>HC 1217</i>
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	<i>HC 1218</i>
Sixth Report	The Financial Regulation of Public Limited Companies	HC 758	<i>HC 1219</i>
Seventh Report	Parliamentary Accountability of Departments	HC 340	<i>HC (2002–03) 149</i>
Eighth Report	Inland Revenue: Self Assessment Systems	HC 681	<i>HC 1220</i>
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.