House of Commons

Treasury Committee

Appointment of Professor David Miles to the Monetary Policy Committee of the Bank of England

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Volume II

Oral and written evidence

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The Treasury Committee

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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.

Witness

Thursday 2 July 2009

List of written evidence

Oral Evidence

Taken before the Treasury Committee

on Thursday 2 July 2009

Members present

John McFall, in the Chair

Mr Colin Breed
Mr Michael Fallon
Ms Sally Keeble
Mr Andrew Love
John Mann
Mr Mark Todd
Mr Andrew Tyrie

Witness: **Professor David Miles**, External Member of the Monetary Policy Committee, Bank of England, gave evidence.

Q1 Chairman: Professor Miles, welcome to the committee and congratulations on your appointment. You have served our committee in the past well as an adviser and I am sure that you will do the same in your new job. Could you formally introduce yourself for the shorthand writer, please?
Professor Miles: Professor David Miles, Member of the Monetary Policy Committee at the Bank of England.

Q2 Chairman: Green shoots, green roots, you name it. What is it? What is the extent of the economic recovery in the economy? In your opinion, what shape will that recovery take?
Professor Miles: I think that relative to where the economy was at the back end of last year and the first few months of this year—which we now know was a period of very dramatic falls in output and extremely rapid increases in unemployment—there are some signs that things have improved. Consumer sentiment seems to have picked up a little. Certainly the forward looking indicators of business sentiment look a bit better now, in some cases rather a lot better, than they did at the turn of the year. I suspect and I hope that the period of most rapid falls in employment is behind us, but I do not think we can be particularly confident about that. I think the Bank of England's own central projection looks a plausible single best guess; namely a period of flat output, with perhaps some increases in output towards the end of the year, but fairly anaemic growth in output for much of the next period. One of the problems for the UK economy remains that the banking sector is essentially on life support. The ability of the banks to lend is curtailed and, as you know, foreign banks in many cases—maybe temporarily, maybe for a more extended period—have pulled out of the UK. So I think the prospect of a rapid return to strong growth does not seem to be a highly probable outcome. But I think there are reasons for thinking that the period of the most rapid decline in output may be behind us.

Q3 Chairman: In the questionnaire which you sent back to us, you said that you planned "from time to time to give interviews to the press". Do you not think the time has come for all MPC members to be more engaged with the press, given these turbulent times, given the need to explain to people what has happened to the economy and, as one previous witness said to us, to take economics down to the high tables of Oxford and Cambridge and ensure that it is a topic of interest and debate in the country? Would you not be willing to engage with the press much more, and would you not think that is a good step for your fellow members to take as well?
Professor Miles: I would certainly welcome the opportunity to try and explain the thinking behind what is happening in the MPC. The minutes of the meetings and appearances at this committee remain probably the most important way of communicating clearly the message. I would also say speeches round the country is an important part of the communication mechanism. But I do believe, particularly at a time when it can be difficult to understand some of the unconventional measures that the Bank is undertaking, explaining through a whole range of means is very important. Talking to the press and explaining the thinking is part of that.

Q4 Chairman: What I would like, as result of this meeting, is for you to go back, discuss that with your fellow MPC members and say, "Can we have a strategy for engaging with the press and can we up that strategy?"
Professor Miles: I will do that.

Q5 Ms Keeble: I wanted to ask you a bit about the macroprudential tools. You say there needs to be more of an understanding of the interaction between banks, which is something Lord Turner talked about. You talk also about the capital requirements. Do you think there is anything else that is needed in the way of macroprudential tools?
Professor Miles: I think it may well be the case that it turns out to be a toolkit, not just one single tool. I think it would certainly include using capital requirements—capital requirements both being higher and varying over the economic cycle—but I think there may well be a role for a wider range of tools than that. They may well include restrictions on the leverage of the overall financial sector, or the leverage of individual institutions. Also I would not rule out a role for restrictions on particular financial

products. I think what will turn out to be the case is that we should think of a toolkit rather than one specific lever that you can either push or pull.

Q6 Ms Keeble: Which financial products are you the most concerned about?
Professor Miles: I think there is an issue on the availability of very high loan-to-income, loan-to-valuation ratio products in the mortgage market and products which have been available in the past where debt was available to people who really had very little proof of what their income was. I think it is an open issue as to whether or not the right way forward through this, given the problems that we have seen, is to restrict certain products so that they are not available. As I say, that is an issue on which I am open-minded. The FSA, as I think you will know, has embarked on a pretty root and branch review of the whole way it is regulating mortgages, and I think that is the right thing to do.

Q7 Ms Keeble: You are still on the FSA, are you not?
Professor Miles: As a non-executive director.

Q8 Ms Keeble: Yes. So, in a sense, you are right in the middle of the argument about who pulls the levers. Although both sides have said that the turf wars are a bit of a caricature, there is a real issue about who pulls levers. Where do you sit in that, given that you will have a foot in both camps? Sitting on the fence is not a comfortable place to be.
Professor Miles: I think by far the most important issues are the economic issues about what are we trying to achieve with these levers. What are the right levers? What impact might they have, both in the financial sector and in the wider economy? And how does the use of whatever are the appropriate levers interact with the decisions of the Monetary Policy Committee?

Q9 Ms Keeble: Yes, but you are on both sides of the camp. At some point somebody has got to decide how all of this works, whether it is a collaborative effort, and there have been criticisms of that because of the tripartite and the arguments about Northern Rock decisions, and so on. What will you do given that you are on both organisations? How are you going to make the arguments for whom should do what?
Professor Miles: I think you need to work out, first, what the right set of tools is and how that might affect the economy before then deciding what is the right institutional structure—where might the committee sit; which building; who might be on it. Having said that, since what we are talking about are tools, the use of which will require an assessment of the overall position of the economy, it seems obvious to me that since it is the Bank of England where the expertise sits for looking at the overall position of the economy and the overall position of the financial sector, inevitably the Bank of England will play an absolutely central role in this. Whether that means, whatever the committee structure is, that it sits within the Bank of England—and should it be chaired by the Governor and should there be representatives of the FSA—I think, is an open-ended question; it is a little bit down the line.

Q10 Ms Keeble: It might be open-ended but there needs to be some certainty, because people need to have confidence that the system will work better than it has worked to date.
Professor Miles: I think there has to be absolute clarity about where the decision-making sits, who does, indeed, pull the levers and what are their aims in pulling those levers. Whether or not that turns out to be a committee that sits within the Bank of England or somewhere else is not entirely clear, but it seems absolutely natural to me that the Bank of England should be at the centre of it, because that is where the expertise sits on macroeconomic issues.

Q11 Ms Keeble: The person that you are replacing stood out as being one of the people who was prepared to challenge the grain of sand and the oyster, so to speak.
Professor Miles: Yes.

Q12 Ms Keeble: Are you going to be equally robust in being completely independent and setting out your views about what is happening in the way that your predecessor was?
Professor Miles: Yes, I am very clear in my own mind what the role of a member of the MPC is. It is to look at the evidence about what is happening in the economy, to be focused on the job of the MPC and to assess the right mix of monetary policy tools to be used and how you should set them to achieve those ends.

Q13 Ms Keeble: How about the public confidence bit of it?
Professor Miles: I think that is an absolutely essential part of the role. If the Monetary Policy Committee were to succeed in its narrow aims of keeping inflation at the target but lose the faith of the public, that would count as a failure.

Q14 Mr Tyrie: You have been voting on the MPC while you are still on the Board of the FSA. Do you not see a conflict there? Have you discussed this with Lord Turner?
Professor Miles: Yes, before I accepted the position on the MPC—and I voted at one meeting when I joined the MPC at the beginning of June, just a couple of days before the June meeting—I discussed with both the Governor of the Bank and the Chairman of the FSA whether they saw a problem or a conflict in serving on both decision-making bodies. They said that they did not; indeed they thought that there were advantages. Of course, I am not the first person to do this. The Deputy Governor for Financial Stability has always been on both the Monetary Policy Committee and a non-executive on the Board of the FSA.
Mr Tyrie: I think it would be helpful if we could have some sort of statement from the Bank on that actually. I think a trend towards doubling up on those two jobs might carry some advantages but also

carries the risk of a conflict of pay, to be doing two paid jobs in two institutions that have different statutory responsibilities and between which, from time to time, there has been significant tension, indeed, recently, quite a lot of tension.

Chairman: You can take that away and, if you want to write to me on that point, that will be fine.

Q15 Mr Fallon: In fact you have been working for the Government, and the FSA and now the Bank. You are a man for three seasons, are you not?

Professor Miles: I was asked to undertake a review of the structure of the mortgage market for the Treasury in 2003/2004. It was not a full-time role, it was an independent review. I spent a bit of time in the Treasury back then. As you say, as a non-executive, I have had another part-time role on the Board of the FSA for the last four or five years.

Q16 Mr Fallon: All right. How much GDP do you think we have lost permanently?

Professor Miles: I think that is a difficult question to judge, and I think in answering it I would err on the side of being conservative and careful. In other words, in setting monetary policy I would tend to assume that a substantial part of the output that has been lost over the last year or so does not come back. I believe that the Treasury's own assumption that they make in their forecasting (and it is in the Red Book) is that of the order of 5% or so of GDP has permanently gone from the UK. That seems to me not a bad central guess. To be honest, I would not put it at much more than a guess because there is so much uncertainty about how much activity might come back—how many people were laid off in parts of the construction sector, for example, and how many come back. But I think it is sensible to assume that a substantial part of the lost output has gone forever.

Q17 Mr Fallon: That is around 5%.

Professor Miles: That, I believe, is the working assumption. We have the Treasury forecasts. That strikes me as plausible. I would not work on the assumption that the lost output was substantially less than that.

Q18 Mr Fallon: In your answer in the questionnaire you said that one of the key issues for the Bank is how quantitative easing works. How do we measure the success of that? The Governor pointed us to the improvement in private issuance. Is that the only measure that we should be looking at?

Professor Miles: I think there is a range of things to focus on. In the very first instance, one of the aims of quantitative easing is to increase measures of the broad money supply. So looking at its first-round impact on M4 is telling you something about whether the first part of the transmission mechanism at least seems to be working. And my reading on the statistics there (it is early days) is that, if you strip out that part of M4 that is rather muddied by transactions between banks and near-bank, there has been some pick up in the growth of M4. That is only the first part of the mechanism of getting to what you really want to happen, which is easing the availability of credit to households and non-financial companies out there in the economy. What we really need to see is a sort of second-round impact, so that increase in the money supply, at least some of it, then begins to feed through to greater availability of credit. I think it is early to say that is happening yet in terms of bank lending, and the bank lending figures remain very low to both households and companies. Another part of the mechanism which you mentioned is the corporate bond market and companies' access to raising money in the securities markets by issuing corporate debt. There are some hopeful signs there. Issuance of debt by at least investment grade companies, the better assessed credit risks, has been relatively strong so far this year. Some of that actually pre-dates quantitative easing so that it is a bit difficult to work out if that has been a response to quantitative easing or something that might have happened anyway. One of the areas that I think we should focus very much on (and I am sure we will) at the Monetary Policy Committee is whether the signs of stress in the corporate bond market are reducing, and one of the signs of stress is the so-called illiquidity premia in that market—that is the extra cost that companies are paying, if they try and issue corporate debt, over and above what you might expect given the economic outlook and the risks of default and arrears. That extra cost has been very substantial. It has on some measures come down fairly significantly since quantitative easing began, but I think we need to make sure that that improvement continues into the future.

Q19 Mr Fallon: How do you see the Bank exiting from quantitative easing?

Professor Miles: At some point the overall stance of monetary policy, which is exceedingly lax at the moment, and quite rightly so, will need to be tightened. In fact, it will be a sign of success if we reach the point at which it will be tightened. That can come through a combination of changing the policy bank rate and potentially reversing some of the purchases of assets. Quite what the mix will be depends a little bit on whether or not the extra money that has been generated by quantitative easing is held willingly by households, companies and banks in a way that is consistent with the inflation target. So you could imagine a situation where the extra money generated by quantitative easing is willingly held in a way that is not inflationary on a more or less permanent basis and, therefore, the right strategy would not be to reverse a large part of the quantitative easing. Whether that turns out to be true or not depends on the decisions that households and, indeed, banks themselves want to make in the future, and I would not want to prejudge that. If it turns out that the desired holdings of money are lower than would be implied by the scale of quantitative easing, then the right strategy will be at some point to reverse the quantitative easing, but I would not want to prejudge that at the minute.

Q20 Mr Fallon: Coming back to my question on GDP, does it follow from your answer there that you assume that the long-term growth rate is now 2.5% rather than 2.75%?
Professor Miles: I do not think that the very deep recession we are going through at the moment necessarily changes the long-run growth rate of the economy. I think what it does do is remove a chunk of capacity in the economy which will go forever. But as regards the bit that is left, the rate of growth of that, which over the long-run in the UK has been, give or take a bit, 2.5%, it seems to me there is no obvious reason for thinking that that sustainable rate of growth has changed very much. Indeed, if you look back over more or less the whole of the 20th century, there is not really much evidence—despite the huge ups and downs in the economy—that the equilibrium growth rate of the economy has moved very far from 2.5%. So I think what we will have is a permanent loss of some parts of the productive capacity of the UK economy but the rest of it may well continue, in the long-run, growing at around about 2.5%—that seems a plausible number.

Q21 Mr Todd: I want to explore a bit the future structure of the economy. You have written on mortgages and savings and household portfolios, as such. How are we going to persuade the British consumer to save more for the future?
Professor Miles: I think part of the adjustment is already happening. Even in an environment of exceptionally low interest rates, which in some sense clearly reduces the incentive to save—

Q22 Mr Todd: And surprisingly buoyant consumer spending.
Professor Miles: Absolutely. — even in such an environment the household savings rate has moved up; not dramatically, but fairly significantly from the very low point that we saw a year or so ago when essentially the savings rate was zero. The household savings rate is now somewhere in the 3-3.5% range. I think that is partly a natural response to much greater uncertainty about what is going to happen in the economy, and also a natural tendency of some households to try and rebuild a lot of the lost wealth that has happened because house prices are lower and stock prices are lower. So it may well be that this adjustment to a more sustainable and higher savings rate (which I think is already underway) will happen naturally without there needing to be further dramatic intervention to increase the incentive to save.

Q23 Mr Todd: What do you think the desirable savings ratio should be? Obviously we are looking long-term here, and one would expect flexing according to economic circumstances.
Professor Miles: That is a difficult question to answer. I think if you look back over the long-run, say the post Second World War period in the UK, probably the average household savings rate has been, give or take a bit, somewhere in the 7-10% range, maybe a little lower. Maybe we will have to see it at 7%. Where we have been in recent years is pretty close to zero. Where the sustainable and right number is, is a bit hard to judge. I suspect a plausible guess would be that it might well be not a million miles from that long-run average and, therefore, substantially higher than where we are right now.

Q24 Mr Todd: Of course very dramatically higher than what we have lived at for the last decade and a half.
Professor Miles: Yes, until very recently we have been on a downward trajectory for most of the last ten years, reaching levels close to zero. Clearly, that is not sustainable. I think one of the mechanisms that will naturally generate a higher savings rate is the reduced availability of very high loan-to-value ratio mortgages, which naturally will mean that people who want to become home owners will not be able to do that with a deposit that might be only 1-2% of the value of a property. That may, in the longer run, need to be 10-20%. That will naturally mean that the savings rate in the economy will be higher.

Q25 Mr Todd: Let me take you to an extension of that question. If one assumes that we do manage to persuade the British public to save more, one would expect our economy to rely less on consumer spending as, again, in the last decade or so and that we will have to look for growth from other sources. When I was exploring this with Charlie Bean he expressed encouraging confidence that a shift towards a more export oriented trading economy could be achieved with relatively little policy adjustment. Is that your view?
Professor Miles: I certainly agree with the proposition that what the UK economy needs is a re-balancing with a higher savings rate, less of a share of consumer expenditure in GDP and higher net exports. We have had a current account deficit which has been on an upward trajectory for much of the last ten years and reached, historically, pretty high levels. The natural way for that adjustment to happen is through a change in the relative price, that is the exchange rate, and—despite the recent strength in sterling—over the last 18 months to two years, we have seen a really substantial depreciation in sterling of the order of maybe 20% or so. Whether that is enough to generate a very substantial turnaround in the net export position and take up the slack left by less consumption depends, obviously, on how price sensitive you think exports are.

Q26 Mr Todd: And whether that devaluation is going to be sustainable over a period of time.
Professor Miles: Absolutely.

Q27 Mr Todd: Obviously sterling is a traded currency, and it trades relative to what is happening in the rest of the world as well. So inspite of that being a desirable objective in our economy, it might not be the way the market chooses to—
Professor Miles: Absolutely so; and should there be dramatic changes in the exchange rate and an appreciation of sterling, that would short circuit that helpful adjustment mechanism which otherwise

could help net exports rise relative to consumer spending. But I think what we have seen is a pretty substantial fall in the trade-rated value of sterling, and although there is a lot of uncertainty about how sensitive to prices exports and imports are, my own reading of this literature is that if you take central estimates of the price elasticities, the longer run impact of such a big depreciation, if it is sustained, is pretty substantial.

Q28 Mr Tyrie: When we were in the inflationary era, it became entrenched orthodoxy that fiscal monetary policy should be a part of monetary policy and should be run wholly independently. We have just recently had this bout of concern about falling prices which has led to the need, on an ad hoc basis, cobbled together on the hoof, a much closer relationship between fiscal and money policy. How should that be institutionalised?

Professor Miles: I think the aims of quantitative easing, the unconventional monetary policy, are perhaps not quite as different from monetary policy in ordinary times as might seem the case. One of the main aims of the strategy of quantitative easing is to try and increase the quantity of broad money and increase the availability of credit to the private sector. And once you reach a situation where that cannot easily be done any more by lowering the policy rate, you need to focus on quantities and try and increase the money supply by what are in some ways an extension of the ordinary open market operations of the Central Bank, which are normally aimed at affecting the price of credit. But once you have taken the price to a lower bound, you need to act on the quantities. I think in some ways that still maintains a situation where monetary policy and the levers available to it are distinct from fiscal policy decisions about taxes, spending and debt management. Of course, one aspect of quantitative easing does take you into an intersection, in some ways, with fiscal policy because some of the quantitative easing is being achieved through buying private sector assets. That generates credit risk. That will have fiscal implications if losses are made on that. I think there is clarity, though, that if there were to be losses from the operation of quantitative easing, they will be made good in the Bank's balance sheet; in fact they are separate on the Bank's balance sheet. And that is a fiscal issue—making good. But I do think there remains very significant clarity about what the tools are and the distinction between monetary and fiscal policy.

Q29 Mr Tyrie: So the answer is none; we are all right with the current institutional structure unreformed in the light of these events.

Professor Miles: I think that the crucial thing here is that there remains clarity about what the objectives of monetary policy are, and they remain to try and keep inflation close to the target level. As long as there is not any blurring on that front, I remain pretty confident that the distinction between monetary and fiscal policy remains pretty clear. Were there to be a blurring of that, were there to be a change in the mandate or what the Monetary Policy Committee is trying to achieve, I think we get into a more difficult area. But I think what is very clear in this episode is that there has not been a change in what monetary policy needs to achieve.

Q30 Mr Tyrie: I would like to ask you one question in response to what you have said on quantitative easing and also in response to Mark Todd. If you think consumers might hang on to the QE, or part of it, and you have also concluded (which is another part of the same picture) that personal savings are going to be rebuilt on a pretty substantial scale, this recovery is going to be pretty anaemic for some time to come, is it not?

Professor Miles: I think that there is a real issue about the availability of credit. As I said earlier, frankly the banking system in the UK at the moment is on a life support mechanism. There is an issue about how it returns to a situation where it can stand on its own two feet. I think it is unrealistic to expect the availability of bank lending to increase very dramatically. I think that is one of the reasons why a quick return to rapid growth seems a pretty unlikely scenario to me, and, of course, it is precisely for those reasons that the policy rate has been cut to very low levels and we have embarked on this strategy of quantitative easing.

Q31 Mr Tyrie: So we can forget V-shaped recoveries and think about U-shapes?

Professor Miles: Given how rapidly output fell at the turn of the year—the back end of last year and the first quarter of this year—it may be the case that we get what looks like a very sharp rebound from that over the next few quarters. I am not sure that is the most likely outcome, but it is possible that we see that. One might interpret that as a V-shape. But, of course, it is a recovery from such a dramatic decline in output that that does not really tell you an awful lot about what the likely path of GDP and growth will be if you look beyond the next few quarters into next year and beyond. I remain of the view that, whilst a return to growth does seem to be plausible, and I think monetary policy is having traction in the economy, the idea that we will return to rapid growth that will be sustained over several years—

Q32 Mr Tyrie: By which you meant trend growth.

Professor Miles: A return to growth substantially above a long-run trend of 2.5% seems pretty unlikely. Frankly, if we were to return to growth in the 2-2.5% range, I think that would not be a bad outcome.

Q33 John Mann: I have one small question to follow-on. The last time there was a major flu pandemic GDP fell dramatically, and it fell dramatically in the second year more than the first year of the flu pandemic. Should there be such a pandemic, is monetary policy sufficiently thought through and responsive to deal with the first year of a pandemic, never mind the second year?

Professor Miles: I think the issue that the Monetary Policy Committee would then face is what is the balance between the impact of a pandemic on demand in the economy and the impact on supply. If

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we were in a situation where there was a substantial drop in the labour supply, the number of people who can actually go out and work and produce output, that would have one implication for how you set monetary policy. In offsetting that you might find that, because of great uncertainty and, frankly, fear in the economy, people's spending patterns change very substantially. So what the net balance is between the impact on supply and demand is the crucial thing that the MPC would have to then focus on and, in the light of that, they could decide what the right monetary policy response should be. My own guess is that the scope of monetary policy to try and deal with the after-effects of what might be a serious pandemic is very limited.

Q34 John Mann: Are you sufficiently prepared in terms of analysis and thought process, which could, in theory, happen this October?
Professor Miles: Absolutely. I think the key questions are ones the Bank is absolutely aware of, namely what do we think might be the impact on the labour supply, how many people would struggle to get to work, what would it do to output in the economy and what might it do to consumer expenditure. They are difficult things to judge. I am sure there are lessons, not least from other countries that have faced this situation, and it will be part of the thinking of the MPC—almost like contingency planning.

Q35 Chairman: I have got a final question for you. You have been Managing Director at Morgan Stanley. Are you a neo-liberal philosophy disciple that the market is always right, or there is room for Adam Smith's visible hand as well as his invisible hand?
Professor Miles: No, I absolutely do not think the market always gets it right. If I look back before the time I worked at Morgan Stanley when I was an academic, much of the research I did was about malfunctioning in financial markets. One of the first bits of research I did as an academic—this is in the late 1980s early 1990s—was really following up on an idea. I remember a speech by Nigel Lawson about short-termism in the UK and Lord Lawson then argued that he thought there was a lot of evidence that there was short-termism in the UK—that stock prices moved in a way that was unrelated to an assessment of the longer-run health of the corporate sector. And I undertook a fairly substantial bit of research on that issue and concluded that there was a lot to be said for that proposition. Indeed, more recently in the work that I have been involved in both at Morgan Stanley and before on the mortgage market and housing markets, I have argued pretty strongly that there are some irrational waves of optimism and pessimism in the market. So I certainly did not go into Morgan Stanley, and did not come out of Morgan Stanley, with the view that markets always get it right and prices always reflect a sensible assessment of the true fundamentals. I have not really bought into that idea at all.

Q36 Chairman: Are you worried by some of the signs in the past few weeks that in the financial sector there could be a return to business as usual and we will miss the opportunity of learning the lessons from the current crisis?
Professor Miles: I think that what is important from the point of view of policy is the response to those risks, and I think there are risks there. For the single most important policy response to that, one must look to the FSA. If we see a return to the type of remuneration contracts that existed in the past, I think that would be a damaging thing. The FSA has put out a consultation paper on how they are minded to regulate, more or less for the first time, the whole remuneration structure of financial institutions. I think, if I am right, the consultation period on that is about to end. I am sure within the next few months we will get rule-book changes and, for the first time, assessment of the remuneration practices of financial firms will become part of the assessment of risk management of firms, and that is a real change in the UK. It is important that that is pushed ahead now.

Q37 Chairman: Can I thank you for your evidence this morning and wish you every success in your tenure as MPC member. No doubt we will be seeing you reasonably regularly and are looking forward to you and your colleagues being on the media explaining exactly what the economic situation is. Thank you very much.
Professor Miles: Thank you.

Treasury Committee Questionnaire: Response from Professor David Miles

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?

No. I resigned from Morgan Stanley to take up the appointment. I retain academic links to Imperial College, London which I do not believe create any conflicts.

2. Do you intend to serve out the full term for which you have been appointed?

Yes.

3. Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the MPC? In particular, what areas of the MPC's work do you believe you will make a particular contribution to, and which will you have to undertake additional research into upon your arrival?

I have been an economist for over 25 years. In that time I have worked as an academic, in the Bank of England, in the City, as a consultant to companies, and also spent a period in the Treasury. I have also worked with researchers at the Institute for Fiscal Studies on the funding of government spending and the operation of the gilt market. My research as an academic has focussed on the interaction between financial markets and the wider economy.

A good deal of my time in recent years has been spent thinking about monetary and fiscal policy. A key issue for the Bank of England now is how its unconventional policy measures—quantitative easing—might work. A second issue is what extra policy tools might be needed to help prevent a repeat of the sort of financial train wreck we have seen. The issues here for the Bank and the wider regulatory community are what are the best macro prudential policy tools and how they should be used. For the MPC, the crucial question is how these tools might interact with monetary policy. To assess theses things you need to understand the interaction between banks' balance sheets, their pricing of loans and the link from those things to the spending of households and companies. That is an area where most macroeconomic models need supplementing. It is an area where I aim to undertake research in the Bank.

Some of my recent research focuses on portfolio allocation, the optimal design of public and private pension arrangements and financial regulation. Analysis of the risk characteristics of household assets and liabilities is an integral part of this work and has close connections with the review I am undertook for the Treasury in 2003-4 on the UK mortgage market. The economics of mortgages and housing, and its links to saving and public policy, is an ongoing research interest. More recently I have looked at the pricing of assets when there are many sources of risk and small probabilities of catastrophic events. There is a connection between all these issues and portfolio choice and asset pricing. In my role at Morgan Stanley I directed the research of a group focusing on UK monetary and fiscal policy.

In the periods when I have worked in the City I have spent a good deal of time talking to investors (in equities and in bonds) about how they saw market developments.

I have been an advisor on macroeconomic issues to the Treasury Committee.

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

My academic research has nearly always been policy orientated. And as an economist in business I tended to focus on the operation of financial markets. I don't think there are a set of tools that are relevant to academic research, or to the work of an economist in a business, that are different from those that should be used in a central bank. So while the questions I will look at in the Bank will be different, the approach I would take is not.

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

Here is a short list of some of my publications that I believe are relevant. I think the titles are fairly self-explanatory, but I have added a couple of sentences on each:

"Incentives, Information and Efficiency in the UK Mortgage Market", The Economic Journal, March 2005. [This paper analyses the way mortgages have been supplied in the UK.]

"Quantitative Easing: What is it? How might it work?" Morgan Stanley research report, March 3 2009. [A report that considers how QE might work and how its effectiveness could be judged].

"After The Mess", in After the Apocalypse: Lessons from the Global Financial Crisis, edited by Philip Collins and Peter Harrington, Demos, 2008. [An essay on the lessons for regulatory and macroeconomic policy from the financial crisis].

"What Should Equities and Bonds be Worth in a Risky World", Morgan Stanley research report September, 2005. [A paper which considers the effect of there being very bad economic outcomes which have small probabilities for bond and equity prices].

"Financial Innovation and European Housing and Mortgage Markets " Oxford Review of Economic Policy", vol 24, no 1 2008. [An article which looks at what drove house prices up across developed economies and assesses the sustainability of property values across countries].

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?

I believe that ex-post parliamentary accountability is a crucial part of the monetary policy framework in the UK. Explaining the MPC's views on monetary policy at the regular Treasury Select Committee (TSC) hearings is an important part of building and maintaining confidence in the monetary policy framework.

Until now MPC members have been accountable for decisions on Bank Rate. With quantitative easing (QE) we have moved into new territory. QE involves a different set of decisions; it generates a big expansion in the balance sheet of the Bank. There is a real challenge for the MPC in understanding and explaining how QE affects the wider economy and how the MPC makes decisions on it.

It is a strength of the current system that each member is responsible for their decisions (and cannot hide behind group decision). It is another strength that members are not chosen to represent specific interests; they are there on the basis of the knowledge and experience they can bring to decisions on monetary policy directed at meeting specific goals.

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 questions I would ask are these:

Given the information available when decisions were made, did I use that information in a thoughtful and efficient way? (That is not the same thing as asking whether decisions I made were the same as those that would be made with the benefit of hindsight.) Did I contribute to the decision by questioning assumptions and offering (in a constructive way) alternative views? Did I bring some extra information and insight to the decision making process? Did I fall into the trap of accepting conventional ways of thinking and stop questioning the evidence and assumptions underlying such thinking? Did I effectively explain the thinking behind those decisions to a wider audience? Did I use the opportunity an MPC member has to speak to a wide range of people around the country to gather information useful to making the policy decisions?

8. Do you believe there is merit in having an individual paragraph in the minutes of MPC decisions in which to explain your most recent vote?

I am open minded on this issue. I see some value. But I think it is fairly easy to see what was behind most votes since when there are different votes there is a description of the main reasons for taking one view as opposed to the other. And of course the individual votes are published.

There are many opportunities for MPC members to explain their thinking already—for example through speeches and in TSC hearings.

If there were specific paragraphs by each MPC member there is a danger of the minutes becoming a back-covering document. That is, one focused much more on justification than one which described the issues and the debate about them. It would probably become a longer document, but not one that would necessarily improve the quality of the information about the reasons for policy decisions.

There is one practical problem with having each member include a paragraph in the minutes justifying their vote. If the minutes are to be a record of the discussion at the meeting where the decisions are actually made, then MPC members would probably prepare their statement (and decide on their vote) before hand. This would greatly reduce the value of the meeting. Members could prepare their paragraph later—in which case the minutes are no longer a record of the meeting itself.

C. Other Professional Activities

9. What other professional activities do you expect to continue/ 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 am in no hurry to take on other things—I want to concentrate on the job at Bank of England. I will keep on my non-executive role on board at FSA (which runs until Spring next year) and also continue as a Visiting Professor at Imperial College, London. I am also part of a Commission to look at funding of the Welsh Assembly Government (The Holtham Commission).

10. 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 plan to:

Make speeches
Undertake regional visits (the first of which will likely be to Belfast)
Produce and present research reports
From time to time give interviews in the press.
I also expect to give evidence to the Treasury Committee.

D. Monetary and Economic Policy

11. How might the system of control over monetary policy in the UK be improved? Is the framework of an explicit symmetrical inflation target the best within which to conduct policy? Has the MPC been given an appropriate inflation target?

I believe that having an explicit, symmetric target for inflation is valuable. I think that having an inflation target is a necessary part of the framework for overall economic policy. A credible inflation target provides an anchor for inflation expectations. That the target be symmetric is important because too little inflation can be as damaging to the real economy as too much inflation.

Abandoning an inflation target because it has not prevented the UK avoiding a steep global recession would be a mistake. Having such a target has not stopped the MPC responding to the dramatic slowdown in activity with an aggressive, indeed unprecedented, easing of monetary policy. This is because the MPC's remit allows it to look through short-term movements in CPI inflation (which stayed above target during the period when policy became highly expansionary).

But events have shown that an inflation target alone is not sufficient to manage both monetary and financial stability. While we have been fairly successful in targeting inflation (and experienced a decade of low and stable inflation) we are now seeing acute financial instability. There has been a train crash in the financial sector—not just in the UK but globally. But I do not believe that abandoning the inflation target is a sensible response to the global financial crisis.

Indeed, abandoning the inflation target would be very risky—if inflation expectations drift upwards it is unlikely that UK companies and the UK government could raise funds at yields close to current levels. It is an immense benefit that inflation expectations have remained close to target throughout this financial crisis.

The inflation target needs to be supplemented with tools that help maintain financial stability.

What we have seen is that, in the absence of other tools, you cannot expect the interest rate that is most likely to achieve the inflation target be the same as the one best suited to preserve financial stability. This is why there is a need for a new policy instrument (or set of instruments).

There are various candidates for a macro-prudential instrument. I see a lot of merit in counter-cyclical capital requirements. But I would not rule out other options—which might include specific limits to the gearing ratios of institutions. (There are also micro policy instruments, such as loan-to-income limits on mortgage products.)

There are important questions about how policy instruments would interact. Capital requirements have some of the features of interest rates (and some of the features of a tax) in how they work. The co-ordination between the inflation-targeting monetary policy instrument and the instrument(s) focused more on aggregate financial stability is a hugely important policy issue. To get this right we need to better understand the links between bank balance sheets, their lending capacity and the spending of households and non-financial companies. Macroeconomic models have neglected this.

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?

One part of this question is, I think, fairly straightforward: housing costs need to be in a measure of consumer prices. It is not obvious what the right way to do that is. But I believe it is clear that a measure of inflation which does not allow the costs of housing to have any influence is flawed. I believe Eurostat have been considering the best way to do this for some years. But they have not come up with an answer yet, so CPI measures in Europe do not include it. Yet housing is a significant part of the cost of living. So we do need to re-introduce housing costs. This would mean house price changes have some effect on the inflation measure and inflation targeting central banks will naturally respond to house price movements. But given the weight of housing costs in a plausible measure of the cost of living this will not mean that monetary policy will respond very powerfully to asset prices. This is one reason why the short term interest rate is not the ideal policy lever to reduce asset price instability.

Of course one could introduce other asset prices—those of equities, bonds and commercial property—into the overall price index and let that index bear less and less resemblance to a measure of the cost of living. If there were to be no other macro instrument beyond interest rates available to help preserve financial stability I could see a case for including those asset prices in some hybrid price index (a hybrid between a cost of living measure and an asset price measure). This would be far from ideal because it divorces the target from the cost of living. Linking the target to the cost of living is important. It ties monetary policy to what matters to people. (Consider the problems if consumer prices were rising fast when equity prices were falling—it would be difficult to convince people that inflation was not then a problem).

But in fact there are a range of other instruments to help target, or more accurately maintain, financial stability. (Targets is not quite the right concept with macro stability; it is more that there are a range of indicators of potential problems: growth in asset prices; growth in lending; leverage; indicators of irrational optimism. Movements in these indicators would trigger changes in the instruments.).

13. How would you describe the state of the UK labour market at present?

Considerable slack in the labour market exists already. It has risen very fast. Employment has fallen, vacancies are down all measures of unemployment are up very sharply over the past year. Unemployment amongst the young has risen very rapidly. This is very worrying. Unemployment is very likely to rise further and for some months. So slack will get even larger. Signs of the impact this is having are very clear—wage settlements have been falling, with a great many zero settlements. There are more and more examples of deals where pay cuts have been accepted; people are giving themselves a bit more job security by pricing themselves into their jobs. That is not easy—and nobody wants to see wages stagnant or falling. But it is likely better than even more rapidly rising unemployment.

All this is, of course, one of the reasons that cutting the policy rate (Bank Rate) very sharply and embarking on quantitative easing has been right.

14. What are your views on the prospects for the UK housing market?

Before house prices started falling I—like many others—believed that prices were over-valued. I said that in 2005 and 2006 (and was ridiculed by many in the mortgage industry for so saying).
The economic modelling I did then suggested prices might be 20-25% too high—relative to sustainable levels.

Since then there have been many offsetting developments: Incomes are weaker; unemployment is up sharply, and is expected to rise further. But interest rates are down a lot (and there has been a reasonable amount of pass-through to the cost of mortgages since the significant cuts in Bank Rate).

High loan-to-value mortgage products have dried up. Ultimately that is not a disaster; people will wait a bit longer to buy and rent a bit longer. The owner occupation rate would be lower, but the rented sector bigger. It does not clearly reduce substantially the long run demand for housing. The short run issues are more difficult. Now 20-25% deposits are typically required. The flow of first time buyers will be reduced as they accumulate higher deposits. This means that the volume of house purchases on a transition to a new equilibrium, where people buy later and with higher deposits, will be reduced. That is part of what we have been going through over the past 18 months. But it is a transition.

Expectations are crucial in the housing market and they look a bit better now than a few months ago.

My hunch—and I put it no stronger than that—is that we have seen most of the overall aggregate house price falls. But no-one knows.

15. As a former Chief UK Economist at Morgan Stanley, and Board Member of the FSA you have built up a detailed knowledge of the world of finance. What insights will you be able to bring to MPC discussions about the interaction of the financial sector and the wider macroeconomy?

I was working for Morgan Stanley, and was also a non-executive Board member at the FSA, as the financial crisis unfolded. Being in those institutions made me think hard about how things went so badly wrong. I draw several lessons that are relevant to the conduct of monetary and regulatory policy from the crisis. I summarised some of them in an article in the Financial Times written several months ago. I asked in that article "How can financial regulation and monetary policy help stop this happening again?"

Here is part of my answer:

> "First, more needs to be done to prevent huge run-ups in asset prices—particularly in house prices. To that end, some element of housing costs should be reintroduced into the measure of inflation targeted by the Bank of England's monetary policy committee. If house prices affect the measure of inflation—as they should if that inflation measure is to reflect movements in the cost of living of households—then an inflation-targeting central bank would tend to offset very sharp rises in house prices by tightening monetary policy. But if the weight of house prices on the inflation measure reflects its significance to the cost of living, it will not have a huge impact on monetary policy. So reintroducing a house price impact on inflation—while useful—would have only limited value in enhancing financial stability.
>
> A more powerful tool is capital requirements on banks. There has been a consensus in financial institutions—and also among their regulators—that equity capital is expensive, that debt is cheap and that the more capital that is held the less profitable will be the institution. This belief has always been puzzling. A basic bit of finance theory—the Modigliani Miller theorem—says it is false. There should be a link between the cost of debt for any institution and the amount of equity it has. Once you take into account the fact that more equity makes the debt safer—and therefore should make it cheaper—then the apparent extra cost of raising equity is offset by the benefits it brings in terms of a lower cost of debt. My experience has been that when this argument is put to people in the financial sector—including regulators—it has been greeted with bemusement and pity (at its hopeless naivety).
>
> But when we see financial companies that are perceived (rightly or wrongly) to be under-capitalised having difficulty raising debt and needing to pay a lot for it, this is a very powerful reminder of why the Modigliani Miller theorem is fundamentally right.

> Anyone who still firmly believes that equity capital is expensive and debt is cheap—so that minimising the amount of equity capital is the optimal strategy—does not really get this. But once you get it, it is liberating. No longer do capital requirements set by regulators become an irksome burden where the goal is to minimise the extent to which they bite. For regulators, too, it is liberating. Worrying endlessly that the complex system of weights, devised and refined over many years in various iterations of Basel capital rules, has set capital requirements slightly too high is not sensible. If the true cost of having more capital is not that great, then the cost of setting higher capital weights on assets is also not so high.
>
> But in setting higher capital requirements we also need to ensure they do not operate in an unhelpful pro-cyclical way—letting capital fall in booms when asset prices and lending are growing and rise in downturns when asset prices are falling. Unfortunately the current rules on capital adequacy operate in this way and to that extent have undermined financial stability. Making capital requirements countercyclical should be a high priority.
>
> Finally, there needs to be a much more serious focus on whether those who take on credit can afford to do so. We need to get (back?) to a situation where there is a strong coincidence of mutual interest between lenders, intermediaries and borrowers in not having credit extended where there are high risks that it cannot be repaid. When intermediaries have incentives to generate new lending they also need incentives to ensure the lending is sound."
>
> (*Financial Times*, January 2009)

There is now a widespread realisation that the direction of regulation needs to change: there was too much acceptance that lighter capital controls were desirable; not enough questioning of business models and risk assessments of firms; too much reliance on individual firms apparently being able to withstand shocks and not enough seeing that aggregate risks that hit most firms simultaneously were the real problem. I believe we have dramatically overestimated the cost of having financial firms hold more capital and underestimated the damage of their not having enough. We assumed liquidity would not be a problem for solvent banks. That was a mistake.

The internal report by the FSA on how Northern Rock was supervised, and the appropriate reaction to it, was discussed at great length by the Board at the FSA. (There was never any question at the Board that it should not be published—in full). The Supervisory Enhancement Programme, and the new direction subsequently laid out in the Turner report, are the results. There is no doubt at all that the way the FSA will supervise firms and regulate markets has been profoundly changed. I believe that the lessons of the mistakes that were made have been taken.

Where I believe there needs to be some careful thinking now is how new tools to help preserve financial stability—which I think are much needed—interact with monetary policy. It is in that area that I think my recent experience at Morgan Stanley and at the FSA is of use at the Bank of England.

June 2009

Professor David Miles—CV

Current Post:

Monetary Policy Committee member, the Bank of England.

Visiting Professor of Financial Economics, Imperial College, University of London

Non Executive Director, The Financial Services Authority

Current Research Interests:

My research focuses on financial markets including asset allocation and pricing, and the interactions between financial markets and the wider economy.

Some of my recent research focuses on portfolio allocation, the optimal design of public and private pension arrangements and financial regulation. Analysis of the risk characteristics of household assets and liabilities is an integral part of this work and has close connections with the review I am undertook in 2003 and 2004 on the UK mortgage market for the Chancellor of the Exchequer. The economics of mortgages and housing, and its links to saving and public policy, is an ongoing research interest. More recently I have looked at the pricing of assets when there are many sources of risk and small probabilities of catastrophic events. There is a connection between all these issues and portfolio choice and asset pricing. At Morgan Stanley I headed a group focusing on macroeconomic outcomes, monetary policy and asset markets.

Previous Posts:

2004-2009 Chief UK Economist and Managing Director, Morgan Stanley

Head of UK economic research at Morgan Stanley.

1996—2004 Professor of Financial Economics, Imperial College, London.

As head of the Finance Group at Imperial I established an Msc in Finance teaching courses in finance theory; macroeconomics; regulation; corporate finance and asset pricing. Supervised several Phd's.

1994—1996 Chief UK Economist, Merrill Lynch London

Head of Merrill Lynch's UK economic research team focusing on the UK bond and equity markets.

1993—1994 Economic Adviser to the Bank of England

While on sabbatical from the University of London I worked in the Economics Division of the Bank of England where I advised on research projects; I had direct responsibility for research on the operation of financial markets and on issues in the regulation in financial markets

1989—1993 Reader in Financial Economics, Birkbeck College, University of London

I helped establish a new degree course in Financial Economics, teaching courses in: the economics of financial markets, portfolio theory, mathematical economics, corporate finance, monetary theory, statistics for economists and principles of macroeconomics. I taught MSC courses at the London School of Economics on financial regulation and PhD courses for the University of London on advanced macroeconomics. I supervised three PhD's in the area of financial economics.

1988—1989 Research Fellow at the Financial Markets Group, The London School of Economics:
On part time secondment from the Bank of England, I undertook theoretical and empirical research into the operation of financial markets.

1983-1989 Economist, Economics Division and Money Markets Division, The Bank of England

I undertook research on various aspects of the behaviour of financial markets, with particular focus on the corporate sector. I also worked in the operational arm of the Bank responsible for the implementation of monetary policy.

1981-1983 Temporary Lecturer in Economics, University College, Oxford

I taught undergraduate economics and gave classes in mathematics for economists

Other Affiliations

- Specialist Advisor, House of Commons Treasury Committee,
- Centre For Economic Policy Research Fellow
- Governor of The Pensions Institute
- Research Fellow of the CES-IFO group at Munich University
- Research Fellow of the Institute for Fiscal Studies
- Editor "World Economics"
- Council Member of the Royal Economic Society
- Governor of the National Institute of Social and Economic Research
- Member of the Holtham Commission (set up to investigate funding of Welsh Assembly Government)

Education and Qualifications

1989-92 PhD University of London: "Housing, Financial Liberalisation and Consumption"

1983-84 London School of Economics and Political Science, Part time study of advanced econometrics.

1981-83 Nuffield College, Oxford, 1983 M.Phil Economics

1978-81 University College, Oxford (Scholarship), B.A. (Hons) Politics, Philosophy and Economics (PPE)—1st class honours

1972-78 The Bishop Gore School, De la Beche Road, Swansea

Publications:

a). Articles in Academic Journals

"The impact of Changing Demographics and Pensions on the Demand for Housing and Financial Assets", with Ales Cerny and Lubomir Schmidt, Journal of Pension Economics and Finance, forthcoming.

"Financial Innovation and European Housing and Mortgage Markets " Oxford Review of Economic Policy", vol 24, no 1 2008.

"Risk, Return and Portfolio Allocation under Alternative Pension Systems with Incomplete and Imperfect Financial Markets", The Economic Journal, April 2006, pp 529-557. 2006.

"Incentives Information and Efficiency in the UK Mortgage Market, The Economic Journal, March 2005.

"Life on the Outside", with David Barr and Francis Breedon, Economic Policy, issue 37, October 2003.

"Social Security Design in the UK—What is Optimal?", with James Sefton, Fiscal Studies, vol 24, no 2, 2003, pages 121-151

"The Reform of Pension Systems: Winners and Losers Across the Generations in Germany and the UK", with Andreas Iben, Economica. Vol. 67, pp 203-28, May 2000

"Modelling the Impact of Demographic Change Upon the Economy", 1999, The Economic Journal, vol 109, no 452, pages 1-37.

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"An International Study of Efficiency and Risk in Money Markets", International Journal of Theoretical and Applied Finance", Vol 1, No3, April 1998, pages 389-424.

"Financial Markets, Ageing and Social Welfare" Fiscal Studies, vol 18, no 2 pp 161-188.May 1997.

"A Household Level Study of the Determinants of Income and Consumption", The Economic Journal, vol 107, no 440, pp 1-25, January 1997.

"Variation in Expected Stock Returns: Evidence on the Pricing of Equities from a Cross Section of UK Companies", Economica, vol 63, pp 369-82, 1996.

"Testing for Short-Termism in the UK: Reply to Damant and Satchell", The Economic Journal, vol 105, No. 432, pp 1224-1228. September 1995.

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"Time-Varying Risk Premia and Bias in the Foreign Exchange Market", Applied Financial Economics, 1993.

"House Prices, Consumption and Personal Sector Wealth: Some Conceptual and Empirical Issues", The Manchester School, LXI, pp 1-25, 1993.

"Measuring Efficiency and Risk in the Major Bond Markets", (with S G Hall), Oxford Economic Papers, vol 44, pp 67-93, 1992.

"Housing Markets, Consumption and Financial Liberalisation in the Major Economies", European Economic Review, vol 36, no 5, pp 1093-1128, 1992.

"Housing and the Wider Economy in the Short and Long Run", National Institute Economic Review, No. 139, pp 64-78, February 1992.

"What is Different About Financial Firms?", The Manchester School, vol LIX, no 1, March 1991, pp 64-79.

"Modelling Asset Prices With Time-Varying Betas" (with S G Hall and M P Taylor), The Manchester School. vol LVII, 4. pp 340-356, December 1989

"Modelling Companies Debt and Dividend Decisions With Company Accounts Data" (with G Chowdhury). Applied Economics, vol 21, no11, pp 1483-1508. November 1989.

b). Books

"MACROECONOMICS: UNDERSTANDING THE WEALTH OF NATIONS" with Andrew Scott, John Wiley, first edition August 2001, second edition 2005.

"THE ECONOMICS OF PUBLIC SPENDING", Oxford University Press 2003, Edited by D Miles, G Myles and I Preston

"HOUSING, FINANCIAL MARKETS AND THE WIDER ECONOMY", John Wiley, November 1994 *c). Chapters in Edited Books*

"After The Mess", in After the Apocalypse: Lessons from the Global Financial Crisis, edited by Philip Collins and Peter Harrington, Demos, 2008.

"The Economics of Public Spending" (joint with G Myles and I Preston), chapter 1 of The Economics of Public Spending, edited by D Miles, G Myles and I Preston, Oxford University Press, forthcoming 2003

"The Influence of Ageing on Capital Formation", in Economic Policies for Aging Societies, edited by Horst Siebert, Springer, 2002.

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"Fundamental Economic Implications of EMU" in The Euro, edited by Paul Temperton, John Wiley, London, 1997.

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"What Determines the Bank Borrowing and Lending Decisions of UK Companies? Explanations Based on Aggregated and Disaggregated Data" (with C Green and G Chowdhury) in "Disaggregation in Economic Modelling" edited by T S Barker and M H Pesaran. Routledge, (1990).

"The Impact of Monetary Policy on Inflation: Modelling the UK Experience 1978-86" (with D Mackie and C Taylor) in "Policymaking with Macroeconomic Models" edited A Brittan, Gower Publishing, 1989.
d). Discussion Papers

"Optimal Portfolio Allocation for Pension Funds", with David McCarthy, CEPR Discussion Paper 6394, July 2007.

"The Impact of Changing Demographics and Pensions on The Demand for Housing and Financial Assets" with A Cerny and L Schmidt, CEPR Discussion Paper, July 2005.

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"Jeux sans Frontieres: the New Economic Geography and the New Europe" Merrill Lynch Special Report, November 1999.

"The Reform of Pension Systems: Winners and Losers Across Generations", Centre for Economic Policy Research Discussion Paper no 1943, August 1998.

"Fundamental Economic Implications of EMU", Merrill Lynch Special Report, February 1998.

"Modelling the Impact of Demographic Change Upon the Economy", Centre for Economic Policy Research Discussion Paper, No 1762, December 1997.

"Demographics and Saving: Can We Reconcile the Evidence?", Institute of Fiscal Studies Working Paper, 1997.

"Brightness Visible: Housing, Building Societies and Credit Quality", Merrill Lynch Special Report, November 1996.

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