

Life on the Monetary Policy Committee

Stephen Nickell was the first external member of the Bank of England's Monetary Policy Committee to serve two three-year terms. He reflects on his experiences setting the nation's official interest rate.

One Tuesday evening in the spring of 2000, I received a phone call from Gus O'Donnell, the then permanent secretary at HM Treasury, suggesting that I might like to attend a small meeting at the Treasury on the following day. After some discussion, he revealed that it concerned a job but refused to be more specific.

On the Wednesday morning, I went into the Treasury where he and Ed Balls asked if I wished to become a member of the Bank of England's Monetary Policy Committee (MPC). On the Wednesday and Thursday, I organised leave from the LSE for four days per week and had a chat with Eddie George, then the Bank's governor. Gordon Brown announced my appointment on the Friday morning.

Such speedy appointments to public bodies are relatively unusual but members of the MPC have always been, and still are, appointed with great rapidity and secrecy, much to the irritation of the House of Commons Treasury Committee.

Before starting on the MPC and having purchased a new suit, the first exciting event was to appear before the Treasury Committee for my confirmation hearing. This involved first, completing a lengthy 'exam' paper on various aspects of monetary policy-making (which was set, as it happens, by Charlie Bean, then an adviser to the committee and a fellow LSE professor, and from later that year the Bank's chief economist); and second, a grilling by the committee in the presence of the financial press.

When I made my appearance, I was the second person on, the first having been Chris Allsopp who had been appointed at the same time. Chris was given such a hostile reception by the committee (with Brian Sedgemore leading the charge) that by the time they got to me, the MPs were merely mildly aggressive, having run out of steam. This proved to be the last time that prospective MPC members went before the Treasury Committee for their confirmation hearings without a long practice session at the Bank.

The MPC operates on a monthly cycle, essentially because, by law, it must meet to set interest rates in every calendar month. The interest rate decision is made on the first or second Thursday of each month. On the previous Friday morning, the committee meets to listen to the Bank staff going through the economic news. The following week, the committee spends the Wednesday afternoon

discussing the current and future prospective state of the economy and the Thursday morning making the interest rate decision, which is announced at noon.

These discussions form the basis of the minutes that are put together by a secretariat of four Bank staff who are present throughout. These minutes are discussed at length and amended by the entire committee on the Monday, eleven days after decision day and are published, along with details of the vote, two days later.

One of the key features of this process is the fact that the decision on interest rates is taken by strict majority vote. On the Thursday morning, the governor invites each member of the committee to present their vote on rates along with their reasons, each member being expected to talk for about ten minutes. The deputy governor in charge of monetary analysis (currently Rachel Lomax) is always invited to go first, the next seven members are then asked in apparently random order and the governor always goes last.

Of the nine members, five are internals who are permanent Bank employees: the governor, two deputies, the chief economist and the head of markets. The other four are external members appointed in the same fashion as myself. On one occasion, I was present at an exceptionally unusual event. The random order of speaking by the seven members between Rachel Lomax and the governor just happened to be in anti-clockwise order around the table. If the order were truly random at each meeting, this event would only be observed, on average, once every 438 years.

Extensive study of the voting records

of the committee has failed to elucidate any patterns. There is no block voting, and within both internal and external groups there are often divisions with deputy governors voting against the governor, for example. Indeed the committee is not concerned with consensus, split votes are common and the governor has twice been on the losing side. Note that since governors always vote last, they can choose whether to join the winning or losing side except in the unusual circumstance when they have the casting vote, with the previous eight members' votes tied at 4-4.

The style of decision-making, using strict majority voting based on the individual views of nine independent MPC members, is reinforced by the fact that members are held to account for their individual votes. Formally, they are questioned in public by the Treasury Committee, where they must appear three or four times a year. Furthermore, individual members frequently use speeches, papers and interviews to justify their particular positions.

In my view, this method of decision-making – that is, nine individuals coming to their own decisions and then using majority voting to aggregate them – generates outcomes that are superior to methods based on a search for a consensus under the auspices of a dominant leader favoured by some central banks.

The desirability of having independent voices on the committee suggests that while professional economists should have a strong representation, it is a good idea to have a number of members with a different point of view. This helps to ensure that decision-making is not



dominated by a rigid consensus perspective. Indeed to guard further against this, during my time the committee often used to invite members to prepare short papers focusing on factors that might lead to decisions being seriously mistaken.

Of course, aside from the actual procedures involved with the monthly round of decision-making, there is a great deal of background activity. Within the Bank, all the external members engage in research and analysis, each assisted by two Bank researchers. This results in numerous speeches, press interviews and papers prepared for consumption by academics, financial journalists and the general public.

An important part of the job is to ensure that individual views and committee decisions are explained to the world at large as clearly as possible. To help with this, the MPC publishes a forecast every three months explaining its view of where the UK economy is going over the next three years. The production of these forecasts involves numerous meetings of the committee, interacting extensively with large numbers of the Bank staff. The monetary analysis division of the Bank contains around 120 economists, which reveals the sheer scale of the whole monetary policy operation.

On top of this, it is part of the remit of MPC members to go on regional visits. So about ten times a year, I would set off for some distant part of the UK both to listen and to explain. These visits usually lasted two days and involved a great deal of eating. The basic format was to meet large groups of business people, trade unionists, academics and so on, over, successively, lunch, dinner, breakfast, lunch.

The idea was to give a brief talk about the economic situation and then engage in discussions, sometimes heated, about how things looked from the individual perspectives of the people present. These were organised by the Bank's regional agents, who had numerous business and other contacts, and often involved the local CBI (Confederation of British Industry), Chamber of Commerce and similar organisations.

The two most popular topics under discussion concerned either the dire consequences of official regulation for business or what was going to happen when manufacturing industry disappeared

entirely. Monetary policy rarely seemed to be a cause for concern.

Between meals, I would visit local workplaces, talk to the local press and give interviews on local radio. The purpose of all this was partly to get a feel for the state of the economy on the ground and partly to fly the flag and explain what the committee was up to.

By and large, these visits were great fun. I got to visit places as far afield as the Isle of Lewis and the Isles of Scilly, as well as less exotic places like Aberdeen, Enniskillen, Pwllheli, Truro and Wakefield, plus all the major cities of the UK. I got to see the making of steel, aluminium, glass, brake linings, sandwiches, Smarties, Formula One cars and stair-lifts, went down the deepest mine in the UK (a potash mine in Cleveland), wandered around call centres, docks, farms, battery hen sheds, garden centres and shopping centres, and only failed to get to an oil rig because the health and safety procedures would have taken too long.

Overall, the hospitality was splendid, especially in Northern Ireland. The Omagh Chamber of Commerce annual dinner was particularly memorable: arriving at 7pm for pre-dinner drinks, sitting down to dinner at 9.30pm, standing up to speak on monetary policy at around midnight, and finally taking my leave of an event still in full cry well after 3am.

During my entire time on the committee, any time I appeared at a public event or conference, whatever the subject and wherever the place, journalists from the wire services were always there. Their job was to obtain a quote. These characters became a part of my life – indeed one of them followed me around, at the Bank's invitation, for an entire two-day regional visit to North Wales.

So I became famous in a rather limited, *ex officio* sense. Then on 1 June 2006, I became an ex-member of the MPC and I have never seen any of them again. It was great fun while it lasted.

UK monetary policy is decided by strict majority voting based on committee members' individual views

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