

Can the Chancellor still influence voting patterns in the Monetary Policy Committee at the Bank of England?

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The MPC at the Bank of England was set up to make independent judgements about interest rate policy. But after studying every decision the Committee made over an eleven year period, [Simon Hix](#), [Nick Vivyan](#) and [Bjørn Høyland](#) find evidence that by appointing members of the MPC the Chancellor of the Exchequer has been able to alter the balance of votes there. The Treasury still gets to shape the Bank's decision-making to some extent.



One of the first actions of the newly elected Labour government in 1997 was to grant independence in setting interest rates to the Bank of England, specifically its Monetary Policy Committee (MPC) comprised of Bank insiders and outside economists. However, the Chancellor of the Exchequer and the Treasury maintained a tight control of who gets to be appointed to sit on the MPC.

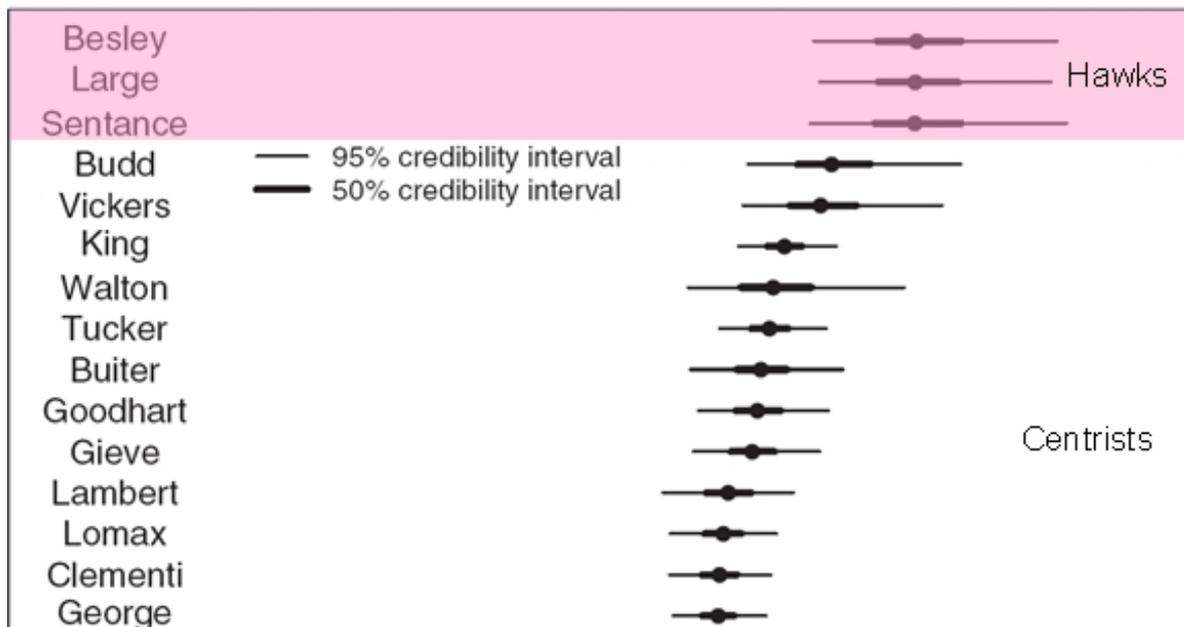


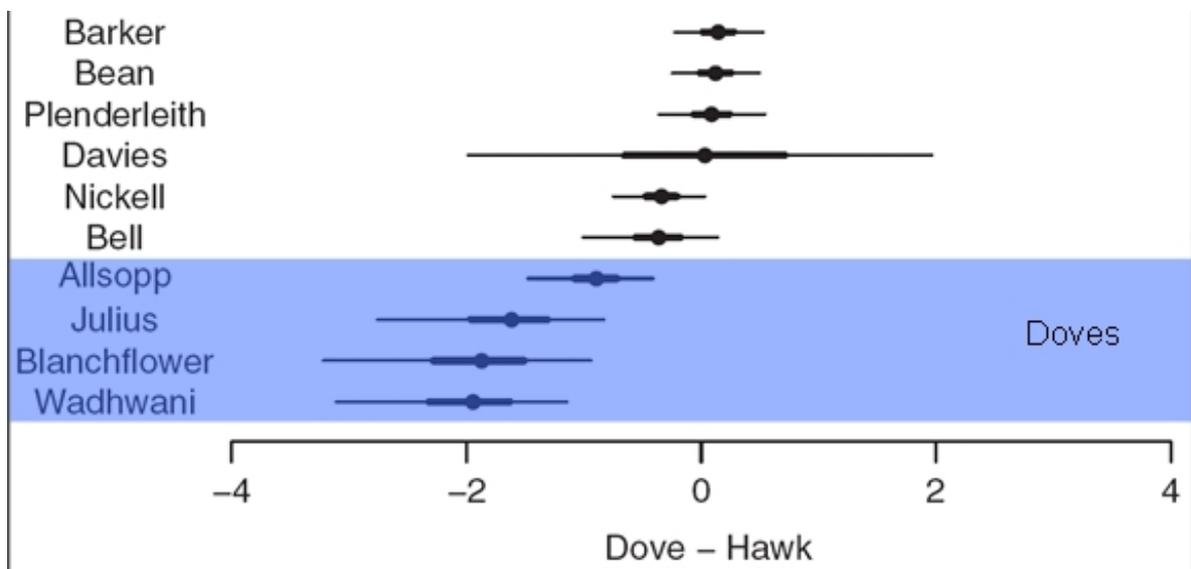
To look at whether this appointment power influenced policy decisions on the MPC, we examined the voting behaviour of all the Committee's members on monthly interest rate decisions made over a period from 1997 through to 2008, the first ten years of the MPC's life. In doing so we sought to locate them on a 'dove-hawk' scale, where more 'hawkish' individuals tend to prefer higher interest rates than 'dovish' individuals when faced with identical economic conditions.



Our chart below summarises the results of our analysis of the voting records across the 1997-2008 period. Overall, our results suggested that there were three types of member on the MPC:

- The clearly distinguishable '**hawks**', who tended to prefer relatively high interest rates given economic conditions compared to other MPC members. These were Tim Besley, Sir Andrew Large and Andrew Sentence;
- The clearly distinguishable '**doves**', who tended to prefer relatively low interest rates given economic conditions compared to other MPC members. These were Sushil Wadhvani, David Blanchflower, Deanne Julius, and Christopher Allsopp.
- The '**centrists**', the 18 remaining MPC members whose dove-hawk scores could not clearly be distinguished (in a statistical sense) from each other. Interestingly, most of the internal MPC members, including the present Governor Mervyn King, tend to be located in this more centrist group.

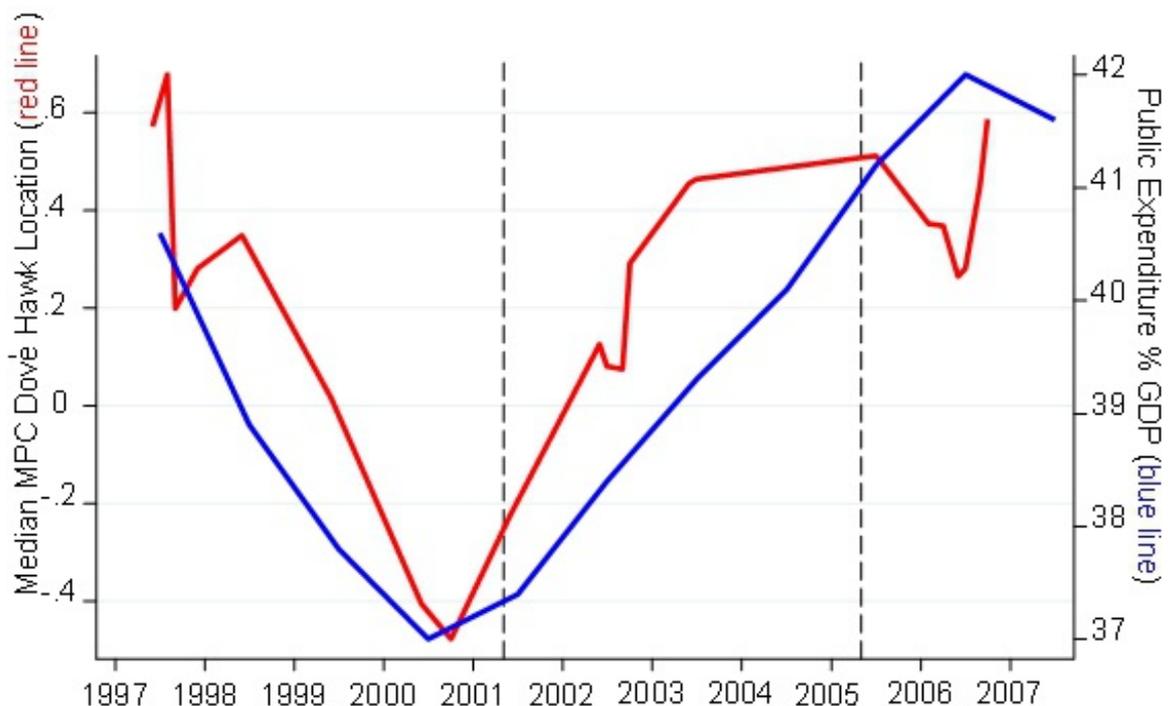




We also found that the balance between these three groups changed over time, with the doves and centrists tending to populate the committee during the first term of the Labour government, and moderates and hawks tending to populate the committee during the second and third terms. Importantly, our statistical analysis also shows that the appointments made to the MPC between 1997-2008 resulted in clearly distinguishable shifts in the relative 'hawkishness' of the median voter on the committee. In this sense, MPC appointments matter for monetary policy. But are there any clear political patterns in these shifts?

In our paper we provide suggestive evidence that the Chancellor's appointments to the MPC may be related to the Government's changing fiscal policies. Specifically, Gordon Brown as Chancellor first appointed more doves to the MPC during the first term of the Labour government, when his public spending commitments were constrained by Labour's 1997 general election promises. His appointments then led to a more hawkish MPC after the initial spending constraints had been lifted after Labour's re-election in 2001, and the government embarked on a programme of increased public spending.

This is illustrated in our next chart, which shows how the changing 'dove-hawk' score of the median MPC member between 1997 and 2008 is related to changes over time in the pattern of public spending (with the 2001 and 2005 elections indicated by the dashed lines).



Overall, our findings have implications for what the 'independence' of the Bank of England and other central banks really means. Although the Monetary Policy Committee is notionally free to set UK interest rates, in fact government control of appointments to the MPC means that the Bank is not completely free to pursue its own monetary policy. Some may argue that retaining a degree of indirect political control over such a major

macroeconomic policy tool is desirable. Yet critics may object that this strong and persisting influence defeats the object of granting central bank independence.

To read the full research paper described here, see: S. Hix, N. Vivyan and B. Hoyland, [From doves to hawks: a spatial analysis of voting in the Monetary Policy Committee of the Bank of England](#) *European Journal of Political Research*, vol. 49, no. 6, pp. 731-758.

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