Questionnaire in advance of Treasury Committee hearing
Ben Broadbent

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

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 spent most of the past 10 years as a specialist in the UK economy. This has involved regular conjunctural research pieces, ahead of the MPC's Inflation Report. I have also undertaken more detailed analyses of (amongst other things) the interactions between consumption and debt, fair value models of housing and their consequences for household balance sheets, the labour market and the state of the banks.

Prior to joining Goldman Sachs I completed a PhD at Harvard and taught macro and monetary economics at Columbia University. I believe that my experience in the financial sector has helped provide insights into the financial crisis, including its implications for policy. With the help of the Bank's staff, and that of my new colleagues on the MPC, I hope to improve my understanding of many areas of the economy.

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

I have included on my CV a selection of papers from my last job. Most of this is relevant for monetary policy, directly or indirectly. If there is any interest I'd be happy to provide the Committee with copies.

B. ACCOUNTABILITY

5. 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?

It is very important. The MPC has been granted operational independence over monetary policy. But it serves the public interest and accountability to the public – via both the open letter procedure and testimony to the Treasury Committee – is therefore crucial for its authority and legitimacy.

The open-ness afforded by these appearances, and by the publication of monthly minutes, I regard as a clear strength of the UK's current procedures. As for the weaknesses, I would prefer to reserve judgment till after some time on the inside.

6. 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?

I should be judged by my voting record (subject to the information available at the time) and my ability to add positively to the MPC's deliberations.

7. 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'm not sure what that would add. Members dissenting from the majority are already given adequate space in the minutes in which to explain their vote. There are also other settings – speeches and appearances before this Committee, for example – in which individual MPC members can explain their views in more depth.

8. Do you think the Treasury Committee should have a veto on MPC appointments?

That is a matter for Parliament, not the MPC
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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 intend to pursue a graduate teaching job, in macroeconomics, in London. I will ensure that my lectures do not convey anything specific about my views of current monetary policy in the UK. I am also a member of the newly-constituted Advisory Panel of the Office for Budget Responsibility.

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?

In common with other MPC members, I intend to give regular speeches and make regular visits to businesses with the Bank's regional Agents.

D. MONETARY AND ECONOMIC POLICY

11.What do you regard as the major risks to the outlook for the UK economy?

The household saving rate is still below levels reached after past recessions. A sudden rise would weaken consumer spending.

By draining income and spending power from the UK, higher commodity prices threaten to do the same. To the extent people try to recoup these losses through higher wages, however, rises in commodity prices may also have persistent effects on domestic inflation, beyond their first-round impact on the CPI.

Finally, and although these are smaller than they once were, there are still risks to funding costs from stresses in financial markets, whether at home or among our trading partners in Europe. An exacerbation of these stresses would further restrain the supply of retail credit and the economic activity dependent on it.

There are, to varying degrees, opposite risks for all these factors. Commodity prices can fall as well as rise. As and when banks' balance sheets are deemed to have improved the process of deleveraging is likely to begin to slow.

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?

In an inflation targeting framework, monetary policy should – and already does – respond to changes in asset prices, at least to the extent they affect demand or signal a change in inflation expectations (and thereby the distribution of future inflation). I am sceptical, however, that policymakers should aim to do much more than this, for three reasons.

First, there is a great virtue in having only one declared target. Credibility owes something to simplicity, and you risk compromising that simplicity if you introduce multiple objectives.

Second, if the point of reacting to asset prices directly (above and beyond their impact on inflation) is to limit risks to the domestic financial system, it's worth recognising that many of those risks emanate from abroad. Arguably, for example, the excessive growth in UK banks' balance sheets in the middle of the last decade owed much more to the strength of global asset prices (including those of US residential housing and fixed-income assets everywhere) than to anything specific to the UK. Yet domestic policy alone cannot affect these trends.

Third, to the extent that financial risks do have a domestic origin, it seems likely that other policy instruments – including, potentially, those to be employed by the Financial Policy Committee – would be much better suited to controlling them.

13. What is your current estimate of the extent of the output gap?

According to the latest official estimate, output is more than 10% below the level implied by projecting a simple, pre-recession trend line. But it seems likely that the true degree of slack is significantly smaller than this.

For one thing, early GDP estimates are prone to revision, sometimes significant, and survey measures of output growth have been quite a bit stronger than recent official estimates. (To some degree the MPC agrees with this assessment. In its latest *Inflation Report*, published this morning, the MPC's "backcast" implies that, since the onset of the recession in 2008, the economy has grown by 1% or so more than in the ONS data).

Second, we have evidence that past financial crises have affected not just demand but the economy's supply capacity as well. The financial crises documented by the economists Reinhart and Rogoff, for example, have much more often been followed by inflations than deflations.

Third, more direct measures of spare capacity, whether in the labour market or within firms, point to something much less than 10%. The CBI's measure of capacity utilisation in manufacturing, for example, is close to its historical average. The rate of unemployment is probably within a couple of percentage points of its non-inflationary rate (the so-called "NAIRU").

It's worth adding a couple of points of qualification to all this. These estimates can only be very uncertain – even at the best of times we cannot observe potential output directly. Also, it's not clear, at a time when there have been significant shocks to *relative* prices and demand – between the traded and non-traded sectors, for example – that simple measures of the output gap are good predictors of inflation anyway. If it's difficult for prices in individual sectors to decline, significant shocks to relative prices might for a time affect aggregate inflation, quite independently of whole-economy estimates of the "output gap".

14.What has been the overall effect of quantitative easing on the UK economy?

That too is hard to gauge.

Qualitatively, QE is little different from conventional monetary policy – it's a classical open market operation. Given its scale, it's therefore hard to imagine there's been no impact. Strikingly, the low point for risk asset prices, in March 2009, was reached immediately prior to the launch of QE in the UK and the US. Bank economists have estimated that QE has also had a significant impact on the price of government bonds, depressing the 10-year yield by as much as 100bp.

But it's more difficult to measure with any precision its effect on the economy as a whole. In truth, we're much more practised at gauging the stance and impact of policy in terms of prices (short-term interest rates) than quantities (aggregate reserves in the banking system), and it's hard to draw an exact correspondence between the two. That depends on the demand for central bank money, something that is volatile at all times, unusually so during banking crises.

15.How important are current measures of inflation expectations when considering the outlook for future inflation?

In our models, inflation expectations play a crucial part in the behaviour of inflation itself. The more stable those expectations, the less persistent are shocks to the level of prices and the lower the cost (in terms of foregone output) of reducing inflation. Empirically, too, there's good evidence that things that did, presumably, affect expectations directly – the introduction of inflation targeting in 1992, for example – also changed the behaviour of inflation. (In that instance, the yield curve flattened, particularly for non-indexed debt, and shocks to inflation – from commodity prices, for example - had a smaller effect on wages and more generally became much less persistent.)

However, it's less clear that any single measure fully captures what we mean by "inflation expectations" in these models. Household surveys, for example, perform poorly in the data – they predict neither future inflation nor future wage growth. My impression is that UK policymakers have, rightly, kept close watch on a range of indicators, not just surveys but asset prices and more anecdotal evidence as well.