Treasury Committee Questionnaire for Dr. Swati Dhingra
16 June 2022

Personal and professional background

1. Do you have any business or financial connections or other commitments that might give rise to a conflict of interest in carrying out your duties as an external member of the Monetary Policy Committee (MPC)?

I can confirm that I have no connections or commitments which might give rise to a conflict of interest in carrying out my duties as an external member of the MPC. I have raised and discussed with the Bank that my brother works at Standard Chartered Bank Hong Kong Limited. As his role pertains to retail banking in Hong Kong, the Bank is satisfied that it does not present a conflict as an external member of the MPC.

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

Yes.

3. Have you, or do you intend to take on, any other work commitments in addition to your membership of the MPC. If so, what impact will they have on your work on the MPC?

I will be taking leave for public service from the London School of Economics and will only serve on a school committee during the period. I expect to retain my memberships and/or activities with the Centre for Economic Performance (CEP) at LSE, Royal Economic Society (RES) and Royal Mint Museum (RMM). I am a research affiliate at CEP, an elected member of the RES Council and Academic Lead for RES Presents, and a Trustee of the RMM. I expect the learning and engagement activities with these institutions will enhance my contribution to the MPC, as discussed in subsequent questions.

4. How has your experience to date equipped you to fulfil your responsibilities as a member of the MPC?

In my career to date, I have engaged in a wide range of academic, policy and real world activities that are of relevance to being a member of the Bank of England's Monetary Policy Committee (MPC).

I have made significant contributions to research and public policy in economics, and to social science more generally. I specialise in international economics and have studied its interactions with work, inequality, prices and productivity. My work features analytical and technical abilities in theory and empirics, at both the micro and macroeconomic level. My research has been published in the world's premier academic journals/books/volumes including *American Economic Review* and *Journal of Political Economy*. I have served on editorial boards of leading international peer-reviewed journals (*Economic Journal*, *Indian Economic Review*, *Journal of International Economics*, *Review of Economic Studies*).

My work has been recognised through awards and memberships of professional bodies. I was awarded the European Research Council (ERC)'s highly competitive five-year grant for outstanding researchers in social sciences and humanities in 2017 and Princeton University's annual International Economics Fellowship in 2010-11. In 2019, I received the ONS's Research Excellence People's Choice Award for my research on the post-referendum evolution of the UK economy.

I have been involved in research and policy impacts that go beyond economics into several intersecting areas of the social sciences (law, politics, geography, health, environment). I regularly provide editorial expertise to academic journals/books in the social sciences. My articles are published in influential outlets including *Foreign Affairs*, *London Review of Books*, *Papers in Regional Science*, *Political Quarterly* and *World Trade Review*, and my work is cited extensively in international news media including The Times, New York Times, Indian Express and BBC.

I have prioritised topics of public importance in my research and policy work. Together with my colleagues at CEP, I have led new research on topics ranging from emerging priorities like Brexit and Covid to longer run structural issues such as productivity and skills. An important aspect of examining contemporary policy topics is to fill knowledge gaps in modelling policy changes. This has necessitated reasoning through complex data and processing lots of different types of information in order to develop coherent and timely policy insights and robust conclusions. I have led UKRI research awards to provide early evidence for Brexit and Covid impacts on people, places and firms in the UK. Together with the CBI, we have contributed to the public effort in examining the consequences of Covid by providing real-time firm-level analysis of the UK economy during a period of multiple uncertainties from Covid, Brexit and stressed supply chains.

My research, writing, practitioner and enabling activities have informed policy at various levels. I have given evidence to Parliamentary Committees (e.g. House of Commons, Welsh National Assembly), to public bodies (e.g. Treasury, Foreign, Commonwealth and Development Office), to local governments (e.g. Sunderland City Council, Tower Hamlets) and to international organisations (e.g. IMF, OECD, World Bank).

I have not shied away from studying and asking big, sometimes controversial, policy questions and taking on leadership roles in these areas. I served as a commissioner on LSE's Economic Diplomacy Commission, which provided recommendations on how best to advance UK's economic priorities at home and abroad. I am also on the Steering Group of the Nuffield Foundation's Economy 2030 project on the UK's New Economic Model during this decisive decade. I was on the Modelling Review Expert Panel of the Department of International Trade (DIT), chaired by Professor Anthony Venables, which recently submitted its report on how the DIT meets its objectives of informing policy and the public, and how its capacity and toolkits could be best developed in coming years.

Based on new empirical findings and knowledge of the longer run evolution of the economy, I have written extensively about future policy in the UK and more broadly on matters of the world economy. A key feature of my research and policy history is to form my own views and policy conclusions and in doing so, to influence the wider policy debate. This is reflected in my contributions to economic debates, where frequently opinions are polarised, hard data are scarce and critical decisions have to be made under uncertainty.

There is an exceptional cost of living crisis now and I hope to effectively use my skills and knowledge to bring a broad range of evidence from an array of empirical sources, including microdata and regional visits, to bear on the important policy deliberations and communications of the committee.

5. Which of your publications or papers are of most relevance to your future role as an external MPC member?

I have made contributions to research on economic welfare and policy, including in the context of the UK and the wider world economy. A full list of my writing is in my CV and here I highlight some that demonstrate independence of thought, analytical skills and communication experience, which are directly applicable to the role of external membership of the MPC.

I summarise contributions in three key areas: globalisation and the UK economy, structural problems in the UK economy and economic methodology and policy.

Globalisation and the UK Economy

I have worked on the micro and macro features of the UK economy. This includes providing an ex ante assessment of the long-term economic consequences of Brexit based on a quantitative model of the global economy. The research also assessed impacts through foreign investment, immigration and regulations in the light of the important public debate over the EU referendum. As new microdata became available after the referendum and UK's departure from the EU, the research provided ex post evidence of the microeconomic impacts on prices, wages, competitiveness and skills in the UK economy.

Examples:

The Costs and Benefits of Leaving the EU: Trade Effects, with H Huang, G Ottaviano, JP Pessoa, T Sampson, J Van Reenen, 2017. Economic Policy, 32(92), 651-705.
The impact of the Brexit Referendum on prices, with J De Lyon and S Machin, 2017. Centrepiece, 24-25.
Trade and Worker Deskilling, with R Costa and S Machin, 2018. CEP Discussion Paper. (Revision in progress)

Structural Problems and the UK Economy

With colleagues at CEP, I have engaged in difficult questions related to structural problems in the UK economy, including the challenges of levelling up and upskilling the workforce. Our work has identified areas where there are critical needs for evidence to inform policy. We have drawn on new data and techniques to make progress on understanding these policy challenges.

Examples:
The 2020s will be a crunch decade that will determine the UK's trajectory into the mid-21st century, with T Bell, S Machin, C McCurdy, H Overman, G Thwaites, D Tomlinson, A Valero, 2021.
LSE Economic Diplomacy Commission Report, 2021. (Contributor)
Local Economic Effects of Brexit, with S Machin, H Overman, 2017. National Institute Economic Review, 242(1), R24-R36.
Firm investments in skills and capital in the UK services sector, with J De Lyon, 2020. OECD Economics Department Working Papers, No. 1632, OECD Publishing, Paris.

Economic Methodology and Public Understanding

I have also contributed to economic methodology and public understanding of economic policy. My methodological work brings together microdata and general equilibrium tools to bear on questions of aggregate welfare, productivity and policy, which are of direct relevance to the modelling and evidence that form the basis of MPC decisions.

My wider research is relevant to important public debates. I write the evidence and policy implications for broad audiences including practitioners, policymakers, businesses and the general public. This can also be seen in the list of talks and evidence that I have given in various settings in my CV.

Examples:

The Comparative Advantage of Firms, with J Boehm and J Morrow, Forthcoming, Journal of Political Economy.

Jobs and Covid Recovery in India, with F Kondirolli, 2022. IMF Economic Review.

No Deal Brexit: What would it be like?, with J De Lyon, 2018. London Review of Books, 40(21), 17-18.

Trade creates losers. Here's how to help them, 2018. The Economist, May.

The monetary policy committee

6.The response to the pandemic saw unprecedented levels of fiscal and monetary intervention, including a rapid expansion in quantitative easing at the same time as a huge increase in government borrowing. Now we are seeing rising inflation, do you think that the UK's monetary-fiscal framework has proven robust and the MPC's independence has been effective? Are there now any increased pressures on the MPC's independence from government?

The MPC has served its purpose of price stability independently. The Bank has a "good track record" on inflation performance (Chadha 2022, Economics Observatory), with safeguards like external membership, individual accountability and direct public engagement that generate "superior outcomes to methods based on consensus voting under the auspices of a dominant leader" (Nickell 2007, Centrepiece).

Structural problems, however, have arisen in terms of a slowdown in productivity and real wage growth, and these have become persistently worse after the financial crisis (LSE Growth Commission 2017). While monetary policy does not directly address structural problems, it takes into account the implications for inflation and economic activity. Naturally, during these times and afterwards during the pandemic, fiscal and monetary policies have acted to mitigate the immediate negative impacts. As new tools of monetary policy have been deployed, the safeguards ensuring independence have been strengthened, such as through full indemnity of the asset purchase facility by the Treasury. With these safeguards in place, the independence of the MPC has been credibly maintained.

More recently, the large shock of the pandemic has now been layered on with more external shocks which have exacerbated inflationary pressures. Price stability of the last few decades contributed to support for the independence and operations of the MPC (Bean 2007, Bank of England). And now, in the opposite direction, the cost of living crisis is raising questions regarding the operational challenges facing the MPC. I discuss this in more detail below.

7. What are the main operational challenges now facing the MPC?

CPI inflation is high at present, and conducting monetary policy has become much more challenging in these unprecedented times. The costs of alternative decisions are larger, more uncertain and harder to assess (due to multiple shocks, data divergences and new tools like quantitative tightening).

Bringing evidence to bear on the crucial policy decisions of the MPC is now even more important due to these multiple uncertainties. But the short-term effectiveness of policy to counteract the cost of living crisis and the weak recovery since the pandemic is also made much more difficult by the recent developments following from the war and global supply disruptions.

Scrutiny over decision-making and accountability are the key safeguards that can help overcome these challenges. They can provide the legitimacy and credibility needed to maintain price stability, employment and output during these troubled times. As noted in the 2010-12 Treasury Committee Report on the Accountability of the Bank of England, a “high degree” of explanation and analysis of the objectives and justification of the decisions is required, and this is particularly important when the MPC is making decisions during difficult times.

8. How important is communication when considering the implementation and effectiveness of monetary policy? How well does ‘forward guidance’ work?

Better communication can increase the effectiveness of monetary policy and has therefore been implemented by central banks across the world.

It enables an alignment of expectations over future monetary policy, such as through forecaster’s views of future policy rates (Sutherland 2020, Bank of Canada). It reduces divergences between how the policymaker expects businesses and households to react and what they actually do.

Forward guidance can provide policy space when interest rates are low to begin with (Bernanke 2020, ASSA). The pitfalls associated with forward guidance in terms of policymaker commitment and credibility can nonetheless arise.

Data-dependent communication of future monetary policy offers a way of reducing these risks. Conditioning policy assessments based on the future state of the world and the uncertainty surrounding it can result in more robust policymaking, as discussed further below.

9. What are the costs and benefits of the MPC collectively, and members individually, providing greater clarity on their expectations for the path of interest rates, including through conditional forecasts?

There are benefits to providing greater clarity on the path of future monetary policy. Giving clarity on the underlying model, data and uncertainty that form the basis for decisions on the future policy path offers a way of doing this. Importantly, this also generates a metric for exercising scrutiny and holding both individual MPC Members and the Committee as a whole accountable for their policy decisions.

As mentioned in the Accountability Report, “The Bank of England must give account of, explain, and justify the actions, omissions or decisions taken against criteria of some kind, and take responsibility for any fault or damage”. In practice, criteria are often difficult to define, which blunts the mechanism of accountability.

In terms of costs, hard criteria such as through future rate path forecasts can come with potential risks associated with less accurate and less certain predictions of economic outcomes over longer horizons. Any future rate path is inherently conditional on the progress of the economy. If the economy deviates from its forecast, it follows that an alternative policy response may be appropriate. However, if this nuance is not fully appreciated, it can lead to a costly erosion of credibility.

If in addition, these forecasts come as individual forecasts over future rate paths, they also raise the risk of reduced clarity on the aggregate view which determines MPC decisions. Clear and coherent communication of the underlying model, data and uncertainty provide a way of balancing these risks without compromising clarity and accountability.

10. How do you intend to add to the public’s understanding of the role and decisions of the MPC?

One avenue for communicating the role and decisions of the MPC is through scrutiny, testimony and accountability to Parliament. Direct channels to communicate with the public, such as writing, interviews and regional visits, can enable further clarification and jargon-busting.

My experience to date is relevant to this. Public understanding has been an integral part of research activities at the Centre for Economic Performance at LSE, where I have worked since 2011. The Centre regularly engages in public dialogue on economic and public policy issues across the UK, including talks at various town halls and business districts across the country, community-based organisations of different political views, schools, churches/temples and the usual policy events with think-tanks, journalists, practitioners and policymakers (details in CV). I hope to build on this engagement experience to effectively communicate evidence-based policy decisions to a broad audience.

Effective public engagement is also an important goal for the RES Presents Committee that I lead at the Royal Economic Society. RES Presents has the remit to develop a platform to show how economics can provide insight into public policy, and in the coming years we are coordinating with several arts and social science societies across the UK to develop a focal public event on economic issues.

We are also working with the Royal Mint Museum (RMM), and in due course, the Bank of England, to develop a joint school engagement programme. RMM, RES and the Bank have programmes for community outreach, including in disadvantaged areas across the UK. Combining their expertise across the social sciences, arts and culture provides an opportunity to get more young people engaged in economic policy and its history.

The economy and monetary policy issues

11. What is your assessment of the overall prospects for UK economic growth, inflation, spare capacity and unemployment over the short and medium term?

The economic slowdown and inflationary pressures are expected to continue in the short term. The contributing factors include the sharp increase in energy prices, continued global supply disruptions, and the accumulation of growth constraints such as the shortfall in business investment and increased inactivity in the labour market.

The UK has done worse than other G7 nations in terms of consumer confidence and inflation (OECD CCI; FT 2022). Many of the sources of these problems are expected to continue or even accelerate in the short term, such as global factors (including Covid lockdowns, geopolitical uncertainty) and their knock-on effects on to domestic prices. In the short term therefore, inflation is expected to rise further this year and remain above target through next year.

In the medium term, some of the inflationary pressures would fall (assuming global conditions do not worsen). The course of monetary policy can affect the pace of these changes and the direction that they take. But there are significant challenges as the risks of worsening global conditions remain and could cause an economic contraction and further supply shocks.

12. What consideration should be given to asset prices, including house prices, within the framework for inflation targeting?

Households and firms make crucial decisions based on asset prices, including house values. Assets determine wealth, disposable income, savings and investments, and are therefore important to economic activity and the framework for inflation targeting.

New tools of monetary policy have impacts on asset prices, and these in turn, can also have impacts on inflation, wealth, income and intergenerational inequality. (For example, exchange rate depreciations associated with inflation targeting instruments can further impact inflation through import prices and costs.)

Movements in assets prices provide information about the economy, including responses to policy in real time. These are valuable, particularly when there is heightened economic uncertainty.

All these reasons imply that asset prices are a consideration in the framework for inflation targeting even though they are not directly part of the inflation target measure. Additionally, the MPC is informed of the risks that asset price bubbles pose to the economy, though financial stability is the remit of the FPC.

13. The current MPC remit sets an inflation target of 2 per cent at all times, but it also allows the MPC to tolerate temporary deviations of unspecified length in order to avoid “undesirable volatility in output”. How do you interpret this mandate and the degree of flexibility it offers?

One interpretation of this mandate is that the flexibility it offers may reduce the credibility of policy to achieve the inflation target. Another interpretation is that the mandate provides too little flexibility for monetary policy to actively react to low growth, especially since the financial crisis.

The remit applies at all times but it recognizes the risks to output and employment that short-term inflation targeting might pose. As a rule of thumb, asking the question "Would sticking to the target in the short run increase the likelihood of missing it further out?" is a reasonable approach to assessing the tradeoff between credibility and flexibility (Bean 2003, Bank of England).

Setting the parameters to this tradeoff -- whether to tolerate a deviation, how much and for how long -- needs to be guided by an array of evidence on the state of the economy (micro and macro) and the nature of the shocks causing or likely to cause deviations from the target. This would provide a safeguard to maintaining credibility when flexibility is needed to avoid excessive volatility in output and employment in the short term. I look forward to discussing and interpreting that range of evidence with my fellow committee members in coming months.

14. What is your assessment of the effectiveness of quantitative easing (QE) and quantitative tightening (QT) in achieving the MPC's remit? What is your assessment of the wider economic impact of QE and QT?

Impacts of quantitative easing can be difficult to evaluate and vary across settings. On balance, a consistent conclusion in the academic and central bank literature is that QE lowers longer-duration government bond rates, which is important when bank rates are already low (Martin and Milas 2012, Oxford Review of Economic Policy; Haldane et al. 2016, Bank of England).

The estimated effects on longer-term rates however might be considered small compared to the size of the operations. For example, the effects are estimated to be 1% for £200bn in the UK and 0.15-0.25% for $600bn in the US which is equivalent to a usual rate cut of 0.75-1% (Joyce et al. 2011, Bank of England; Williams 2014, Brookings).

This raises questions about preferring alternative policies. It also suggests that rolling back of QE/QT, if done gradually, would likely not be equivalent to large increases in the Bank Rate. But there are limits to our knowledge regarding unwinding policies as these are largely untried across the developed world.

With interest rates rising in many economies, the need for further asset purchases may be reduced. The rationale for reduced QE/QT is compounded with wider concerns over the scale of the Bank's operations (about 40% of GDP), its seemingly un-temporary nature (House of Lords, 2021), the lack of understanding and uncertainty on the underlying mechanisms of its operation and transmission, and its inadvertent effects on inequality (Quarterly Bulletin 2012, Bank of England).

These risks associated with QE have been discussed in the public debate and could apply to some aspects of its unwinding too. The August MPC will be discussing QT in greater detail to understand and plan for such risks, if any. The Bank has already stated that the Bank Rate will be its active tool for tightening. I look forward to learning more on this.

The Treasury Committee will publish your answers to this questionnaire. Please provide a full CV when returning this questionnaire, which will also be published. Please return this questionnaire by 5pm on Thursday 16 June 2022.