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THE DISSENT VOTING BEHAVIOUR OF BANK OF  
ENGLAND MPC MEMBERS

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# The Dissent Voting Behaviour of Bank of England MPC Members\*

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## Abstract

I examine the propensity of Bank of England Monetary Policy Committee (BoEMPC) members to cast *dissenting votes*. In particular, I compare the type and frequency of dissenting votes cast by so-called insiders (members of the committee chosen from within the ranks of bank staff) and outsiders (committee members chosen from outside the ranks of bank staff). Significant differences in the dissent voting behaviour associated with these groups is evidenced. Outsiders are significantly more likely to dissent than insiders; however, whereas outsiders tend to dissent on the side of monetary ease, insiders do so on the side of monetary tightness. I also seek to rationalise why such differences might arise, and in particular, why BoEMPC members might be incentivised to dissent. Amongst other factors, the impact of career backgrounds on dissent voting is examined. Estimates from logit analysis suggest that the effect of career backgrounds is negligible.

**Keywords:** Monetary Policy Committee, insiders, outsiders, dissent voting, career backgrounds, appointment procedures.

## Contents

<b>1</b>	<b>Introduction</b>	<b>2</b>
<b>2</b>	<b>Relationship to the Literature</b>	<b>2</b>
<b>3</b>	<b>Rationalising Dissent Amongst Insiders and Outsiders - Some Priors</b>	<b>3</b>
3.1	Career Incentives . . . . .	4
3.2	Career Backgrounds . . . . .	5
3.3	Appointments Procedure . . . . .	6
3.4	Term Lengths . . . . .	7
3.5	Information Sets . . . . .	8
<b>4</b>	<b>Dissenting Votes</b>	<b>9</b>
4.1	Defining Dissent . . . . .	9
4.2	The MPC's Dissent Voting Record . . . . .	9
<b>5</b>	<b>Career Characteristics of MPC Members</b>	<b>12</b>
<b>6</b>	<b>Estimation</b>	<b>16</b>
<b>7</b>	<b>Conclusions</b>	<b>17</b>
<b>8</b>	<b>Appendix</b>	<b>19</b>
8.A	Average Career Experiences of All MPC Members, Insiders and Outsiders per Meeting . . . . .	19

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# 1 Introduction

Like all monetary policy committees, the Bank of England Monetary Policy Committee (BoEMPC) is obliged to reach decisions on the short-term interest-rate, even in the presence of substantial disagreement. When a committee member does not hold the view of the majority, a way of registering such difference in opinion is to vote against it, that is, to cast a *dissenting vote*. In this paper I compare the type and frequency of dissenting votes cast by so-called insiders and outsiders. Insiders are BoEMPC members chosen from within the ranks of Bank staff, whereas outsiders are members chosen from outside the bank. I not only evidence differences between these two groups, but explain why such differences might arise, and in particular, why BoEMPC members might be incentivised to dissent.

To survey the results, it is determined that firstly, outsiders are much more likely to cast dissenting votes than insiders. Interpreted differently, insiders have a significantly higher chance of being on the winning side of monetary policy decisions. Secondly, whereas insiders dissent for tighter policy more often than looser policy, outsiders dissent overwhelmingly on the side of monetary ease. Also measured is the impact of career backgrounds on dissent voting, an approach used in studies of FOMC dissent voting. Specifically, binary logit analysis is used to estimate the effect of career backgrounds on members' propensity to dissent on side of ease or tightness. The dataset used is highly truncated in that it uses only *dissenting* votes, and the analysis to some extent draws on Havrilesky and Schweitzer (1990).<sup>1</sup> When controlling for a member's *type*, years spent working in the private sector, the civil service and non-governmental organisations all contribute to a member's propensity to dissent on the side of ease or tightness, although the effects are not highly pronounced.

The paper progresses as follows. I begin by relating the paper to previous studies on dissent voting, a literature which falls into the 'partisan theory of politics' genre [Meade and Sheets (2002)]. I then develop some priors. In particular, I look to reasons why the *frequency* and *type* of dissent voting associated with insiders and outsiders might be expected to differ. Amongst other things, I suggest that differences in dissent voting behaviour is partially attributable to the presence of members' *career concerns* - simply put, disagreeing with fellow members may damage one's career path, especially if one is an *insider*. However, other factors may come into play, and for any individual member, dissent voting behaviour may not necessarily be driven by any single factor in isolation, but by a combination thereof. Following this, I formally define *dissent* and proceed to evidence the dissent voting behaviour of BoEMPC members for the first five years of the MPC.<sup>2</sup> Monthly voting data from minutes of MPC meetings between July 10<sup>th</sup> 1997 – 6<sup>th</sup> June 2003 is used. The career backgrounds of MPC members and associated econometric evidence relating this to dissent voting is then presented. The paper concludes by addressing the implications of the findings for the future conduct of UK monetary policy.

## 2 Relationship to the Literature

Previous studies of dissent voting in MPCs (*i*) fall into the 'partisan theory of politics' genre and (*ii*) typically consider the case of the FOMC. The approach used in this paper draws mainly on Belden (1989) and Havrilesky and Schweitzer (1990). Belden analyses the record of dissenting votes from FOMC meetings with a view to identifying differences in the dissent voting behaviour of Bank presidents and Board members. Bank presidents dissent more frequently than Board members, with the latter group preferring to dissent on the side of ease, and the former on the side of monetary tightness. The reason for the observed differences, according to Belden, lay in the different appointments procedures for each type of member. Board Governors are appointed by the US President, thereby lacking the independence of Bank Presidents. Because Belden assumes that governments have an in-built bias towards activist policy,<sup>3</sup> the finding that Board

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<sup>1</sup>Meade and Stasavage (2004) draw on the literature on the career concerns of experts in explaining the dissenting votes of outsiders.

<sup>2</sup>During this period, Sir Edward George also presided as Governor of the Bank of England.

<sup>3</sup>The idea that governments have an inbuilt inflationary bias does not convince everyone. Charles Goodhart (1997), a member of the MPC with an academic background, is a key example of someone who questions the wisdom embodied in writings on time-consistent monetary policy:

“Whilst I have consistently supported central bank autonomy in setting interest rates, to achieve an inflation set by the political authorities, I have at the same time had doubts about the virtues of the main theoretical analysis paraded in support of that step, i.e. the time-inconsistency argument. There is little compelling evidence that

Governors have a greater propensity to dissent on the side of monetary ease than Bank Presidents is not unexpected. Further, Bank Presidents are less influential in setting monetary policy than Board members - they feature on the losing side of decisions more often than Board members. Like Belden (1989), Havrilesky and Schweitzer (1990) is premised on the notion that all governments have a time-consistent inflationary bias. FOMC members whose career backgrounds are more ‘proximate’ to central government are more liable to conform to such bias, and the more one conforms to it, the greater the propensity to dissent on the side of ease. Conversely, members whose experiences are relatively further from of central government are more likely to dissent on the side of tightness. Havrilesky and Schweitzer make assumptions about the kinds of career characteristics which lead to a members having more of a propensity to dissent on the side of ease or tightness. As discussed later, their assumptions might not hold in the context of UK monetary policy.

The latter point is worth elaborating on. Care should be taken when comparing the results of FOMC studies with BoEMPC studies. On the one hand, the distinction between *insiders* and *outsiders* has some parallels with that made between Bank presidents and Board members in many studies of FOMC voting behaviour. In this sense, I adopt an approach which belongs to the long tradition of studies examining the voting behaviour of US Federal Open Market Committee members. However, this similarity should *not* be stretched too far. As one might expect, FOMC studies are geared towards the institutional nuances of the US Federal Reserve and US political system. I suggest that the notion of ‘partisanship’, despite its applicability to US studies is more difficult to apply to the case of the MPC. Firstly, the government plays a role in *all* appointments to the MPC, for both external and internal appointments. Even *insiders* appointed from within the Bank by the Governor must have the approval of the Chancellor of the Exchequer. Contrast this with the nature of the appointments procedure to the FOMC. All Federal Reserve Board Governors are appointed by the President. Contrastingly, Bank Presidents are chosen without political interference, and the President has all but no say in the matter. Secondly, many approaches used to test for ‘partisanship’<sup>4</sup> in FOMC studies cannot be applied here due to data limitations. The *entire* sample period falls within the incumbency of the British Labour Party. Appealing to the partisan theory is thus rendered less attractive when compared to, say, US studies where the monetary policy preferences of individual FOMC members are modelled as a function of the political affiliation of the individuals who appointed them. These studies typically cover periods which include different political administrations, Republican and Democrat. For example, Chappell *et al* (1993) conclude that

“...the power to make appointments provides an important channel of systematic partisan influence...Democratic appointees favour easier monetary policies than traditional Republicans do, and supply-side Republicans prefer even easier policies than Democrats do.”(p.209)

Nevertheless, in spite of such differences, this does not preclude the author from undertaking a thorough and systematic analysis of dissent voting for the British case. Further, the analysis of dissent voting in this paper extends Gerlach-Kristen (2002), who provides a descriptive breakdown of MPC voting behaviour.

### 3 Rationalising Dissent Amongst Insiders and Outsiders - Some Priors

The analysis in this section endeavours to rationalise, *a priori*, why rates of dissent amongst *insiders* might differ from those associated with *outsiders*. It predicts that the rate of dissent will be lower for *insiders* than *outsiders*. Previous work in this area has have evidenced large discrepancies in *insider-outsider* voting behaviour. Spencer (2005*b*) presents evidence suggesting that whereas insiders vote as a bloc, outsiders are less prone to do so. Spencer (2005*a*) demonstrates that on average, insiders prefer systematically higher

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governments have sought consciously to use expectational inertia to trick people into working harder, in pursuit of a short-run electoral feel good factor, and, indeed little evidence, given to the long lags in monetary policy and the wide range of uncertainty surrounding the effects of such policies over time on nominal incomes and prices. Yet in most time-inconsistency models, the monetary authorities can control prices instantly and perfectly! Absolute nonsense. Yet this model not only survives, but is highly influential. This is partly because it combines technical mathematical virtuosity with a fashionable cynicism about the motives and agendas of politicians.”

<sup>4</sup>See for example Hibbs (1997). For more recent contributions on the partisan theory of politics, the interested reader is referred to Alesina (1987), Alesina and Sachs (1988), Alesina and Rosenthal (1995) and Boix (2000).

interest rates than outsiders for any given MPC meeting, a difference which was is to be statistically significant. In justifying the prediction that insiders should dissent less frequently than outsiders, I appeal to the career incentives facing MPC members, the career backgrounds and experiences of MPC members, the appointments procedure, term lengths of MPC members and the information sets used by members to arrive at a decision. This list of reasons given here is by no means exhaustive, but I feel sufficient to capture the main determinants of dissent voting behaviour of BoEMPC members. Further, I suggest that for any individual member, voting behaviour may not necessarily be driven by any single factor in isolation, but by a combination thereof.

### 3.1 Career Incentives

Whereas the career paths of internal appointees are linked to the bank, the same cannot be said for *outsiders*, whose future career paths may all be linked to a plethora of different organisations. Accordingly, insiders have an incentive to ‘get on’ with each other as they may have to work with each other long after they have finished serving on the MPC. For this reason, I propose that insiders face more pressure to vote as a group on the MPC than outsiders.<sup>5</sup> Evidence that the career concerns of members of monetary policy committees can affect voting behaviour is well documented in Havrilesky and Schweitzer (1990). Cited therein are the comments of Lawrence Roos, President of the St. Louis Federal Reserve Bank and member of the FOMC, who maintains that:

“If one is a young, career oriented president who’s got a family to feed he tends to be more moderate in his opposition to Governors.”<sup>6</sup>

Clearly, the suggestion here is that Governors exert a very real influence on the future career paths of Bank Presidents - Bank Presidents with aspirations of advancing their career further *within* the Federal Reserve System may feel under pressure not to vote against those individuals serving on the FOMC who may have a bearing on their future career.<sup>7</sup> For this reason, Havrilesky and Schweitzer propose that there is a degree of disutility associated with dissenting.

Secondly, career progression within a central bank may be a function of behaving like a ‘central banker’. Arguably insiders act in a way *consistent with their perception* of what being a central banker requires. As central bankers are associated with conservatism,<sup>8</sup> this leads to them acting conservatively when setting monetary policy.<sup>9</sup> In practice, this could lead to insiders preferring *ceteris paribus* higher interest rates than

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<sup>5</sup>This may explain the some of the empirical results on BoEMPC voting behaviour shown in Spencer (2005b).

<sup>6</sup>Havrilesky and Schweitzer (1990), p.3. Also cited is the opinion of Henry Wallich, a member of the Board of Governors:

“It is not a pleasant thing to have to keep dissenting...One dissents less often than you would think. After all you are a member of a group and you want to get along with the other members.”

<sup>7</sup>There is also the possibility that sequential voting - which is the practice enjoyed by the MPC - may lead to different outcomes than simultaneous voting. For example, the government itself aired views to the effect that it would all other the things being considered prefer MPC members to vote *simultaneously* and not *sequentially*.

“We remain to be convinced that the process of voting in the MPC is sufficiently robust. We recommend that the Governor and the MPC itself, gives further attention to the voting procedure and in particular to a system of simultaneous voting.” (emphasis added by author) *Response of the Government to the Report of the House of Lords Select Committee on the Monetary Policy Committee of the Bank of England (HL Paper 34, Session 2000-01)*

This is not a moot point. In the presence of career concerns sequential voting may indeed have consequences for voting outcomes, as noted by Scharfstein and Stein (1990):

“...consider the case of a capital budgeting committee meeting, where the managers are supposed to vote in turn on an investment project. Ideally the point of having several managers vote is to gather a wide range of information. However, if career concerns are present, this may not work very well. Once the first manager has voted, the others may simply echo his choice, regardless of their private beliefs. Thus a false consensus is achieved, and the information of the other managers is wasted.” Scharfstein and Stein (1990), pp. 477-478.

Although not fully explored here, the herding literature may offer a plausible explanation for the discrepancies in insider-outsider behaviour. Bank *Insiders* may simply ‘follow the leader’, so to speak.

<sup>8</sup>This is a view espoused in much of the theoretical literature on time-consistent monetary policy. Consider Rogoff (1986) who concludes that optimal monetary policy is delivered when central bankers are conservative, but not too conservative.

<sup>9</sup>The notion that people modify their behaviour in accordance with the roles or labels they are given is well established in the psychology literature. Consider Philip G. Zimbardo’s well known prison experiments conducted at Stanford University in

*outsiders*, support for which is found in Spencer (2005a). It may also imply that when insiders dissent, they would prefer to do so on the side of tightness: it basically signals their credentials as ‘conservative’ central bankers.

### 3.2 Career Backgrounds

The premise that career backgrounds and experiences have a role in explaining the voting behaviour of members of monetary policy committees is a theme which has been well explored in the FOMC literature. Yet in appealing to the career backgrounds of MPC members to explain their voting behaviour, one must be careful not to apply the same priors as those used to explain those of the FOMC. Consider the effect of working in *government* as a civil servant. In studies focussing on FOMC voting behaviour, it is assumed that experience in government will be positively related to a member’s propensity to vote on the side of ease, as opposed to tightness, as in Havrilesky and Schweitzer (1990) and Gildea (1990). The more time spent working in government, the more one conforms to the government’s in-built bias towards activist policy. Chappell *et al* (1993, 1995) find that where partisan behaviour does arise, it is to some extent attributable to the career backgrounds of FOMC members, concluding that

“...experience in *government*, particularly at the Federal Reserve Board, is associated with significantly stronger preferences for monetary ease...”<sup>10</sup>

However, in the UK, civil servants have a long tradition of *neutrality*, so the effect of experience working in government on voting behaviour may be hard to call. Thus, unlike the literature on FOMC voting, it is hard to form priors regarding how members will vote. Indeed, reported estimates from the regression of career backgrounds, presented later, suggests that experience in government promotes dissent on the side of *tightness*, contrary to Chappell *et al* (1993, 1995).

As a further example, FOMC studies assume that a background in or training as an *academic* economist leads members to behave less hawkishly. This is supposed to reflect the fact that many economists serving on the FOMC received their training in the heyday of Keynesianism, where policy was characterised by demand-management, with less emphasis on supply-side measures. Academic economists are thus assumed to be sympathetic to output, and are *ceteris paribus* more likely to act to stimulate demand via reducing interest rates. It is certainly also true that the impact of Keynesianism was more pervasive in the UK than the US. One might therefore predict that economists with an academic background serving on the MPC are more likely to dissent on the side of monetary ease than tightness. Yet this rationale fails to reflect the enormous influence of the literature on *time-consistent* monetary policy on the economic community, in addition to for example, the impact of the Chicago school. It is worth recalling that Professor Alan Walters, who served as Chief Economic Adviser to Margaret Thatcher 1980-1984 and 1989, was an vocal proponent of supply side policies. More recently, Professor Patrick Minford, a well known UK British supply side economist was one of the so-called “six wise men” serving on HM Treasury’s Panel of Forecasters. According to Seldon (1987), Minford was

“...formally deeply steeped in Keynesian macro-thinking, but has propounded a micro-founded Rational Expectations theory based on the idea that...economic expectations are based on the efficient use of available information.” (p.12)

If anything, this demonstrates that even if one does receive a Keynesian style training, one’s views may shift seismically over time.

In light of the preceding discussion on career incentives, however, I suggest that previous experience at the Bank is most likely to promote dissent on the side of monetary tightness. Other career backgrounds such as working in the private sector and experience in independent trans-national organisations may be ambiguous. In the case of private sector experience - if private sector experience is dominated by manufacturing it may promote dissents on the side of ease, whereas the banking sector may promote dissents on the side of tightness.

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1971. Here, participants quickly assumed the roles of ‘guards’ and ‘prisoners’. Although the experiment was planned to last for two weeks, it was stopped after a mere six days. The ‘guards’ directed increasingly cruel behaviour towards the prisoners, who began to exhibit depressive tendencies and behaviour associated with extreme stress. We note here that university students were the subjects of the experiment.

<sup>10</sup>Chappell, Havrilesky and McGregor (1995), p.130. Similar conclusions are also reached in Chappell, Havrilesky and McGregor (1993).

### 3.3 Appointments Procedure

The Chancellor has a potentially significant bearing on the direction of UK monetary policy. In addition to powers to set and change the inflation target at will, the *power of appointment* represents a further vehicle for influencing the direction of UK monetary policy. This is relevant in two respects. In the first case, this amounts to the last word on the appointment of and, if considered necessary, reappointment of the Governorship of the Bank of England. This is particularly significant if one considers that the Governor of the Bank also sits as Chairman of the Monetary Policy Committee and has the casting vote in split MPC decisions. The second issue pertains to the appointment and selection procedures for MPC members on a more general level, and is a consideration which is not restricted to the Bank of England MPC. For instance, in the case of the ECB, Dornbusch *et al* (1998) is notable for highlighting the way in which the selection procedure, regional or political affiliations of members of the ECB Governing Council may influence monetary policy decisions at the ECB.

[Firstly] the selection process that puts them in place may be systematically biased, so that they are ‘hawks’ or ‘doves’ chosen to be just that. Secondly, regional economic conditions may diverge significantly from the average of the monetary zone, and this may lead a particular board member to respond in a differential way.<sup>11</sup>

Belden (1989, 1991), Chappell *et al* (1993, 1995) and Havrilesky and Gildea (1989) propose equivalent arguments with respect to the composition of the US Federal Open Market Committee. Belden (1991) describes the appointments procedure for the FOMC:

“Members of the Board of Governors are appointed by the President and congress and the Senate. Bank presidents, on the other hand, are appointed by the directors of each Federal Reserve district bank and accepted by the Chairman. No elected representatives participate directly in the choice of the Bank presidents.”

She later adds

“If the lack of Senate confirmation does not result in bank presidents who have policy preferences that are different from Board members, the issue [of how FOMC members are appointed] is moot...But a difference in policy preferences *is* evident from the record of dissenting votes.”

Whilst BoEMPC members cannot be construed as providing *regional* representation,<sup>12</sup> the shift to operational independence has not left the MPC immune to political manipulation *vis-à-vis* the appointments procedure. As the power of appointment rests with the Chancellor, he may appoint ‘doves’ or ‘hawks’ to be just that.<sup>13</sup> Indeed, the government plays an influential role in choosing all MPC members. The precise extent of its influence arguably varies in relation to the type of member being appointed. Whereas *all* outsiders are chosen *directly* by the Chancellor, two of the internal appointees serving on the MPC are chosen by the Governor of the Bank of England *after consultation with* the Chancellor. Cobham (2000) argues that the appointments procedure for MPC members is “opaque” and “incapable of securing public trust or market credibility”.<sup>14</sup> He further attests that the decision in June 2000 to appoint Christopher Allsopp rather than renew the contract of Charles Goodhart

“...may have been designed to steer the MPC into keeping interest rates as low as possible for the next election.”<sup>15</sup>

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<sup>11</sup>Dornbusch *et al* (1998), p.25.

<sup>12</sup>See for example Buiter and Sibert (2002):

“The only criteria supposed by which potential MPC members in the UK are to be judged is professional competence and independence. They are not viewed as regional, industrial or sectoral delegates or representatives. Only the nationwide inflation objective and the nationwide subsidiary objectives are to be taken into account by the Chancellor in their appointment and by the MPC members themselves in their voting behaviour.” (p.10)

<sup>13</sup>It is also a consideration which has a bearing on the credibility of the delegation. The interested reader is referred to Sibert (2001) for a formal treatment of this issue.

<sup>14</sup>*Financial Times*, 10th August 2000.

<sup>15</sup>*Ibid.*

Evidence presented in the next section provides support for this conjecture - in practice, whereas Goodhart dissented only on the side of tightness (on 3 occasions), Allsopp dissented only on the side of ease (11 occasions), a case of a ‘hawk’ being replaced by a ‘dove’. The *Evening Standard* spoke of Charles Goodhart being ‘forced to step down against his will’, duly noting that the Treasury was ‘standing by its appointment’,<sup>16</sup> in spite of Allsopp’s rejection by the Commons Treasury Select Committee on the grounds of being ill-suited for the position. At the time, the debacle was reported as a dispute which

“...raises questions about Allsopp’s credibility...City economists were already speculating that he would initially be under pressure to vote with Bank chief Eddie George at the monthly meetings...Despite a close five-four vote against endorsing his nomination...all were of the view that he was unsuitable.”<sup>17</sup>

The opaque nature of the appointments procedure is further captured in the following exchange between Andrew Tyrie MP, member of the Treasury select committee and Richard Lambert, who joined the MPC in May 2003:

**Andrew Tyrie:** “...one thing has surprised me, which is that there was no formal interview process at all, as far as I can tell. If you were creating a system in order to appoint people to something like the MPC, do you think that it might be sensible to have some kind of formal interview where you sit in front of someone at least for 20 minutes or so, or a couple of people, and have an exchange of views?”

**Richard Lambert:** “I have not really thought through that. I do not really know the answer to that. My conversations, which were necessarily on the telephone, were lengthy.”

**Andrew Tyrie:** “Did it not cross your mind to wonder whether a couple of calls to Japan was all there was to becoming a member of the MPC?”

The exchange continues:

**Andrew Tyrie:** “Do you know of any other very important and challenging job which is appointed over the phone on a long distance call?”

**Richard Lambert:** “I do not know enough about how government ministers are appointed or civil servants are appointed to be able to answer that question.”

**Andrew Tyrie:** “You and I both know that permanent secretaries are interviewed before they take their post, that cabinet secretaries are given extensive interviews by the Prime Minister. You know that already.”

**Richard Lambert:** “Yes”

**Andrew Tyrie:** “So that was a flippant reply from you.”

**Richard Lambert:** “Forgive me; I apologise.”<sup>18</sup>

Given the opaqueness of the appointments procedure I therefore tentatively suggest that the appointment of outsiders is a potential vehicle for packing out a substantial portion of MPC with doves. It is arguably more difficult to appoint an opportunistic or dovish Governor given the intense public scrutiny surrounding associated with such a decision - the credibility of the Bank would suffer

### 3.4 Term Lengths

Both the Governor and the two Deputy Governors serving on the MPC are appointed for terms of five years. This is longer than the three year terms given to all other MPC members, and increases reduces a members *independence* from the Chancellor. This is a point which has been seized upon by economists and politicians alike. Michael Howard (2002), leader of the Conservative Party comments that

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<sup>16</sup>Evening Standard 24<sup>th</sup> May 2000.

<sup>17</sup>Ibid.

<sup>18</sup>Oral evidence of Mr Richard Lambert, taken before the Treasury Committee on Monday 16 June 2003, Questions 65-69. <http://www.parliament.the-stationery-office.co.uk/pa/cm200203/cmselect/cmtreasy/811/3061601.htm>

“One practical problem which has emerged is that the relatively short, three-year term for MPC members is often considered too short, while reappointment leads to relatively lengthy terms of office and also *diminishes members’ independence from the Chancellor.*” (emphasis added)

Under this interpretation, MPC members which have shorter tenures to serve should vote in more partisan fashion. Those members with a relatively longer term of office should exhibit more independence, and are less prone to lower interest rates before an election. In other words, it might be expected that members with shorter term lengths are more prone to exhibiting dovish tendencies. The fact that the two internal members are appointed with three year terms is tempered by the fact that they are chosen by the Governor of the Bank in *consultation* with the Chancellor. For this reason, it is plausible to suggest that outsiders, all of who serve three year terms, will exhibit more dovish tendencies than insiders - precisely what is seen in practice. Outsiders are the least independent of all MPC members.

### 3.5 Information Sets

Different BoEMPC members will invariably be both exposed to and receptive to different sources of information during their time on the MPC. Sushil Wadhvani (2002) is an example of an MPC member to openly express doubts about the efficacy of the suite of Bank of England models used in the forecast of inflation and GDP. These forecasts, which form the basis of the Bank’s *Inflation Report*, are purportedly integral to decisions on the interest-rate, and are supposed to represent the ‘collective judgement’ of the MPC. I suggest that Bank *insiders* may de facto have more faith than *outsiders* in the suite of in-house models used in the generation of the forecasts of inflation and GDP. Speaking in May 2002, Wadhvani, an outsider who served on the MPC between June 1999-May 2002 attested:

“...the MPC has, in the past been criticised on account of its forecasting performance. I note that the actual outturn for inflation has always been lower than the MPC’s two-year ahead forecast, with an average error of up to around 0.5%....to the extent that policy was held too tight because of a biased forecast, a challenge for the future is to ensure that any relevant lessons from the past.”<sup>19</sup>

Furthermore, and in light of the budget of April 17<sup>th</sup> 2002 given by Chancellor Brown, the *Inflation Report* itself comes in for criticism:

“In my opinion, the central projection embodied in the May 2002 inflation report probably assumes a higher pass-through into prices than is likely, and too large a ‘balanced budget stimulus’ to demand growth next year.”<sup>20</sup>

With respect to the MPC’s position on GDP growth, he later adds

“Over the past few years, the MPC has...had too gloomy a view about the level of potential output in the economy. Although some adjustments about this view have been made, I would regard the current view about the level of potential output as still being too pessimistic.”<sup>21</sup>

If insiders - who have an in-built majority over outsiders - place their faith a suite of in-house econometric models at the Bank of England which have a tendency to *over-predict* the level of future inflation [Wallis (2002)] this may predict a higher rate of dissents on the side of ease associated with outsiders. It may be the case that outsiders have more of a tendency to follow private sector, independent and consensus forecasts of inflation - for example, over the sample period considered in this paper, twelve month consensus forecasts<sup>22</sup> predict a level of future inflation which is systematically lower than the Bank’s 24 month horizon RPIX forecasts.<sup>23</sup>

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<sup>19</sup> Wadhvani (2002), p.1.

<sup>20</sup> *Ibid*, p.3

<sup>21</sup> *Ibid*, p.10.

<sup>22</sup> As given in HM Treasury’s Compendium of Economic Forecasts for the UK Economy.

<sup>23</sup> Consider Goodhart (2001) goes much further than Wadhvani in criticising of the inflation and GDP projections in the *Inflation Report*. He suggests that nobody on the MPC believed them:

“...the introduction of outside experts into a Committee process of forecasting is inevitably likely to generate some tension and disagreements.” Goodhart (2001), p.62.

He raises the distinct possibility that:

## 4 Dissenting Votes

### 4.1 Defining Dissent

The information provided in the *Minutes* identifies who the dissenting voters are at each meeting, and whether they dissented on the side of ease or tightness. This level of detail enables a meaningful analysis of dissent voting behaviour. Three types of dissent are identified: *dissent*, *dissent for tighter policy* and *dissent for looser policy*. There are important caveats to these classifications, which will become clear in the following definitions.

- *Dissent*: On this definition, a dissenting vote is defined as a vote against the interest-rate chosen by the majority of MPC members at each meeting. However, this ‘broad’ definition of dissent makes no distinction between dissenting for tighter or looser policy. The remaining two definitions, which fall into the broader category of *dissent* are thus defined accordingly:
- *Dissent for tighter policy*: This is defined as where a member reveals a preference for a higher short-term interest-rate relative to the actual decision on the short-term interest-rate taken by the MPC. On this definition a member may vote for no change or a decrease in the current interest-rate but still be classed as dissenting for tighter policy if the actual rate chosen by the MPC is greater than their preferred rate.
- *Dissent for looser policy*: Defined as where a member reveals a preference for a lower short-term interest-rate relative to the actual short-term interest-rate chosen by the MPC. On this definition a member may vote for no change or an increase in the current interest-rate but still be classed as dissenting for looser policy if the actual rate chosen by the MPC is less than their desired rate.

### 4.2 The MPC’s Dissent Voting Record

TABLES 1-3 document the dissent voting behaviour of the MPC. TABLE 1 chronicles the voting record of insiders and outsiders on an individual and collective basis. The first column shows the *total* number of votes cast by MPC members. As one would expect, the figures for individual members vary according to the different length of appointments and the overlapping nature of members’ terms. Numbers in the last three columns pertain to the number of dissenting votes cast, and correspond to the three types of dissent defined above. Figures in round brackets (.) express the number of dissenting votes cast as a proportion of the total number of votes cast.<sup>24</sup>

The pattern of dissenting votes is very different for *insiders* and *outsiders*. *Outsiders* dissented approximately 27% of the time, compared with around 8% for *insiders*. This disparity is reflected in the votes of individual members in both groups. Sir Edward George recorded *no* dissents - he was *never* on the losing side of a monetary policy decision during his time as Chairman of the MPC.<sup>25</sup> Moreover, the largest proportion of dissenting votes cast by an insider is 18%, by John Vickers. This level of dissent is relatively low by *outsiders’* standards. Just under one half of all of Buiter’s, and one third of the votes of De Anne Julius and Sushil Wadhvani were *dissenting*.

A further finding is that whereas the overwhelming majority of dissenting votes cast by insiders are on the side of tightness, for outsiders the overwhelming majority are on the side of monetary ease. Collectively,

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“...the actual modal forecast at the heart of the Inflation Report was believed in - as the most likely outcome - by no one on the MPC; it was itself an average over Members....Take for example the assumption about the exchange rate, a key element in the forecast...some on the MPC thought the use of uncovered interest parity (UIP) provided the best analytical basis for considering the future of the exchange rate; others assumed that it was dominated in practical forecasting by assuming a random walk (i.e. a constant future exchange rate). With the two groups being roughly evenly balanced the compromise was to assume half-way between the two, which nobody believed! Truly a camel is a horse designed by a Committee.” Ibid, p.63.

<sup>24</sup>Calculate this by dividing the number of votes cast in each dissenting category by the total number of votes cast in each row.

<sup>25</sup>It is certainly possible for the Chairman to lose a vote. This happened for the first time during the 100th meeting of the MPC in August 2005. Mervyn King, the successor to Sir Edward George as Governor of the Bank and Chairman of the MPC, was on the losing side of a 5-4 split in the vote.

## MPC Dissent by Member

	Votes Cast <sup>*§</sup>	Dissenting Votes		
		<i>Dissent</i> <sup>¶</sup>	<i>Dissent for Tighter Policy</i>	<i>Dissent for Looser Policy</i>
<b>Insiders</b>				
Eddie George	74	0 (0%)	0 (0%)	0 (0%)
Howard Davies	2	0 (0%)	0 (0%)	0 (0%)
Charles Bean	34	1 (3%)	0 (0%)	1 (3%)
David Clementi	61	4 (7%)	3 (5%)	1 (2%)
Paul Tucker	13	1 (8%)	1 (8%)	0 (0%)
Ian Plenderleith	61	5 (8%)	3 (5%)	2 (3%)
Andrew Large	9	1 (11%)	1 (11%)	0 (0%)
Mervyn King	74	12 (16%)	12 (16%)	0 (0%)
John Vickers	28	5 (18%)	5 (18%)	0 (0%)
<i>All Insiders</i>	<b>356</b>	<b>29 (8%)</b>	<b>25 (7%)</b>	<b>4 (1%)</b>
<i>Excluding Governor</i>	<b>282</b>	<b>29 (10%)</b>	<b>25 (9%)</b>	<b>4 (1%)</b>
<b>Outsiders</b>				
Charles Goodhart	36	3 (8%)	3 (8%)	0 (0%)
Kate Barker	26	3 (12%)	0 (0%)	3 (12%)
Sir Alan Budd	18	4 (22%)	4 (22%)	0 (0%)
Stephen Nickell	38	9 (24%)	3 (8%)	6 (16%)
Marian Bell	12	3 (25%)	0 (0%)	3 (25%)
Christopher Allsopp	37	11 (30%)	0 (0%)	11 (30%)
De Anne Julius	45	14 (31%)	0 (0%)	14 (31%)
Sushil Wadhvani	37	13 (35%)	0 (0%)	13 (35%)
Willem Buiter	36	17 (47%)	9 (25%)	8 (22%)
Richard Lambert	1	0 (0%)	0 (0%)	0 (0%)
<i>All Outsiders</i>	<b>286</b>	<b>77 (27%)</b>	<b>19 (7%)</b>	<b>58 (20%)</b>
<b>All Members</b>				
<i>All MPC members</i>	<b>642</b>	<b>106 (17%)</b>	<b>44 (7%)</b>	<b>62 (10%)</b>
<i>Excluding Governor</i>	<b>568</b>	<b>106 (19%)</b>	<b>44 (8%)</b>	<b>62 (11%)</b>

<sup>\*§</sup> The number of votes cast by each member is identical to the total number of meetings attended by each member.

<sup>¶</sup>*Dissent* is equivalent to the sum of *dissents for tighter policy* plus *dissents for looser policy*. Numbers in round brackets (.) show the corresponding percentage of dissenting votes cast by each member/group. For example, in the case of Willem Buiter, the percentage of dissents is calculated by dividing the number of dissents by the total number of votes cast and multiplying by 100 (i.e.  $(17/36) \times 100 \approx 47\%$ ). All percentages are rounded to the nearest integer.

TABLE 1.  
DISSENTING VOTES CAST BY MPC MEMBERS BY FREQUENCY AND TYPE

insiders voted to dissent on the side of ease just 1% of the time - the corresponding figure for outsiders is in the region of 20%. Mervyn King who dissented 16% of the time typifies the kind of dissent voting behaviour associated with insiders - all of his dissents were on the side of tightness.<sup>26</sup> Contrastingly, *outsiders* like Christopher Allsopp, DeAnne Julius and Sushil Wadhvani cast *all* of their dissenting votes on the side of ease.

At this point, it is perhaps useful to compare BoEMPC and FOMC levels of dissent. Meade and Sheets (2002) report that over the period 1978-2000, only 198 out of 2403 votes cast by FOMC members were of the dissenting variety. This amounts to about 8% of all votes cast. Contrast this with the voting behaviour of Bank of England Monetary Policy Committee members. For the first five years of the MPC, 106 out of 642 votes cast were dissenting in nature - over 16% of votes cast. Crudely put, it would appear that MPC members are twice as likely to dissent than FOMC members.<sup>27</sup>

TABLE 2 shows the percentage of dissenting votes for tighter (looser) policy as percentage of *dissenting votes only*. The percentages shown here differ from those given in round brackets in TABLE 1 in so far as values in the latter table are calculated as a percentage of all votes cast, irrespective of whether they are dissenting or not. The figures thus have a basis in *conditional probabilities*. For example, since the category ‘*Dissents for tighter (looser) policy as % of all dissents*’ corresponds to the probability of dissenting on the side of tightness (looseness) *given* a dissenting vote is cast.<sup>28</sup> Some of the results must be treated with caution. Three insiders - two with a 100% record for casting dissenting votes on the side of tightness (Paul Tucker and Andrew Large) and one with a 100% record on the side of ease (Charles Bean) each only cast one dissenting vote.<sup>29</sup> Nevertheless, even when bearing this in mind, results show that five out of the six insiders who cast dissenting votes<sup>30</sup> all voted on the side of tightness the majority of the time, the exception being Charles Bean. Contrastingly, of the nine outsiders shown to have cast dissenting votes, six voted on the side of ease on the majority of occasions.<sup>31</sup> Of these six members, five voted on the side of ease 100% of the time.<sup>32</sup> Whereas the vast majority of dissenting votes cast by insiders are on the side of tightness (86%), the opposite is true for outsiders, for whom the overwhelming majority of dissenting votes are cast on the side of ease (75%).

TABLE 3 displays the results of paired *t*-tests<sup>33</sup> confirming that the proportion of dissenting votes cast by insiders and outsiders on a *meeting by meeting* basis are significantly different. Tests were applied across both groups for each category of dissent voting.<sup>34</sup> Section A.1 shows that although insiders *dissent* and *dissent for looser policy* significantly less often than outsiders, there is no significant difference in *dissents for tighter policy* between the two groups.<sup>35</sup> Section B.1 compares each group’s propensity to vote on the side of tightness or looseness. Clear-cut statistically significant differences arise between insiders and outsiders. Dissent for tighter policy is significantly higher for insiders than for outsiders. Further, dissent for looser

<sup>26</sup>For this reason, Mervyn King earned himself a reputation as a ‘hawk’ in the first five years of the MPC. An interesting question is were all twelve of Mervyn King’s dissents on the side of ease, would he still have become the Governor of the Bank?

<sup>27</sup>Comparison with other committees is also of interest. Nobuyuki Nakahara (2001), member of the Policy Board of the Bank of Japan, attributes differences in the dissent voting behaviour of members of the monetary policy committees of the Bank of England and Bank of Japan to *individual accountability*, attesting:

“I heard that Dr. DeAnne Julius, a former member of the Monetary Policy Committee of the Bank of England, said that when members are not *individually accountable*, they lose the incentive to make public their position at the voting stage even if they had voiced opposing views during the debate, and that it will become easier for the majority, which would include the most influential individual, to carry the vote. To avoid this situation, the parliament holds individual hearings. Although the connection is not clear, since April 1998, deputy governors, though they are chosen from the staff of the BoE, are known to have cast eleven minority votes on eight occasions. As for the Bank of Japan, it was revealed at a recent parliamentary session that there had never been a division of views of the governor and two deputy governors.” (emphasis added)

<sup>28</sup>In this sense, the percentages obtained for tighter and looser categories are formally expressed as  $(Pr(Tighten|Dissent) \times 100)$  and  $(Pr(Loosen|Dissent) \times 100)$  respectively.

<sup>29</sup>No outsiders fall into this category.

<sup>30</sup>Namely David Clementi, Paul Tucker, Ian Plenderleith, Andrew Large, Mervyn King and John Vickers.

<sup>31</sup>The six members are Kate Barker, Stephen Nickell, Marian Bell, Christopher Allsopp, De Anne Julius and Sushil Wadhvani. The remaining three individuals are Charles Goodhart, Sir Alan Budd and Willem Buiter.

<sup>32</sup>In this respect, only Stephen Nickell does not have a 100% record on the side of looseness for the sample period under consideration.

<sup>33</sup>All calculations were performed using STATA 8.

<sup>34</sup>In TABLES 1 and 2, estimates are calculated through pooling members votes - no attempt is made to distinguish between meetings when performing our calculations.

<sup>35</sup>The rate of dissent for insiders is higher than for outsiders.

policy is significantly higher for outsiders than for insiders. The lower part of the table omits the Governor from the sample. This is because the Governor frames the question on which a policy decision is based. The same qualitative conclusions hold as for when the Governor is included, although they are slightly less pronounced - the Governor has never dissented.

## 5 Career Characteristics of MPC Members

I now turn to determining whether a members' career backgrounds have a bearing on dissent voting behaviour. Although some judgement calls have been made in the construction of career variables, I distinguish between the varied career experiences and backgrounds of MPC members<sup>36</sup> using a broad range of categories. My system of classification covers only full time positions and secondments held by MPC members up to *but not including* time working on the MPC. The time spent on the MPC is embodied in a binary variable for a members *type*, which is employed in the estimation procedure. Excluded from the criteria are all part-time positions, special advisory roles and academic consulting. Consequently, all time served on the MPC - which technically constitutes a full-time position working for the Bank of England - is purposely neglected. Career backgrounds are categorised according to years spent working in the following broadly defined areas:

- **Private Sector** - refers to positions held in banking or the service industries and also covers manufacturing industries.
- **NGO** - refers to non-governmental organizations. Specifically, this covers both national and international independent research organizations such as the *National Institute of Social and Economic Research* (NIESR) and the *Organisation for Economic Cooperation and Development* (OECD), and transnational institutions such as the *International Monetary Fund* (IMF), *World Trade Organization* (WTO) and *Bank for International Settlements* (BIS).
- **Government** - denotes years spent working in the civil service.
- **Academia** - refers to years working at a university in an academic capacity.
- **Bank** - denotes the number of years employed at the Bank of England.

Individual member experience is displayed in TABLE 4. Other than Howard Davies and DeAnne Julius, all MPC member have spent over half of their working lives within a single career category. No single member has experience in more than three career categories. Sir Edward George, Ian Plenderleith, and Charles Goodhart have spent most of their lives at the Bank; contrastingly, Mervyn King, Charles Bean, John Vickers and Willem Buiter have spent most of their careers in academia. TABLE 5 builds on this analysis, and measures the percentage of insiders and outsiders to have worked in each category. A much greater percentage of insiders than outsiders have worked at the Bank of England (55.6% vs. 20%). The same applies to experience in Government as civil servants (44.4% vs.40%), although the difference is less pronounced. Outsiders dominate in all other areas - by substantial margins in the case of Academia and NGOs, and by a less pronounced difference in the case of the Private sector.

Related to career backgrounds of MPC members is the suggestion that the level of expertise of MPC members has through successive appointments been 'diluted'. In June 2003, *The Times* aired precisely these concerns.

“...there is concern that the level of *academic expertise* on the MPC has been diluted by recent appointments. When the MPC was established, its members included academic heavyweights such as Sir Alan Budd, former Chief Economic Adviser to the Treasury, and Charles Goodhart of the London School of Economics. However, in recent years, the bias appears to have shifted to economists with a less academic focus. These include Kate Barker, former chief economist of the CBI, and Sir Andrew Large, former deputy chairman of Barclays and now a Bank of England Deputy Governor.”<sup>37</sup>

<sup>36</sup> Also see Goodhart and Meade (2002) for a breakdown of the career characteristics of MPC members. Note that the system of classification used in this chapter differs slightly. Further, Goodhart and Meade (2002) base their results on data available on the the Bank of England website. This data was felt to be somewhat limited in nature, and where necessary, career data was obtained from other sources.

<sup>37</sup> *The Times*, June 16<sup>th</sup> 2003.

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**Breakdown of Dissenting Votes**


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	<b>Type of Dissenting Vote</b>	
	<i>Dissents for Tighter Policy</i> as a Percentage (%) of Dissenting Votes	<i>Dissents for Looser Policy</i> as a Percentage (%) of Dissenting Votes
<b>Insiders</b>		
Eddie George	0	0
Howard Davies	0	0
Charles Bean	0	100
David Clementi	75	25
Paul Tucker	100	0
Ian Plenderleith	60	40
Andrew Large	100	0
Mervyn King	100	0
John Vickers	100	0
<i>All Insiders</i> <sup>⌘</sup>	<b>86</b>	<b>14</b>
<b>Outsiders</b>		
Charles Goodhart	100	0
Kate Barker	0	100
Sir Alan Budd	100	0
Stephen Nickell	33	67
Marian Bell	0	100
Christopher Allsopp	0	100
De Anne Julius	0	100
Sushil Wadhvani	0	100
Willem Buiter	53	47
Richard Lambert	0	0
<i>All Outsiders</i>	<b>25</b>	<b>75</b>
<b>All MPC Members</b>	<b>42</b>	<b>58</b>

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<sup>⌘</sup>Unlike Table 6.1 it makes no sense to include a category which *excludes* the Governor from the sample, as he has never cast a dissenting vote. All percentages are rounded to the nearest integer. A zero appearing in both columns for any given member indicates no dissenting votes were cast. This only applies to Eddie George, Howard Davies and Richard Lambert. All other members dissented.

TABLE 2.  
DISSENTS FOR TIGHTER AND LOOSER POLICY EXPRESSED AS A PERCENTAGE OF DISSIDENTING VOTES

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**Mean Percentage of Dissenting Votes *including* Governor**

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**Section A.1 - Insiders versus Outsiders**

	Insiders	Outsiders	Significance level of Difference*
All Dissents	8.0	26.0	1%
Dissents for Tighter Policy	7.0	6.4	NS
Dissents for Looser Policy	1.1	19.6	1%

**Section B.1 - Tighter versus Looser Policy**

	Tighter	Looser	
All members	6.9	9.3	NS
Insiders	7.0	1.1	1%
Outsiders	6.4	19.6	1%

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**Mean Percentage of Dissenting Votes *excluding* Governor**

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**Section A.2 - Insiders versus Outsiders**

	Insiders	Outsiders	Significance level of Difference*
All Dissents	10.1	26.0	1%
Dissents for Tighter Policy	8.8	6.4	NS
Dissents for Looser Policy	1.4	19.6	1%

**Section B.2 - Tighter versus Looser Policy**

	Tighter	Looser	
All members	7.8	10.5	NS
Insiders	8.8	1.4	1%
Outsiders	6.4	19.6	1%

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Notes: \*Significant differences are indicated for 1 percent, 5 percent and 10 percent levels.

NS indicates that the difference is not significant at the 10 percent level of significance

All percentages rounded to 1 decimal place.

**TABLE 3.**  
 TESTING FOR SIGNIFICANT DIFFERENCES IN INSIDER AND OUTSIDER  
 DISSENT VOTING BEHAVIOUR USING PAIRED *t*-TESTS

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**MPC Member Career Histories Prior to Joining the MPC**

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	Years at the	Years in	Years in the	Years working	Years working
<b>Insiders</b>	Bank	Academia	Private Sector	in Government	in NGOs
Eddie George	29	0	0	4	7
Howard Davies	3	0	8	10	0
Mervyn King	7	18	0	0	0
Ian Plenderleith	32	0	0	0	3
David Clementi	0	0	22	0	0
John Vickers	0	17	3	0	0
Charles Bean	0	18	0	7	0
Paul Tucker	12	0	9	0	0
Andrew Large	0	0	28	5	0
<b>Outsiders</b>					
Willem Buiters	0	23	0	0	1
Charles Goodhart	17	10	0	1	0
De Anne Julius	0	4	9	0	7
Sir Alan Budd	0	22	4	10	0
Sushil Wadhvani	0	8	10	0	0
Stephen Nickell	0	30	0	0	0
Christopher Allsopp	4	31	0	2	2
Kate Barker	0	0	21	0	6
Marian Bell	0	0	16	3	0
Richard Lambert	0	0	26	0	0

Source: MPC member CVs, various sources

*Notes:* The table covers full-time positions only. Consultancy or advisory roles taken on a part-time basis are neglected.

TABLE 4.  
CAREER BACKGROUNDS OF MPC MEMBERS

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**Career characteristics of insiders and outsiders, June 1997-June 2003**

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	<i>Bank</i>	<i>Academia</i>	<i>Private sector</i>	<i>Government</i>	<i>NGOs</i>
<i>Insiders (%)</i>	55.6	33.3	55.6	44.4	22.2
<i>Outsiders (%)</i>	20	70	60	40	40
<i>All members (%)</i>	36.8	52.6	58	42.1	31.6

Source: MPC member CVs

TABLE 5.  
MPC MEMBER CAREER CHARACTERISTICS

A typical governmental response to this type of criticism is found in the second report of the Lords Select Committee on the MPC (2001), which asserts that

“...it is *economic expertise* that would drive our choice [of MPC member], it is the capabilities of the individual. The fact that we have someone who is an academic and whose principal subject has been the labour market [Stephen Nickell] must also be balanced by the fact that we also have someone who came straight from working with one of the biggest companies in our country and had a great deal of industrial policy expertise in that sector [De Anne Julius]. We choose the best people we can find with *economic expertise*”<sup>38</sup> (emphasis added)

Unfortunately, the notion of economic expertise says nothing about the relative hawkishness or dovishness of an MPC member. It cannot generally be construed as a characteristic causing one to dissent more on the side of monetary ease than tightness. All one can say it that an MPC member with relatively less expertise than other members is *prima face* liable to made bigger *mistakes* than other members.<sup>39</sup> However, to address whether the level of academic expertise has diminished, it is possible to turn to PANELS A.1 and A.2 shown in the appendix. These reflect how the career backgrounds of MPC members have changed over time, using the criteria established in previous sections. It shows the level of experience for the average MPC member at each meeting. It is readily seen that the average level of academic experience - which might be used to proxy academic expertise - has not dropped substantially over the first five years of the MPC. However, experience at the *Bank of England* - has dropped markedly, whilst *Private Sector* experience has risen. This is true for insiders and outsiders alike.

## 6 Estimation

To determine the effect of members’ career backgrounds on a propensity to dissent on the side of ease or tightness I estimate a regression of the form

$$Z_j = \beta_0 + \beta_1 \text{Type} + \beta_2 \text{Private sector} + \beta_3 \text{Government} + \beta_3 \text{NGO} + \beta_3 \text{Academia} + \beta_3 \text{Bank} + u_j \quad (1)$$

where  $Z_j = 1$  denotes a dissenting vote on the side of tightness and  $Z_j = 0$  is a dissenting vote on the side of ease. In particular, denote

$$Z = 0 \text{ if } i_{h,t} < i_{maj,t}^* \quad (2)$$

and

$$Z = 1 \text{ if } i_{h,t} > i_{maj,t}^* \quad (3)$$

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<sup>38</sup>Lords Select Committee on the MPC, Second Report, Response of the Government to the Report of the House of Lords Select Committee on the Monetary Policy Committee of the Bank of England (HL Paper 34, Session 2000-01), p 208.

<sup>39</sup>Unless, of course, members free-ride on the the opinions and opinions of more expert members.

**MPC members' loosen and tighten dissenting votes explained by career backgrounds, June 1997-June 2003**

	Intercept	Type	Private sector	Govt.	NGOs	Academia	Bank
<i>All members</i>	0.62 (0.004)*	0.57 (0.000)	-0.03 (0.028)	0.04 (0.047)	-0.05 (0.011)	-0.01 (0.22)	-0.01 (0.26)

\*  $p$ -values in brackets (.)  
 No of obs = 106      Log likelihood = -44.7  
 McFadden's  $R^2=0.44$       Likelihood ratio  $\chi^2(4) = 61.27$  [p-value=0.000]

TABLE 6.  
EFFECT OF CAREER BACKGROUNDS ON DISSENT VOTING BEHAVIOUR:  
BINARY LOGIT ESTIMATES

where  $i_{h,t}$  is member  $h$ 's ideal interest-rate as reflected in their vote in meeting  $t$  and  $i_{maj,t}^*$  is the interest-rate chosen by the winning majority of MPC members at a given meeting.<sup>40</sup> **Type** is a binary variable where a 1 is assigned if a member is an *insider* and a zero if an *outsider*. Estimations are performed in *EViews* 4.1 and results are shown in TABLE 6.  $p$  values are given in round (.) brackets.<sup>41</sup> Results suggest that experience at the Bank of England and Academia have no impact on dissent voting behaviour - this is clear from the high  $p$ -values associated with their coefficients. All other variables have a statistically significant effect on voting behaviour. Exerting by far the largest impact is the binary variable **Type**. A positive value indicates that insiders are more likely to dissent on the side of tightness. This result is in line with the findings reported in TABLES 1-3. Experience in the Private Sector and NGOs promote dissent on the side of monetary ease, whilst the coefficient on government indicates that time spent in the civil service promotes dissents on the side of tightness. All of these variables are significant at the 5% level. Coefficients for these variables are all similar in magnitude, although the effect of a members type exerts by far the largest influence on the decision to dissent on the side of ease or tightness. The rise in private sector experience in PANELS A.1 and A.2 coincides with a gradual decrease in interest rates, and is also seen lead to promote dissenting on the side of ease in the career characteristics regression. The increase in average Private Sector experience seems to be at the expense of experience at the Bank.

## 7 Conclusions

At the outset of this paper, I set out to explain the type and frequency of dissenting votes cast by insiders and outsiders. To rationalise *a priori* why any discrepancies between the two groups might arise, I appealed to career incentives, career backgrounds, the appointments procedure, term lengths and the information sets of MPC members. I predicted that (i) outsiders would dissent significantly more often than insiders and (ii) whereas insiders would dissent overwhelmingly on the side of monetary tightness, outsiders would dissent on the side of monetary ease. In all cases, these conjectures were backed up by a rich array of evidence ranging from the past experiences of FOMC members to spoken evidence given by BoEMPC members at Treasury

<sup>40</sup>This excludes all votes in cast agreement with the winning majority of MPC members for any given meeting. This occurs in instances where  $i_{h,t} = i_{maj,t}^*$ .

<sup>41</sup>Given the limited number of observations, the econometric specification has been kept simple. In doing so, my purpose is to gain a broad feel for nature of the relationship between career backgrounds, a member's type and their decision to vote on the side of tightness or ease. It is noteworthy that whilst I have controlled for a member's type using an intercept dummy, interaction dummies have not been applied. This was imposed for two reasons. The first relates to the small sample size. It was felt that adding interaction terms this would use up significant degrees of freedom, resulting in a less than parsimonious specification. Secondly, I have assumed that the marginal effects of a given career background on a member's propensity to vote on the side of tightness or ease should *a priori* be the same. Marginal effects are not reported due to the negligible size of the parameters on career variables when compared to the coefficient for the type dummy.

It has also been brought to my attention that the data sample may suffer from clustering. This arises when observations are no longer independent, and implies that the sample joint distribution function is no longer the product of the distribution functions for each observation. Consequently, this results in a log-likelihood which is not true for the sample. In the context of my data-set, clustering might be thought to occur if some members dissent significantly more often than others. For example, consider the frequency of dissent voting behaviour associated with Willem Buiter, as compared to Charles Goodhart. The former dissented far more frequently than the latter. Due to the limited sample size, I do not adjust for cluster effects. For an informative discussion of the issue, the interested reader is referred to Wooldridge (2003).

select committee hearings.

I proposed that insiders have more of an incentive to agree with each other because as members of the same organisation, they are more likely to have to work with each other in the future - disagreeing too much with one's peers may be detrimental to future career advancement. Insiders may also have more of an incentive to act like 'conservative' central bankers. This implies that if insiders choose to dissent, it will most likely be on the side on monetary tightness. In terms of appointments and term lengths, outsiders have *least* independence from the Chancellor: they are both (i) directly appointed by the Chancellor and (ii) serve the shortest term lengths. If one is seeking reappointment, then voting for lower, as opposed to higher interest rates may secure a second term. It is important to note that even though the Governor of the Bank is appointed by the Government, his independence is somewhat reinforced through serving a longer term length. Further, given the opaque nature of the appointments procedure, it is also possible that an outsider may be appointed precisely because he or she is a dove. It is arguably more difficult to appoint an opportunistic or dovish Governor given the intense public scrutiny and attention surrounding the decision in the news media and financial markets. Turning to information sets, outsiders are more likely to dissent on the side of monetary ease in as far as they pay less attention than insiders to the Bank's suite of in-house forecasting models which (i) tend to over-predict inflation and (i) have too pessimistic a view about the level of potential output. This may also promote dissents on the side of monetary tightness by insiders.

The predictions listed above were fully supported by the evidence. In practice, outsiders dissented significantly more often than insiders. Secondly, whereas insiders dissent overwhelmingly on the side of monetary tightness, the reverse was found to be true for outsiders. These differences were found to be statistically significant. I also presented evidence suggesting that the level of 'expertise' on the MPC was not diluted over time, using the mean number of years working in a university in an academic capacity as a measure. In short, the academic focus on the MPC remains high.

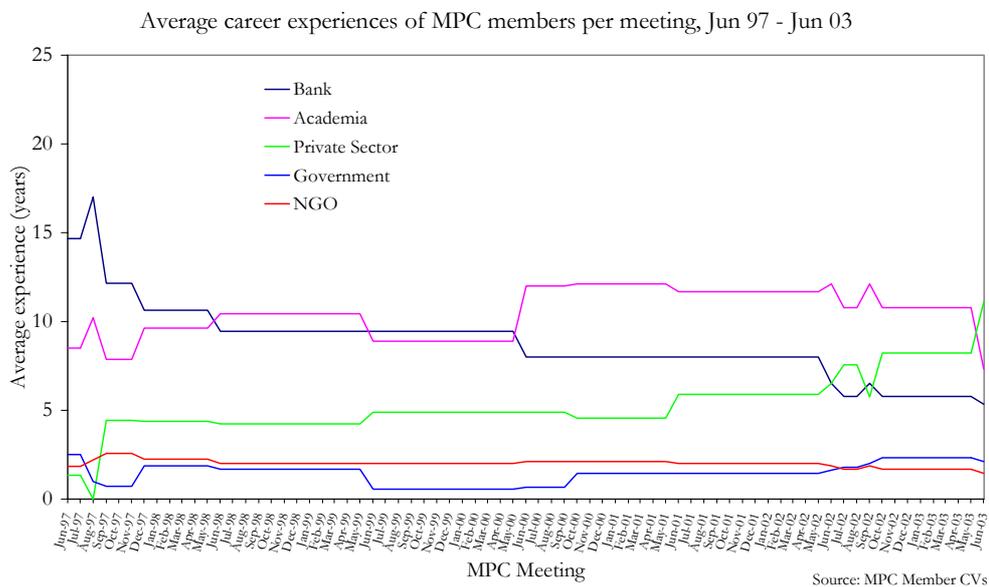
In the final section I tested for the impact of career backgrounds on members propensity to dissent on the side of ease or tightness using binary logit analysis. This is an approach which is commonly applied in studies of FOMC member voting. It was found that for the case of the BoEMPC, evidence to support the notion that career backgrounds impact on the propensity to dissent is weak. A problem I encountered was predicting *a priori* the effects specific career backgrounds exert on dissent voting - particularly with respect to experience in government and academia. It is not immediately obvious *why* experience in the Private Sector and NGOs promotes dissent on the side of monetary ease, whilst time spent in the civil service promotes dissents on the side of tightness. Nevertheless, the effects of these variables are clearly marginal compared to the effects for the dummy variable capturing a member's type. It may be the case that the sample size is too small - it is somewhat truncated in that it uses only *dissenting* votes, and votes cast in agreement with the majority are ignored.

The results of the analyses presented here have ramifications for the future conduct of UK monetary policy. I have evidenced clear asymmetries in both the levels and type of dissent associated with insiders and outsiders. Monetary policy is delegated to committees for a number of reasons. Many of the arguments are founded on the benefits of heterogeneity - MPCs are assumed to reach better decisions because members pool information and exchange different views. If career concerns are present, such informational pooling and exchange of views might not take place. Some members may effectively be scared of speaking out. In the context of the BoEMPC, one solution to this problem would be to reduce the number of insiders sitting on the committee. Whilst this may increase the level of dissent, it is possible that it may increase the quality of the decision.

## 8 Appendix

### 8.A Average Career Experiences of All MPC Members, Insiders and Outsiders per Meeting

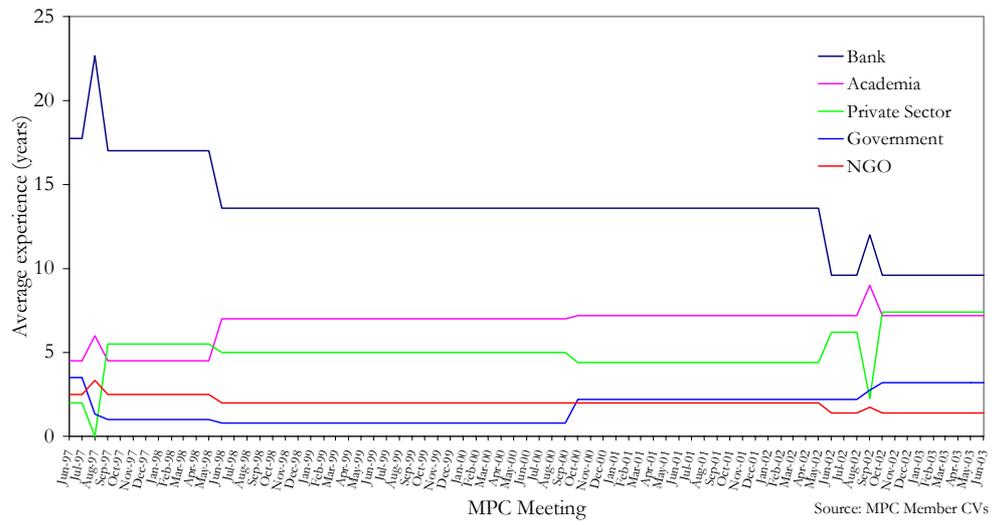
The following two panels plot the average career experiences of MPC Members over time. PANEL A.1. focuses on the MPC as a whole, and is based on *all* MPC members, insiders and outsiders inclusive. The upper and lower figures in PANEL A.2 (overleaf) show the results for insiders and outsiders separately.



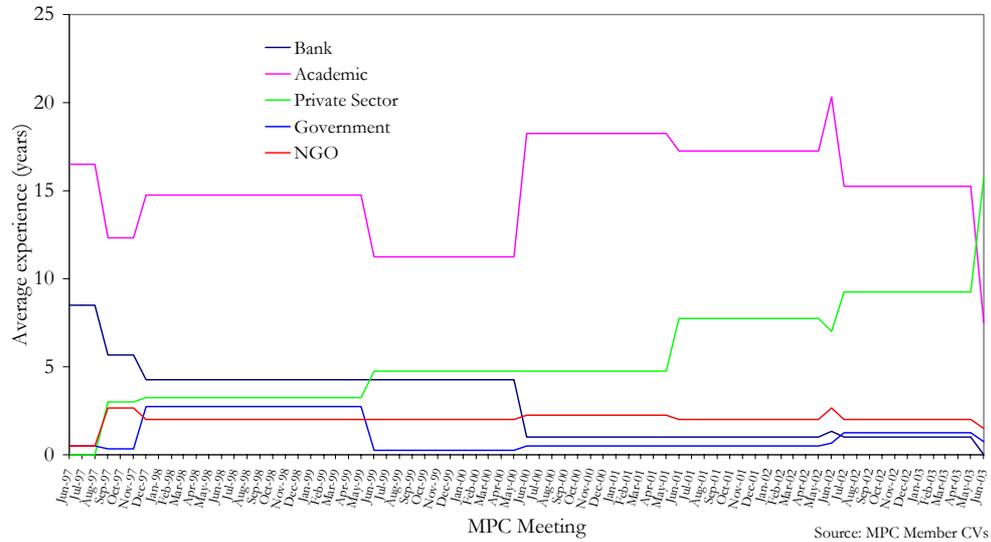
PANEL A.1.  
AVERAGE MPC MEMBER CAREER EXPERIENCES PER MEETING

### 6.A.1. Average Career Experiences of All MPC Members, Insiders and Outsiders per Meeting (continued)

Average career experiences of insiders per MPC meeting, Jun 97 - Jun 03



Average career experiences of outsiders per MPC meeting, Jun 97 - Jun 03



#### PANEL A.2.

AVERAGE MPC MEMBER CAREER EXPERIENCES PER MEETING BY TYPE

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