

Treasury Committee

Oral evidence: Appointment of Professor Jonathan Haskel to the Monetary Policy Committee, HC 1318

Tuesday 26 June 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Catherine McKinnell; Wes Streeting.

Questions 1 - 65

Witness

I: Professor Jonathan Haskel, appointed external member of the Monetary Policy Committee.

Written evidence from witnesses:

– [CV](#) and [Questionnaire](#)



Examination of Witness

Witness: Professor Jonathan Haskel.

Q1 **Chair:** Good morning. Thank you very much for being here for this session. It is warm in here, so please feel free to take jackets off. I am not going to advise on any other items of clothing, but there is no point in people completely melting in these conditions. Professor Haskel, we are going to start off with some questioning, but perhaps you could introduce yourself for the benefit of the people watching, not in the room.

Professor Haskel: Thank you very much for having me. I am Jonathan Haskel. I am a professor of economics at Imperial College Business School in London.

Q2 **Chair:** Lovely. Thank you very much. We are quizzing you this morning on your appointment to the Monetary Policy Committee. In his letter to the Committee, the Chancellor said that your expertise in productivity and innovation, among other things, would benefit the decision-making of the MPC. Perhaps you set out for us, first, your view on the reasons for the UK's current lacklustre productivity, and how you think your views on that will help the decision-making by the MPC.

Professor Haskel: Again, thank you all for seeing me. This, as you know, is a very big question in front of us. The way to think about the productivity puzzle is that it has two elements to it. First, around the time of the financial crisis, in the first couple of years, there was a huge crash in productivity. That happened more or less everywhere. That is something that almost all developing economies experience when there is a terrible demand shock because of adverse circumstances in the economy. Firms do not fire everybody straight away; they keep their valuable workers and so forth, but they take the hit on output, and therefore output per person goes down. That is the first element to it. That was not, in a sense, too much of a surprise because that happens fairly readily.

The second bit, which has been a surprise and is therefore a puzzle to many economists like me who slave away at all this stuff, is that there has been very slow growth since then. We have made a bit of progress understanding that puzzle and can boil it down to basically two big factors. One factor, maybe about half of it, has been very retarded investment relative to what there was before that. That is to say, firms are investing less than they had previously done in new capital equipment, new machines and all that kind of thing. Workers have fewer machines to work with. That is going to make them less productive. That is part of it.

The other part of it, which is still a bit more mysterious, is that the efficiency with which the employees are using those machines has not



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grown to the extent that we think it had been growing in the past, either. That could be related to the growth of the intangibles and the new types of knowledge investment that firms are increasingly making, which I have spent a lot of time studying. I am sorry. This is turning into a long lecture. Shall I stop at that point, so as not to bore everybody?

Q3 Chair: We are hoping you might solve the productivity puzzle for us this morning and therefore we will not have to ask further questions about it, but I think we have a way to go. How do you think the MPC could alter the underlying productivity in the UK?

Professor Haskel: The thing about productivity is that bits of it are conceivably something that the MPC could have some impact on and other bits are not. The bits of it that the MPC could impact upon are the investment decisions by firms. Therefore, the interest rate that the MPC sets, although it is a short-term interest rate and firms are interested in the long-term interest rate, to the extent that the transmission goes from the short to the long-term interest rate, would affect investment decisions. The very low interest rates we have seen more or less around the world since the financial crisis have been attempting to encourage firms to invest, but investment has still been rather low. That is one area where it seems the MPC has some levers.

The trouble with productivity is that there are a lot of other things going on, and those are areas where the MPC may have fewer levers. For example, if firms are increasingly investing in intangible assets—software, design, computers and all that—they are much less amenable to going to a bank and asking for some credit on the basis of these intangible assets. There, the levers the MPC has of affecting bank rate may be a little less potent. That is the first thing.

Secondly, of course, I have the great privilege of teaching at Imperial College. As anybody at Imperial, a science and technology university, will tell you, the path of science and technology is very unpredictable. We have lots of cases at Imperial where our students, mostly, because they are much cleverer than us staff are, have done fantastic inventions and all sorts of unexpected things have happened to productivity on that basis. That is something that the MPC would have much less leverage on, namely technology and the extent to which it diffuses in the rest of the economy.

Q4 Chair: Let us explore that a little further, because you mention intangibles. You have said that the Bank of England and, indeed, the MPC historically focused too much on the economy of cars, steel and coal, and perhaps should refocus towards the economy of Tesco, easyJet and Harry Potter. Perhaps you could expand on that a bit more. What do you bring to the MPC, and how would you encourage the MPC to move more to explore that further?

Professor Haskel: I should say that I did not criticise the Bank of England as not focusing on those things. I said that, as economic



scholars, business scholars and scholars of innovation and whatever, we might want to look a bit more at those things as well. The work on intangibles that I have tried to do is essentially along lines that should not surprise anybody. I am sure you have these conversations with your constituents. In the old days, economies were mostly investing in very tangible things. We had steel plants all over the place. We had car factories, coal and that kind of thing. Now, economies are much more concentrated on these intangible elements like software and design.

Think of Harry Potter, as an example that you mentioned, Chair. Think of Harry Potter as being a bundle of intangible assets. It is the creative copyright from the book. It is the software that goes into the movie. It is the branding. It is the set design that gives you all these gothic decorations that you see in the film, in the play and that kind of thing. There is a whole bundle of intangible assets. The economy is moving much more in that direction.

The work I have tried to do is to say that this is a long-term trend in lots of developed economies. We need to face up to this trend in a number of different ways. One way, for example, would be through the Office for National Statistics, which I am sure you speak to on many occasions. It is very difficult to measure these types of investments. Some are measured; some are not measured at all. The ONS has a big agenda to do all that, and of course that has to be communicated to the Bank. That is one element of it.

There is one more element, if I may. When the Bank is thinking about the speed limit of the economy and whether the economy is moving too quickly or too slowly, thinking about these intangible assets and how that type of economy looks rather different to a more tangible economy is going to better help formulate monetary policy.

Q5 Chair: In the answers to the questionnaire, you talked about future productivity growth potential. Do you think we are currently in—I think you used these words —the lull before the storm of future increases? Where do you think we are in the productivity cycle?

Professor Haskel: I am a bit optimistic, actually. I know there are lots of techno-pessimists, who perhaps have appeared before you. I am somewhat optimistic, for the following reason. If you think about artificial intelligence and the technological prospects that we think are in the future, they need a lot of investment before they are going to bear fruit. Since it is so difficult to measure this investment, we may be in a situation where a number of those firms are making those investments now and they are not being measured as investments, so it looks like these firms are not producing and developing anything, but they are yet to come on stream and will come on stream in the future. On that basis, I am a little more optimistic than some of the very pessimistic people about productivity.

Q6 Chair: One of the questions we asked was about what you thought were



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the most significant risks to growth and inflation. You talked in terms of Brexit and how that is going to affect aggregate demand and supply. You drew attention to an updated set of estimates from Erken 2018, which suggests hard Brexit cuts total factor productivity growth from 1.1% to 0.5%, with a soft Brexit at 0.8%. What is your professional view about the effect that Brexit will have on the economy?

Professor Haskel: There are two things going on with Brexit that most economists sitting on this side would tell you. First, if we trade less readily with people—that is to say, if Brexit disadvantages our trading relationships—that is bad for the economy. Look around this room; look at all this electronic equipment. If we were not buying and selling that, and that kind of thing, think how much more difficult it would be to run these types of sessions. Many economists would be agreed on that.

The second more difficult thing, about which there is more disagreement—and that is what the National Institute paper speaks to—is whether the rate of growth of the economy is correlated with Brexit as well. They have some estimates, based on one particular equation and one particular specification. With all due respect to them, these are rather tentative estimates. I think they go a bit far. This all hangs on the extent to which we can renegotiate advantageous supply chain relationships, trade in services and all those kinds of things. If they can be negotiated and we can be in a good place, the economy can keep on growing. If we are in a bad place, most people would agree there may at least be a temporary lull in the economy.

Q7 **Stewart Hosie:** Professor Haskel, your experience to date has been almost exclusively academic. Do you think that will limit your role in any way on the MPC?

Professor Haskel: I hope not. You are right; I have had an academic experience. I spent eight years on the Competition Commission, and one thing you have to do on the Competition Commission is to spend a lot of time with the firms you are talking to. I have had some time outside doing that. I have done some economic consulting for various firms as well, on a private sector basis. I hope I have a reasonably rounded portfolio to bring to the table.

Q8 **Stewart Hosie:** Do you think the fact that you have never worked for the Bank of England in any other capacity that will be a help or a hindrance to your ability to contribute?

Professor Haskel: As an independent member, I have to strike a balance. When I am on the MPC, I want to have good relationships with the Bank's staff and a good working relationship with them; otherwise I would not be doing my job. On the other hand, coming from the outside can be helpful as well, because one can be aware of other types of situations and other types of views. I would regard that as a benefit.

Q9 **Stewart Hosie:** That is helpful. You talk about rounded experience, but of course Ian McCafferty, whom you are replacing, had a long career in



industry and in the City.

Professor Haskel: He did.

- Q10 **Stewart Hosie:** Should we not be concerned about a lack of deep industry experience? Is that something that should concern us in terms of what you do bring to the table?

Professor Haskel: I hear that. Ian has been a fantastic member of the committee and, as you say, had that long experience at the CBI and, before that, in the City. I cannot pretend that I can bring Ian McCafferty's expertise to the table. What I hope I can do is to use all the facilities that both I have and the Bank has to really get out there and be talking to businesses, talking via the Agents, doing regional visits, making contact with the types of businesses that they are talking to all the time, to bring that to bear on the decisions of the MPC.

- Q11 **Stewart Hosie:** In your CV and questionnaire, you mention you will be continuing in your role as a non-exec director of the UK Statistics Authority. What time commitment is associated with that?

Professor Haskel: That is one board meeting a month. Then I sit on a sub-committee as well, the regulation committee, and that meets every two months. What I have said to the stats authority is the following—maybe this is where your question is going, Mr Hosie, but tell me if I misunderstand—if there is a clash between the two meetings and it just turns out that I cannot do that, I will step down from the stats authority and prioritise the MPC.

- Q12 **Stewart Hosie:** It is helpful to know that, but how will your ongoing role, assuming there is no clash with the Statistics Authority, inform your work on the MPC? Will that bring something different to the table?

Professor Haskel: I hope it will bring lots of positive things to the table. If you look at what the ONS is doing, it has, thanks to the Bean review, a slug of extra money. In my humble opinion, they are doing some really exciting things with it. They are trying to measure the new economy. We talked earlier on with the Chair about the intangibles. They are trying to measure the intangible economy. The stuff in my questionnaire about the measurement of high-technology goods, for example, is a really tough area, looking at what firms in the high-tech sector are doing. The ONS is putting a lot of resources into all that.

I am hoping that, by being both on the stats authority and also on the MPC, I can bring over to the MPC some of the knowledge of the ONS and some of the really positive work it is doing.

- Q13 **Stewart Hosie:** That presumably would allow the MPC to measure the Harry Potters rather than the heavy machinery.

Professor Haskel: Absolutely. The ONS has genuinely been making a big effort to try to measure Harry Potter a bit better. It is a hard thing to do, but we need good people doing all that.



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Q14 **Stewart Hosie:** You are also going to continue to teach at Imperial. I suppose this is the general question: are you happy that you will be able to manage the three different roles, plus the other activities, that you have?

Professor Haskell: Maybe I should have said this on the form. I cannot remember whether I did or not. At Imperial, I am going to teach our weekend students. As many universities do, we run lots of courses. We have the full-time students. I cannot teach the full-time students because that would clash with meetings and so forth, but we run a cohort of weekend students. In fact, I am teaching them this Sunday. I teach them Saturday and Sunday, and then that would not interfere with the meetings. Then I am able to keep up my relationship with Imperial as well, which I very much want to do.

Q15 **Stewart Hosie:** According to Companies House, you resigned from a directorship at the Perrotts Group on 29 May this year. What is the Perrotts Group?

Professor Haskell: The Perrotts Group is a family firm that my father used to run. My mother, my father and I were directors of that.

Q16 **Stewart Hosie:** Were you advised to resign that role by the Bank?

Professor Haskell: No, I just thought it would be cleaner and easier to not do it.

Q17 **Stewart Hosie:** Is there no conflict of interest, given that it is now your wife who has taken on the directorship of the company?

Professor Haskell: There is no conflict of interest, no.

Q18 **Stewart Hosie:** That is helpful. You also said in your questionnaire that you do not have any business or financial connections or other commitments that might give rise to a conflict of interest. Do you have any personal or family relationships that might give rise to a conflict of interest in your role on the MPC?

Professor Haskell: No, I do not.

Q19 **Stewart Hosie:** You are confident, I take it, then, that you are fully in compliance with the Bank's conflict of interest policy.

Professor Haskell: Yes, I am.

Q20 **Wes Streeting:** Good morning. Your appointment attracted some commentary, through no reflection of your qualifications for the role whatsoever, but largely because it was the appointment of another man to the MPC and the Bank has a terrible issue with diversity. We will pick that up with them on another occasion. I am interested, given your background in academia, in your reflections on the pipeline. I am absolutely sure, when we see the Minister tomorrow, when we see the Governor shortly, that the pushback we will get is that there just is not the pipeline of women coming through. With that in mind, bearing in



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mind your experience at Imperial and before that at Queen Mary, what is your opinion on why more women are not studying economics at an undergraduate level?

Professor Haskell: That is a good question. It is a puzzle. The pipeline of women's participation in economics, and in science as well, because at Imperial, as I mentioned before, we are mostly a science and technology university, is changing a lot: 20 years ago, 5% of Imperial College professors were women; now 17% are. That is obviously not a high number but it is higher than it previously was. Imperial has made quite a lot of effort to try to address exactly, Mr Streeting, the pipeline issue you talk about. In many ways, the view at Imperial is that the position of women in science quite mirrors the position of women in various other professional areas. There is a stack of outreach initiatives and so forth that Imperial is doing, which I can talk a bit about. Imperial is trying to improve that pipeline.

The Royal Economic Society is also trying to do activities around the pipeline. Many of those activities revolve around schools and trying to encourage kids in schools, of all genders, to make these types of decisions because, of course, with the particular education system we face, kids have to make these choices very early. The pipeline can often be a constraint. Especially in science, the constraint can often start with a very early choice. If kids do not choose to do science A-levels, it is very difficult for them to go and carry on doing science.

Q21 **Wes Streeting:** Indeed. Do you think there is anything the Bank and the Government ought to be doing specifically in this area?

Professor Haskell: I have not got to the Bank yet, so I just do not know. All I can say is something that I have some knowledge of, namely what we are trying to do at Imperial. We have a whole suite, as I say, of outreach programmes. Any school can phone up Imperial, and a whole load of scientists will come from Imperial and run a whole load of explosions for the kids, and all that sort of stuff. Hopefully, there are things that Imperial can learn from other institutions, but there may be other institutions that can learn a little from Imperial's experience as well.

Q22 **Wes Streeting:** We may get you in to do a demonstration for the Treasury Committee too, in that case.

Professor Haskell: There is a bad precedent for having explosions in this particular building, but we do stuff with light and space rockets.

Q23 **Wes Streeting:** That is true. On reflection, let us not go there. More generally, economics is seen as a pretty male-dominated profession. Particularly given the positive contribution that role models can play—if people see people like them in positions of authority and leadership, it is something they think they can aspire to—is there a risk that the Bank of England, the Government and top firms are reinforcing the problem, rather than helping to tackle it, through a lack of positive women role



models at the top?

Professor Haskel: Again, it is difficult because role models can work various ways. Some role models are very inspiring; others turn out to have feet of clay. This is kind of difficult. In terms of the pipeline issue, if I think about what the Royal Economic Society is trying to do around economists, what Imperial is trying to do around scientists, because these decisions are made at a very young age, getting into schools is something that can be done. Sorry, I should have mentioned I am on Robert Peston's Speakers for Schools programme.

Q24 **Wes Streeting:** I was going to ask you about that. I am also interested in the class dynamic here and the efforts being made to get more working-class applicants in to study economics. I wonder if you have any reflections to offer specifically from your experience through the Speakers for Schools programme.

Professor Haskel: I have two thoughts on that. First, the Royal Economic Society is very assiduous about collecting this data on the economic side. I do not have the latest numbers that they have, but I can happily write to you when I get those numbers. My personal experience of Robert's Speakers for Schools initiative is that it is a terrific initiative. Especially because of his background, he has emphasised going to non-independent schools and that kind of thing a lot. I am very impressed with all that. Of course, part of doing economics at university requires a lot of maths. Again, the decision that kids make at an early age is tied up not only with the decision to study economics but the decision to study maths. If schools are struggling to attract maths teachers, that can be complicated as well.

There are lots of moving parts to all this. Hats off to Robert Peston and others like him who have tried to get this initiative going. Because there are lots of moving parts, it needs a lot of things to come together to make a material difference. One can try to make a difference in some areas.

Q25 **Wes Streeting:** Can I now ask you about a different type of diversity, which is diversity of opinion? This Committee often asks members of the MPC about the risks of groupthink. As the newest member, what contribution would you like to make to challenging prevailing wisdom on the MPC, and are there particular areas that you think you will bring a fresh perspective or a different view on?

Professor Haskel: I have not got there yet so we will see, but from the outside I would go back to the Chair's kind questions on intangibles. The economy is changing away from tangible goods to intangible goods. I will not say that all over again. I hope that will be a new perspective to bring to the MPC. It makes a difference to your views about how the economy functions, and a bit of a difference to your views about the transmission mechanism. Maybe it is going to be a little more difficult, for example, to raise interest rates and then affect the activity, especially in an intangible



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economy, which is much more mediated through venture capitalism and all that kind of stuff. I hope it would be around that area.

One more area, if I may mention this, is on the measurement side. Back to Mr Hosie's questions, my continued involvement with the UK Statistics Authority would, I hope, allow me to bring in a pipeline of information about whether we can be absolutely sure that this is being measured right, the new developments going on over here to measure this better, and all that. We saw in Q1, with the issue about snow and all that sort of stuff, that it became very much a measurement issue and people took different views about whether the snow was a temporary or permanent effect. Again, bringing some measurement views into the Bank would be very helpful all round.

- Q26 **Wes Streeting:** Whatever one's views are on Brexit, I think we know that we are heading for a turbulent and unpredictable period. That is just in the context of Brexit, without the wider prevailing winds of the global economy. Are you concerned about the ability of central banks, including our Bank, to step in, in the event of a crisis or a shock, given that there does not seem to be much left in the tank, in terms of what we can throw at the economy to keep it going in times of difficulty?

Professor Haskel: There are two things in that question. One is detecting signs of adversity and signs of adverse shock. The second is, as you say, what fire power is available to the Bank were, God forbid, a shock to occur. Can I unpack that for just a second? In terms of detecting what is going on, that comes back to the data types of issues: do we have adequate forward warning signs so we can see a shock is coming?

I was very impressed when I was up in Nottingham last week, giving a talk to the public policy centre there. There, they run the decision-maker panel. This is a big group of around 5,000 firms, which are surveyed every month. They are asked lots of questions, on their attitudes, what they are doing about investment, prospects for employment and that kind of thing. They are working in conjunction with the Bank. In terms of developing these early warning indicators, that is a very good example of where the data is improving. I enjoyed visiting them and seeing what was going on. I was very impressed with that whole operation.

The ONS is doing—I am not sure if you are aware of this—some work on construction data as well. Construction data is a very good leading indicator of activity, sentiment and that kind of thing. There is another suite of work on that. That is on the evidence section.

In terms of the issue of whether the Bank has enough firepower, there is no point pretending: interest rates are very low, so the scope to cut them even further is not great. On Thursday, as you know, following that exchange of memoranda between the Governor and the Treasury, a bit of extra room was bought by the view that the lowest rate can now go down to zero instead of 0.25%. That is a little extra headroom. If there were dysfunctional capital markets, QE might be a possibility as well. The tenor of your question I agree with. It is something we have to keep a very



close eye on and that is why we need this suite of different indicators.

- Q27 **Catherine McKinnell:** Good morning. Moving on to household debt, how do you balance the need to encourage economic growth with dealing with some of the risks of households accumulating rising debt, which we know is a concern?

Professor Haskel: Part of this cuts across the role of the MPC and the FPC. If households were severely indebted and, in the event of adverse circumstances, that potentially threatened the stability of banks and all that, it is something for the FPC to keep a look at. Some of the new arrangements around households, as I indicated in my questionnaire, have been an attempt to get banks to check whether, when a household takes on additional debt, it can withstand interest rate increases. For example, there are rules around checking that households could repay mortgages even if interest rates went up by three percentage points, which is a lot. Those are wise rules. This mix of altering interest rates to try to guide the economy but being careful that households do not take on too much debt is helpful.

The other thing that I hope will help households is future announcements about what the path of interest rates might be. If I am a household thinking of taking on some whacking great huge debt, which might not be feasible if interest rates were to go up substantially, the announcements by the Bank would hopefully give more guidance to households and prevent them from saddling themselves with debts they could not pay.

- Q28 **Catherine McKinnell:** In terms of interest rates and projections, which economic groups do you think are most vulnerable to rises in interest rates?

Professor Haskel: As you describe, highly indebted individuals, and individuals who are right on the edge of what they can pay back, would be vulnerable to that, as would highly indebted firms. I am hopeful, again, from the outside that some of the policy steps that have been taken to encourage banks not to lend to individuals who really cannot pay back will be important. As for the other groups of individuals, there is a whole group of individuals in what you might call the subprime market, borrowing on home credit, with payday loans and that kind of thing as well. I worked a bit on that when I was on the Competition Commission. Those are very vulnerable individuals as well, but they are vulnerable all the time, I have to say: they are particularly vulnerable to interest rate increases, but in general they are vulnerable all the time.

- Q29 **Catherine McKinnell:** Do you have any concerns that the Bank could be fuelling a consumer debt bubble at the moment? Is there more that the Bank should be doing to try to relieve the levels of household and consumer debt?

Professor Haskel: Again, I have not got there yet, so I rely on what I read as an outsider. My sense is that, since the financial crisis, households have been paying down a lot of debt. It is one of the reasons



that household demand has been rather subdued for the last 10 years. Households have been paying down a lot of debt. Relative to that position before, households' balance sheets, so to speak, are in a much stronger position, but this is something the Bank has to pay very careful attention to. It will be a priority when I get there.

- Q30 **Catherine McKinnell:** Moving a bit more into your comfort zone, potentially, in terms of your background with the ONS, do you think that zero-hour contracts and their proliferation could mean that underemployment is being underestimated and the employment figure is not truly reflective of household income?

Professor Haskel: That is a good question. I cannot remember off the top of my head exactly how the ONS counts underemployment. I know there have been some changes in the way they are doing it. The main mechanism, which I think is stopping, has been through the labour force survey. The trouble with the labour force survey, as you know, is that response rates are going down. That is a tricky area where there is probably a lot of triangulation needed from a lot of different datasets.

On the general question of wage pressure—I interpret your question going in this direction, but tell me if I misinterpret it—some pretty influential labour economists have said there is lots of underemployment going on, so there is much less wage pressure than you might think would be the case: that is to say, there are more underemployed workers who could potentially offer themselves. They have been arguing that that is a substantial element and therefore the Bank is potentially overstating the amount of wage pressure there is. I have to say, from the outside, that is not something I have looked at, but there is an urgent priority to look at that. There are a lot of arguments in favour of that view.

- Q31 **Catherine McKinnell:** That is reassuring, because I was going to ask whether you think the Bank should be doing more to measure that and if there is more that it can do. It sounds like this is something you will be looking at, rather than having the answer today.

Professor Haskel: Very much so, yes.

- Q32 **Catherine McKinnell:** In terms of the recent unexpected slip in wage growth from 2.9% to 2.8% in the three months to April, how do you reconcile that with productivity and your views on that?

Professor Haskel: The thing about wage growth is that it continually surprises the community of economists about how mild it might be. That goes back to the discussion we were having earlier on. There may well just be much more slack in a modern day labour market than would have been the case. In the 1950s, we would count the number of unemployed people and say, "Gosh, if it is large or small, that tells you the amount of slack". As you say, in this much more varied labour market, where people are doing all manner of different types of jobs, gauging the amount of slack in the labour market is much, much harder. All of this is in favour of the motion there may well be much more slack than we think.



Q33 **Catherine McKinnell:** Where does that take your thinking on an interest rate rise? Does it strengthen the case or weaken the case?

Professor Haskel: It would weaken the case for an interest rate rise, were one to think that there was more slack in the economy, and therefore the fear of domestically generated wage inflation would be less.

Q34 **Catherine McKinnell:** Your viewpoint today would be that we do need to get a better handle on some of the drivers behind wage growth and underemployment.

Professor Haskel: Correct, and then come to a decision about interest rates on that basis. Let us get the data and let us get the changes in the economy sorted out. Let us be in touch with the ONS, find out what it is doing and that kind of thing, and then we can make a better decision collectively.

Catherine McKinnell: We would very much support that.

Q35 **Rushanara Ali:** Good morning. The focus of my questions is about whether the MPC is too London-centric. In your questionnaire, you signalled your intention to visit different parts of the country. What sort of insights and information do you hope to get out of those visits?

Professor Haskel: There is a sense in which the Bank already does visit large amounts of the country, because it has its network of Agents. The Agents are very active in canvassing opinion. Again, I have not got there yet, but as I understand it they report extensively to the MPC. They talk a lot about these issues and keep the MPC very informed on all this. That is one aspect of it. I have to say, though, that there is not much substitute for going around oneself and hearing various people's views. It is part of the general picture. I have to put my statistician hat on: it can be statistically unrepresentative to talk to a couple of people here and a couple of people there. Nonetheless, it is an important part.

Q36 **Rushanara Ali:** You are planning to talk to more than a few people.

Professor Haskel: Exactly. It is an important part of the Bank's overall communication. It is important that MPC members are out and about, talking to people and trying to explain what is going on.

Q37 **Rushanara Ali:** What kinds of people do you think you should be going to see and consult to hear their views? Is it students, given your university career? Is it older people? Is it younger people? What is the mix of people you think you should be going to meet? Is it people in food banks? What do you think would add insight and awareness to the MPC through your visits and what you bring back from them?

Professor Haskel: It is an interesting question. It depends upon the subject about which one is attempting to gather some information. If you want to gather some information on firms' investment intentions, for example, talking to students is not going to be a good idea. Then you want to be talking to the decision-makers, chief financial officers, CEOs,



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small business people, the people making those investment decisions. That will be the group of people to focus on.

Equally, as we were saying earlier on with Mr Streeting, one has a responsibility to encourage students and school kids to make decisions, get them excited about economics and all these other areas. As part of one's responsibilities there, talking to them would be important. As we were discussing, on consumers, you might want to go and talk to some hard-pressed consumers, to see how they feel, whether they are right on the edge, what the situation is with borrowing and lending, and all those kinds of things.

Q38 **Rushanara Ali:** Does the MPC have a track record of doing that, do you feel? Could it get better at that sort of stuff?

Professor Haskel: From the outside, I could not really say.

Q39 **Rushanara Ali:** There is still an impression that the Bank and the MPC, despite the good efforts that have been made, are still too southern, too posh, too male, with no disrespect to your position. Those criticisms will require much more effort, both in terms of representation and in what you do. Should we expect to see a much more radical approach to reaching out, getting out there and meeting the different kinds of people who have a vested interest, and do not feel that their voices are heard and represented in the thinking and decision-making in your institution?

Professor Haskel: Again, I am on the outside so it is a little hard for me to say. I cannot pretend to speak for the other MPC members but, for this MPC member, as I said in my questionnaire, I would want to get out and about. I would want to be talking to people. I would want to be doing all the things that you mentioned about the outreach. When I come back in front of you, you can quiz me on that and give me a view.

Q40 **Rushanara Ali:** I noticed you are an East End export. The MPC's gain is our loss. You have spent quite a lot of time in my constituency at Queen Mary University.

Professor Haskel: I was at Queen Mary for many years. That is right.

Q41 **Rushanara Ali:** You educated a lot of people there among my constituents. You spent a year in Bristol, but much of your work has been based in London. Do you feel that you are sufficiently knowledgeable about the wider UK economy, given that so much of your career has been London based?

Professor Haskel: My career personally has been London based, as well as being in America and places like that, but I hear the question. The MPC's job is for inflation everywhere, throughout the whole of the UK. There are a large number of regional Agents around. There were all these various visits and so forth. I am determined to make a big effort to reach out to lots of different regions and visit lots of different places. As I say, I



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would be happy to account for that time when I appear in front of you again.

- Q42 **Rushanara Ali:** Great. Finally, on productivity, to what extent do you think there is a regional disparity in terms of the productivity of businesses across the UK? There is concern about the kinds of businesses and where businesses concentrate their efforts. What can be done about that, if you feel there is a concerning disparity?

Professor Haskel: There are at least two elements to that. First, of course, different regions in the UK have different industrial structures. We would expect a region that has a manufacturing plant in it to have very different productivity to a region that is making sandwiches, for example. That is one aspect of it. Secondly, one thing that boosts productivity is the clusters of economic activity and the agglomerations of co-location that occur, and therefore people interact with each other and that kind of thing. The agglomeration force is a force for inequality of productivity, whereas the normal mechanisms of competition and moving back and forth are forces for equality of productivity. It seems like the agglomeration externalities are particularly important in an intangible knowledge type of economy. That would push us more towards inequality of productivity. We just have to keep an eye on all this.

- Q43 **Rushanara Ali:** What do you think the Government should be doing? There is clearly a very important role for Government to try to address some of the failures here.

Professor Haskel: It is a very tricky area. There are stacks of local economic initiatives going on and, with my economist hat on, we really do not quite now why initiative A succeeds and initiative B does not, somehow or other. We know that having stable background conditions and reasonably stable local areas, where there are not going to be shocks to local rents, rates and that kind of thing, is helpful. We know that some incubator programmes can be helpful as well. We know that location next to universities can help, if there is the right type of technology transfer. There are lots of little things that can be done. You should definitely take more evidence from the experts at BEIS on this type of issue. There is not one big thing that region X is not doing, if you see what I mean, that we can definitely say, "Gosh, they should be doing that". That is what is so tricky about all this.

- Q44 **Rushanara Ali:** These debates have been going on for quite a long time—the discussions about the productivity puzzle and so on. When is it going to be understood better? The experts come under a lot of criticism these days, especially in the post-Brexit world, but, in defence of the experts, when are you all going to come up with a way forward, through the Bank, that regions can really take heart from, so national Government as well as regional government can drive forward a programme of change that addresses these inequalities?



Professor Haskel: First of all, we have made a fair amount of progress on understanding what the puzzle is, in terms of the lack of investment and so forth. The lack of investment, as I was saying earlier on in answer to the Chair, is plausibly correlated with the types of uncertainty, with developments in capital markets and all that sort of stuff. We have made a bit of progress in understanding that. Part of the reason that it is a puzzle is just the sheer unpredictability of technical change. If I think about the college, Imperial, where I work and the effect we have had on the local area through some of the technological innovations we have produced, it has just been extraordinarily unpredictable as to what will and will not succeed.

Let me give you an example; maybe this will help. A few of our masters students in computer science a few years ago decided, as their MSc project, to write a banking application. This was about five or six years ago, before there were many banking apps. They wrote this application called Yoyo and it is now used all over Imperial. It is used in lots of universities, and it is used in a number of local South Kensington stores as well. You go in with the phone, it does everything on the phone and that kind of thing. This was just the student project of a couple of MSc students. It is very unpredictable as to why that project worked. The productivity benefit spilled over to the rest of the neighbourhood, and indeed to various other places. Other projects do not work. Part of the reason that it is hard for the experts to come up with "if A, then B" is the sheer unpredictability of these types of things.

Q45 **Charlie Elphicke:** Let me pick up on some of those points. Talking about voting intentions, in your written response to the questionnaire at question 17, you talk about how the Bank of England has lots of information and you have not seen the full array of forecasts. However, earlier this year, you responded to the *FT* and you forecast that interest rates would stay low due to wage pressure being weak. You join an MPC where Mr Saunders takes a view that the labour market is potentially a lot stronger. Where do you think his analysis and your analysis differ?

Professor Haskel: It goes back to the questions from Ms McKinnell that we were talking about earlier on. In the modern economy, with people doing all sorts of different jobs and much less of a full-time type of job structure, measuring the slack in the labour market is a much harder thing to do. Reasonable people might reasonably disagree on the amount of slack there is in the economy, depending on how much you think that part-time workers, gig economy workers and so forth might supply the labour. That is one aspect of it.

The other aspect of it is that, with increasing mobility of capital, firms can shift their productive activities elsewhere. That weakens the bargaining power of workers, whereas previously they knew that the factory would stay, and back in the 1970s they could bargain high wages and all that. That would push me towards making the prediction that I rashly made in the *FT* about thinking that wage pressure would be relatively weak.



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- Q46 **Charlie Elphicke:** Andy Haldane has been saying, "Let us look at what the Agents say around the country". They seem to be more bullish. He has also been saying that maybe we ought to be looking at a bit of crowdsourcing to get the general view from people. What do you make of the fact that the Agents seem to be quite bullish and you now have the Bank's chief economist disagreeing with the doves?

Professor Haskel: There are lots of datasets out there. There is the Agents' dataset. I mentioned earlier on the terrific work that the Nottingham people are doing on the decision-maker panel. They probably have a broader coverage than the Agents, so there may be a bit of sampling going on there. They might get a slightly different view. This is part of what the MPC has to do, right? There are lots of different, confusing datasets out there, and applying professional judgment and weight to the differing signals is something the MPC has to do. I would expect there to be disagreements between reasonable people for that reason.

- Q47 **Charlie Elphicke:** The datasets seem to be revised quite often. The official statistics seem to be revised all the time. They seem to be completely wrong half the time. Why is that?

Professor Haskel: I am going to respectfully disagree, if I may. I do not think they are wrong. Provisional data are introduced, and it is correct that they are revised. It is true that sometimes they are revised because of some error or something like that, but more often they are revised as additional information comes along. That means one should not put too much weight on the very preliminary estimates of GDP that the ONS does, but one should put slightly stronger weight on the other, later estimates that it does, because then more information comes in. The economy is fast-moving all the time. One would not be surprised if lots more information kept on coming in, and that would improve things.

- Q48 **Charlie Elphicke:** Statistics are not wrong; they are just subject to revision.

Professor Haskel: That is correct.

- Q49 **Charlie Elphicke:** Moving on, about forecasting, let us talk about the Bank of England's record on forecasting, which at best can be described as chequered. Let me give you an example. *City AM* back on 13 March gave an editorial: "The Bank's hawkish communication spurred money markets to quickly bring forward expectations of the next rate rise to May. We take a different view. We don't expect the first increase to happen until November", and then more rate rises next year. Given where we are, it seems that *City AM* is better at predicting than the Bank of England.

Professor Haskel: Again, there is a whole suite of models out there. The National Institute has a model that is making various predictions. The Conference Board in the US has a model. They are very bearish. They think the economy is heading for recession, in the Conference Board.



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There is a whole suite of different models out there. Reasonable people might disagree about this. There are just different estimates of the data. We talked earlier about the amount of slack and that kind of thing. We need more timely data. We need data that we can interpret much better, which will not be so subject to types of revision.

There are some exciting data developments going on. I mentioned Nottingham. If you have the ONS in front of you, they will talk about their use of VAT data. All of this is getting a bit better, as we get better datasets to peer through this fog with a little more insight.

- Q50 **Charlie Elphicke:** Do you not think the “maybe, maybe not” creates a level of uncertainty? Have you noticed, for example, the volatility in derivative markets and does that concern you?

Professor Haskel: Yes, sure, uncertainty concerns me because we have a fair amount of evidence, as I said in the questionnaire, that firms faced with uncertainty will probably be delaying their investment decisions. That is not something we want to happen. That is not good for the workers who might potentially work there. We want to make sure that we minimise the amount of uncertainty but, again, the economy is moving. This is what my Imperial colleagues think: if the economy were like a big steam engine, somehow or other, where we could push a lever here, pull a lever there and things would go up, it would all be much easier. Because it is this very organic instrument with firms entering, firms closing and that kind of thing all the time, it is more difficult to predict.

- Q51 **Charlie Elphicke:** Ian McCafferty said to LBC, “If you leave it too late, we may see some pickup in inflation which is harder to deal with”. You are an inflation dove, by your previous comments. Do you agree with Mr McCafferty that there is a risk in leaving it all too late?

Professor Haskel: There is a risk. This is an old Milton Friedman point that, if central banks or Governments react behind the curve, they might make things more volatile than they would otherwise be. Again, once I am at the Bank and see what suite of indicators and so forth they have, I will be better able to comment on exactly what Ian was saying.

- Q52 **Charlie Elphicke:** Finally, you are a productivity expert. There are those who say that low interest rates being so low for so long means there is no pressure on corporate management teams to deliver an equity return, so no pressure on companies, corporate Britain, to strain every sinew to drive productivity. Do you think that the risk of interest rates being so low for so long is actually part of the productivity puzzle and problem?

Professor Haskel: I think that is not the case. If you look at the pace of reallocation there has been in the economy, namely the pace by which firms go in and firms go out, and the disciplining effect, that has been quite strong, even with very low interest rates. Lots of firms have been exiting; it is true that firms have been coming in as well. There is not much evidence to suggest that that may be the case, in fact.



Q53 Chair: I want to tease out one of the points that Charlie has raised. In answer to question 16 on the questionnaire, you had said that, regarding the output gap, the MPC judgment is that there currently around a minus one quarter percent of excess supply. You also capture from the February 2018 *Inflation Report* the equilibrium rate of unemployment, which again I think the MPC estimate to be about 4.25%. I want to press you a bit further. Your appointment as an independent member of the MPC is to challenge. I am not entirely convinced from what you are saying that you necessarily agree with all this. Can you reassure us that you will be there to challenge the MPC on these points if you disagree with them? You are allowed to challenge and disagree with them today in front of us.

Professor Haskel: I completely understand the question. No, absolutely. This is a subject where reasonable people might disagree. There is active disagreement about how much pressure there is in the labour market and what the output gap is. From an intangibles point of view, I would be less worried about the narrow output gap, because the transmission mechanism in an intangible-rich economy may be rather different. No, I will be full of challenge, if that is the word. "Willing to challenge" is a better way of putting it.

Chair: Good, that is what we like to hear.

Q54 Mr Clarke: Mr Haskel, thank you very much for coming in and for such a fun evidence session, as well as a very thought-provoking one. That brings me to the point of my set of questions, which is about how you will communicate with the public and the wider economy. When Silvana Tenreyro came before us, in her pre-appointment questionnaire she said it is crucial for the MPC to communicate decisions in ways that are "relevant and accessible". That goes to your point, I suppose, that we live in the easyJet economy, and about how we reach the users of those kinds of modern companies. To what extent do you think the MPC is succeeding in communicating effectively? If it is not, what would you change about it?

Professor Haskel: Thanks for the question. In my document, under question 9, I reflected a little on communication issues. As I say there, there is a series of formal communication avenues: appearing in front of this Committee and all those kinds of things. I talked earlier on about how I would like to do the schools and make schools a bit of a project. The Bank more recently has been looking at its *Inflation Report*, which is a terrific document, actually. When I say "terrific document", it is a terrific document for people like me and my students who have to read it.

Mr Clarke: Therein lies the risk, obviously.

Professor Haskel: I understand that, to your average person, it is a rather impenetrable document. As I said elsewhere, I am particularly fond of table 5E in the back of the document because it lays out things very clearly, but I understand that your average constituent may not be particularly interested in all that.



That gets to the issue about the use of social media as a broader form of communication, and then making speeches and that kind of thing, which sounds terribly old fashioned but they get lots of communication and so forth as well. I do a bit of tweeting, a bit of blogging and all that. There are purdah restrictions and so forth, so I have to be careful. I am going to go into the Bank and talk to them about what I can and cannot do in that area, but I hope that it will be an area where independent members can do something a little different. The Bank, as I understand it, is trying to move in that direction as well.

The ONS has been very active in this area. They have been making videos. There is a whole project in the ONS for infographics and so forth. There is quite a lot of successful stuff on the ONS side on the infographics. I am not quite sure about the videos. They are a bit expensive. I am not sure how many people watch the videos. There are some exciting areas, which could all be very helpful.

Q55 Mr Clarke: In your questionnaire, you also commented about the potential utility of conditional forecasting—that is to say, if X happened, Y would be an option—but you concluded that the cost of this additional communication probably outweighs the benefits. Can you elucidate why that is?

Professor Haskel: What is tricky about conditional forecasting is that everybody would like a very simple rule that says, if something happens in some other part of the world economy, interest rates will go up or down. But, of course, when we get to that position it will turn out that one thing has happened in the world economy but something else has happened over here: oil prices have gone up or there has been a banking crisis, God forbid, a banking problem or this, that and the other. One is then very often in the world of saying, “Well, I know we said we would change interest rates because X has happened, but unfortunately Y happened as well” and that just ends up confusing everybody. I would prefer to talk about general tendencies and general paths to help consumers plan, as we were saying earlier on, but not to be too definitive, because you just end up disappointing people.

Q56 Mr Clarke: Talking of issues where causation is a moot point, the beast from the east obviously dominated economic analysis over the first quarter of this year. When the Governor was before us, he was quite critical of the ONS and the way in which it had accounted for the impact of the beast from the east. Given that subsequent data appears to have borne out that it may not have been the weather, do you think the ONS was right all along?

Professor Haskel: The form of the criticism was that it was somewhat of a blip and the ONS could have worked a little harder in shoring up that particular form of data. What had not been communicated was that the ONS had done quite a lot of what it calls outlier work. That is to say, when they get unusual readings from firms, they phone up these firms and say, “Did you really mean to say X and Y, because last month you



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said something completely different?" The ONS does quite a lot of checks there. They stood by that type of measure. That is an area where my being on the stats authority, as we said earlier on, may be helpful in improving communications between the ONS and the Bank.

- Q57 **Stephen Hammond:** Good morning and thank you for coming, Professor Haskel. In your response to our questions about quantitative easing, you note the gains to asset prices, but you take the slightly different view from a number of others about the principal effect being on employment and unemployment, and the distributional effects. We have seen a Fed study that suggested that the scale of QE in the US reduced unemployment by about 1.25% to 1.5%. I wonder if you could say how far you think the current record levels of employment or low unemployment are due to QE and what effect QE has had on those.

Professor Haskel: Gosh, I do not think I can give you a point answer of X% or Y%. Again, I am not at the Bank. They have a model, which would tell you this, and other independent people will have a model as well. But I am quite firmly of the view that, in those very desperate conditions around the financial crisis, it looked like we were in a situation where there could have been a vast bank run and many banks would have collapsed.

It is true that, in the run-up to the financial crisis, there was speculative lending going on, but on the other hand companies need credit like we need fresh running water, right? There are perfectly feasible, perfectly good companies that are borrowing and lending all the time. There is nothing wrong with that; there is nothing evil or horrible about that. Once they are unable to do that, that is like cutting off their electricity, and then perfectly good companies go to the wall. Then you have the 1930s situation in the US, which we absolutely do not want to duplicate at all. My general feeling is that, having stopped that situation, that substantially helped the level of employment.

- Q58 **Stephen Hammond:** That explains your comment about the distributional effect, on the basis that it stopped mass unemployment or mass poverty on a 1928 scale.

Professor Haskel: Absolutely. Students of the 1930s, students of the Great Depression, will just be able to tell you about the dreadful experience there was where people lost everything.

- Q59 **Stephen Hammond:** That leads to two follow-on questions. First, on the basis that, when we talk about unemployment or the measurement of unemployment, we have continued record low unemployment levels, and given the view you have just expressed, are those record low unemployment levels a sign that we should now consider unwinding QE more quickly or start in a more aggressive way? Secondly, given your comments about distributional effects, as we unwind, how are you going to stop it happening the other way around?



Professor Haskel: In terms of your first question, the first responsibility has to be what the Government and you in Parliament have given the MPC, namely the inflation target. It is not really a question, if I may say so, about whether unemployment is too high or too low, but, since the inflation target is the priority target, how is inflation doing? That is the decision one has to make. Of course, the two are correlated. Again, it goes back to our nice discussion earlier about how much slack you think there is. I probably think there is a little more slack than others do, again from my position on the outside. That is the first issue. The second issue was about the unwinding.

Q60 **Stephen Hammond:** The second issue is this. Given you have stated the positive distributional effect of QE, what is your view on how to make sure we mitigate those effects on the flipside as we unwind QE?

Professor Haskel: In the way I think about QE, it was a response to the extraordinarily dysfunctional, if I can call them that, capital markets at the time. Those capital markets by most measures are much less dysfunctional than they were. They are much more functional than they were. Therefore, the unwinding of QE, as long as it was not done on too large a scale, and if it were done gradually, would have minimal types of effects.

Q61 **Stephen Hammond:** Would you care to define "gradual"?

Professor Haskel: There are two issues about "gradual". First, when does it start and, secondly, how quickly does one do it? As for when it starts, I know the Governor has been talking about it starting at a bank rate of maybe 1.5% or 2%. That is not for a while. In terms of how quickly one does it, I would have to look more closely at the composition of the balance sheet, and there is a whole string of assets owned in different ways. I would have to look at that before coming to a more informed view about how quickly one would have to do it.

Stephen Hammond: I suspect we will return to that in your next appearance, if I may say so.

Professor Haskel: Sure.

Q62 **Stephen Hammond:** In terms of your comment on the dysfunctionality of equity markets and bond markets, you are right that they are more functional, but to what extent do you think QE is propping up the prices of those markets and the asset values in those markets at the moment?

Professor Haskel: It is proceeding at less of a pace than it previously was. There is less of a propping up going on, but that is its purpose. Its purpose is to prop up these markets. I am sure it is having some effect.

Q63 **Stephen Hammond:** Alongside QE on a gradual basis, whenever that starts and however long it lasts, we should expect asset prices to decline.

Professor Haskel: Relative to what they would have been, exactly, yes.

Q64 **Stephen Hammond:** Finally, in terms of the US, we have seen an



experience in the US where there is some indication that even the start of QE has seen some movement in yields.

Professor Haskel: Yes, it is very disruptive.

Q65 **Stephen Hammond:** How are we going to stop that? How are we going to prevent that? What would be your advice to the Governor as you enter for preventing that as we do the same thing in the UK?

Professor Haskel: That is a good question. Again, because I am not at the Bank yet, I am not privy to all the information they have, but it just shows you how cautious one needs to be. It goes back to the issues of communication that we discussed as well, about market expectations. The Bank has to be very, very careful in engineering all this right.

Chair: Professor, thank you very much indeed for taking our questions this morning. It has been a very interesting session. I want to strongly encourage you, on that last point about communication, to think about what you as an independent member can bring to communicating the MPC's work and the decisions that it makes. In my experience, I would not ask a big institution, "Is it okay for me to tweet?"; I would say, "I am going to tweet. Tell me if there is a problem". Thank you very much indeed for your time this morning. It is much appreciated. We are going to change over the panels. Mr Fried is going to join us at the front. Thank you for your time.

Professor Haskel: Thank you very much. Thanks, everybody.