MERIDIAN180 *Transformative Leadership*

Meridian 180 Forum: Central Banks in Question(s)

Introduction, by **Annelise Riles**:

This morning the news flashed across our iphones and blackberries that six central banks have taken coordinated action to reduce interest rates even further in an effort to keep events in Europe from spiraling into yet another financial crisis. Whether or not this intervention will have lasting effects on financial markets, it draws attention once again to the sometimes heroic, sometimes maligned agency of central banks, both individually and collectively, in global financial markets. From Occupy Wall Street to End the Fed, to cite just two American examples, forces on both ends of the political spectrum deride the central bank as a politically illegitimate technocracy guilty, variously, of incompetence or political capture. At the same time, the editorial pages of newspapers around the world are full of essays imploring central banks to act--individually or collectively--and casting the central bank as the best last hope for averting financial crisis.
Given the significance of the debate about the place of the central bank--and by extension, the state as a whole--in the market, and given the range and complexity of the issues, it is exciting to witness a dramatic expansion of the range of ideas about what central banks do or should do, and of the range of methodologies for studying central banks. In the coming months, we hope to host a conference that will pull together some of this emerging depth and diversity of thought--both in the academy and within central banks themselves. However, we thought we should begin by gathering our collective wisdom about the key issues that deserve attention. So here are a few questions: What do you find most interesting, most challenging, or most deserving of study right now about the work of central banks, or the place of central banks in politics and markets at this moment? What kind of work do you wish were available? What kinds of partnerships or collaborations are needed? What are the most significant policy questions, and how should we approach them? What have we learned about central banks, and how has the political or methodological consensus shifted, since 2008? What does all of this imply about the future of scholarship in this area, or about the relationship between academics, social movements and policy makers at a time of market instability?

Anna Gelpern
11/30/2011

The latest round of crises in the United States and Europe have tested core premises of central banking, from the distinction between monetary and fiscal policy, to the role of the lender of last resort, to central bank independence. Central banks have also become politically exposed: emerging from decades as the nearly-invisible technocratic center, they have drawn public anger from all along the political spectrum. Central banks are alternately Superman, who alone can save the world from systemic catastrophe, and Lex Luthor, a corporate villain intent on world conquest.

Often missing in the turn from invisible to hyper-exposed is a detailed interdisciplinary account of what a modern central bank does and should do in the world of integrated finance, and why. Is the apparent erosion of the boundary between fiscal and monetary policy (for example, when central banks buy risky assets and government bonds) new and permanent, or temporary, and part of the established crisis response repertoire? Is the distinction between liquidity and solvency for the lender of last resort still useful? Was it ever? Is it the job of a lender of last resort to take “tail risk” out of the system? What is the proper role for central banks in macro and microprudential regulation? And where central banks are in the business of conditional lending to distressed governments (as in the ECB and Italy), does this work bolster or undermine the rationale for their political independence?

Katharina Pistor
11/30/2011

Independent Banks as Governors of Interdependent Financial Markets?: A Critical Comment and Suggestions for Alternatives

In a recent paper, Claudio Borio of the Bank for International Settlement in Basel argues that central banking faces major challenges in the post crisis world, among them global financial inter-linkages and central bank independence.[1] He suggest that the regulatory philosophy that has informed the pre-crisis world assumed that keeping one's own house in order would automatically generate financial stability for all – but that the global crisis has proved this assumption wrong. Instead, he argues for a stronger top down approach to deal with financial interlinkages while attempting to preserve, if not strengthen, central bank independence.
While I agree that a "purely country-centric" approach is inadequate[2] for a global financial system with deep interdependencies, I fear that a top down approach does not sufficiently address the diversity of economic and financial systems, institutional prerequisites and risk preferences of countries around the globe. And while I share concerns about political backlashes against central bank independence in the aftermath of the global crisis, I am equally concerned about global governance by technocrats that are by no means neutral yet lack accountability to those who will be affected by their actions. I therefore suggest that governance of the global financial system must ultimately be anchored in political governance. Political governance should not be hierarchical, but horizontal, with a coordinating agent, or anchor tenant, at its core.
In the eyes of some we have already entered the brave new world of global governance by central bankers, not elected politicians.[3] The political deals used to hastily stitch together the Eurozone whenever pressure mounts has allowed the currency area to stumble on without major ruptures, but has not amounted to a lasting repair. The responsibility for creating confidence and stability in the currency union has instead squarely rested on the shoulders of the ECB. Similarly, as the representatives of the G20+ squabble about the technicalities of micro-prudential regulation, the major 5 central banks (the US Fed, the Bank of England, the EBRD, the Bank of Japan, and the Swiss National Bank) have intervened decisively to avoid a liquidity crunch in light of the European sovereign debt crisis in late 2011.[4]

One might conclude from this that global financial governance should be left to the technocrats, as politicians are apparently unable to respond effectively even in the face of major financial and economic threats. National, even subnational elections trump any concern for transnational financial markets for politicians that have grown as short-termish as the markets they are trying to tame.[5]
It is certainly true that central banks have done extraordinary things during the global financial crisis[6] and that absent their innovative approach we might well find ourselves in a global depression. However, their actions are not as closely associated with the global public goods as the banks themselves would like to portray it.

The club of the 5 major central banks delivers mostly club goods, not global ones. They do what needs to be done to keep afloat the financial systems of the countries they serve. In this context, they are willing to help each other out and occasionally to extend their largess to selected emerging markets – with the emphasis on “selected”. Brad Setser captured this in a heading for one of his blogs, “Where is my swap line?”[7] He points out that a major reason for the US Fed extending swap lines to Europe was the fear that dollar liquidity in Europe may have adverse impacts on the US economy.[8] Other countries with less impact on the US system were also scrambling for dollar, but did not benefit from the Fed’s generosity in the same manner. This and other episodes suggest that central banks are ultimately agents of the economies, and by implication, the political systems they serve. Their actions have distributional effects both domestically and globally, even if they are couched as technocratic in nature.[9] The struggle about the role of the ECB in the Eurozone crisis can therefore at least in part be understood as a struggle over which of the economies of the Eurozone it should serve more: Germany or the countries struggling with a major sovereign debt crisis. Every decision with distributional impact is political at its core – it determines the relation among individuals and entities. The question therefore is not whether global governance should be left to technocracts or politicians, but who should be calling the political shots.

Whether the global financial system would be served better by a hierarchical governance structure or by a more decentralized one is a closely related issue. A hierarchical structure erected at this point in time will reflect the current geo-economic and geo-political relations – i.e. it would benefit the powers that are, not the powers that be. There is no better example than the IMF, which still reflects global power and economic structures at the end of World War II. The organization has been unable to transform itself in light of globalization as suggested by the timid voting reforms as well as by Europe’s continuing stronghold over selecting its managing director.

The Financial Stability Board under the auspices of the G20+ could have emerged as an alternative – and is arguably still the greatest hope for one. However, not only does it lack resources, it has also tied its own policies closely to those of the IMF, the World Bank, and the OECD – i.e. organizations that created the best practice standards for financial governance in the years prior to the global crisis. The FSB is therefore in danger of perpetuating the silo approach that has demonstrably failed in the global crisis. It is based on the assumption that if only all countries adhered to ‘best practice’ standards the global financial system would be safe for all. As Borio suggested in his piece, the 2008 crisis has blown a hole into this assumption.
Where to go from here? I would suggest that the FSB is the right organization to start. Its members are countries and their (mostly elected) representatives. It should set the broad parameters for global financial governance within which central banks will operate – but it should not leave these decisions to the central banks alone.

To accomplish this task, the FSB should move out of the shadow of existing institutions and assert an independent role as coordinator, or anchor tenant[10] of the global financial system.

Specifically,

· The FSB should focus on the vulnerabilities in the evolution of financial systems. It should monitor actual market development to identify where such vulnerabilities arise; announce publicly when market developments reach a level of heightened concern; and mobilize central banks, regulators and other stakeholders that are implicated to develop strategies in response.

· It should reject excessive standardization of financial regulations. History suggests that no set of predetermined regulatory standards can save a system from the next crisis. In fact, the homogenization of regulation creates similar vulnerabilities to crises everywhere. Instead, it should encourage the development of different regulatory standards that fit diverse needs and preferences.

· The FSB should pay specific attention to those countries that are unable in the event of a crisis to bail themselves out. It should encourage countries with little tolerance for financial volatility to develop regulatory strategies that aimed at enhancing financial stability. It should advise similarly situated countries to coordinate their actions and help design insurance strategies for them.

· It should have access to information about financial market development collected by member states and international organizations. The FSB may request additional and ask member states to obtain additional information from regulated entities under their jurisdiction if this is necessary for it to carry out its task.

· The FSB should hold regular meetings with central bankers, regulators and regulated industries in different market segments to discuss trends in market development and assess their impact on the stability of the transnational financial system.

· The FSB should develop a rapid response system to emergent vulnerabilities and/or crises. When the FSB makes a determination about financial market instability threats, it should convene central banks and regulatory authorities with a stake in these markets as well representatives from the countries' fiscal authorities and central banks. The FSB should conduct stress tests on the basis of existing data and present the results of these stress tests to the relevant authorities.

· The FSB should convene separate meetings with banks and other financial intermediaries that are implicated by a looming crisis to develop a private sector response strategy. It should encourage private and public sector to convene joint meetings to promote effective crisis resolution.

· The internal governance structure of the FSB should combine elements of continuity and change. The FSB needs to maintain relations with key stakeholders, which requires continuity. However, routinized bureaucratic structures are unlikely to spot non-routine events. The FSB should therefore foster disruption in the ways in which it analyzes market development. The diversity of membership and different risk preferences should be reflected in the composition of the FSB's governance structure.

Claudia E. V. Borio, Central banking post-crisis: What compass for unchartered waters?, 2011 BIS Working Paper (2011).

Maurice Obstfeld, et al., Financial Instability, Reserves, and Central Bank Swap Lines in the Panic of 2008, 99 American Economic Review (2009).

Brad Sester, Where is my swap line? And will the diffusion of finanical power Balkanize the global response to a broadening crisis?, 2008 Council on Foreign Relations Follow the Money Blog (2008).

Greta A. Krippner, Capitalizing on Crisis (Harvard University Press. 2011).

Katharina Pistor, Governing Interdependent Financial Systems: Lessons from the Vienna Initiative, 2 Globalization and Development (2011).

[1] Claudia E. V. Borio, Central banking post-crisis: What compass for unchartered waters?, 2011 BIS Working Paper (2011).

[2] Ibid at p. 7.

[3] See Perry Mehrling, “Lords of Finance Redux: Forget the G7, Watch the C5”. INET Money View Blog, available at http://ineteconomics.org/blog/money-view/lords-finance-redux (last visited 1 November 2011).

[4] See Ralph Atkins, Richard Milne and Alex Barker, “Central banks act to help Europe lenders”, 15 September 2011, available at www.ft.com (last visited 1 November 2011).

[5] Recall that Chancellor Merkel attempted to delay the first response to the unfolding crisis in Greek because of elections in the state of Northrhein-Westfalia. See Nikolaus Kulisch, “Merkel Tested as Escalating Greek Crisis Hurts Euro”, the New York Times, 28 April 2010. Available athttp://www.nytimes.com/2010/04/29/world/europe/29germany.html (last visited 1 November 2011.

[6] Maurice Obstfeld, et al., Financial Instability, Reserves, and Central Bank Swap Lines in the Panic of 2008, 99 American Economic Review (2009).

[7] Brad Sester, Where is my swap line? And will the diffusion of finanical power Balkanize the global response to a broadening crisis?, 2008 Council on Foreign Relations Follow the Money Blog (2008).

[8] He suggests that a shortage of dollars would force banks to use euros to by dollars thereby pushing up the value of the dollar and hurting the US exporting industries, or would force them to sell US assets thereby hurting US entities that hold similar assets.

[9] For a brilliant analysis of the Fed’s struggle to neutralize its policies in the eyes of the American public, see Greta A. Krippner, Capitalizing on Crisis (Harvard University Press. 2011).

[10] See Katharina Pistor, Governing Interdependent Financial Systems: Lessons from the Vienna Initiative, 2 Globalization and Development (2011).for a detailed exposition of this concept.

MERIDIAN180 Transformative Leadership

Vincent Antonin Lepinay
11/30/2011

NB: I took the call for a risky and tentative line of investigation literally. Not to be circulated beyond the circle of participants.

Over the past few years, a series of transformations have changed the landscape of central banks (CB) and their ability to control the accessibility of money and the value of national currencies in relation to competitors' currencies.

The emergence of sovereign wealth funds (hereafter SWF) is one of these major transformations. In question with these funds in their relations with central banks is the motives of their investment. Strange public funds, responding primarily to their state government policies rather than to the dogma of profit maximization, the sovereign wealth funds blur the line between finance and nation states.

I propose to analyze the current controversy over the (de)stabilizing role of SWF in relation to the sovereign prerogatives of currency management.

If the role of the CB has evolved over the past few decades - and more still if we look at this question since the creation of the federal reserve system - the monopoly of power created by the invention of the central bank system is functionally tied to the sovereign's right to define the currency of the State. This is an essentially political power granted by the sovereign and it defines the kind of value redistribution between generations and classes - rentiers and laborers. It also crucially defines how much the current generation is ready to pay in order to build and maintain the economy for the coming generations.

If the prerogatives of the CB are highly political - as they define our common good and our futures - the definition of the value of our national currency is now highly dependent and contingent upon other sovereign political entities endowed with a currency.

SWF are attacked for the confusion that they usher and for the disruption of an economic game that was described along the following lines:

-The Nation States defend their sovereignty by setting – when they can and through collective agreements or by twisting a few arms when necessary – the relative value of their currency. Practically, CBs in close conversation with their treasury departments, balance the domestic currency exchange rate with competing currencies.

-At the other end of the table, private actors fight with each other in a pre-established frame. Clearly, one of the outcomes of these battles is the shifting of the frame itself in response to the demand for currencies. But, the story of the fair game goes, private actors do not rig the game and they do not use their power to manipulate on purpose the conditions of the economic game, i.e. the relative value of currencies.

The outrage and fear that SWFs have triggered – particularly CIC and the gulf countries' – has a lot to do with that division of prerogatives which itself follows the lines of sovereignty.

How do CBs respond to the challenge to sovereign currencies? This question may easily read as deeply naïve. We have indeed witnessed a series of attacks against sovereign currencies by a host quasi-private financial institutions – either major equity funds or investment banks – in coordination with the US - and to a lesser extent European - monetary authorities. In totally opposite but similar -as per the consequences- ways, the use of a sovereign currency by other nations can turn it into a global currency, and turn the tools of the CB inefficient to control it. The euro dollar and the early 70s crisis of convertibility reminds us that becoming global is a mixed blessing when it entails more than sharing a unit of account.

More crucially, how do we think of sovereignty without the intellectual safety net of CB?

Peter Spiegler
11/30/2011

From the point of view of economic methodology, one of the most important lessons to emerge from the recent financial crisis is that current macroeconomic theory—including our models of central banking—has an inadequately nuanced conception of information and uncertainty. Specifically, while models of central banking are keenly focused on the role that information and uncertainty play in the functioning of central banks and their impact on the economy, there is insufficient attention paid to understanding what counts as "relevant information," who determines this, and how this changes over time.

Let me be concrete by differentiating between two classes of uncertainty that are relevant to the study of central banks. First, there is the uncertainty associated with the strategic and tactical decisions of central banks. Strategically, a bank may decide to take an accommodative stance or a conservative stance with respect to interest rates, for example. The question of which of its tools to use in operationalizing the chosen stance is a tactical choice. Uncertainty about these choices affects (among other things) asset and goods prices, and so macroeconomic models in which asset and goods prices play a role will need to include assumptions about how expectations about central bank strategy and tactics are formed. The current toolkit of macroeconomics offers the economist a couple of choices in representing such expectations—the rational expectations approach, in which agents efficiently incorporate all relevant information at time t into their expectations at time t; and the behavioral approach, in which agents are allowed to deviate from omniscience and perfect rationality, though only in ways that are systematic and mathematically representable. Significantly, however, beyond choosing from this existing toolkit, there is generally little if any attempt to justify agents' expectations about central bank actions with information about the particular characteristics of the central bank in question. This is the second kind of uncertainty: uncertainty about the manner in which the central bank staff comes to its strategic and tactical decisions. Certainly, there are economic models of bureaucratic decision-making, but what I have in mind is much more fine-grained and context-specific—not merely a rational reconstruction of a generic central bank bureaucracy, but an exploration of the culture of the central bank. Verstehen rather than Erklären, in other words.

It is important for economists to understand and explore this distinction, especially in light of the discipline's recent failure to adequately foresee and understand the financial crisis and its aftermath. Specifically, it is important because the actions of the bank during times of crisis (and ex ante expectations of what such actions will be) form a part of the information set that is relevant to the actions of economic agents during stable times. As such, economists need to have a deep enough understanding of central bank functioning that they can create plausible models of individuals' expectations about central bank reactions to crisis. Some economists have claimed, recently, that the failure of macro models to predict or provide guidance about how the economy would function during the crisis was not actually a failure of the models, because the models were always and only meant to be models of ordinary economic times. (See, for example, the comments of recent Nobel Laureate Thomas Sargent in The Region, a publication of the Minneapolis Fed: http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4526). But this is precisely the kind of mistaken logic that makes it clear just how important a deeper understanding of central bank functioning is. The importance of expectations in macroeconomics models (including those of Professor Sargent) erodes the distinction between ordinary times and times of crisis. Individual actors' expectations about how the bank will operate in times of crisis influences their behavior in ordinary times. Understanding how something will function in extraordinary times requires a much deeper knowledge than that necessary to understand how something will function in ordinary times—when your car is working well, you only need to understand the gas pedal, brake and steering wheel, when it breaks down you'll wish you knew something about the stuff under the hood. In light of this, economics' generic models of central banking will not suffice. What is needed is an understanding of the ethnographic landscape of central banking—the nature and extent of the central banking community, its connections to other communities and knowledge practices, its ethos and intellectual foundations, its norms and rituals.

Such work is certainly not a requirement of good economic practice, according to the discipline's current norms. And, not surprisingly, one rarely sees this kind of exploration in economic work on macro-finance. (Two interesting exceptions are Ilene Grabel's work on the IMF and Truman Bewley's work on the price level). Fortunately for economists, however, there is plenty of interesting work in this vein going on in anthropology—notably, the work of Doug Holmes and Annelise Riles. In my opinion, it is absolutely essential that economists pay close attention to this work and consider how we might incorporate such methods into our own future analysis of central banks, and the macroeconomy more generally. This workshop can be a golden opportunity for economists to learn how to begin this process.

To be specific, with respect to suggestions for the workshop, I would be most interested in hearing—both from practitioners and anthropologists who have done field work in central banks—about the decision-making processes of central bank staffs. For example: (1) What kind of information about the economy do they actively seek out and what methods do they use to obtain it (e.g maintenance of quantitative databases only vs. direct, more informal contact with economic agents)? (2) How much (and what kind of) interaction is there between the central bank and its member banks—both during normal times and times of crisis? (3) How much (and what kind of) interaction is there between the central bank staff and political lobbyists? (4) How would one best describe the professional culture of the bank? Legal? Academic? Commercial? Is this a deep institutional fact or does it vary? (5) Is there a specific, ongoing crisis planning process? If so, who is involved and what is the structure of the discussion group? (6) What do the practitioners think about economists' models of central banking?

These are just a few suggestions. I look forward to reading the contributions of the other forum participants.

Douglas R. Holmes
11/30/2011

Intelligence: “Lateral or side-by-side thinking”

“What about the following? ‘To help pay for the war would you rather (a) have higher prices (b) have higher taxes (b) have part of your wages saved for you till after the war?’ The point one really wants to get at is this. Let us suppose that a given sum has to be got somehow out of wage earners which we might put at 5s [shillings] a week from a man earning £3 a week, 10s [shillings] from a man earning £4 a week, 18s [shillings] a week from a man earning £6 a week and so on. Obviously this is a pretty steep figure. Would it make a great deal of difference psychologically if, instead of being taxation, this was to take the form of deferred pay? In other words would the offer of deferred pay mitigate the considerably the psychological blow, or would it make, as some people say, precious little difference? If you could, particularly in cases you interview yourself, try to elucidate this by means of some of your characteristic dialogues, one might get some faintly better indication that the views of gents who never meet any of those concerned” (letter from J. M. Keynes to Charles Madge, a founder of Mass Observation, 1 November 1940, Economic Articles and Correspondence: The collected Writing of John Maynard Keynes 1983: 823).

I have been studying a surveillance system employed by the Bank of England to assess current economic conditions. The system consists of a small number of bank personnel who manage a network of contacts in the field using essentially ethnographic methods to glean information. Contacts provide intelligence on the major sectors of the UK economy for the deliberative work of the bank’s Monetary Policy Committee. Part of the intelligence gleaned by the network covers financial issues, notably the availability of credit. With the creation of the bank’s new Financial Policy Committee earlier this year discussions have begun about expanding the operation of the current network to cover issues of financial stability or, alternatively, creating an entirely separate surveillance system for that purpose.

The following excerpts are drawn from a manuscript that examines elements of the Bank of England’s system for gathering and interpreting economic and financial intelligence. What I have been interested in is the role of the regulator rather than regulations themselves. I am particularly interested in the strategies by which regulators gather and interpret information.

What follows are my reflections on the “lateral or side-by-side thinking” that plays decisive role in the regulatory operations of the Bank.

The Bank of England has a small staff of regional agents that is continually assessing business conditions in the field. The bank has 12 Agencies operating across the UK reporting inferentially on the current state of economic conditions with particular attention to distinctive characteristics of the respective regions as well as relation of these regions to the UK economy as a whole. Agencies are located in Central Southern England, the East Midlands, Greater London, the North East, the North West, Northern Ireland, Scotland, the South East & East Anglia, the South West, Wales, the West Midlands & Oxfordshire, and Yorkshire & the Humber. They are staffed by an agent, one or two deputy agents, and a small number of support personnel. Along with a coordinator based in London, the agents manage what is regarded as the most sophisticated network for gleaning contemporaneous information on the state of the economy of any central bank in the world.

Although the Bank has had regional agents pursuing intelligence work since the early nineteenth century when it operated a system of branch banks, the current structure dates from September 1997 when agents' assessments were introduced into the Monetary Policy Committee (MPC) process. This happened shortly before the MPC was given full responsibility for determining monetary policy and when inflation targeting was instituted as the bank's official policy framework (Bank of England Act 1998).

The agents and deputy agents are typically senior economists, often with extensive experience in other divisions of the bank from financial stability to information technology; they understand the language of monetary policy and the analytical assumptions of macroeconomics. What they are called upon to do within this system is different; it demands that they adapt their training and experience for the purposes of an experimental field science.

The "network" is composed of approximately 6,000 contacts in the business community and 700 or so of these contacts are interviewed each month. The contact pool is selected "with a cross-section of companies in terms of sector, location and size, in order to get a reasonably balanced view of the latest economic development." And because the Agents hold fairly lengthy discussions with their contacts, they can provide some real-world insight into recent developments. They also gather information on future prospects" (Ellis & Pike 2005: 424). There is of course an amplification effect that ramifies across this communicative field. Each of the 6000 contacts, the moving parts of the apparatus, are continually in conversation with scores of their own contacts, creating an enormous network of secondary and tertiary actors that extends the field of intelligence gathering far beyond the shores of the UK yielding a system for gleaning information with a global reach. The work of the agents is, then, is to regulate the information that flows through this circuitry. The results of their confidential interviews are scored and summarized each month in Monetary Economic Reports (MERs) and then encapsulated by the Agencies Coordinator in a concise briefing document, "Agents' Summary of Business Conditions," and presented for discussion at the pre-Monetary Policy Committee (MPC) meeting scheduled just prior to the committee's monthly deliberations on interest rates. The summary is subsequently published along with minutes of the MPC meeting.

The network also generates acute representations of economic conditions and the contexts within which those conditions take shape. The system amasses the analytical work of individual contacts, realigning their intellectual practices—focused, in the first instance, on maintaining the health and managing the viability of their own businesses—and putting them at the service of the Bank's Monetary Policy Committee. Rather than merely abstracting economic behavior, the interviews capture those ideas, those metaphors, and those calculations that are making the economy as a vibrant and tangible empirical fact.

The agents are also the official representatives of the bank and as such they communicate bank policy and bank insights on the state of the economy to the business community by way of these direct conversations with contacts. They also convey bank policy to the public through rounds of speeches and presentations to business and other groups in their respective regions. Visits by senior bank officials also provide occasions for speeches and meetings that further the formal communicative and pedagogic function of the Agencies and the Bank. Hence the agents are deeply integrated in the continual exchange, refinement, and shift of ideas that animate the British economy.

Typically, the agents visit their contacts alone or with a deputy agent or, occasionally, with the agents' coordinator, and they also periodically have a senior official of the bank in train. Each member of the MPC accompanies agents on an average of three times per year and the Governor, Mervyn King, accompanies agents on six of these field visits. Thus, the most senior officials of the bank periodically travel to various sites across the UK participating actively in the interviews with contacts. Even in their absence, the agents feel the presence of the Governor and MPC members who loom symbolically over all their interviews as the audience for their intelligence.

This economics of "walking about," as David Blanchflower, a former-MPC member termed it, allows the representatives of the bank to put aside the stochastic armor of an econometric pseudoworld of quantitative modeling in order to do "battle with evidence from the real one" (Summer 1991, quoted in Blanchflower 2007). Policy makers find the information exchanged in these meetings compelling not merely as some kind of idiosyncratic, anecdotal material, but as information that has a distinctive integrity in its own right. The process is crucial: policy makers participate both directly and vicariously with the network as an apparatus for learning. What does that mean?

The agents typically develop via phone calls and email exchanges an agenda in advance of the meetings with a contact whether they are a large manufacturer, medium size real estate developer or any one of a variety of retailers. However, as agents were quick to point out to me, contacts are by no means restricted by these agenda and they are often eager to direct the discussions about their businesses in directions that they feel are significant, if not urgent. Far from being perturbed by the initiative taken on by their contacts, the agents think that it is in precisely this manner the creative potential of the network is cultivated. Indeed, it is the potential of contacts to portray their business predicaments on their own terms and in unforeseen ways that gives this information gathering arrangement its vitality. Contacts can expand the parameters of the economic discussions in a manner that can, and has, captured emergent conditions.

There are two major historical insights or discoveries that the network is credited with capturing. In the mid-1990s during a period of unanticipated price moderation the agents were able to provide a compelling explanation. Their contacts were telling them that their costs were moderating because of China. This was at a time when there was little statistical evidence and a general skepticism among economists that Chinese suppliers could influence global prices because of the then relatively small size of the Chinese economy. The consistent articulation of this fact on the part of a range of contacts was increasingly persuasive to the agents and they in turn were able to convince members of the MPC of this reality long before it became a widely understood phenomenon.

Similarly, early in the last decade the unexpected moderation in wages across the UK was explained by contacts in terms of new patterns of immigration from Eastern and Central Europe. Immigration from the new accession countries of the EU expanded available labor, most notably in the booming construction industry, thus stemming constraints on the labor market that would otherwise have led to upward pressures on wages and prices. Again, what at the time remained an inchoate shift in the dynamics of the UK labor market was not fully evident from the standpoint of conventional statistical measures and yet it was strongly expressed in the accounts of contacts in the field. In both instances it was the contacts themselves who took some of the initiative of persuading the agents and the bank of decisive shifts in economic conditions that were, at best, dimly evident statistically or entirely invisible (Blanchflower et al 2007).

These two historical calls raised the visibility and the credibility of the network, however, as the financial crisis unfolded in late 2008 the agents' role and the value of the network was further enhanced. The requirement for up-to-date information to inform policy decisions, the need for refined appraisals of expectations and outlooks, the demand for information on credit conditions, on balance sheets of businesses, on wages, on prices and, crucially, on employment could be accessed directly within a relatively short period of time via the operation of the network generating an abundance of information and creating intricate representations of an economy in sever disequilibrium. But the network had another important dynamic, it could be employed to pursue specific questions in "real time," it could be used to systematically question businesspeople in the midst of the crisis.

Apparatus of experience

Notably, for this study, the agents periodically meet among themselves for the purposes of discussing their substantive insights as well as their technical problems, but also for the purposes of improving their analytical modalities. The agents are responsible for the design and continual refinement of this investigative apparatus. Faith in the apparatus's potential depends on its ability to wire into research enterprises of their contacts, whether for a chain of hair salons or a multinational aerospace corporation. Each contact has their own system—methods and epistemologies—for pursing an understanding of this situation, for research that is continually being crafted in the service of their own firm's economic interests within specific competitive markets and across particular social fields. It is this labor, at once analytical and creative that the agents seek continually to assimilate and to report.

Each month the agents rotate responsibility for drafting a list of "Hot Topics," that is circulated internally, listing emerging issues that might be of interest to the Monetary Policy Committee in the near future. The document runs about a page in length and it gives insights on what the agents are beginning to pickup as potentially valuable intelligence on the state of the UK economy. Some of these questions are subtle and some are obvious. An aside from the list compiled in July 2009, a period of painful disruptions, broached the paradigmatic question: "One theme of recent MA [Monetary Analysis] is that employment has not been cut as far as past experience might have suggested given the contraction in output seen so far. Does this fit with contacts' experience?" What does "experience" mean here? As we will see, experience licenses knowledge production in which the distinctive intellectual capacities of contacts are mobilized.

Ronnie Driver, then Coordinator of the Agents, noted that the members of the MPC found visits with contacts compelling because they could "interrogate" businesspersons, they could address questions directly to those actors engaged in the decision making in real time, decisions that would further shape economic conditions going forward. This coincides with the excitement that Tim Besley expressed earlier about his anthropological forays during his tenure on the MPC when he could observe how business people were modeling the economic crisis from the standpoint of diverse micro-circumstances and situated predicaments. Interviews in the field provided a means to enter, as it were, the creative field of economic action where the cognitive labor of the economy is performed. The interrogation process assimilates the experience, motivation, outlook and analysis of contacts, imparting their intelligence to the members of the MPC. The network provides the circuitry to engage the decision-making dynamics that animate the economy, the reason and unreason that impels economic action. A simple interrogative stance defines this remarkable intellectual apparatus.

The dialogic is straightforward. Faced with a particular firm planning to lay-off staff, an agent—or the MPC member accompanying the agent—can ask, why? What are the specific contingencies that make layoffs necessary? How might conditions worsen or improve? Numbers and measures inform these dialogues, but they are continually modeled from specific contexts perceived from the particular perspectives of “situated actors” operating in particular businesses and under the sway of specific industrial conditions. What is the quarterly decline in sales? What are the monthly increases in prices? What are the costs that determine employment decision? In the midst of the crisis it was this kind of information, not fully or necessarily available in the standard statistical data series, accounts that captured the context and motivation of decision making, was vital in the formulation of policy. Agents, thus, participate in this ongoing experiment in making the economy speak, by way of an immersion in this communicative network, employing something that approximates a natural language as a dynamic analytical idiom. Put reciprocally, given that the economy depends on the continual, incessant generation of information for it’s functioning; the network taps into this circuitry for the purposes of crafting policy.
More formally, the members of the MPC pose particular questions for the agents to pursue more or less on a monthly basis with their contacts to help elucidate ambiguities in the quantitative data and/or to address particular pressing concerns. In June 2010 the subject was “profit margins” and the agents drafted a questionnaire to be administers to contacts during their visits and reported the following month to the MPC.

I met with a group of agents who were gathering in Crewe, Cheshire to discuss, among other things, the profit margins survey. Rosie Smith, Agent for the North East, had designed the survey, John Young, Agent for the North West, and Neil Ashbridge, Agent for Wales, described how the interview process worked.

The survey covered four broad questions. Most prominent was the direct question “How would you describe your current gross profit margins?” With entries for “Well below ‘normal,’” “A little below ‘normal,’” “Around ‘normal,’” “A little above ‘normal,’” and “Well above ‘normal.’” This questionnaire further elicited information on those factors influencing gross profit margins—changes in demand for the products or services of contacts, changes in competitive environment, change in the value of sterling, and changes in the cost and availability of credit. Two other questions ask how per unit cost of sales, product prices, and gross profit margins changed over the prior year and how they are expected to change in the ensuing year. Each question could be answered by merely checking a box, but the assumption was that contacts would have more to say and that the survey could accommodate this information. They knew that they would glean from contacts the connective tissue linking these issues together and contextualizing them in relation to the size of firms and circumstances of particular industries. With a survey covering a single sheet of a paper, vital and extremely timely information was generated for the MPC.

Observational system

From my interviews with agents, particular Neil Ashbridge, Chris Piper and Andrew Holder, Agent and Deputy Agent respectively for Central Southern England, as well as Ronnie Driver, these are what I think are some of the implicit assumptions that underwrite their reporting activity, how the agents and their coordinator make the incessant talk and crosstalk that accompanies just about every aspect of economic action, informative for policymakers. In other words, this is my shorthand of what the agents overhear, the substance of economic life they have access to.

1. The agents' contacts are creating economic reality they are not mere data points. Interviews provided a means to engage the cognitive labor that shapes the judgments by which the economy is created and performed.

2. Context matters. The economic insights that agents glean retain contextual information, retain perspectives, and retain experience as relevant analytical material.

3. Planning is continually refined and modified prospectively by contacts. Future oriented action—intentionality—drives conversations.

4. Unprecedented circumstances are addressed descriptively by contacts; new ideas and new metaphors are continually generated.

5. Contestation and disagreement are treated as inherent in conversations among contacts. Multiple perspectives are always in play and consensus is fleeting and potentially misleading.

6. The economy is made plausible from the standpoint of countless actors across an analytical tableau of variable dimensions—moving among local, regional, national, and global scales of reference—within which creative and destructive scenarios unfold simultaneously.

7. Learning and circumspection are integral to economic life and the plasticity of economic phenomena is manifested in every aspect of this observational system.

Agents are confident that they have access through the network to the structure of motivation, the finely tuned analytical process by which the economy is modeled in the field. They also know that the recovery of the British economy depends on the creative exploits of their contacts and the broader constituencies they represent

Minoru Aosaki
12/04/2011

The Objectives of Central Banks

What should central banks do? – Before we answer this, we need to think about the objectives of central banks. In fact, it seems that central banks have objectives more than their traditional one of price stability. For example, the FRB now holds a large amount of mortgage-backed-securities (MBS) as well as government bonds; the Bank of Japan holds stocks purchased from commercial banks, which have not a little influence on its own income or expenses. It looks as if these central banks begin to assume risks of financial system in place of financial institutions.

If central banks have more than traditional objectives, my concern is that it may become more vulnerable to political pressures and may harm their independence even in the decision of monetary policy. For example, there is a view that one of the causes of the recent financial crisis was the influence of politics on the FRB's monetary policy. Professor John Taylor of Stanford points out that FRB should have raised its interest rate in early 2002 if it followed a theoretical rate led by changes in inflation and GDP gap (the Taylor rule), but it was not until June 2004 that FRB started to raise interest rate, which caused monetary excesses during the period. Professor Raghuram Rajan of Chicago argues this delayed decision was due to the political pressure from the Congress, when unemployment rate remained high.

For this reason, it would be interesting to ask i) whether central banks should (or are required to) expand their objectives to become a "Superman" in a time of crisis, and if this is the case, ii) what risks central banks will assume in terms of economic, political, and institutional contexts.

Diversity of Central Banks

It is important that we recognize each central bank is under different economic and institutional environments. In the US, Japan and EU, we often discuss policy issues on the assumption that the economy is in a recession; the government runs a large budget deficit; and inflation is in a very low level. However, for example, many of Asian economies including China experience strong inflationary pressures, and the Australian government sustains its fiscal soundness. Also, institutionally, in Japan, China, Korea and Australia, the government (not central bank) has the authority to regulate and oversee banks; and in EU, ECB and central banks of each country share the role of the central bank. Considering this diversity, it would be interesting to ask i) what are common issues that can be shared internationally; and ii) what are issues unique to individual country but should be addressed internationally

Minoru Aosaki
12/04/2011

Future of Financial Stability Board

I share the view to strengthen the role of FSB to create more effective global financial governance as Professor Katharina Pistor mentions. The question is how. In my view, the usefulness of FSB is in that it functions as a forum for the representatives of national authorities, where they can discuss and exchange information on national supervisory issues, approaches and techniques, with a view to promoting common understanding. If FSB itself becomes a large organization like IMF and assesses the vulnerability of financial system of member countries, it may cause frictions between an international organization and a nation, as seen in the past. A key question is why IMF could not play a meaningful role as a whistle blower prior to the recent financial crisis.

Roy Kreitner
12/04/2011

The beauty of the opening contributions to this conversation is that they invite the development of a more nuanced vocabulary to talk about the politics of central banking. The traditional discussion of central bank independence, fueled by the image of a subservient bank bowing to rapacious pressures of politicians bent on destroying the underpinnings of property by printing money, seems finally left behind. Instead, there emerges a genuine question about how central banks might be sensitive to the varied macroeconomic (and diplomatic) implications of their actions, and yet still remain somewhat distinct from other aspects of government. In a few optimistic moments, the contributors seem to engage a hope that central banking beyond the technocratic could entail a much greater degree of political openness and sense of political responsibility than traditionally acceptable. At the same time, they hint this might be possible without thinking that we must accept day-to-day control by a political echelon for goals established on the time-frame of electoral politics.

This seems especially promising in the framework of sovereign debt crises, but it also has implications for the kinds of capital infusions and guarantees involved in the 2008 financial system rescue. The ambivalence of words like “political” and “independence” is quite stark here, to the extent that we could imagine central banks being much more political than their traditional perception, and at the same time more independent – the crucial question becoming, independent from what or whom? For many years, non-political control or independence as measured by empirical studies of central banks has actually meant complete subservience to expectations about reactions from bond markets. In essence, central banks often understood themselves as subject to discipline of bond traders or worse, ratings agencies. We could imagine central banks becoming more independent from that constituency at the same time they were becoming more attentive to other constituencies. My own sense is that the private financial sector has been historically over-represented in the politics of central banking. If current developments can change the system of dependencies within that politics, the latest crises may yet prove to be an opportunity, and one there is still time to exploit.