

Institution: Birkbeck, University of London
Unit of Assessment: 18 Economics and Econometrics
Title of case study: The impact of research into committee structure and gender-composition on the effectiveness and accountability of Monetary Policy Committees
<p>1. Summary of the impact</p> <p>Research published between 2003 and 2010 on central bank design has established Sibert as an internationally-recognised authority whose ideas have changed the way that policy makers, academics and the public think about monetary policy committees and have influenced efforts to increase the accountability of these committees and the call to increase female participation, particularly at the Bank of England and the European Central Bank. Recognition of the practical value of this research-based understanding is evident in her 2009 appointment to the newly-formed Icelandic five-member monetary policy committee.</p> <p>Sibert's research investigates the structure of central banks and monetary policy committees, as well as other decision-making groups, and on how their design affects their performance. In particular, she focuses on how it matters that monetary policy is made by a group rather than an individual and how a monetary policy committee can be designed to produce the best possible outcome for monetary policy. She communicates her research through refereed journal articles, invited publications; policy articles, speeches and opinion pieces.</p>
<p>2. Underpinning research</p> <p>Most central banks make monetary policy by committee. Sibert (2003) is an early theoretical attempt to ask how and why this might matter (3.4). Rational expectations and nominal wage contracting lead benevolent central bankers to inflate too much in an attempt to cause unexpected inflation that will lead to higher output. However, if the public knows that the policy maker is benevolent then the inflation is expected and there is no attendant output gain. Sibert considers a scenario where central bankers are either benevolent or are inflation hawks. A policy maker's type is his private information and can only be signalled by his behaviour. Monetary policy is made by a committee where members serve overlapping terms. Sibert considers how features of the economic environment, customs and institutional rules that govern the way that the committee members interact, and influence the ease with which their actions can be observed, affect incentives to build a reputation, and hence expected inflation and social welfare.</p> <p>Mihov and Sibert (2006) (3.2) considers the problem of designing a central bank that is credible in that it will deliver low inflation while retaining the flexibility to respond to shocks. There have been proposals to make central bankers' salaries depend on how well they meet an inflation target and proposals to appoint only inflation hawks. The United Kingdom has dealt with the problem by allowing the government to override its independent monetary policy committee in extreme circumstances. Mihov and Sibert demonstrate that a committee of the type considered in Sibert (2003) produces a better outcome than a zero-inflation rule or a single benevolent policy maker and requires no government monitoring or intervention.</p> <p>Since 2003 there has been a small, but growing, economics literature on monetary policy making by groups, but it approaches the issue within the confines of academic economics. Sibert (2006) (3.1) broadens the focus of this research on the intended audience. Drawing from work in other social sciences she considers the optimal size of a monetary policy committee and whether monetary policy making by committee is more extreme than monetary policy by individuals and the features of committees that influence the answer to this question. Sibert (2010) (3.5) considers how the gender composition of committees that make financial decisions affects their outcomes.</p> <p>Central banks differ greatly in their approach to transparency and accountability. The Bank of England's monetary policy committee, for example, publishes both minutes and its members' votes; the ECB, on the other hand, is notoriously opaque, providing little information about its decision making process. The academic literature has provided some support for the ECB's</p>

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approach. Papers by Cukierman and Meltzer (“A Theory of Ambiguity, Credibility and Inflation under Discretion and Asymmetric Information,” *Econometrica*, 54, 1986, pp. 1099-1128) and Faust and Svensson (“Transparency and Credibility: Monetary Policy with Unobservable Goals,” *International Economic Review* Vol. 42, 2002, pp. 369-397) found that central bank transparency can be harmful. Sibert (2009) used a model similar to Cukierman and Meltzer and Faust and Svensson to demonstrate that increased central bank transparency must always be beneficial (3.3).

3. References to the research

3.1 Sibert, A., “Central Banking by Committee,” *International Finance*, 9, Aug. 2006, 145-168.

3.2 Mihov, I., and A. Sibert, “Credibility and Flexibility with Monetary Policy Committees,” *Journal of Money, Credit and Banking* 38, Feb. 2006, 23-46.

3.3 Sibert, A., “Is Transparency about Central Bank Plans Desirable?” *Journal of the European Economic Association*, June 2009, 831–857.

3.4 Sibert, A., “Monetary Policy Committees: Individual and Collective Reputations,” *Review of Economic Studies* 70, Jul. 2003, 649-666.

3.5 Sibert, A., “Sexism and the City: Irrational Behaviour, Cognitive Errors and Gender in the Financial Crisis,” *Open Economies Review* 21, Feb. 2010, 163-166.

4. Details of the impact

There are four key areas of impact in Sibert’s work:

Monetary Committee Design

The primary impact of Sibert’s research is to change the way that policy makers and the public think about monetary policy committees. She has communicated her work to central bankers through invited presentations and contributions to central bank publications. Her work on monetary policy to EU policy makers is disseminated through briefing papers and briefings to the European Parliament and by taking part in a commissioned collaborative effort that produced a major study.

This study concludes that to be more effective and predictable the European Central Bank (ECB) should make a clear move towards more transparency. The current final target (a low growth rate of the Harmonised Index of Consumer Prices) should be accompanied by a review of non-consumption goods and asset prices. The ECB should adopt a symmetrical target to avoid an inflationary drift; and more detailed projections, as well as the public release of the model used to calculate them, should be adopted to communicate the ECB’s expected inflationary bias, and thus the expected path of interest rates in the medium term. The Governing Council minutes, including the voting record, should be released to enable better understanding of the different views expressed in meetings.

Operational impact

Her research has influenced public debate about central banks. Sibert was a serving External Member, Monetary Policy Committee, Central Bank of Iceland, 2009–2012 – photograph at: <http://www.cb.is/library/Myndir---EN/Images/Peningastefnunefnd.jpg> and was able to use the results of her research to provoke debate. It is routinely discussed and reprinted in blogs, academic papers and the mainstream press, for example: Financial Times 2 Nov 2008; 14 Nov 2008; 6 Jun 2010 (by Wolfgang Munchau) and 12 Jan 2012 (5.4). When Goldman Sachs published a report criticising the ECB, her research was prominently cited (5.5). ECB Executive Board Member Yves Mersch (then the Governor of the Central Bank of Luxembourg) demanded that she

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retract her remarks on ECB accountability (5.6) and the Deputy Governor of the Central Bank of Turkey publicly objected to her commentary on the Turkish monetary policy committee (5.7). In a lecture, the deputy governor of the Central Bank of Norway discussed the size of the Norwegian monetary policy committee in light of her research and in private correspondence he said that he frequently referred to theory of the optimal size of monetary committees (5.1).

In Iceland, following the collapse of the banking system, Sibert's research on the design of monetary policy committees had a direct impact on policy. Sibert was appointed to the newly-formed Icelandic five-member monetary policy committee in 2008 (5.2). The committee was the result of legislation that redesigned the monetary policy framework after the collapse. The new legislation gave responsibility about the formulation of many of the details of the committee's decision-making process to the members of the new committee. Sibert's research was significant in their formulation of the committee's conventions.

Gender Composition

Sibert's writing on the gender composition of committees that make financial decisions has fuelled the European Parliament's opposition to an all-male Executive Board. It has been discussed in blogs and the popular press. It is cited in a European Assembly of the Council of Europe report on women in the financial crisis (5.8).

Sibert was interviewed on BBC Radio 4's Woman's Hour on 20th September 2012 (5.9). The interviewer discusses with Sibert the reason for the lack of credible female candidates for the role of Governor at the Bank of England and explores why banking may be such a male dominated culture. Sibert is also able to contribute ideas about how a more diverse gender balance in banking may have impacted the financial crises.

Impact on public discourse and the media

Sibert communicates her work to other policy makers and to the public through newspaper articles, occasional television and newspaper interviews and papers on the vox.eu website, a policy portal set up by the Centre for Economic Policy Research. This shows in excess of 332,000 views as of October 2013, for Sibert's contributions. (5.10)

Writing on the web site of the Breugel think-tank (www.breugel.org) on 31st August 2012, about effective banking supervision under European Commission proposals for a supervisory board, Guntram Wolff observes that Sibert, having studied the effects of committee size on performance, has concluded that a committee of five or fewer is ideal. He continues: "*Sibert's research on the European Systemic Risk Board (ESRB) argued that the detection of systemic risk requires a certain diversity of the skills of Committee members, notwithstanding the small committee size. She concluded that the set-up of the ESRB, consisting mostly of national central bank representatives, is not conducive to effective systemic risk assessment.*"

European Parliament member Sylvie Goulard listed her as a possible candidate for the Executive Board, as did a prominent German newspaper:

<http://sylvie-goulard.eu/bce/ECB-potential%20female-candidates.pdf> .

<http://www.faz.net/aktuell/wirtschaft/menschen-wirtschaft/besetzung-des-ezb-direktoriums-vier-frauen-fuer-die-ezb-11941105.html> .

Impact case study (REF3b)**5. Sources to corroborate the impact**

5.1 An example of evidence that policy makers are influenced by Sibert's research:

Deputy Governor of Central Bank of Norway (factual statement).

http://www.norges-bank.no/pages/86177/Qvigstad_Skriftserie_43.pdf.

5.2 Chief Economist and Director of Economics and Monetary Policy, Central Bank of Iceland.

5.3 Study by the European Parliament, policy department for Economic and Scientific Policy, "Comparison of monetary policy strategies of major central banks."

[http://www.europarl.europa.eu/RegData/etudes/etudes/JOIN/2009/416223/IPOL-ECON_ET\(2009\)416223_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/JOIN/2009/416223/IPOL-ECON_ET(2009)416223_EN.pdf).

5.4 Sibert's work is routinely reposted in blogs and is frequently commented on. For example:

<http://www.bruegel.org/nc/blog/detail/article/877-governance-of-bank-supervision-is-central-to-its-success/reply/93/>.

5.5 Goldman Sachs report citing Sibert's research:

<http://www.efinancialnews.com/story/2012-01-17/goldman-sachs-criticises-ecb-for-lack-of-clarity>.

5.6 Sibert's research provokes public debate from the Governor of the Central Bank of Luxembourg:

<http://www.annesibert.co.uk/CBL1.jpg>, <http://www.annesibert.co.uk/CBL2.jpg>.

5.7 Deputy Governor of the Central Bank of Turkey publicly objected to her commentary on the Turkish monetary policy committee:

<http://www.efinancialnews.com/story/2011-10-03/turkeys-central-bankers-defend-policies>.

5.8 Report on gender composition of committees

<http://assembly.coe.int/ASP/Doc/XrefViewHTML.asp?FileID=12394&Language=EN>.

5.9 Interview on Radio 4's Woman's Hour:

<http://www.bbc.co.uk/programmes/b01mqg98>.

5.10 Sibert's Vox columns between 2008 and 2013:

<http://www.voxeu.org/person/anne-sibert> (last accessed 16th October 2013).