What future for governors?

Central banking has become, at least as far as monetary policy is concerned, a thing of committees. While the ramifications of central bank independence have spawned a small academic industry, the form which this independence has actually taken - decision-making by committee - seems to have attracted little comment. In fact, as our survey on p.29 reveals, the standardisation of the institutional structure of central bank decision-making is remarkable, and remarkably consistent across both developing and rich countries. Committee's rule the roost.

So what are the implications of this arrangement? First, governors, who used to enjoy quasi-feudal power over their central banks, are now constrained. The fact that they are seldom seen to be outvoted proves nothing. Even a novice chairman appreciates the need to gauge the mood of a board and ensure he (they are still almost all men) is on the winning side. Second, committees by their very nature reach compromises. As both Alan Blinder and Charles Goodhart have pointed out, this has very definite consequences for policy. Because committees tend to seek out consensus their decisions will be subject to inertia, making them in general somewhat slow to act, slow to change direction, and biased towards following the current line. The step-up, step-down patterns of US and UK interest rates are a testament to this. Third, committees distribute responsibility. Like the soldiers in a first world war firing squad who never knew if they were given live rounds or blanks, members of a committee can always fall back on the thought that it was really one of the others who fired the fatal shot.

This does not explain the ubiquity of this institutional form. In some federal countries central banks mirror political structures. The European Central Bank and the Fed spring to mind. But what about centralised states like the UK and Japan? Why do politicians choose committees?

One reason perhaps is that politicians, when they hand over power, are reluctant to create a rival potentate. If economic orthodoxy requires that monetary policy be done by someone else, then at least a committee cuts the governor down to size. It may also reflect a latent distrust of economists: at least the committee should eliminate the most radical proposals on any issue. Furthermore, by bringing leading outside economists into the decision-making process, expost criticism is partly neutralised. Finally, politicians appreciate the attenuation of responsibility which the committee provides - if the Treasury-appointed governor fouls

up, why, people say, was the finance minister silly enough to appoint him? If a committee fails, then blame seems to gravitate towards its members.

So what does this mean? First central bankers need to understand how such committees work and why some chairmen dominate while other committee's are apparently riven by dissent. Second, the role of the governor has changed. The ability to manage the process becomes ever more important. Remember that the central bank governor usually lacks the hiring and firing patronage on which prime ministers and presidents rely. Instead he must find a way of leveraging his, formally sleight, power over colleagues into an appearance of omnipotence and authority. Above all he must become an effective salesman for policies decided collectively. This is the aspect of the new role that many governors find most challenging.