

Small is beautiful: measuring the research input and output of European central banks

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Abstract

In this note we analyse the research activities of the central banks in the European Union (EU) over the period 1990–1999 both in terms of input (research staff) and output (papers in international journals). The share of research staff in total staff of the national central banks varies between 0.02 and 0.16. The ECB has the highest ratio between researchers and other staff. We make a ranking of the research performance based on the number of scientific papers per employee engaged with research. The Bank of Finland has the best research performance of European central banks, closely followed by the Dutch central bank. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

Central banks have a number of functions, ranging from formulation and supervision of monetary policy to supervision of financial institutions. A good research department may be instrumental for performing these functions by assisting in formulating monetary policy. Good research is, however, a factor of its own for the reputation and credibility of central banks. Although good research is important, the quantity and quality of research of central banks and international financial organisations has not been investigated.

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An external committee evaluated the research activities of the International Monetary Fund (IMF) and concluded that, although the Fund produces some excellent research products, there was substantial room for improvement in the overall quality of the Fund's research (see IMF, 2000). Furthermore, the mix of research and the link between some of the Fund's research were not optimal. These conclusions were based on an in-depth evaluation of research output of the various departments of the Fund.

Like the IMF, most central banks engage in research activities. There are good reasons why they should. For one thing, central-bank governing councils require information and interpretations of economic situations on which to base their policy decisions. This type of research is mainly policy analysis. However, other types of research can also be helpful—or even essential—for a central bank. As the external examiners of the IMF put it: “Any organisation that relies on old ways of doing things in a changing world will eventually cease to be relevant. There is still much to learn in the field of economic policymaking, and [a central bank] must continue to learn and update its thinking” (IMF, 2000, p. 16).

This does not imply that a central bank should try to produce all the research that is relevant for its needs. Certain areas of research are better left to academia. Still, there are many good reasons why in-house research is essential for a central bank (see also IMF, 2000):

- Staff interested in doing research needs to be given the opportunity to conduct research so that a central bank can hire and retain the best economic minds.
- Research is more easily drawn into the process of policymaking when the same people that do research are also involved in the policymaking process of the central bank.
- Staff can gain an in-depth intuition from conducting their own research that can be called upon to help in the policy-design process.
- Successful in-house research can independently help enhance the credibility and reputation of the central bank.

From the perspective of a regional central bank in a decentralised system of central banks—like the European System of Central Banks—there are additional considerations (see Goodfriend, 1999; Angeloni, 1999).¹ The diversification of research within a system of central banks brings a variety of analytical perspectives to policy deliberations that are invaluable in an increasingly complex economy.² Moreover, a system of regional banks harnesses competitive forces to encourage innovative thinking within the central bank.

The aim of this paper is to provide an evaluation of the quantity and quality of the research activities of the central banks of the member countries of the European Union (EU). Quality of research has various dimensions. Research at the central bank can be

¹ See Eijffinger and de Haan (2000) for a comparison of the ESCB with the Federal Reserve and the Bundesbank.

² As Goodfriend (1999) points out, within the US Federal Reserve System, research departments of reserve banks often develop a specialisation. A reserve bank president may encourage research of one type or another; or a particular economist may make a department strong in a particular sort of research. A bank may also exploit a feature of its regional economy or its operational responsibilities to develop a research advantage.

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