DOI: 10.1111/ecaf.12459

BOOK REVIEW

ECONOMIC AFFAIRS WILEY

CRAFTING CONSENSUS: WHY CENTRAL BANKERS CHANGE THEIR SPEECH AND HOW SPEECH CHANGES THE ECONOMY

by Nicole Baerg

Oxford University Press (2020), 195 pp. ISBN: 978-0190499488 (hb, £47.99); 978-0190499501 (e-book, £39.99). Oxford Scholarship Online: DOI: https://doi.org/10.1093/oso/9780190499488.001.0001

> *When I came out of the army, there weren't any cushy jobs going, only stage-door-keeper, so I became a stage-doorkeeper. But you don't find me beefing about my lot. I'd rather be the top man at the Bank of England or run a nice little pub somewhere, but I know when I'm well off.* (P G Wodehouse, *Bachelors Anonymous*)

Nicole Baerg, Assistant Professor in Government at the University of Essex, obviously takes being the 'top man' at the Bank of England rather more seriously as a job than does the stage-doorkeeper at the Regal Theatre, Shaftsbury Avenue. She considers not just what the 'top man' says, but how he says it, worth analysing. This high assessment of their importance is extended to all central bank governors and monetary policy committees (MPCs). Professor Baerg's book is fascinating, and introduced me to a completely new field of study.

The subject is central bank statements on monetary policy. Baerg is not concerned with the policy decisions set out therein, but with how these decisions are described and explained. Central bankers are in her eyes so important that not just what they do, but what they say and how they say it, matter for the economy.

There are seven chapters in this slim but meaty book, running from an introduction to the field (headed 'Crafting Consensus') to a concluding chapter headed 'Putting It All Together'. The chapters in between first give us an essentially verbal introduction to the study of MPCs and then develop various formal models of committee interaction and the importance of committee design (e.g. how many members, voting order). These formal models are subject to statistical tests of their predictions. The book is well planned and (by and large) well written. 'Well written' does need qualification, for occasionally words are used oddly, even disconcertingly. What are 'vague and obtuse terms'? 'Obtuse' can describe an angle or a stubborn and slow person. The intended word is 'obscure'. We read that central bankers 'imagined' new policy tools after the crisis of early this century. They did not just imagine them, but invented them (if quantitative easing is regarded as new). And particularly annoying is use of the phrase 'mass public', with its hint of ignorant masses and the masses of Marxist politics, where normal usage could be, for example, 'general public'. Has Oxford University Press stopped employing copy editors?

But I should not complain too much, not just because this is a serious work of scholarship but because the author has a very high opinion of the abilities of economists. That high opinion does, however, lead to what I think is a major flaw in a thoughtful and interesting book.

The flaw is revealed very early. A quotation from page 8 is useful. "Interestingly the FOMC [Federal Open Market Committee] declared not one but two targets in December 2012, providing more precise information to the mass public." It adopted numerical targets for unemployment and inflation. This, Baerg writes, made "…it easier to understand the goals and objectives of the Fed's future policy". And she goes on, "The adoption of a numerical target is generally regarded as more precise". There are several problems there. Can the Fed have more than one target but only one instrument? What is the difference between a goal and a target? But my concern is with something that matters for the whole book. Adopting a numerical target is more precise only about the target. It gives no information about how likely the central bank is to hit the target. We know that central banks can control the trend of inflation, but they can certainly not hit a precise number, and a fortiori not hit a precise number at a precise time. They never have been, and they never will be, able to do that, as their policy instrument is control of the money supply, which they cannot control precisely and which is itself not precisely related to the objective of policy, namely the inflation rate.

Their record of achievement matters, as that conveys information about what the central bank is capable of. Thus, for example, it can be inferred that under the gold standard the Bank of England was a highly credible central bank, and conveyed information about its intentions very well. The price level moved slowly, and bond yields were very stable: a clear indication of the stability of expectations, and, as it happens, of their accuracy also.

This book is really about what verbal communication by central banks can add to the effects of good past performance in stabilising expectations and thus helping to stabilise the economy. Thinking about the book from the point of view of addressing that narrower question is helpful in understanding and appreciating fairly the work set out therein. Baerg is plainly correct that central bank communications can move markets, although they do not always do so, and the direction of whatever movement there is can be a surprise to the central bank. She is also clearly correct that the composition of an MPC can affect the bank's statements. Affect, note, not the hard information (rate changes) but the degree of clarity. She shows this to be affected by how well the views of the chair and the median committee member are aligned along a hawk–dove spectrum. That is interesting, and for me surprising, despite my reservations about the stability of the hawk–dove categorisation. And that of course leads in turn to my doubting whether this interesting result actually can lead to any policy decisions. However much the person or body appointing committee members wants clear and detailed statements, if the preferences which can lead to that are not stable then the desire cannot be achieved by that route. That may be a pity, for in an interesting study of very rapid inflations in Latin America between 1993 and 2010 an increase in the "preciseness of the inflation environment" (p. 155) lowers short-term inflation expectations, *other things equal*. Baerg's desire for 'preciseness' leads her to support 'forward guidance'. Otmar Issing, in *The Long Journey of Central Bank Communication* (MIT Press, 2019), points out the pitfalls of that: basically, economists do not know enough about the future to give detailed guidance on it.

There is a useful distinction between, and discussion of, vertical and horizontal accountability: the former being ultimately to voters through the government, the latter being among MPC members. Both matter, as Professor Baerg observes. (It should be noted that she thinks that in the UK the MPC, among other Bank committees, regularly appears "before the government". I cannot imagine how that could be achieved.) She is right, though, that a diversity of approach among committee members (so long as it is in a collegiate setting) is good for both versions of accountability.

All in all, this is an interesting and enjoyable book, although to an extent marred by a desire for rigour and formality at the expense of results being testable. Whether the analysis can aid monetary policy when central banks already do try to conduct policy well and to explain what they are doing is not altogether clear, but it may well help understanding aspects of their communication policy (if they have a systematic policy). And how simply being clearer can lower inflation expectations in high-inflation settings is a truly striking claim, which deserves to be tested on a much wider set of data. Central bank governors, and what they say, are more influential, and in more ways, than the stage doorkeeper at the Regal Theatre credited them with being.

Geoffrey Wood
University of Buckingham, UK
Bocconi University, Italy

Correspondence
Email: geoffrey.wood@buckingham.ac.uk