Global Watch

HOW TO BE A CENTRAL BANKER

Dario Perkins

- Our guide to central banking – some light relief from all the US election bickering
- Discover how to think and act like the world's finest monetary technocrats
- You can take the credit when things go well and avoid the blame when they don't

The 'rules' to central banking

There are reports that should he win the US elections on 5 November, Donald Trump fancies his chances at taking on the most powerful job in the world – chairman of the Federal Reserve: "I think that in my case, I made a lot of money, I was very successful, and I think I have a better instinct than people on the Federal Reserve, or the chairman." But being a central banker comes with enormous responsibility and there is surely no tougher decision in public office than deciding whether to hit the big red button on that next 25bps interest-rate move. Fortunately, we have been working on a guide to central banking, which a "Trump-unleashed" administration might find useful. While we didn't write this guide specifically for Trump, we are publishing it now, ahead of the US elections, out of a sense of moral responsibility. So please don't say we didn't do "our bit".

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1) Moving in mysterious ways

It's OK if you don't really know how monetary policy works (or even if it works at all – after all, it seems a bit fanciful to think you can fine-tune a multi-trillion-dollar economy by nudging interest rates up and down by 0.25 percentage points). Fortunately, your monetary forefathers have got your back. Like the clergyman struggling to answer a tricky question from a member of his congregation, you can always evoke the "God-moves-in-mysterious-ways" clause – which in central banking is known as the "long and variable lags" caveat. Remember, you may not be able to see or understand what happens when central banks adjust interest rates – that sort of comprehension is beyond us mere mortals – but it's blasphemy to say the effects aren't there.

2) Sometimes and selectively a monetary phenomenon

As a central banker, you should be very careful interpreting inflation and the forces that drive it over time. When prices rise, there is always someone or something else you can blame – politicians, supply chains, geopolitics, "bad luck" or whatever. But everyone knows you really do deserve the credit when inflation is low and stable. The good times are because of you: the result of your "hard-earned credibility" and the deftness of your policy interventions. Let's not forget the crucial role central banks played during that wonderful period known as "the Great Moderation", which obviously had nothing to do with rapid globalization, super-efficient supply chains, massive technological advancements or the entry of a billion low-paid Chinese agricultural workers into the global manufacturing sector. (If anyone asks, those were just "relative price shifts", although we might need to rethink that explanation now that those same forces are starting to reverse.)

3) The universal counterfactual

With a little creative thinking, it is all but impossible for central banks to ever make a mistake. The trick is to imagine a nightmare situation where things would have been even worse had you not intervened. And the best counterfactual is always "the 1970s". From a macroeconomic point of view, things have never gone as wrong as in the 1970s and – luckily for you – the central bankers of that time are widely regarded as complete jokers, a case study in monetary incompetence. Sure, things seem bad today, but would you rather have Arthur Burns (or literally any British policymaker from between 1965 and 1995) setting monetary policy?! Of course you wouldn't. Use that history of policy fiascos to your advantage. Let's assume, for example, that you totally freak out over a temporary spike in inflation and your panicked reaction triggers a market collapse. You had no choice! "Price stability" (whatever that means) was about to be lost, just as it had been in "the 1970s", and we would surely have ended up with an even nastier recessionary slump. Prove me wrong – you can't! (Note – if you are German, you must deploy a slightly different version of "the 1970s" counterfactual. Afterall, the Bundesbank was the only central bank to emerge from that episode with its credibility intact. Keep reminding people of that success, and why you must emulate it – even when the macro environment looks absolutely nothing like "the 1970s".)

4) More stars than astrology

If you can't think of a suitable counterfactual, you can always say "the stars" made you do it. "R-star", "y-star", "u-star": these are your friends because you can't see them (probably they don't even exist) and everybody in finance will sagely acknowledge the validity of your argument, even if there is absolutely no corroborating evidence. (How can "efficient markets" allow this, you ask? I assume it's because talking about abstract theoretical concepts makes everyone involved sound smart, and by tacitly colluding, both "central-bank watchers" and their monetary overlords can bedazzle outsiders with their intellectual prowess. It's a similar story when it comes to other ~~totally made up~~ abstract theoretical ideas like "liquidity" and "the term premium". But let's not digress.) Sometimes the whole circular flow of BS between central banks and financial markets goes so far you, can meet your objectives through a sort of collective hypnotism. Just tell them you've got a "bazooka" in your pocket. (Please note, success in this area of monetary policy will occasionally require you to make a sacrifice to the expectations fairies and the bond vigilantes.)

5) Everything is a nail

There is no problem you can't solve by throwing money at it (literally, sometimes…). Recession, a market crash, banking crises, climate change, deindustrialization, social inequality, international terrorism, declining cinema audiences and dubious VAR decisions at the soccer World Cup – all these issues can obviously be resolved by cutting interest rates or crafting a sufficiently large QE programme. Just remember the central bank motto – if in doubt, print more out! (BTW it is super easy to measure whether your interventions are successful. If you work at the Fed, you just want to ensure the stock market hits a new record high at least twice a week. If you are at the ECB, you must keep 30-year yields negative and periphery spreads at zero. Only the BoE has a tougher job, due to that secret part of its mandate that requires it to uphold the "Treasury consensus" by engaging in covert operations with the "Westminster neoliberal elite" to periodically oust any "pr-growth" politician – though, so far, only Liz Truss has been smart enough to figure this out.)

"Mix more punch! The US Federal Reserve has decided they want the money bowls refilled."

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6) Constructive ambiguity

Alan Greenspan, the Maestro of central banking, had the right idea: "I know you think you understand what you thought I said but I'm not sure you realize that what you heard is not what I meant." Nobody had a clue what he was talking about, but it certainly sounded clever! And economists have always known that ambiguity is the key to a successful career. You need to sound intelligent, without people being able to figure out when you are talking nonsense (which, let's be fair, is most of the time). The importance of constructive, Delphic ambiguity is squared in central banking, so make sure you communicate only in long, passive, jargon-heavy sentences. (If you're not starting every policy communique with a double-negative, you're doing it wrong.) Ultimately, the key to central bank "credibility" is pretending you know exactly what you are doing even when you are clueless. If people can't understand you, they are more likely to play along.

7) Never talk to normies

Regular people will never appreciate your brilliance as a central banker, which is why popping up on the nightly news or appearing on popular chat shows never ends well. There is a good chance you will look "out of touch", as Andrew Bailey found when he tried to tell people they should readily accept the worst squeeze on UK living standards since the days of poorhouses and kids leading horses into the coalmines. Stick to your real "stakeholders" – namely, the finance lobbyists who are always looking for their next bailout, and the central-bank watchers who are desperate to get their policy "forecasts" right (an exercise made that much easier when the central bank tells them exactly what it's going to do or offers privileged access and information).

8) Forward misguidance

Monetary press conferences should be banned because they are absolutely the worst thing any self-respecting central banker can face. Journalists not only have an annoying habit of asking precisely the question you don't want to answer; they will keep asking that same question – often only thinly disguised – until they trip you up and get the information they want. (And BTW they're getting sneakier: one time a journalist blatantly lied to Jay Powell during a press conference, by pretending the chair's words had triggered a nasty market reaction, just to see how Big Jay would respond. As a seasoned day-trader sans notifications from his various trading apps, Powell spotted the ruse, but you have to wonder what would have happened with Bailey or Lagarde – never let your guard down!). If you must hold a press conference, practice the European art of distraction: talk only about things that are not relevant to monetary policy, such as government spending, international trade, developments in the Middle East, extreme weather or (the Jean-

Claude Trichet specialty) French philosophy. (Obviously, with central banks' remits expanding every year, the art of distraction is becoming more challenging, and pretty soon we will reach the point where literally everything is included somewhere in their mandates.)

9) Investing in people

Central banks are staffed with a gazillion PhD-trained economists (even the ones that don't set monetary policy anymore, like the 20-odd members of the eurozone that haven't had to make an interest-rate decision in over 20 years). These fine institutions have also spent decades building elaborate macroeconomic models, and even longer fiddling the results of those models to get "sensible looking" results (or "shocking the residual", as they say in the trade). Make the most of those resources: you have an army of technocrats who are willing to defend the indefensible, using an arsenal of sophisticated techniques that only other central bankers will understand. And, as their "QE totally saved the world" research propaganda showed after the Global Financial Crisis, it takes only a well-timed promotion or the prospect of a favourable write-up in the FT to ensure they always find the "right conclusion" (see study below, but careful with the web search).

Fifty shades of QE: Comparing findings of central bankers and academics ☆

Brian Fabo [a b], Martina Jančoková [c g], Elisabeth Kempf [d e], Ľuboš Pástor [a d e f]

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Highlights

- Central bank papers find QE to be more effective than academic papers do.
- Central bank papers report larger effects of QE on output and inflation.
- They also report more significant effects of QE on output.
- Central bankers who report larger QE effects on output have better career outcomes.
- Central bank management is substantially involved in research production.

10) Investing in people

You should also remember that becoming a central banker is a good way to invest in *yourself*. Yes, the pay is horrible, and it can be a struggle to get by on a civil service wage. But a central bank post isn't forever; and once you leave that role, all the investment banks will be queuing up with blank cheques to hire you as "a consultant". Or, if you prefer, you can always pursue a prominent role in the financial media, taking cheap shots at your former colleagues. And you certainly won't need our help to be a successful "ex-central banker" on CNBC or Bloomberg. Just start from the assumption that everything your former colleagues are doing is an "egregious policy mistake", and the various op-eds and "guest columns" will write themselves. For some reason, the finance industry laps up that stuff like hungry cats at a spilled milk convention – even though poking fun at central banks is a pretty sad way to make a career (oh wait, hang on…).

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