



Too Little, Too Late?

How Central Bankers' Beliefs Influence What They Do

Daniel F. Schulz
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Abstract

For all its powers, we know little about how the European Central Bank (ECB) makes its decisions and why. In light of its ever-increasing importance in European governance and the criticism this has attracted, this is particularly regrettable. Often a welcome scapegoat, the ECB has been accused of doing first too little, then too late. Compared to other major central banks, the ECB has indeed long been a laggard – regarding both conventional interest rate policies and unconventional balance sheet operations. Why?

I argue that central bankers' policy experiments after the financial crisis are a prime example of policymaking under conditions of Knightian uncertainty. Faced with an unprecedented situation, central bankers were unable to draw on historical experience and had to resort to their beliefs about how the economy works instead. Based on a survey among 422 central bank economists, I quantify these different ways of thinking.

My survey data shows a) that certain beliefs matter for policy preferences and b) that both are unevenly distributed among central banks. In particular, the ECB leans more towards orthodox beliefs and hawkish inflation preferences than the US Federal Reserve and the Bank of England. It is considerably more conservative. Within the Eurosystem, different national central banks are clustered regarding both beliefs and preferences, revealing a dividing line in economic philosophy between core and periphery.

This suggests that the frequently surfacing conflicts inside the ECB's Governing Council reflect a battle of ideas rather than a conflict of interests between creditor and debtor states. Proponents of activist monetary policy at the ECB had to overcome enormous resistance from within before they could follow the examples set by others. I argue that this is why the ECB first did too little to support the economy, and only changed its orthodox stance very late.



Jury: Sven Steinmo (EUI, Supervisor), Daniel Schulz (Candidate), Leonard Seabrooke (Copenhagen Business School), Philipp Genschel (EUI), Mark Blyth (Brown University, by videolink)

Bio

Before joining the Doctoral Program at the European University Institute in 2013, Daniel Schulz studied at Freie Universität Berlin, Zeppelin University and the University of Copenhagen.

In between his graduate and postgraduate studies, he also spent several years working in public sector consulting in Berlin.

His research focuses on comparative political economy, particularly on issues of monetary policy, financial regulation, and the politics of taxation.