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BOOK REVIEWS

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Christopher Adolph, **Bankers, Bureaucrats, and Central Bank Politics: The Myth of Neutrality** (Cambridge: Cambridge University Press, 2013, 357 pp., $99.00, ISBN 978-1-107-03261-3)

In recent years, the appointment of central bankers has become a highly topical matter in politics, the media and in academic circles. At the time of writing, bets are on about who will succeed US Federal Reserve Board Chairman Ben Bernanke in January 2014. And earlier in 2013 the appointments of new central bank governors in the United Kingdom (Canadian Mark Carney), Japan (Haruhiko Kuroda) and India (Raghuram Rajan) received similar attention and concern. The increased focus on the central bankers as individuals can be explained by their quite active roles in crisis management following the financial and economic turmoil that began in mid 2007. Acting far beyond the predictable 'script' of keeping inflation low, since the start of the crisis central bankers have been making very difficult, and unconventional, policy decisions in a way no institutional set-up was designed to manage prior to the crisis.

That said, Christopher Adolph, Associate Professor in Statistics and Political Science at Washington University, is first to be congratulated on having found an extremely timely and important topic for research. Based on an extensive database (self-built) on the professional careers of some 400 central bankers in 20 developed countries between roughly 1950 and 2000, Adolph explores how the policy preferences of individual central bankers influence monetary policy, and where these preferences come from. In his own words, 'we cannot understand the politics of monetary policy – from the selection of central bankers and central bank institutions to the creation of short run economic outcomes – unless we understand the objectives of the central bank officials who actually make monetary policy' (p. 304).

The theory to be tested is that the prior socialization and future career plans of individual central bankers (with voting power over monetary policy matters) affect their policy preferences to a large extent. To test this theory, Adolph investigates the connection between the central bank policies and matters such as central banker appointments and tenure, as well as the potential influence on central bankers of various 'shadow principals' such as the financial sector, governments and labor unions.

Adolph indeed finds that socialization and career effects do affect central bankers' policy preferences, and that we for example can expect a central banker with a past in private banking to emphasize low inflation, while a central banker with a past career in the civil service (including within the central bank) will give more attention to unemployment and 'output' growth. Furthermore, these socialized preferences are enhanced by the central banker's career plans after leaving office. Here the financial sectors' ability to offer high remuneration and the political leadership's ability to offer high positions in the public sector are of particular relevance. A central banker who supports policy that is in line with what the sitting government favors can be expected to be reappointed, while one who is less accommodating might find him- or herself replaced.

Reading the book, it is clear that Adolph sees a need for some reforms to reduce the potentially negative effects of the appointed central bankers. His main policy recommendations are: (1) that central bankers should be selected with great care, and that the background of a particular candidate might say a lot about what preferences she or he would support in office; (2) that greater transparency towards the general public about the backgrounds of central bankers is needed as a means to enhance the credibility of the central bank and its policies; (3) that central bankers should be made subject to 'cooling-off' periods (from the financial sector) for some duration after leaving office. Given how central bankers have gone (or been forced to go) so far beyond acting to keep inflation down, Adolph's policy recommendations seem reasonable to improve the public's ability to monitor the central bankers and their actions.

In addition to policy recommendations, Adolph also addresses the literature on central bank independence, which to him has focused too singularly on matters of institutional design, while neglecting the room for discretion of individual central bankers, and how their decisions can be shaped by 'shadow principals'. He finds much empirical support for questioning the possibility of central banks ever truly being independent or 'objective' in their policy choices, an assumption one can actually read into some of the CBI literature. He shows that the central banker is far from being some Weberian technocratic bureaucrat, but also that it is misleading to assume that they all are prone to conservatism à la Rogoff's (1985) ideal central banker.

Adolph also positions his study within the institutional economic literature, and finds himself in line with Streeck and Thelen's (2005) emphasis on the importance of incremental institutional change, coming through both internal and external contestation of the interpretations of the institutional structures and related policies. Different social, political and economic groups may thus have different views on what a central bank is for, and what policy should come out of it. On this matter, it could be noted that Adolph's book is about how agents, and their principals, have used the 'backing' of a going institutional setup, the independent central bank, to promote desirable policy. It is, however, not concerned with the agents' contestation of what the institution of central banks is for. Consequently, Adolph does not account for the incremental as well as intense changes of central banks and their objectives that mark the last half of the twentieth century.

One should note that Adolph is not an economic historian, nor does he write with economic historians in mind. This is not a necessity of course, but when basing a strongly policy-driven study on material covering 50 years and 20 different countries, one sets oneself up to be criticized for making too much out of statistically significant relations and for being too unconcerned with national and historical contextual factors. Not only have central banks, central bankers and the ideas on central banking changed over time, but they have also looked and evolved differently in the countries included here. Adolph does take into account time trends in his calculations, but this hardly satisfies someone with some interest in, and knowledge of, these histories and the differences between countries.

A general point is that the broad range of objectives of monetary policy for most of the period 1950–2000 is underplayed. While inflation, or price stability, has been the main, or sole, objective of central banks since the late 1980s (or mid 1990s?), this was just one of many objectives which central banks were concerned with in the preceding decades. Inflation was of course one area of concern for central banks until at least the 1980s, but so was unemployment, credit expansion, exchange rate stability and the allocation of credit. It should be said that Adolph does refer to unemployment or 'output' as an alternative central bank objective to targeting inflation, but this treatment is very vague and not very developed. Importantly, recognizing the above-mentioned multitude of central bank objectives of course makes it less easy to determine who the relevant 'shadow principals' are, and what policy mix a 'conservative' or a 'non-conservative' central banker would be predisposed to favor.

On this last point, one should also mention another historical condition that is not addressed by Adolph: that for at least the first half of the 50 years covered, banks were subject to banking regulations that in most developed countries restricted the banks' room to maneuver in a way that is quite difficult to imagine in the year 2013. Except for unemployment, all objectives mentioned above were addressed by the central banks through their hold on the commercial banks, setting limits on credit and interest rates, constraining banks in terms of permitted businesses etc. In other words, one has to be careful before assuming that the ability of the financial sector to act as a 'shadow principal' of the central bankers looked the same from the late 1940s until the end of the millennium. While central bankers probably were greatly influenced by the private financial sector in the two last decades of the twentieth century, it was probably the government and the non-financial industry that put this pressure on central banks in the decades after World War II. These are just some points about the differences over time that Adolph treats very lightly; one also misses a discussion on central bankers' actions during financial and economic crises, events and courses of action that central bankers' prior socialization and future career plans cannot fully cover. Adolph also does not discuss differences between the countries he studies, although these are considerable in many regards. The 'revolving door' hypothesis might, for example, be valid for a country like the USA, but not obviously so in the case of my native Sweden. In some countries, such as Finland and Italy, the average central bank governor outlasted three or four prime ministers between 1950 and 2000, while the public control over the financial sector remained extensive well into the 1980s. Can we really see partisan governments and the financial sector as the 'shadow principals' pulling the strings of the central banks in these countries? Adolph is of course free to decide what to include, and one can of course never cover all angles. However, we cannot neglect the fact that the simplification of the 'story' through generalization affects the power of the conclusions and the policy recommendations that are so important to the author. National and historical characteristics must be considered even for today's policy makers.

To sum up, Adolph has written a very interesting and topical book with a strong message for policy makers as well as academics with an interest in central bank policy-making and what drives this process. Hopefully, Adolph will make use of his unique database over the careers of central bankers in many coming research projects, of which some will take historical and national specifics more explicitly into account. A relevant expansion of his central banker database would be academic background, which ought to have strong explanatory powers both in terms of socialization and career ambitions as well as regarding policy preferences and beliefs about what a central bank is for and what it should do. The historical perspective is important to consider here as well, since central bankers with a PhD in economics, for example, were in a minority in the late 1940s.

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Emmanuel Mourlon-Druol, **A Europe Made of Money: The Emergence of the European Monetary System** (Ithaca, NY: Cornell University Press, 2012, viii + 359 pp., ISBN 978-0-8014-5083-9)

European monetary integration has been at the heart of a broad spectrum of academic literature. This book, based on extensive archival research, delves into the making of the European Monetary System, focusing on the period from May 1974 to March 1979. It is based on Emmanuel Mourlon-Druol's doctoral dissertation at the European University Institute in Florence.

Mourlon-Druol's objective is 'to place the EMS negotiations in the wider context of the 1970s, and particularly to conduct a detailed study of the post-Werner, pre-EMS attempts to further European monetary cooperation' (p. 14). Mourlon-Druol takes spring 1974 as a starting point. In his view, it was a political watershed, with the almost simultaneous coming to power of Wilson in Britain, Giscard d'Estaing