

**EXTERNAL EVALUATION OF
THE ECONOMIC RESEARCH ACTIVITIES OF
THE EUROPEAN CENTRAL BANK**

by

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EXECUTIVE SUMMARY

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Five years after the birth of the European Central Bank (ECB) on 1 June 1998 its Executive Board decided to request an independent external evaluation of its economic research and invited the three authors of this report to act as evaluators.

For the purpose of the evaluation research is defined as the set of activities leading to economic analysis which strives to be up to academic standards, i.e. up to the standard of leading-edge scientific journals.

We were asked to assess the focus and organisation of research, its scientific quality and value added, its relevance for the conduct of monetary policy and for the other tasks and functions of the ECB, and its influence within the academic community and in other policy-making institutions.

Our overall assessment of ECB research is quite positive. In the short time since its creation, the ECB has managed to build up significant research capabilities, not only in DG Research but also in other business areas. This shows in the hiring of PhD economists, the production of a large number of working papers, the publication of research in leading journals, and the participation of ECB staff in many academic conferences and workshops. The ECB has fostered a close interaction with academics by organising a Research Visitors Programme and hiring first-rate academics as consultants. Moreover, it has promoted the collaboration and exchange of views between academics and research economists at the national central banks of the Eurosystem by setting up several research networks. Finally, some research produced at the bank has been very influential. These remarkable achievements were unexpected five years ago.

However, we also think that the ECB is not exploiting its research resources to their full potential. There should be more emphasis on quality. Moreover, the human capital of the research staff is in danger of depreciating in the medium run. Furthermore, we believe that there is room to improve both the incentive to do research and the organisation of research at the ECB.

We group our main concerns together with the corresponding recommendations under five headings: research incentives, management of human capital, coverage and coordination of research, research support, and communication and dissemination. We provide a short justification for each recommendation. We wish to emphasise that these are only our main recommendations. Other suggestions for improving research at the ECB are found in the body of our report.

Research incentives

- 1) The ECB must back its commitment to excellence in economic analysis by providing economists with sufficient time and appropriate incentives to do research. Time planned for research should not be sacrificed to other tasks, even in business areas with current policy or operational responsibilities.

Recommendation

Strengthen incentives to do research and respect the time allocated to it when accommodating the demands for current policy analysis. Specifically:

- *Allocate staff sufficient time to do research that is relevant to their area (outside DG Research).*

- *Increase the weight of research activities and especially journal publications in annual appraisal exercises.*
- *Facilitate and encourage staff to present their research results to the Executive Board and senior management.*

2) The advantages that accrue to the ECB are primarily from academic research up to the highest standards. Working papers are of less value than research output that is placed in the top general or field journals. ECB staff should increase research with the potential for publication in the leading journals.

Recommendation

Strengthen incentives for high quality research in DG Research and DG Economics, and reduce the emphasis on working papers. Specifically:

- *Introduce a point system for valuing publications in academic journals that puts a high premium on the top journals.*
- *Devote less time to internal refereeing of working papers by increasing the use of external referees or by other means.*

Management of human capital

3) Given that research staff is relatively young, the tools for the long-run management of human capital in DG Research are particularly important. The maintenance and growth of research capital must be a top priority. The mobility scheme recently introduced may be very useful in this respect, but it should be carefully implemented. The final aim should be clear: the ECB should build up a group of internationally recognised senior researchers that can lead and

develop junior staff, provide high-quality advice for policy-making, and establish a high profile for ECB research world wide.

Recommendation

Strengthen tools for the long-run management of human capital in DG Research through the following measures:

- *Create an expert career path in DG Research, so staff can be promoted for excellence in research without assuming managerial responsibilities.*
- *Use the mobility scheme to provide alternative career paths, while assuring staff that mobility will be voluntary.*

- 4) The Research Visitors Programme often fails to generate fruitful interactions between staff and visitors, while there is a strong demand to involve consultants directly in specific research projects.

Recommendation

Increase the budget for consultants, possibly by reducing the Research Visitors Programme.

Coverage and coordination of research

- 5) In the early years of the Monetary Union, it was natural to focus research almost exclusively on macroeconomics and monetary policy. More attention should be given in the future to other topics that are relevant to the tasks and functions of the ECB.

Recommendation

Devote more resources to research on financial stability, international issues, and fiscal policy that have received little coverage to date, while retaining the primary focus on macroeconomics and monetary policy.

- 6) The extension of research to more topics and business areas requires increased coordination and cooperation of research staff. Addressing some issues from different perspectives is valuable, but research resources must be allocated efficiently, and unproductive duplication of work should be avoided.

Recommendation

Draw up a comprehensive annual research programme for all business areas in which research is produced, and arrange for the programme to be discussed by the Executive Board. Reactivate the Research Coordination Committee for this purpose.

Research support

- 7) Researchers should concentrate on the development of new ideas, and not be distracted by routine work. Research assistants should be made available in adequate numbers.

Recommendation

Hire more research assistants on a temporary basis. Young MSc graduates or PhD students are ideal for these positions because they are familiar with the latest analytical tools and techniques and are highly motivated to spend some time at the ECB.

8) Research up to the highest academic standards frequently requires the support of specialized IT hardware and software. IT needs must be provided for in a timely manner to enable ECB researchers to compete effectively in the production and publication of original research. The special needs of research staff need to be accommodated more efficiently.

Recommendation

Recognise the special nature of the IT requirements of research staff. Increase the resources allocated to them in terms of hardware (laptops), and increase flexibility in providing and supporting non-standard software.

Communication and dissemination

9) Research output should be marketed more deliberately both inside and outside the bank. The ECB has done an adequate job of disseminating its research in the academic world, but visibility to policy makers and the general public could be improved. A concerted effort to publicise research findings would help management to appreciate the potential value of research, increase the incentives to produce it, and enhance the external reputation of the bank.

Recommendation

Set up a communication channel to disseminate research results to a wider public in a non-technical form such as a newsletter.

We realize that ECB management is aware of many of our concerns and in some cases is already moving in line with our recommendations. We encourage management to continue along this road. At the same time, we acknowledge that we have looked at the issues only from the point of view of research. Further analysis might be necessary to take account of wider repercussions of our recommendations, but this is outside the scope of our mandate.