

## **Christian Noyer: Monetary and financial research – its impact on policies and society**

Opening and closing speech by Mr Christian Noyer, Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements, at the Conference for the 20th anniversary of the Bank of France Foundation, Paris, 14 September 2015.

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### **Opening speech**

Ladies and Gentlemen,

I will now switch to English, given the international audience and speakers that we are quite lucky to have today. I would first of all like to express the great pleasure I have to open this conference for the twentieth anniversary of the Banque de France Foundation for Monetary, banking and financial economic research.

I welcome the prominent speakers who made us the honor of joining us today – Yann Algan from Sciences Po in Paris and Luigi Zingales from the University of Chicago Booth School of Business – and all our chairs and discussants who also are renowned economists in their respective fields.

A few words about the topic of this conference now. The idea of this conference is to take a step back and some time to reflect on monetary and financial research in general, and its impact on policies and society. We will thus evoke the role of economics and economists within our society.

The two provocative papers discussed today provide a very nice opportunity for such a discussion. They both point out several concerns about economic research and finance. They highlight the tendencies of economists to be self-referential and analyze how the social perception of the finance industry is largely negative nowadays, and the more so since the financial crisis. In that respect, the paper focuses on the United States, but there is little doubt that France probably is no exception to that rule either.

After the 2007–2008 crisis, some first steps have been taken to change incentives in the financial industry. And even more should be done in that direction in the coming years. At the same time, economists should also adopt a more critical view on the financial industry practices and judge them as impartially as possible.

But what can we say about economists themselves? Are they really too self-referential and do they tend to overestimate their role in society? On a personal note – as a policymaker and central banker – I do believe it is possible that central bank governors may pay the cost of the so-called “superiority” of economists (for instance when they are too sure of their econometric models).

How will we proceed in this conference today? In-depth discussion of papers will be left to participants. However, I would like to mention the potential role that the Foundation can play to help address some important issues.

First, economic analysis is definitely needed in order to sharpen policy makers’ understanding of the world. At the same time, policy makers should continuously challenge the alleged “superiority” of economists with the complexity of the real world.

Second, actions need to be taken to get academia more involved in policymaking, to bring the discipline of theory-based analyses to the policy debates. That implies a better access to governmental data for academic researchers, to enable them to conduct independent and

rigorous research and expose their results to policymakers and the general public, who should listen to them in return.

Well, I hope this is no wishful thinking and I will now leave the floor to our distinguished speakers. Thank you.

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## Closing speech

To close today's conference, I would like to come back to the Foundation and its role. I will focus on a brief historical overview of the Foundation for Monetary, banking and financial economic research. A lot has been achieved since 1995, as you know. What was our goal? To promote excellence in academic research in the field of monetary policy and finance.

And did we achieve it so far?

Well, over three hundred conferences and seminars have been sponsored. The research grant program has also awarded 81 grants for about 2.4 million euros in total. While it is difficult to identify the potential outcome of projects at an early stage, the program has been rewarded by excellent outcomes. Most papers were published in the best international research journals.

Yet not just academic successes were achieved. Some papers were also financed by the Foundation and later became hot policy topics, sometimes with very good insight. For instance, I think of a paper by Freixas, Parigi and Rochet on "*Systemic Risk, Interbank Relationships and Liquidity Provision by the Central Bank*" published in 2000 in the *Journal of Money, Credit and Banking (JMCB)*. In 2000, that is eight years before the crisis. And yet the paper already underlined the importance of interbank relationships in the spread of risk.

Some trends and evolutions in research in economics and in the work of central banks over the last twenty years were also identified and discussed. Obviously globalization and international links have played an ever more important role in monetary and financial economics (including with the creation of the euro for instance). There were also changes in economic research, as more attention was progressively given to actual policy-making. One of the leading examples is perhaps the so-called *Taylor rule*, which was created to describe the actual behavior of central bankers. This allowed a much richer interaction between academia and policy makers.

Changes also affected policy-making, with more attention paid to academic debates. These even influenced the very structure of central banks. Research units were put into place and developed in most major central banks, including the Banque de France, which also implemented an External Evaluation of Research (EER). Central bankers indeed realized the importance of conducting their own research activities to support policy making. Heavier use of theoretical findings and data-based analysis was made, in order for central banks to better articulate their policy actions.

Also, economic research outside central banks – which is not driven by direct "daily" topics – proved ultimately valuable for policy too. For example, some ideas developed in Krugman (1998) and Eggertson & Woodford (2003) *on policy at the Zero Lower Bound*, inspired by the economic stagnation in Japan, entered the United States and Euro Area policy debates years after their publication.

The Banque de France Foundation has accompanied all these significant trends. By fostering research conducted by international teams. By sponsoring research unrelated to immediate Banque de France needs, but which would ultimately prove beneficial for our policies. In that respect, I do expect that the Foundation will still play an important role in the next decade in promoting excellence in research in the field of monetary and financial economics. I also hope – and this will be my conclusion – that this is no wishful thinking either.

Once again, let me thank all the participants, speakers, discussants and chairs that have joined us today for such fruitful talks and congratulate the young researchers who received a well-deserved prize for their work. A special thanks also to all the actors of the Foundation, whose constant help and dedication to their missions are precious and appreciated. Now is time to have lunch and I believe a buffet has been prepared. Thank you.