



**BANK OF ENGLAND**

# News release

---

**Press Office**

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

16 November 2014

## **Central bank psychology - speech by Andrew Haldane**

On Monday 17 November, Andrew Haldane, Chief Economist of the Bank of England, will be speaking at the Royal College of Medicine conference on Leadership: stress and hubris. He will discuss how psychological biases can affect policy making, and how the institutional design of policy making committees at the Bank of England have been designed to counteract those effects.

In the speech, Andrew highlights four “cognitive ticks that can affect human decision making” that may be relevant for public policy making:

Preference biases – where the decision maker might put “personal objectives over societal ones, such as personal power or wealth”

Myopia biases – “people differ materially in their capacity to defer gratification” and studies suggest that people who show greater patience “outperform their impatient counterparts in everything from school examinations, to salaries, to reported life satisfaction”.

Hubris biases – over-confident individuals are “more likely to be promoted to positions of influence” but tend to pursue “over ambitious targets” like “undertaking over-complex company takeovers. That way nemesis lies”

Groupthink biases – people tend to adapt their view to confirm to those around them and also have a “tendency to search and synthesize information in ways which confirm their prior beliefs”.

Andrew then shows how policy making at the Bank of England has been organised to try to protect from these biases.

To tackle preference bias, the Bank’s does not set its own objectives. It has three policy making committees – for monetary policy (MPC), financial policy (FPC) and prudential regulation (PRA Board). In addition, “to ensure the actions of the Bank’s policy committees are well-aligned with society’s wishes” their targets are “set ex-ante in legislation by Parliament acting on behalf of society”.

To prevent myopia, the Bank of England has been made independent from government when choosing how to set monetary and financial policy to achieve their respective objectives. These decisions have been given to an institution “whose time horizon stretches beyond the political cycle”. Andrew suggests that central bank independence has been successful at taming “the inflation tiger” but he warns that “as some countries are finding today, the tiger is capable of biting back” in the form of low and falling inflation expectations. Andrew notes that while inflation expectations in the UK have held up pretty well, this is something he is “watching like a dove.”

To guard against Hubris at the Bank, “all policy decisions ... are made by Committee rather than an individual” which “provides some natural safeguard against over-confidence bias”. Andrew notes that external MPC members have contributed importantly to the diversity of opinion on the committee “on average they have been around twice as likely as internals to dissent from monetary policy decisions”.

Finally to ward off groupthink, each member of the policy committees is individually accountable for their vote or view, and this should encourage “a variety of analytical perspectives”. That said Andrew notes that analysis of MPC minutes suggests that they did not devote enough time to discussing banking issues in the run up to the financial crisis, something that in hindsight, “looks like a collective analytical blind-spot”. He argues that despite all the changes to the Bank’s policy responsibilities since the crisis, “it is too soon to tell whether any remaining blind-spots remain”. Also, in his view “improvements to the Bank’s forecasting process have some considerable distance still to travel”.

Andrew concludes by highlighting a key new development at the Bank – a “cultural revolution” for bank research work. Rather than being used solely to “nourish and support the Bank’s policy thinking”, as has typically been the case in the past, future Bank research will instead be published that challenges the policy orthodoxy as often as supports it . “This research will hopefully act as spur and springboard for new policy thinking”. “It will act as another hopefully powerful, bulwark against over-confidence biases and groupthink.