

Speech

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FRIDAY, 8 JUNE 2001

Reforming a central bank

CEPR/SNS Roundtable

Thank you for inviting me this evening and for the opportunity of addressing you all. I should like to begin by stressing how much we value the cooperation with CEPR. Creating arenas for an exchange of ideas in Europe is an important task to which CEPR is making a valuable contribution.

Today you have been considering a variety of issues and this evening I want to raise yet another, namely how a central bank can be reformed. I do so against the background of the major changes that are currently taking place in our national economies and financial markets. These changes clearly have consequences for the work at central banks. The challenges we in Europe face are particularly great, above all now that EMU is a reality and the single currency imposes new requirements.

Work on changes at the Riksbank has been very intensive in recent years and I should like to tell you something about it. What I have to say will no doubt be familiar to many of you in managerial positions in either the private or the public domain. The operations of central banks are really not all that different from those of other enterprises.

Issues recur but methods have changed a lot

Sveriges Riksbank is the world's oldest central bank. Threadneedle Street's Old Lady is our younger sister.

When I last addressed a similar assembly I mentioned that we take great pride in our Bank's history. I noted that we are answerable to the Swedish Parliament, which took charge of our operations for fear that otherwise the king would be too profligate. He was in fact spending too much by waging war on the Continent. So

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besides being a time-honoured institution, the Riksbank is an early example of independence.

My account was immediately challenged, however. Perhaps my English opponent was piqued by the Riksbank's seniority; in any event, according to him we were not taken over by Parliament and nationalised in order to gain control over the monarch. It was a question instead of the nobles in parliament redeeming their pledges and getting the Treasury to carry the future losses they were otherwise likely to incur.

So there's truly no new thing under the sun. Many of our problems recur, though today we solve them differently, with other methods.

Studies show that in recent decades the work of reforming central banks has tended to follow a clear pattern. A report from BIS, the central bank of the central banks, notes the following characteristics.

- The move to greater independence and the commitment to price stability entail a desire to focus on core operations and a deeper analysis. There is also a greater need to operate and communicate in ways that are effective and enhance confidence.
- Internationalisation also has effects, not least financial integration. For Sweden there is also membership of the European Union and possibly of EMU.
- Analytical requirements are heightened in general. Matters are becoming increasingly complex. Another factor here is the new technologies with electronic payment systems, for example.
- In our case there is also the crisis in the early 1990s and the lessons we have tried to learn from it.

I shall now say something about the work we have done in recent years in three respects: Concentrating on core activities; Strength and security; and Management with an executive board.

Concentrating on core activities

A good performance presupposes that we concentrate our resources to what is really important. The starting-point here is, of course, our main statutory functions, namely to maintain price stability and promote a safe and efficient payment system.

For three hundred years the Riksbank has owned a paper mill and a note-printing works in Tumba and a mint in Eskilstuna. These are largely manufacturing operations. Through the Tumba works, in the past decade the Riksbank has been active in export markets and produced banknotes on behalf of a number of countries. Besides manufacturing notes and coins, we distribute them. Like McDonalds and the food chains, we send our products, wrapped in plastic though not deep-frozen, to everywhere in Sweden. In our case the security requirements are, of course, considerably higher.

But is this really something we should be doing? At the Riksbank we decided it was not. Our job is to concentrate in the first place on monetary policy and the

difficult systemic questions in the financial world. We have therefore decided to sell the Tumba works. In our opinion, the enterprise deserves owners that are more professional than the Riksbank. Moreover, our distribution system has been transformed into a limited company, Pengar i Sverige AB (PSAB), literally, Money in Sweden Limited. A major reconstruction has been completed and we now count on being able to sell the company at a good price.

All in all, the focus on our core activities has enabled us to cut the number of employees, which at present is about 450. This can be compared with a figure between 15,000 and 16,000 for the Bundesbank or the Banque de France. In relation to the population, the corresponding number for the Riksbank would be almost 2,500. Bear in mind, too, that many of our functions have little or nothing to do with the size of the population.

Strength and security

As a newcomer I found that in certain respects the Riksbank resembled a traditional Swedish industrial estate. Those establishments were stable and often highly professional in their field, which might be high-grade steel or paper; but they also tended to be run autocratically and resist change. Central banks have also lived a closed existence, with a corporate spirit that was both good and bad. This is something that has to be renounced to enable us to perform our tasks properly and both attract and retain the best university graduates. An open internal dialogue with management is needed to promote an informal exchange of ideas. Taking responsibility and meeting deadlines must also be rewarded. It is easy to say that some mistakes are acceptable provided things get done but that attitude is by no means customary in a central bank. Last but not least, we must have an open attitude to the outside world, accept impulses and explain what we are doing.

So what have we done in recent years to make the Riksbank a more modern place to work in? Here are some examples:

- We have aimed for a *better organisation* by making it flatter and delegating more to heads of department and division. That in turn means that general objectives and tasks must be formulated clearly for all concerned so that everyone is aware they are not just piling stones on top of each other but actually helping to build a cathedral.
- We have accentuated the *analytical and academic profile*. Our advisers are world-class academics and members of the staff have access to further education in Sweden as well as abroad. We have also made the basic operations more efficient.
- Another aim has been to give staff a *more flexible working life*. Working from home should be simple and everything should function properly even when a senior official is at home looking after children. Staffing therefore has to be arranged with this in mind. We are also having a drive for more women in managerial posts. Last year we started a mentor programme for female administrators with a view to broadening the base for the recruitment of new managers.

- Besides altering the ways in which we *communicate* monetary policy in order to reach a wider public, during these years we have run an educational programme for upper secondary teachers and developed an Internet game called Stargold. At present we are working on an idea for a competition in civics between classes in Sweden's upper secondary schools.

Evaluating all this is not an easy matter, particularly when one is fully engaged in it. I believe, however, that our efforts to make the Riksbank more transparent have worked well. To use the terminology of the BIS report, we have certainly become more "outward-looking". It has been more difficult to break what the same terminology refers to as "upward-looking". It is not so easy to build up an efficient cooperation and sense of responsibility, unencumbered by prestige, throughout our organisation.

It is gratifying that among students in our subject, we are the most popular workplace in the public sector. In the league of all workplaces in Sweden, we rose seven pinholes last year to fourteenth place.¹ But we are not content with this and aim for a further improvement. The tasks as such, the proximity to economic policy and the international dimension should be sufficiently attractive. If, in addition, we can create an environment in which people can grow and feel they are an important part of the organisation, then I believe we can do still better.

There are many connections between an open, clear relationship with the outside world on the one hand and our internal work on the other. Distinct goals have helped to focus internal operations and tighten the analysis. By making things less hush-hush we have also made it possible to include more people in a realistic discussion of monetary policy, for example. We are now open to criticism of a sharper and more specific nature and that has been good for us. The Riksbank's motto, *Hinc robur et securitas* (Hence strength and security), which used to allude to our earlier functions as the producer of notes and coins, for example, now refers at least as much to our analytical competence, the accuracy of our analyses and our efficiency as an authority.

Management with an executive board

One consequence of the new Riksbank Act, effective from the beginning of 1999, was that a new Executive Board, consisting of six members, is collectively responsible for *all* the Bank's operations. This was a clear break with the earlier arrangement where the management was closer to that of a conventional company with a managing director and a board that exercised control and took the overriding decisions. I should like to conclude with some remarks on the challenges this change involved.

As regards monetary policy, it was not all that difficult. In the light of experience from the German, British and American central banks, for example, we had drawn up proposals for working procedures which we have largely adhered to. Our internal process is very open and the staff are deeply involved. The minutes of the Executive Board's monetary policy discussions are published, which dispels any

¹ According to *Företagsbarometern* (the Swedish version of the Universum Graduate Service annual opinion poll).

sense of mystery. At the same time, a better foundation is hopefully provided for a discussion of monetary policy in society in general.

The matter of internal control has been trickier. One alternative would be to treat the Executive Board as a board of directors; that, however, would have meant working with as many as 18 chief executives in the form of the heads of department. Another possibility would be to see ourselves as chief executives but that, too, has its pros and cons; few organisations have six chief executives, presumably for very good reasons. Perhaps the closest parallel is the board of a group with a number of subsidiaries.

In practice we have adopted a variety of approaches. We have tried to delegate more matters more specifically to the heads of department, leaving them to run the operations and provide continuity and competence. At the same time, the number of departments has been reduced so as to have an organisation that is less top-heavy. The Executive Board's responsibilities have been shared out among the members. That does not mean that we are to manage day-to-day operations, which is a matter for the department heads. Our task is to act instead as a source of support and dialogue.

The internal management and the way we handle monetary policy are interconnected. An arrangement with reservations and so on could lead to a polarised picture in the media and that in turn could have repercussions on the internal work. Even though we do not see any differences of opinion as something unnatural, others may do so and that might make it difficult to avoid splits in the organisation. In this respect I think we have been broadly successful. At times the media have presented a dramatic scene with major differences of opinion but with the passage of time we seem to have become less and less newsworthy. At the same time, we have handled the system rather carefully and abstained from arguing with each other. That I think is wise because the system is rather fragile.

Let me conclude by referring back to my opening remarks. The financial markets are becoming increasingly integrated, banks are crossing more and more boundaries and so on. All this is affecting the Riksbank to a high degree. The same is true of the rapid technical innovations, with increasingly complex payment systems. Add to this the possibility of EMU and you can see the future does not lack challenges.

Apropos of what I have been talking about today, a while ago one of my American colleagues, Bill McDonough, said something to this effect: we should be pleased if we are better today than we were yesterday at the same time as we are not yet as capable as we will be tomorrow. I think that's about right.