Central banks filled with policy makers with little real-world experience

By Mark Gilbert

April 29, 2015 – *The Globe and Mail/ Bloomberg News*

The Japanese government did something weird last week, but weird in a good way that other governments should follow.

It nominated (drum roll) a new member of its central bank who has actually worked in industry (huge applause, fade to sunset) – namely Yukitoshi Funo, 68, who used to run Toyota Motor's North American business. Equally surprising, the guy he'll replace later this year is Yoshihisa Morimoto, himself a former executive of Tokyo Electric Power Co. Inc.

I'm willing to bet that if you asked the average person to guess what kinds of people set the interest rates on their mortgages or car loans, they'd be shocked to discover how rarely a central bank committee features an industry executive or a business leader.

Instead, the boards are packed with economists and academics, none of whom ever had to fund payroll on a Friday, decide whether to open a new factory, hire workers in expectation of good times ahead or lay off staff to survive a downturn. In short, monetary policy is mostly decided by unelected theoreticians who have never had much skin in the game.

The one industry – if you can call it that – that's renowned for breeding future policy makers is banking. Goldman Sachs Group Inc. leads the way as an incubator for borrowing-cost bosses, spawning both Mario Draghi, who helms the European Central Bank, and Mark Carney, the Canadian-born Governor of the Bank of England. As important as the world of finance is to the global economy, though, it's hard to justify its dominance in central banking deliberations. And the risk of promoting group-think is obvious.

Still, it's only natural that the economists who work at central banks prefer working with other economists. In a 2012 paper, Lauren Rivera, a professor at the Kellogg School of Management at Northwestern University in Illinois, found that elite professional services firms effectively block outsiders by recruiting only those who share their existing culture.

Employers sought candidates who were not only competent but also culturally similar to themselves in terms of leisure pursuits, experiences and self-presentation styles. Concerns about shared culture were highly salient to employers and often outweighed concerns about absolute productivity.

Trawling biographies and tapping the brains of colleagues, I found a handful of counterexamples. Edward Kelley, who retired as a U.S. Federal Reserve Board member in 2001 after 14 years of service, ran his father's manufacturing company for two decades before joining an investment company in 1981. David Lilly, who served the Fed from 1976 to 1978, was previously president and chairman of Toro Co., whose products include lawn mowers and other landscaping equipment.

In Britain, Richard Lambert had risen through the ranks of the Financial Times to become its editor before the Bank of England tapped him to join its monetary policy committee in 2003; although he'd never run a company, he'd met hundreds of chief executive officers as a journalist, and went on to run the Confederation of British Industry. DeAnne Julius, a British rate-setter from 1997 to 2001, worked at both Shell and British Airways.

I'm sure I've missed some examples from around the central banking world, but the bottom line is that the expertise of entrepreneurs and executives isn’t being tapped to help steer the global economy, and that’s a missed opportunity.

So why not try persuading Bill Gates, Richard Branson, Elon Musk, Michael Dell, Lakshmi Mittal, Giorgio Armani, David Geffen or James Dyson to serve a term at a central bank? And while we’re at it, why not Elizabeth Holmes, the youngest self-made female billionaire in the United States, or Angela Ahrendts, poached from Burberry by Apple?

Mr. Funo has been with Toyota since 1970. He’s currently a senior adviser to the car company’s board and, as well as heading its U.S. operations, he previously ran Toyota’s non-Japan Asia business. He may turn out to be terrible at determining what the Japanese economy needs. But I’d much rather he had a shot at making economic policy than yet another university-trained economist who knows the coefficient of everything but nothing about the value of a factory floor.