

Joanna Niedźwiedzińska, **Inflation Targeting and Central Banks: Institutional Set-Ups and Monetary Policy Effectiveness**, Routledge, London and New York, 2022, 382 pages

I was there, in the room, drafting many of the papers, when modern inflation targeting was first conceived, in New Zealand at the end of the 1980s. It was, as Niedźwiedzińska says, something of an ad hoc response, and to an idiosyncratic set of circumstances. Key politicians and central bankers wanted to get inflation further down (New Zealand's was in mid single figures by then, after a dreadful 15 years), and to convince firms and households of that intent, all in a context where there were no useful intermediate targets on offer, and where parallel public sector reforms were moving to put on emphasis on holding heads of agencies more meaningfully to account. If the central bank was to be given operational autonomy, it needed to be able to be held meaningfully to its performance against some standard or other. Inflation targets followed. And only later, as an increasing number of countries adopted some form or other of inflation targeting, did the vast literature begin to develop.

Niedźwiedzińska's book, adapted from her mid-career PhD thesis, is a new contribution to that literature. She is a practitioner, and currently heads the Division of Monetary Policy Strategy at the National Bank of Poland, one of the dozens of inflation targeting central banks. Her focus, as the title suggests, is not on the well-trodden ground as to what difference inflation targeting itself has made, but on how the institutional arrangements around inflation-targeting central banks have developed, and how differences in those arrangements have affected monetary policy outcomes.

Publication lags must deeply frustrate authors. Niedźwiedzińska's book was finished in 2020, late enough for her to be aware of the Covid monetary interventions but not of the inflation aftermath, and the extensive data used in the book, and the thesis it drew on, date only to the end of 2018. In normal times, it might not have mattered much, but now every reader will (or should) be reading almost every page against the backdrop of inflation outcomes over the last couple of years well beyond anything suggested in the implied promises of those putting in place, and taking on, inflation targeting regimes. How much, if any, difference will differences in the institutional set-ups, of the sort Niedźwiedzińska examines in considerable detail, prove to have made when the system was eventually put under severe stress? If there are systematic differences, which ones will prove to have counted, and for what? It is far too early to tell yet; we've seen (we hope) the peaks in core inflation but not the successful re-stabilisation of inflation within target ranges.

The heart of the book reports on the construction and analysis of a series of sub-indexes, and an aggregated overall index, for different aspects of the institutional set-up around central banks (eg independence, information, explanation, transparency, accountability). For this exercise, she relies on formal documents (laws, central bank websites etc) and deliberately chooses to eschew surveys which often rely on respondents from respective central banks. There are various good reasons (including lack of comparability of responses) to be wary of such survey measures, but there are trade-offs. Her choice means that she is looking at formal arrangements rather than necessarily the way things work in practice. It was a massive data collection exercise: 42 countries (advanced, emerging, and developing), 70 variables, 30 years. There are copious charts and tables, but the treatment will be accessible for anyone likely to be interested in the subject.

Niedźwiedzińska's empirical conclusion is that institutional arrangements governing a particular inflation targeting central bank have mattered to its policy effectiveness (primarily, keeping inflation low and stable within the target range). "Better" institutional arrangements are found to have produced better results. A potential problem with the analysis is the "better" seems to be mainly defined (for each component of the various indices) as reflecting the most recent general consensus

of scholars and practitioners. But consensus on some of these issues is likely to be challenged (or at least reviewed) in light of recent experience. “Accountability” gets a lot of prominence in discussion of inflation targeting. That isn’t surprising since a target that can usefully be pursued only with long and variable lags from policy actions still seems to need some accountability for those exercising that power. And yet, it isn’t clear that any central bank policymaker has paid any price at all for the recent stark departures of core inflation from target. It tends not to be that way for corporate CEOs when things go wrong in their bailiwicks. There is plenty of reporting, but is there any real “accountability”? More generally, I remain a little sceptical of the idea that “institutional set-up” matters greatly to outcomes, but variance in data often helps test hypotheses, and we’ve had lots of unwanted variation, across country and across time, in the last few years.

The book will be a useful and rich reference source generally (with time series of many of the detailed variables reported), but may be particularly useful for central banks in the early stages of moving towards adopting inflation targeting as the centrepiece of their monetary policy strategy.

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