

## RESEARCH BRIEF

# Fifty Shades of QE: Conflicts of Interest in Economic Research

Based on Working Paper 2020-128, [“Fifty Shades of QE: Conflicts of Interest in Economic Research,”](#) by Brian Fabo, National Bank of Slovakia; Martina Jančoková, European Central Bank; Elisabeth Kempf, Associate Professor of Finance at Chicago Booth; and Lubos Pastor, Charles P. McQuaid Professor of Finance at Chicago Booth

### KEY TAKEAWAYS

- ✓ In response to the recession caused by the COVID-19 pandemic, central banks have reinstated quantitative easing (QE) programs.
- ✓ Economists generally find QE effective, but this research reveals that central bank economists find stronger positive effects than academic economists.
- ✓ Such factors as career advancement and bank reputation may influence how central bank economists interpret results.

In response to the COVID-19 pandemic, the Federal Reserve dusted off one of its unconventional monetary policy tools from the Great Recession—quantitative easing, or QE. This practice, whereby the Fed purchases long-term securities in the open market, is meant to increase the money supply and, thus, encourage lending and investment. The Fed originally introduced this program in 2009 when interest rates were near zero, thus rendering traditional monetary policy ineffective and limiting the Fed’s ability to address the economic slump.

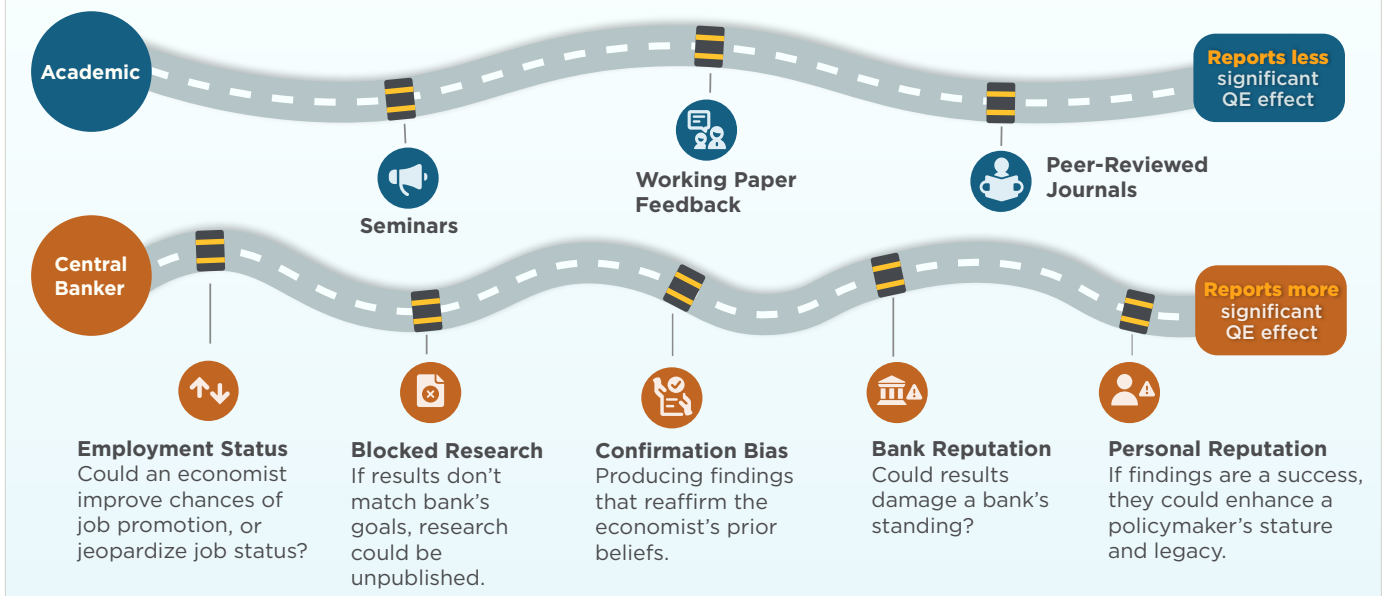
Fast-forward to the current pandemic: Interest rates are still low, and the Fed is faced with yet another economic crisis. What to do? Purchase roughly \$700 billion in Treasuries and agency mortgage-backed securities as part of the central bank’s latest round of QE, which is what the Fed announced on March 15, 2020.<sup>1</sup>

However, is QE effective? Does it really influence the rate of inflation and increase output? According to over 50 economic papers over the last decade, the answer is Yes. But that answer is approximate. According to

<sup>1</sup> [federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm](https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm)

## The Path to Conducting QE Research for Academic and Central Bank Economists

Five reasons a central bank economist could have an incentive to find positive results for quantitative easing (QE) and how it could provide roadblocks along the way



the authors of “Fifty Shades of QE: Conflicts of Interest in Economic Research” papers written by economists employed at central banks are more likely to find relatively strong effects from QE, while research by economists at universities reveals more subtle effects. This distinction matters because much depends on the results—and the interpretation of those results—in the formation of public policy.

### Finding confidence within a confidence band

When financial analysts provide information to investors, they often find themselves balancing that information against incentives to earn revenue from the companies that they evaluate. Media companies may skew the news to curry favor with a certain audience. Bio-medical researchers may feel pressure to show certain results if their research is funded by a particular pharmaceutical company. Many of these conflicts, and others, are well-documented and the subject of research and analysis.

Economists are not immune from such pressures and incentives. Indeed, the American Economic Association developed a professional code of ethics that addressed, among other points, the issue of funding disclosure.<sup>2</sup> This paper follows recent work that investigates conflicts of interest among economists by focusing on whether central bank economists may have an incentive to find effective outcomes for central bank policy.

<sup>2</sup> [aeaweb.org/about-aea/code-of-conduct](http://aeaweb.org/about-aea/code-of-conduct)

The policy in question here is quantitative easing, or QE, an unconventional monetary policy tool introduced after the Great Recession of 2008-09 to stimulate economic growth. QE is employed when interest rates are near zero, thus hampering a central bank's conventional stimulus tool, and involves purchases of long-term securities from the open market to increase the money supply and encourage lending and investment. The authors are clear: This work is only an examination of QE research and not of other work produced by central bank economists.

Why would a central bank economist have an incentive to find positive results of QE? The authors offer five reasons:

1. Employment status. Could an economist improve her promotion chances or, conversely, jeopardize her job status? The authors do not have evidence that a central bank has punished an economist, but as long as that economist thinks the chance of such retribution is greater than zero, then the economist's work could be influenced. Further, the economist's manager, or the bank's director of research, could benefit if the research offers a particular result.
2. The research could be blocked. If results don't match bank management's goals, the research could be unpublished or unposted.
3. Confirmation bias. Producing findings that reaffirm the economist's prior beliefs.

4. Bank reputation. An economist might worry that her results could damage the bank's standing.
5. Personal reputation. If findings are a success, they could enhance a policymaker's stature and legacy.

Academic economists, on the other hand, have no concern about whether a policy succeeds or fails. However, they do have incentives to publish their work, which is key to their scholarly careers. Likewise, they would hope to find significant results that would increase the likelihood of publication. This incentive could, conceivably, influence how they interpret the results of their own research.

To investigate this question, the authors constructed a dataset comprising 54 studies that analyze the effects of QE on output or inflation in the US, UK, and the euro area. (Though it was not the focus of their research, this meta-analysis of QE likely provides the most thorough study of the effectiveness of QE to date.) For each study, the authors recorded the paper's baseline estimates of the effects of QE on the level of GDP and the price level, along with their significance. They also collected a variety of other study-specific information, such as publication status and methodology, as well as detailed biographical information of the 116 different economists who wrote the papers. The authors then compared the findings of studies written by central bankers with those written by academics.

Bottom line: The authors found that central bank papers report systematically larger effects of QE on both output and inflation. Central bank papers are also more likely to report QE effects on output that

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are significant, both statistically and economically. For example, while all of the central bank papers report a statistically significant QE effect on output, only half of the academic papers do.

In conducting their analysis, the authors discovered a revealing finding: Central bank papers are less likely to disclose the width of the confidence interval when describing their findings. For non-statisticians, a confidence interval is a range of values, all of them plausible. Based on their analysis, researchers will often pick a value that falls somewhere near the middle of such a range. By including the whole confidence interval, usually in a graph with a confidence band showing the upper and lower estimates, researchers put their own estimate within a plausible range. This reinforces the notion of uncertainty in such estimates.

Further, the authors analyzed the language used to describe findings and found that central bank papers used more favorable language in their abstracts. Specifically, central bank papers use more positive adjectives and, to a lesser extent, fewer negative adjectives compared to academic papers.

Career concerns appear to drive some of these results. By measuring an author's subsequent career outcome by the first change in the author's rank following the paper's first public release, they find that authors whose papers report larger effects of QE on output experience more favorable career outcomes. This effect is strongest for senior central bank economists, whose papers also include a larger gap in findings regarding the effectiveness of QE.

What if central bank economists faced different incentives? For example, what if a particular central bank had a critical view of QE. Would such a central bank's economists produce research that aligned with this contrarian view? Fortunately, for the sake of this analysis, the German Bundesbank offers an opportunity to investigate this question. Bundesbank leaders have taken a critical view of QE as enacted by the European Central Bank, with some Bundesbank executives reportedly quitting their ECB positions on the issue. True to their hypothesis, the authors reveal that studies co-authored by Bundesbank employees find QE to be less effective at raising output compared to academic studies. While the authors clearly note that this evidence is weak statistically, it is consistent with the idea of managerial influence on research outcomes.

Finally, the authors conducted a survey of heads of research at central banks to determine the degree of management oversight in the production of research. Survey responses show that, in most banks, management participates in the selection of research topics, occasionally assigning such topics directly. Management also often participates in research reviews and approves papers for public distribution. The full working paper provides details of this survey but,

in general, the results reveal substantial managerial involvement in research production that could potentially extend beyond helpful guidance. Unlike central bankers, the authors note, academics face little if any managerial interference in their research.

## Conclusion

Public policy matters, and public policy is rarely set in a vacuum; rather, policy is based on research that informs decision-making. This paper questions if research on the efficacy of QE is influenced by whether an economist is employed by a central bank vs. an academic institution. The authors find that central bank studies do, indeed, report stronger effects of QE on both output and inflation. Central bank studies are also more likely to report QE effects on output that are significant, and their abstracts use more favorable language. Overall, central bank economists find QE to be more effective compared to academic economists.

This does not mean that central bank research is biased, but rather that researchers can be influenced by such factors as career concerns, whereby central bank economists may experience promotions if their findings support a position favored by bank management. This finding is reinforced by the authors' review of Bundesbank economists who served a management team that was skeptical of QE; those economists generally produced research to buttress management's views. This relationship between economists and bank management is explored via the authors' survey of central bank research directors, which describes how banks can influence research topics, paper reviews, and distribution of results.

Finally, the authors' intent is not to discount central bank research. Central banks and their research departments are generally held in high esteem, and their reputation and effectiveness are grounded in the banks' credibility. The authors do not question that credibility. Rather, their goal with this research is to highlight a previously unexplored conflict of interest that has the potential to influence a subset of bank research, and their hope is that central banks take this critique to heart.

## CLOSING TAKEAWAY

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### READ THE WORKING PAPER

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[bfi.uchicago.edu/working-paper/2020-128](https://bfi.uchicago.edu/working-paper/2020-128)

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