edents of the CJEU into consideration when applying EU law, is treated only marginally, and again only from the perspective of the CJEU, in particular with regard to the jurisprudence of the Court in the *CILFIT* case.[1] This omission is somewhat called into question when Jacob eventually argues that EU law constitutes a single, autonomous body of law that is binding for the member states in the same way as it is for the organs of the EU and the CJEU (at 269). A comprehensive picture of the working of precedent in EU law would therefore require an analysis not only of how the CJEU deals with its case law, but also of the way in which the courts of the member states approach the law made in Luxembourg. While the focus on the normative effect of precedents for the CJEU itself is, of course, not to be criticized as such—after all, this focus allows for the thorough and insightful analysis of the court's practice—it nevertheless leaves unaddressed an important facet of precedential effect.

All together, Jacob presents a differentiated and multifaceted picture of the way in which the European Court approaches the question of precedent. Referring to, distinguishing, and overruling precedent are depicted as diverse and multifunctional techniques of legal reasoning. The study impressively shows that precedent is a normative phenomenon, the full extent of which cannot be grasped by premature and overly simplistic references to the differences between common law and civil law traditions, to *stare decisis* and the non-binding character of precedents, or to the distinction between law-making and legal interpretation. While precedents restrict legal decision-making, Jacob's study shows that, at the same time, they allow for a rather broad margin of flexibility. Moreover, the functioning of precedent is much more determined by the specific institutional and political context in which a court operates than by the scarce pronunciations of positive law on the matter. The book skillfully combines thorough analysis of jurisprudence with differentiated conceptual and theoretical thinking. The use of quantitative analysis provides further insights, while the author rightly avoids drawing far-reaching or even normative conclusions from statistics. The book is written in a lively language, although, at times, I found the excessive use of metaphors, figurative language, and even puns rather strenuous and sometimes a hindrance to the clarity of the argument. In sum, Marc Jacob has written a highly insightful study, which will be of interest for anyone interested in precedent within the context of the European Union and beyond.

1 Case 283/81 Srl CILFIT and Lanificio di Gavardo SpA v. Ministry of Health [1982] ECR 3415.

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Christopher Adolph. *Bankers, Bureaucrats and Central Bank Politics. The Myth of Neutrality*. Cambridge University Press, 2013. 390 pages. $99.00. ISBN: 9781107032613.

Central bank independence is both a key legal and economic concept. In the economics literature, central bank independence was seen as the solution to the time inconsistency problem in monetary policy, where governments have an inflationary bias.[1] In order to address this bias, economists suggested introducing a commitment to low inflation in monetary policy-making,[2] which in practice was translated into central bank independence from

1 Finn Kydland & Edward C. Prescott, *Rules Rather Than Discretion: The Inconsistency of Optimal Plans*, 85(3) J. Pol. Econ. 473 (1977); Robert Barro & David Gordon, *Rules, Discretion and Reputation in a Model of Monetary Policy*, 12(1) J. Monetary Econ. 101 (1983).

2 For an overview of the monetary economics literature about commitment versus discretion, *see* Carl Walsh, Monetary Theory and Policy (2010); Michael Woodford, Interest and Prices: Foundations of a Theory of Monetary Policy (2003).

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government's inflationary pressures. The legal challenge was then to draft laws protecting monetary policy makers from pressures by other institutions.[3] But does the independence of central banks make monetary policy a "neutral" endeavor?

A resounding "no!" would probably be the answer given by Christopher Adolph, associate professor of political science and adjunct associate professor of statistics at the University of Washington, Seattle, who, in his book on central bank politics, attacks "the Myth of Neutrality." Monetary economists, he argues, see central banks as black boxes, ignoring individual preferences of interest rate setters. In his view, monetary economists are too eager to "treat monetary policy as a purely technical problem with an optimal solution" (at 10). Adolph's main argument is that "we cannot understand the politics of monetary policy . . . unless we understand the objectives of the central bank officials who actually make monetary policy" (at 304). His goal is therefore to shift the focus to central bankers themselves. Are central bankers really independent or rather the agents of some "shadow principal"?

This question is tackled within comparative political economy, more precisely within its subfield, political economy of performance, which "is interested in how the interactions of institutions and preferences shape economic outcomes" (at 3). The main economic outcomes that interest us in the context of monetary policy are inflation, output and unemployment. Regarding institutions and interests, the focus of the literature has been on institutions. The main shortcomings of this literature are the weakness of institutional explanations of change and, linked to that, the "tendency to under-study the agency and interests of actors operating within the constraints of rules" (at 4). One solution to both these weaknesses is to study the interaction between institutions and preferences, because preferences of agents acting within institutions may change.[4] Adolph's work embraces this research agenda in order to study the interaction between central bankers' preferences and the institutional design of central banks, where the previous literature in political economy only focused on central bank independence.[5] He wants to disentangle the two concepts, since "the confusion of preferences and institutions arises from the unsupported assumptions that independent central bankers are naturally conservative and that government meddling is the only source of loose monetary policy" (at 27).

Since the book proposes a novel approach to the study of central banking, this review will focus in particular on chapter 2 where the theory is spelled out, chapter 3 which empirically tests its main hypotheses at the macro-level, and chapter 4 which tests "the links in the causal chain binding central banker's micro-behaviour to macro-consequences" (at 128).

Adolph proposes "a career theory of monetary policy centred on the idea that past experience (career socialization) and the shadow of the future (career incentives) lead some central bankers to favour tighter monetary policy, and others to take an easier stance" (at 304). He argues that "bureaucrats respond to pressures or inducements from outside the formal chain of authority" and introduces the term "*shadow principal* to describe patrons who set implicit contracts with bureaucratic agents to implement policies that the shadow principal desires" (at 17). The monetary pol-

3 An example is Article 130 of the Statute of the European System of Central Banks (ESCB): "When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies *shall seek or take instructions* from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body" (emphasis added).

4 *See, e.g.*, Wolfgang Streeck and Kathleen Thelen, *Institutional Change in Advanced Political Economies*, *in* Beyond Continuity: Explorations in the Dynamics of Advanced Political Economies 3 (Wolgang Streeck & Kathleen Thelen eds, 2005).

5 *See, e.g.*, Vittorio Grilli, Donato Masciandaro & Guido Tabellini, *Political and Monetary Institutions and Public Financial Policies in Industrial Economies*, 6(2) Econ. Pol'y 341 (1991).

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icy-maker's stance on inflation is then a signal to the shadow principal (here government or the financial sector) that the agent is of the "right" type. There are two types: the hawks, who are strongly against inflation, and the doves, who are more tolerant of inflation, mainly if it improves real economic outcomes (unemployment, output . . .). The implicit contract between the shadow principal and the monetary policy-maker is that, by showing the right stance on inflation, the monetary policy-maker may earn a reward in the form of a good job with the shadow principal after leaving the central bank. In this context, the author's hypothesis[6] is that former private bankers are more anti-inflation than former bureaucrats (at 38, 41), due to both socialization (the financial sector tends to be more conservative) and to career incentives (as a signal to future employers in the financial sector).

In order to empirically test his hypothesis, the author first focuses on the macro level (chapter 3). He tries to uncover whether central bankers' career paths influence inflation in industrial economies. Adolph has compiled an original data set comprising roughly 600 central bankers' careers and educational backgrounds from 1950 to 2000, covering twenty developed countries. The central bankers included in the data set are the members of the body that decides on monetary policy.[7] In itself, this data set is already an impressive achievement. The analysis draws in large part on statistical methods, but is also accessible to readers more used to qualitative methods. The statistics are illustrated using graphs and detailed guidelines on their interpretation.

In order to measure career effects, Adolph computes "experience scores" (at 71). These are calculated as the fraction of the central banker's career spent in one particular sector (financial, government, finance ministry, central bank, economics, business, or other) until the appointment to the body that decides on monetary policy in the central bank.

Since this is new data, already the stylized facts are noteworthy. Average experience scores show that the biggest share of former work of monetary policy makers was in the bureaucracy (meaning government, the finance ministry and the central bank). The financial sector only comes after these three sectors. Grouping countries by dominant central banker background from 1950 to 2000, Adolph finds very different patterns (at 75). Sweden, Belgium, and Finland mainly staff their central banks with non-finance ministry bureaucrats, New Zealand and Denmark rely more on private bankers whereas France and Ireland employ more former finance ministry officials. Career central bankers tend to dominate in Canada, the United Kingdom and Italy. On average, he finds that former central bankers and non-finance ministry officials tend to be dovish, while former private bankers and finance ministry officials tend to be hawkish. For example, "if the central bank board changed from having 17 percent of its collective experience in finance to having 30 percent, inflation would drop by a little over a point after five years with the new board in office" (at 87).

Then, the author tests for an empirical relationship between inflation in the post Bretton Woods era and an index of central bank career conservatism (CBCC)[8] as well

6 Using formal models (see the Methods Appendix, Chapter 2) Adolph derives several more detailed hypotheses to be tested (see p. 54 for an overview).

7 This body is typically composed of the chairman and other executive members of the central bank. The decision-making body may also include external members (academic economists, private bankers, etc.) or chairmen of regional or national central banks in the case of the US and the euro area respectively. They decide on the monetary policy stance of the central bank, which may consist of setting the policy rate, deciding on open market operations, or adjusting reserve requirements of commercial banks. For example, such organs would be the ECB's Governing Council for the euro area or the Federal Open Market Committee (FOMC) of the US Federal Reserve.

8 The index is computed by subtracting experience scores in government and the central bank (supposedly the dovish sectors) from experience in the financial sector and the finance ministry (supposedly the hawkish sectors) (at 88).

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as an index of central bank independence (CBI). High conservatism is equivalent to being hawkish, whereas low conservatism corresponds to being dovish. The conservatism index represents the preferences of the central banker, whereas the CBI index stands for the institutional factors that may impact inflation. The statistical analysis shows that the effects of both conservatism and independence on inflation outcomes are similarly strong and both significant, which leads the author to conclude that central bank career conservatism is as important as central bank independence for explaining inflation. This finding supports Adolph's point that besides institutions, preferences of agents do matter.

In the inflation data used for the preceding analysis, "a few cases of deflation are omitted" (at 85). Yet this may be an interesting case for further research. In theory, no professional sector considered here should be in favor of deflation. Deflation makes real public debt rise, running against the governments' interests. Monetary policy becomes more difficult to implement. Economic stagnation and decline in investment may harm the financial sector. The analysis would be particularly relevant in the current low inflation environment. Would career effects persist during a period of deflation?

Furthermore, the central banking career conservatism index "varied substantially over time within countries, and even more so across countries: about two-thirds of the variance in CBCC can be attributed to differences across countries and about one-third to variation within them" (at 88). Chapter 8 tries to explain some of the cross-country variation and finds that a "robust pattern exists in the appointment of central bankers: left-leaning governments tend to pick central bankers whose career backgrounds foster dovish monetary policy preferences, whereas right-wing governments choose central bankers whose careers identify them as likely inflation hawks" (at 263). While the data shows that, in Germany, the background of monetary-policy makers is dominated by former central bankers (*see* figure 3.2 at 76–77), the Bundesbank has a hawkish reputation.[9] A common explanation for the Bundesbank's conservativeness in the political economy literature is that the German economy is characterized by coordination via collective wage bargaining.[10] In this institutional setup, the monetary authority's role is to keep excessive wage inflation in check. As the author's analysis is based on aggregate data, it is clear that only the macro-level effects are captured, and there, dovish central bank staff tends to dominate. Clarifying the direction and the magnitude of the relationship between job sectors and conservatism at the micro-level would open interesting avenues for further research.

After uncovering an empirical link between career paths and inflation, Adolph takes in the fourth chapter a closer look at the micro-level transmission channels, in particular the micro-foundations of the career-inflation link. This implies analyzing the different steps between the career background and the inflation outcome: the career background influences policy preferences, which matter for the individual voting behavior in the monetary policy committee, which determines interest rate policy and consequently the inflation rate. Adolph checks how the career background influences each of the intermediary steps: policy preferences, voting behavior and interest rate policy. Let us consider his analysis step by step.[11]

The first step is to check whether career backgrounds have an effect on policy preferences (at 136–139). Due to good data availability, Adolph focuses the analysis on the

[9] Richard Clarida & Mark Gertler, *How the Bundesbank Conducts Monetary Policy*, *in* Reducing Inflation: Motivation and Strategy 363 (Christina D. Romer & David H. Romer eds, 1997).

[10] Wendy Carlin & David Soskice, *German Economic Performance: Disentangling the Role of Supply-Side Reforms, Macroeconomic Policy and Coordinated Economy Institutions*, 7(1) Soc.-Econ. Rev. 67 (2009); Torben Iversen, Jonas Pontusson & David Soskice, Unions, Employers and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economies (2010).

[11] Adolph analyzes these steps in reverse order, which is slightly confusing.

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Federal Open Market Committee (FOMC) of the US Federal Reserve. He uses as proxy for policy preferences of US monetary policy makers their revealed interest rate targets. These are extracted from the published FOMC's Memoranda of Discussion. These discussions take place before the FOMC decides on its monetary policy action. A statistical analysis is performed which tests for an empirical relationship between revealed interest rate targets and experience scores, controlling for the state of the economy, partisanship, and elections.

The results show that FOMC members primarily form their policy preferences based on economic considerations, followed by their career background. The effect of career background on policy preferences for interest-rate setting is significant and goes in the expected direction for most career backgrounds: low rates are favored by doves and higher rates by hawks. One notable exception is the finding that former central bank staff is hawkish (at 138), which is at odds with the macro-level analysis performed in the third chapter. This calls again for further research on the country-level stories behind career effects on monetary-policy making. Are there different socialization processes in different central banks, so that some staffers are more conservative than others?

The second step is to check for a link between career paths and individual votes (at 128–136). Using the FOMC's voting record, Adolph models the probability of three voting possibilities: dissenting for policy easing (lowering the interest rate), dissenting for tightening (raising the interest rate), or voting in favor of the proposal. Voting takes place according to a majority rule. The three voting options are dependent on the state of the economy, partisanship and elections as well as career backgrounds and conservatism. The strongest predictor for dissenting votes is the career experience variable: "a central banker who spent his entire career in the financial sector dissents for tightness . . . 43 percent more often than the average central banker" (at 134).

Finally, the third step concerns the relationship between careers and interest rates (at 117–128). Here, the analysis moves back to the macro-level. The data ranges from 1973 to 2000 and comprises short-run interest rates, output gap estimates and inflation forecasts in twenty industrialized economies. The main result is that: "conservatism plays a key role in short-term responses to inflation shocks . . . . If expected inflation rises by one point, interest rates rise under any combination of institutions and preferences. But the hike is 0.25 points steeper under maximum conservatism compared to the minimum" (at 125).

The micro-foundations support the claim that career backgrounds have an influence on monetary-policy making and inflation. It has to be emphasized that the first and the second step are only based on US data. Voting records of central banks' monetary policy committees are often not publicly available, which makes it difficult to reproduce the micro-foundations of monetary policy. Further research on country-level narratives would, however, be required to check the validity of the macro relationship between career backgrounds and inflation.

The subsequent chapters (5 to 9) add a twist to the basic approach spelt out in the second and third chapter. Chapter 5 tests for career effects on inflation in developing countries. The following chapters extend the argument to take institutional contexts into account. Chapter 6 explores interactions between career conservatism, independence and wage bargaining centralization on inflation and unemployment, which the next chapter expands upon to include partisan government. Chapters 8 and 9 consider central banker appointment and central banker tenure respectively. Chapter 10 concludes with both theoretical and policy implications of the present work.

The book is mainly concerned with developing a new theory of central bank politics and policy implications are not its main focus. For completeness, let me briefly mention two. The first is a call for increased transparency about the backgrounds of central bankers, since the latter seem to be a good predictor of their monetary policy. A second and more concrete proposal is to ban central bankers from taking private banking jobs or money for a certain

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period after leaving public office, similarly to non-competition agreements observed in the private sector.

Adolph has written a timely book for students of monetary policy, central banking, and comparative political economy. The main messages are accessible to a wide audience and have implications not only for economics, but also for law and sociology. In my view, the most relevant policy message is that governments are able to influence monetary policy-making by being attentive to central bankers' career backgrounds. Institutional independence may be an important condition for price stability, but preferences of central bankers seem to be as important in determining the inflation outcome. This is an important finding at a time when central bank independence has been established across industrialized economies and their limited accountability has been criticized. Since monetary policy has distributive consequences, limited accountability is problematic in a democracy. Adolph's work suggests that the trade-off between inflation and real economic outcomes is still within the reach of politics.

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