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The press speculation that Mark Carney, Governor of Bank of Canada, has been approached to explore whether he might be a candidate for appointment of Governor of the Bank of England (BoE) has raised the issue whether the Governor of a major central bank must be a domestic national (see several articles in the Financial Times, April 18 and 19, 2012).

The position of the Governor is technocratic and nationality has no role to play. Nevertheless, the appointment of foreign national as central bank Governor is extremely rare in developed countries. The only current case is Stanley Fischer, Governor of the Bank of Israel (BoI), a US national who, however, became an Israeli citizen before taking office. Recently the Reserve Bank of New Zealand (RBNZ) advertised the position of Governor without a citizenship requirement.

The notion that independent central banks make better policy is well accepted and central bank independence has risen across the world in the last twenty years (Crowe and Meade, 2008a).[1] The literature has focused on it as a means to improve inflation outcomes. Rogoff (1985) highlighted the benefits of appointing a conservative central banker. The literature subsequently evolved (see Walsh (1995) and Persson and Tabellini (1993) among others) to focus on institutional design, in particular on the optimal contract between the government and the central banker.

In the literature, the nationality of the Governor is not discussed and the potential costs and benefits of appointing a non-national not addressed. Why does that happen so rarely? The obvious concern is that the appointment of a foreigner might not be well received by the public and would raise the risk that the central bank's policy decisions in- and outside of monetary policy would be seen as lacking legitimacy and therefore lose effectiveness. There are several reasons why this may be the case.

The first reason is surely national pride. This is why a threat of a foreign takeover of a firm considered a national champion (Danone in France, Autostrade in Italy, among others) raises concerns about losing a national symbol and identity. But it is difficult to understand why national pride is important in central banking in light of the practice of appointing foreigner managers of large firms and national football teams (as previously in the UK and currently in Ireland). Perhaps the reason is that in these latter cases performance really matters and dwarfs the significance of nationality?

A second reason may be that appointing a non-national will be perceived as a loss of national control of monetary policy. However, the Governor's influence over monetary policy decisions is typically limited by the presence of a monetary policy committee. Furthermore, the appointment of a foreigner who is not beholden to domestic lobbying groups or political parties could insulate monetary policy from outside pressures. This may be particularly relevant in the current economic situation. While the threat of high inflation is currently limited, it might reemerge when an exit from quantitative easing is contemplated. Bond markets might expect, then, policy makers to be tempted to inflate away high public and private debts.

A third reason might be a concern that a non-national may lack knowledge of domestic economic and political conditions or the necessary language fluency for communicating with the public. He may therefore come across as remote and uninformed, harming the credibility of the central bank's policy decisions. But, of

[1] See Crowe and Meade (2008b) for updated results on the effect on inflation.

course, no foreign applicant would be appointed without a thorough knowledge of the financial system and the required language fluency. Thus, these arguments seem not compelling.

Furthermore, there are good reasons for enlarging the pool of potential applicants by considering also non-nationals, since it improves the chances of finding a suitable candidate. This is particularly so since central banks have evolved into highly complex institutions, requiring the Governor to have a rare set of skills. Recruiting a non-national should be seen an opportunity to benefit from people with different experiences and skills and not be interpreted as a sign of the lack of domestic expertise.

Interestingly, the BoE, the BoI and the RBNZ are all inflation targeters. Perhaps it is more acceptable for central banks using this policy framework – which entails a high degree of independence of the central bank, a highly technocratic profile, and high level of transparency and accountability – to appoint non-nationals as Governors.[2]

## Conclusions

The idea of appointing a non-national as Central Bank Governor remains surprisingly controversial. Nevertheless, given the skills required by the Governor in order to manage what no doubt are increasingly complex institutions, considering non-nationals makes good sense for at least two reasons. First, increasing the pool of candidates to include those with broader skills and backgrounds makes it easier to find a suitable person for the job. Second, non-nationals are less likely to be beholden to domestic pressure groups and could help better insulate the central bank from political pressures.

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[2] See Posen (2002) for a review.