

# A research patronage: The Banque de France Foundation for Economic Research

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*5 June 2019*

<sup>1</sup> The views expressed in this presentation are my own and do not necessarily reflect the opinions of the Banque de France or of the Banque de France Foundation.

# Overview

- I. Introduction
- II. General comments on patronage
- III. Examples of research patronage by Central Banks
- IV. The Banque de France Foundation for Economic Research
- V. What strategy for a research patronage?

# Research function at Central Banks

## Why research at central banks?

1. To support the policy process with skills of academic standards;
2. Academically oriented economists can model economic circumstances not ordinarily, if ever, encountered and develop strategies for dealing with them;
3. To attract and enhance human capital;
4. Contribute to the credibility and reputation of the central bank by improving its communication with the public and other policy-making institutions

Many central banks hence have an **in-house research activity**:

- Researchers can be a sizeable share of the workforce (more than 100 at either the ECB, Banca de Italia or Banque de France)
- Publications in academic journals, working paper series, organize conferences and so on...

# Questions we are going to answer

- How does a research patronage depart from in-house research?
- What is patronage? Charity? Sponsorship?
- What are the underlying reasons? What are they meant for?
- How do Central banks organize their research patronage
- What is the Banque de France Foundation? What are CEMFI and EINAUDI? Why do they differ in their activities?

## **II. General comments on patronage**

# Definitions: patronage and sponsorships

## Patronage (FR: *mécénat*)

- *“**Patronage** is the support, encouragement, privilege, or financial aid that an organization or individual bestows to another.”*  
(Wikipedia).
- Patronage is often related to philanthropy when it follows the social welfare:
  - A **charitable organization**, or **charity**, is a non-profit organization whose primary objectives are *philanthropy*. Charitable organization must follow the public interest.

## Sponsorship (FR: *parrainage*)

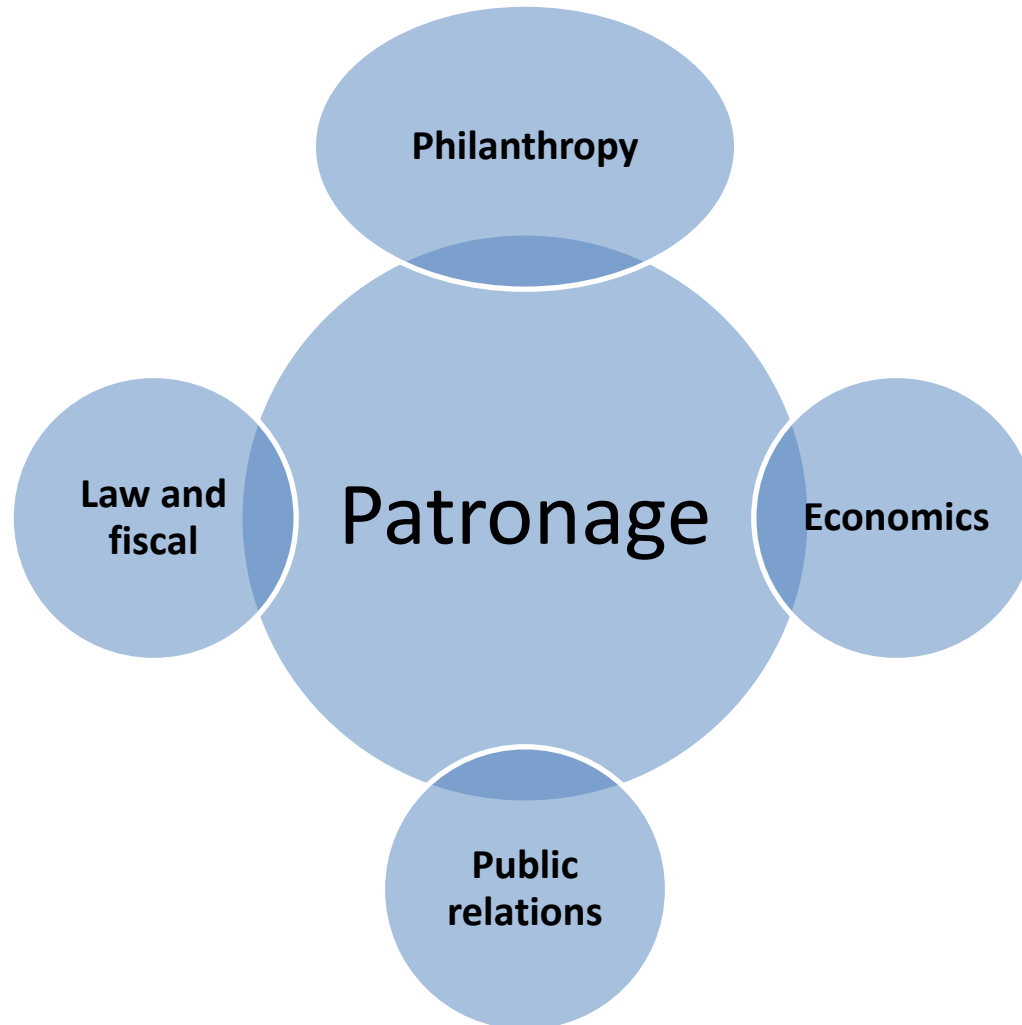
- *“**Sponsorship** is a cash and/or in-kind fee paid to a property (typically in sports, arts, entertainment or causes) in return for access to the exploitable commercial potential associated with that property. While the sponsoree may be nonprofit, unlike philanthropy, **sponsorship** is done with the expectation of a commercial return.”*  
(Wikipedia)
- Sponsorship is close to advertising
  - But differs from it since sponsorship can not communicate specific product attributes

## Example: *La Française des Jeux* has both sport related sponsorship and patronage activities

- *La Française des jeux* (FDJ) is a French public firm with the monopoly on lottery and sports betting games
- **Sponsorship:** FDJ is one of the oldest sponsors of professional French cycling teams. The FDJ.fr team won numerous victories and French championship titles
- **Patronage:** The **FDJ Foundation** organizes
  - partnerships with associations to promote integration of disabled people through sport,
  - the FDJ Corporate Foundation Challenge,
  - mass sport events that bring together a huge number of people to fund charities (for instance *le Secours Populaire*)



# Patronage: at the crossing of contradictory principles



# The philanthropic logic

- Patronage is an altruistic action : improvement in the social welfare prevails!
- Hence sponsor are expected to provides a **discreet support**, since pure philanthropic actions are hard to showcase
  - What credibility for the sponsor's philanthropic commitment if he appears to use it for marketing reasons? Ethical washing?
- The actions are expected to be in the general interest. To what extent people who benefit from a patronage activity do not belong to a **restricted group of people**?
  - Either fan of contemporary art, connoisseur of modern jazz, stormtroopers fond of easter eggs ....



# Law and fiscal logic

- States often provide fiscal incentives in favor of patronage...
  - FR: firms can deduce from corporate tax from 40% to 90% of the funds used for patronage
- Hence what can be considered as patronage activities is defined in the law:
  - FR: *“le soutien matériel apporté, sans contrepartie directe de la part du bénéficiaire, à une oeuvre ou à une personne pour l'exercice d'activités présentant un intérêt général.”*  
(Arrêté du 6 janvier 1989 relatif à la terminologie économique et financière)
  - EN: “The material support provided, without any direct reward from the beneficiary, to a work or a person for the performance of activities of general interest.”

(Tentative translation of the Arrêté du 6 janvier 1989 relatif à la terminologie économique et financière)



# Economic logic

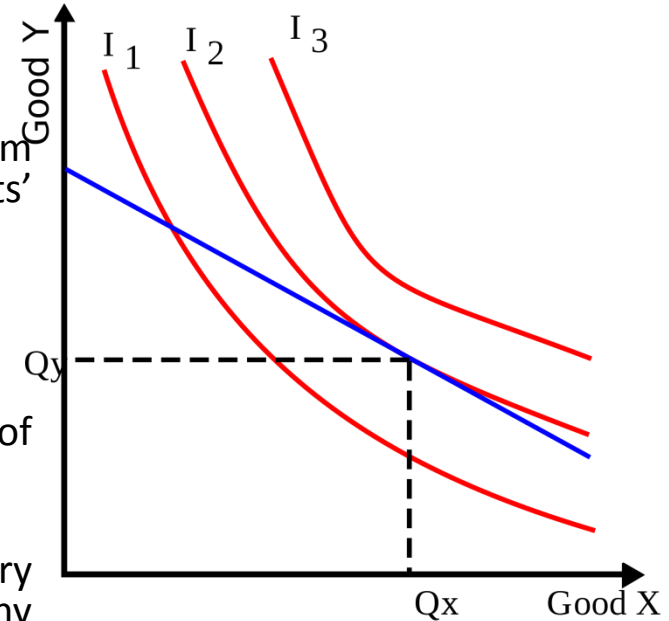
- A rationale agent expects that the **return on an investment is above its' cost**

- Milder view: A rationale firm expects some feedbacks from its patronage activities, for instance an improvement in its' corporate image or public relations

- **Conflict** could arise :

- with the philanthropic logic: patronage is no longer free of reward
- with the law, since a direct reward from the beneficiary qualifies for sponsorship rather than patronage. This is why acknowledgements are restricted to the name of the patron, while referring to specific products is forbidden in patronage.

- Still, some studies document that firms with philanthropic activities enjoy a higher recognition by consumers (Smith, 1994) and generally face a more positive attitude (Campbell et al., 1994)



# Example: difference between marketing and patronage activities



- A car manufacturer is famous for **developing new technologies** and implementing them in its' cars. It funds a museum on innovation for years and is willing to make it known to a broad audience
- An insert in a car magazine, explaining that the manufacturer is proud to support this museum, can be considered as **patronage**
- Advertising for a new car in the museum is **marketing**
  - Possible to rent some space in the museum to show a new car, but the related expenses cannot be considered as **patronage expenses** from a fiscal point of view.

# The public relation logic

- Patronage is often presented as one component of a firm **social responsibility**,
  - see for instance BdF annual report, where the actions by the BdF Foundation are the chapter dedicated to social responsibility, section on commitment toward education
- From this perspective, the choice of a patronage activity has to **match with the patron activity and strategy**
  - Cartier and LVMH, prominent French actors of the industry of luxury goods, fund in priority cultural activities, thus exalting **creativity and rarity**
  - Axa, a French insurance company, funds humanitarian actions to show **compassion** and its commitment to help the others after a hazard
  - Mobil, Exxon and Total fund actions in favor of the **environment** (defensive strategy)
  - Remember the kings or the Medicis, also patrons of the arts because of their **political strategies**



### **III. Some examples of research patronage by central banks**

# Summary

- **Most central banks** support economic research through a patronage activity
- **Similarities:**
  - Field supported often include monetary economics and finance
  - Tools: research grants, prizes, conferences or training programs...
  - Organization implies 2 organs, one that is scientific and another more administrative
- **Differences :**
  - Direct patronage activity or through a charity/foundation, legal status, organs ...
  - Budgets
  - Procedures: screening processes, amount and lengths of research grants, reporting and follow-up of the projects...

# Germany: Stiftung “Geld und Währung” (Monetary Stability Foundation)

- **Aim:** *“to maintain and promote public awareness of the importance of stable money.”*
- **Actions:**
  - Funding of training programs:
    - a competence Center of the Goethe-University in the field of "Money, Currency and Financial Stability" (IMFS)
    - two graduate programs, a graduate college of the Goethe University Frankfurt am Main and a joint program of the universities of Jena and Halle.
  - Supports **individual projects** on a case-by-case basis. However, the funds available for this purpose are narrowly limited.
- **Organs:** a board of trustees, an executive board, administration provide by a GmbH
- **Links with the central banks:** An external entity to the Bundesbank, but Bundesbank staff involved in the organs

# Spain: Center for Monetary and Financial Studies (CEMFI)

- **Aim:** *“developing graduate education and research in economics.”*
- **Actions:**
  - Funds a graduate program, a master in banking supervision, a Ph. D. program, undergraduate summer internships, a summer school...
  - Run seminars, conferences, a working paper series
  - Funds a faculty of seventeen professors plus administrative staff
- **Organs:** CEMFI is a non-profit foundation. There is a Board of Trustees, an Executive Commission and a Director.
- **Links with the central banks:** Banco de Espana represented in the Board of Trustees and the Executive Commission.

# Italy: Einaudi Institute For Economics and Banking

- **Aim:** *“produces world-class research, with an emphasis on policy relevant topics. It also aims to improve the quality of higher education in economics and finance in Italy.”*
- **Actions:**
  - Funds a graduate program
  - Hires professors, assistant professors and researchers
  - Run seminars, conferences, Special Lectures, a working paper series
  - Fund visiting positions, research grants (for researchers based in Italy),
- **Organs:** A Board of Trustees, a President, a Director and a Board of Auditors
- **Links with the central banks:** Banca de Italia represented in the Board

# Switzerland: Study Center Gerzensee

- **Aim:** *“The Study Center Gerzensee offers courses to central bank economists from all around the world. We strive to provide courses of the highest quality and relevance to central bankers.”*
- **Actions:**
  - Provide courses to central bank economists from all around the world, doctoral courses
  - Run conferences, a working paper series
- **Organs:** A Foundation Council
- **Links with the central banks:** Swiss National Bank represented in the Council

# England: Bank of England

- **Actions:**
  - **Research funding:** *“We are willing to consider[...] to external research funding bodies for those research proposals that are of particular relevance and promise for our own research agenda.”*
  - **Houblon-Norman and George Fellowships:** *“Our fellowships will enable successful applicants to engage in full-time research on an economic or financial topic of their own choice, preferably one that it would be particularly beneficial to study at the Bank of England. When they consider applications, the trustees will pay particular attention to how relevant the research is to current problems in economics and finance.”*
- **Organs:** directly managed by the Bank of England, but the both fellowships funds are administered by trustees, on the advice of an expert committee.
- **Links with the central banks:** an internal organ of the Bank of England

## **IV. The Banque de France Foundation for Economic Research**

# Brief history

- **Early 90's:** Idea to set up an economic research foundation, with a view to strengthening ties between monetary authorities and the world of academia.
- **1992:** Project approved by the Banque de France General Council
- **1995:** Banque de France Foundation for Research in Monetary, Financial and Banking Economics was recognised as a public interest organisation. Initial endowment of 1,5 million EUR.
- **2005:** Capital increased further by 6.7 millions EUR.



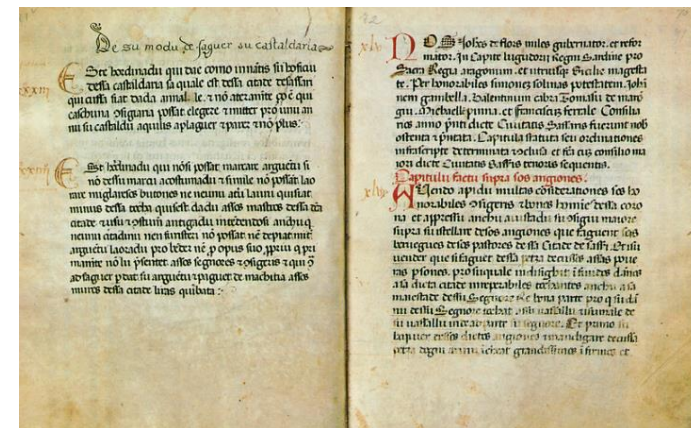
# What aim and how to reach it?

Foundation's statutes are clear:

**Article 1 :** *“to promote theoretical and applied research in the field of monetary, financial and banking economics.”*

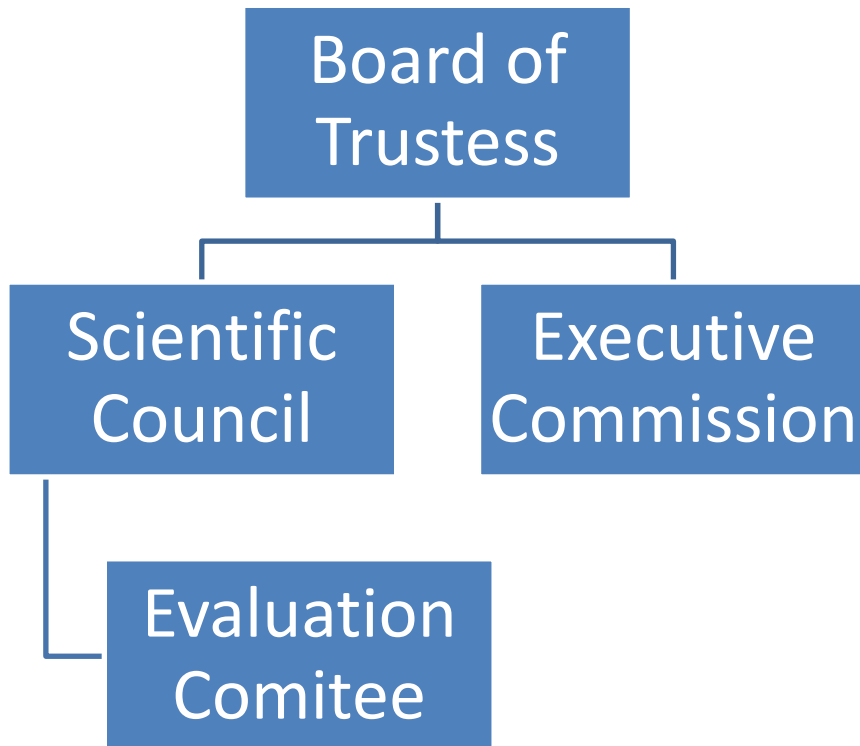
**Article 2 :**

- *“provision of research grants to researchers working on monetary, financial or banking issues;*
- *provision of financial subsidies to university, public or private research bodies specialising in monetary, financial or banking issues;*
- *organisation of conferences, seminars, symposiums and other events on topics relevant to monetary, financial or banking research;*
- *publication of documents or works intended to disseminate monetary, financial or banking research. ”*



# Organization

Since it is a public interest foundation, its organization is regulated. The organization involves:



- A **Board of Trustees** (10 members), in which the Banque de France is in minority. Other members are either selected due to their academic credentials, or delegates from ministries.
- A **Scientific Council** (~ 12 members), invited thanks to their knowledge in monetary, financial or banking economics. Mandate are of 3 years.
  - An **Evaluation committee** of 6 members, involved in the screening of applications to research grants.
- An **Executive Commission** (“Bureau de la Fondation”), in charge of daily business

# Research grants

- A budget of **EUR 120 000** is allocated every year in at most four grants.

## Counterparts:

- one **paper** suitable for submission to a major journal.
- to **acknowledge** the Banque de France Foundation's financial support in any subsequent publication of their research.
- Laureates commit to present their work at a **seminar** at the Banque de France in the two years following the award ....
- ...and at a **conference** organised by the Banque de France Foundation',
- A member of the research team should commit to visit the Banque de France or any other research center (University, administration) located in France, for a minimum of one week.

## Topics of interest :

- **Monetary Policy & Prices** : Monetary Policy Strategy under uncertainty ; integration of financial variables ; micro data and nominal rigidities ; interaction with fiscal policies ; exchange rate policies ; unconventional monetary policies and exiting
- **Potential Growth** : productivity, rigidities, structural reforms
- **Financial Stability** : competition, liquidity, pro-cyclicality ; macro-prudential regulation; risk assessment (systemic; individual institutions) ; financial crisis and resolution ; financial regulation
- **International Macro** : global imbalances ; international coordination ; globalisation and growth, globalisation
- **Financial institutions and financial markets**: risk assessment; investment banking ; corporate finance; capital structures, financial innovation

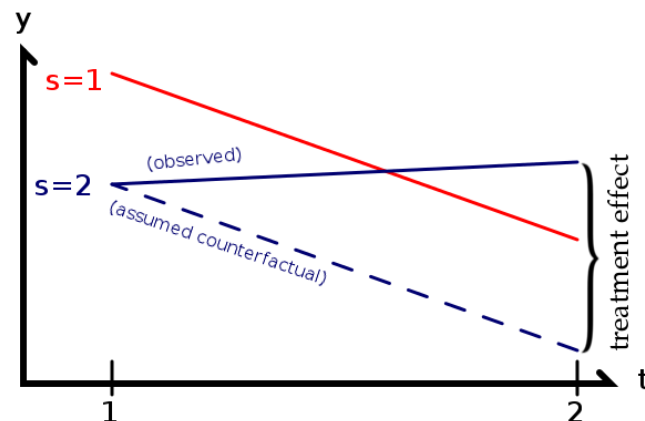
# Research grants : impact

## Results:

- Close to 100 grants have been provided over the last 21 years, to about 200 different researchers affiliated with about different 100 universities and research centers.
- Funded projects are published in the *American Economic Review*, *Journal of Finance*, *Quarterly Journal of Economics*, *Review of Economic Studies*....

## Effects:

- Hard to establish a clean **counterfactual**, what we know is that:
  - Funds are typically used to buy data, computers, sojourns of co-authors abroad, organize events...
  - Grants are sometime viewed as an award/distinction
- Clearly the action that contributed the most to the **Foundation's renown**



# Research grants : proceedings

1. A **call for proposals** is circulated, asking for a research project, a budget and authors CV
  2. A **first assessment** is performed by the Evaluation Comitee, upon examination of the application forms
  3. A **first screening** is performed by the Board of Trustees
  4. Selected applications are presented to the Evaluation Comitee during a **seminar**
  5. **Final selection** performed by the Board of Trustees
- This iterative procedure :
    - Warrants a nice blend between the academic standards and the Foundation's strategy;
    - Mitigates potential conflicts of interest.

# Helping young researchers : 1) the Thesis Prize

- Created in 2001, especially a honorary distinction but also a prize of € 3 000.
- Action that is **joint with the French Economic Association**:
  - Both the French Economic Association and the Banque de France Foundation award one Ph. D. prize;
  - Spirit of cooperation rather than competition:
    - The BdF Foundation contributes to funding the AFSE prize;
    - Some expert members from the AFSE take part in the jury to select the laureate of the BdF Foundation prize.
  - Both prizes are typically awarded during the annual meeting of the French Economic Association



# Helping young researchers : 2) the Young Researcher in Economics Prize

- Set up in 2008, open to economists who:
  - holds a PhD for less than 6 years and
  - are affiliated to a university or a research center located in France
- The Prize consist in :
  - a financial award (€ 3 000)
  - The funding of a partial teaching release (max 80 hours of lectures), every year for 2 years;
- 2-3 laureates were selected every year at the onset, slowdown to 2 laureates every 2 years since 2015 to preserve the elitist value



# Visiting Scholar program

- Set up in 2004, academics selected by a tender procedure are invited to stay from **1 to 3 weeks** at the BdF.
  - Shorter than many visiting scholar implemented by universities, whose duration is more in line with half a year or an academic year;
  - 1-3 weeks is appropriate to devise a research project with the local research team, convey exploratory analysis, present other ongoing projects in seminars or coordinate on the revision of an existing project
- Typically, about **10 researchers are invited every year**. About one third from the US, remainder mostly from other countries in Europe

# Congresses

- **Conferences** are typically opportunities to discuss ideas and fine-tune paper, with a view to getting published in academic journals
- The Foundation organizes every year :
  - a **Joint Conference** with the Institut Louis Bachelier to showcase the outcome of the research projects funded by either institution
  - A **Joint Macro Workshop**, joint with Ecole Polytechnique / CREST, Sciences Po, TSE. It is also a commitment toward young researchers since around half of the papers presented must be by researchers who have held their PhD for less than six years
- The Foundation also funds conferences and workshops
- The Foundation supports the CEPR, EEA, French Economic Association, French Finance association...



## **V. What strategy for a research patronage?**

# Economic research : an out of favour patronage?

- **Research patronage ranks only 9**, after supports to more traditional activities such as sport or cultural events (source: Admical survey 2016)
  - An action for only 5% of firms with a patronage activity, accounting for ~ 9% of total patronage budget overall
- For a firm willing to engage in a patronage activity, **research is not a natural choice** because:
  - Difficult to popularize a research project;
  - it takes time before any outcome;
  - positive outcome is not guaranteed;
  - hence more difficult for a firm to communicate on this patronage than on sports or cultural events!
- In addition, the impact of **economic research** is hard to assess: assessment of a research for a vaccine is easier than a research to fight deflation...

# Back to basics: a patronage activity has to match with the sponsor!

- A patronage activity has to fit with the sponsor :
  - **history** : entering a research patronage can be made easier if relationships already exist with universities or research institutions, as they can help to disseminate call for tenders, would be willing to contribute to a scientific council...
  - **workforce**: a local research team can be involved for instance in some steps of the screening processes, to welcome visiting scholars or would be interested in the organized conferences
  - **overall strategy**:
    - one of the aim of the EINAUDI is to reverse the brain-drain
    - Training programs can be of higher priority in a central bank strategy than research
  - **Location**: a local branch can hardly act on an international level
  - **Budget**
  - **Time horizon**: building an image takes time

# Who can support economic research?

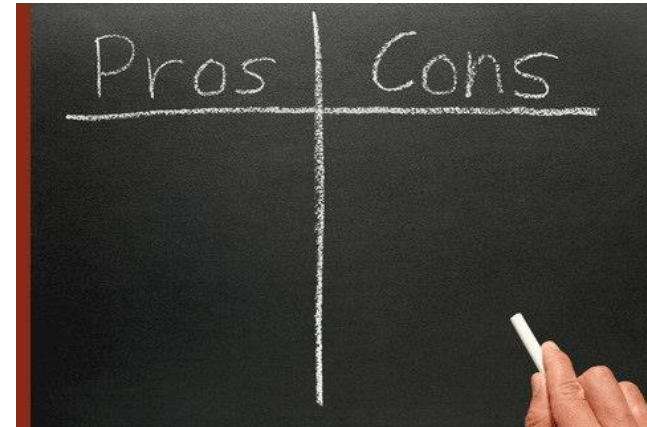
- Strong arguments for assigning patronage for economic research to **central banks**:
  - Central bank economic expertise;
  - Long-term view;
  - Committed to social welfare;
  - Central bank independence could reduce political interference.

# Patronage vs in-house economic research

- In-house economic research and research patronage are not **substitute** : while the first has to support the policy process, the second can only support it indirectly via an overall improvement of knowledge
- Similarly, **complementarities** should not be overstated :
  - For sure it is easier to develop patronage for economic research if there is already an in-house expert group related to the academia (who would think about supporting baroque music without relying at some point on any expert in baroque music?);
  - if one is willing to develop a workforce of researcher, better to invest directly in it rather than go through an indirect and convoluted process involving patronage.

# Coordination

- Interactions between in-house research and patronage will depend on how perfectly each can pursue its primary goal and the “side effects” that each has on the other.
  - **Good spillovers**: new interactions hence new ideas for projects, new coauthors, discussions leading to improvements in the papers, higher-level seminar series, a better renown research group
  - **Bad spillovers**: **time** allocated to committees, to monitor screening processes, to perform the administrative daily business, misallocation of **funds**, **duplicated events**.
- Drawbacks can be addressed by an **effective design**:
  - Separate research structures and patronage structures (e.g.: dedicated units inside the Central Bank, external Foundation);
  - Separate communication strategies on the research output produced by each activity



# Conclusion

- Patronage on economic research is welfare enhancing and lead to better macroeconomic outcomes.
- However, not possible to operationalise a patronage activity to the same extent as in-house research: a research patronage can **hardly compensate** for the lack of a research department.
- Degree of interaction will depend on a number of factors, notably the effectiveness of the patronage in reaching its various and potentially **contradictory objectives**.
  - A high degree of **coordination** is advisable as it can generate positive spillovers (at least mitigate the negative ones)

**THANK YOU FOR YOUR ATTENTION!**