



NORGES BANK

On making good decisions

A collection of articles based on presentations
at a seminar arranged by Norges Bank and
the Norwegian Academy of Science and Letters

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NORGES BANK OCCASIONAL PAPERS No. 43

On making good decisions

A collection of articles based on presentations at a seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 9 November 2010.

The articles were published in *Nytt Norsk Tidsskrift* 2/2011 (in Norwegian). Only minor revisions have been made in the English translation.

Oslo 2011

On making good decisions

A collection of articles based on presentations and plenary debate at the third seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 9 November 2010. The articles were published in *Nytt Norsk Tidsskrift* 2/2011 (in Norwegian). Only minor revisions have been made in the English translation.

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Introduction

From 2008 onwards Norges Bank and the Norwegian Academy of Science and Letters have arranged a series of annual seminars on selected topics of general interest for a wide audience. The topic for the seminar in 2008 was “*On keeping promises*” and the topic in 2009 was “*On transparency*”. The third seminar in this series was arranged on 9 November 2010 and this time the topic was “*On making good decisions*”. Proceedings from the seminars have been published in Nytt Norsk Tidsskrift (in Norwegian). The articles have been translated into English and published in Norges Bank Occasional Papers [see link to

<http://www.norges-bank.no/en/about/published/speeches/the-norwegian-academy-of-science-and-letters/>].

Deputy Governor Jan F. Qvigstad, Norges Bank, gave a speech about the topic and there were two invited commentaries reflecting views from an academic theorist (Aanund Hylland, University of Oslo), and a practical decision maker (Ingelin Killengreen, Police Commissioner) respectively. Trine Eilertsen, editor-in-chief of Bergens Tidende, reflected on good decisions during the seminar dinner. All four articles were published in Nytt Norsk Tidsskrift 2/2011. The articles have been translated into English by Helle Snellingen, with contributions from the staff translators at Norges Bank.

Norges Bank is grateful to the editor of Nytt Norsk Tidsskrift for permission to produce an English translation of the articles. We have also included a lightly

edited transcript of the plenary debate at the seminar which offers a broad range of views and perspectives on the making of good decisions.

It is our hope that this booklet will provide food for thought and stimulate the readers to reflect on a topic which concerns many of us on a daily basis. Norges Bank is also happy to announce that we are en route in our preparations for the fourth seminar in this series. The topic for the 2011 seminar will be “On managing wealth”.

Oslo, June 2011

Øyvind Eitrheim

On making good decisions

Jan F. Qvigstad*

Introduction

When Hans Rasmus Astrup was appointed minister in Johan Sverdrup's government in 1885, he sold his business in Stockholm and moved back to Norway. As I mentioned in my lecture here two years ago¹, Astrup was at the time perhaps Norway's wealthiest man. On his return to Norway, he needed a place to live, bought a plot of land here in Drammensveien and decided to build the house we are sitting in now.

The question might be raised whether it was a good decision to build such a large and ostentatious house. But Astrup was not just looking for a home for his family. The house was also intended to provide a venue for interdisciplinary and political discussions.²

We all make many decisions every single day, some more important than others. And we all presumably want these decisions to be good ones. But how can we ensure that a decision is good? This is a weighty and far-reaching

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¹ The lecture "On keeping promises", commentaries by Endre Stavang and Henrik Syse and Francis Sejersted's summary of the debate are published in Norges Bank Occasional Paper No. 39 (2009):

http://www.norges-bank.no/Upload/75326/39_On_keeping_promises.pdf

² Kim Gunnar Helsvig (2007): *Elitisme på norsk. Det Norske Videnskaps-Akademi 1945 -2007* [Elitism in Norway. The Norwegian Academy of Science and Letters 1945-2007], Novus forlag, Oslo, pp. 18-19.

question. If I am to make meaningful contribution, I will need to limit my focus.

Norges Bank makes many decisions. The monetary policy decisions every six weeks are awaited with particular interest. Based on my experience from interest rate decision-making, I will focus on how the quality of a decision can be assessed. Even though I am speaking from my own perspective, I hope I am able to touch on more general issues that are of wider relevance.

Independence provides a sound framework for interest rate decisions

Most countries have now delegated the task of ensuring price stability to the central bank. This is also the case in Norway. The government has set an inflation target for monetary policy and delegated the operational conduct of monetary policy to Norges Bank.³

This framework can be regarded as an institutional solution to the problem of avoiding major mistakes. An independent central bank is better able to give priority to long-term interests over short-term gains.

That it is tempting, but dangerous, for a government to focus on short-term gains was a lesson Greek politicians learned this spring. Government spending exceeded revenues over a long period. Accounts and official statistics were fudged. Politicians may have hoped to secure a quick admission for Greece into the euro area, with the advantages this would bring. They may have also believed that high government spending and low taxes might help their re-

³ See *inter alia* Report No. 29 (2000-2001) to the Storting, Guidelines for economic policy, Ministry of Finance, and the Regulation on Monetary Policy of 29 March 2001.

election prospects. Instead, they now have to steer the country through harsh reforms and substantial cuts.⁴

The Norwegian economist Finn Kydland received the Nobel Prize for economics in 2004 for having shown that on the whole, monetary policy decisions are better if policymakers delegate interest rate setting to an independent central bank under a clear mandate.⁵ As a central bank we must adhere to the mandate we have been given and be able to set the key rate based on a professional assessment.⁶ This is a system that lays a solid foundation for making good decisions.

We make decisions under uncertainty

Independence alone does not guarantee good decisions. Even if an independent central bank is better positioned to avoid having short-term expediency and changing preferences dictate interest rate policy, its decisions must be made under considerable uncertainty.

⁴ The euro area operates under rules intended in principle to facilitate long-term policy choices. The Maastricht criteria require participating states to keep fiscal deficits and public debt within defined limits. Recent history has shown that this framework must be reinforced through sanctions. Decision-makers need an incentive to comply with the rules in practice.

⁵ See Finn E. Kydland and Edward C. Prescott (1977): "Rules Rather than Discretion: The Inconsistency of Optimal Plans", *Journal of Political Economy*, 85, no. 3, pp. 473-491.

⁶ See Arne Kloster and Kristin Solberg-Johansen (2006): "Forecasting in Norges Bank", *Economic Bulletin*, 3/2006, Jarle Berge "Interest rate projections in theory and practice" (speech at the Foreign Exchange Seminar of Norwegian Economists on 26 January 2007). Available at: <http://www.norges-bank.no/no/om/publisert/foredrag-og-taler/2007/speech-2007-01-26/>) and Svein Gjedrem "Inflation targeting – some theory with main focus on practice" (speech at the Centre of Monetary Economics/Norwegian School of Management on 8 June 2004. Available at: <http://www.norges-bank.no/en/om/publisert/foredrag-og-taler/2004/2004-06-08/>)

We have imperfect knowledge about the state of the economy, nor are we absolutely certain of how economic relationships function. Alan Greenspan, the former Chairman of the US Federal Reserve, described this in the following words:

*“Uncertainty is not just an important feature of the monetary policy landscape; it is the defining characteristic of that landscape.”*⁷

Sometimes, the nature of the uncertainty allows one to draw inferences regarding the probabilities of different outcomes. It is possible, in other words, to judge the risks one is facing, at least to a certain degree. In that case, decisions can be made on the basis of a calculated risk, which is an approach underlying theories of equity investment,⁸ for example.

But the financial crisis reminded us that keeping the overall risk picture in view may be difficult. When Queen Elizabeth visited the London School of Economics in autumn 2008 she asked why no one had foreseen the crisis. The British Academy Forum replied to the Queen in a letter six months later. Included in the letter was the following:

“One of our major banks, now mainly in public ownership, reputedly had 4000 risk managers. But the difficulty was seeing the risk to the system as a whole

⁷ In Alan Greenspan’s opening remarks to the Jackson Hole symposium in 2003, available at: <http://www.bis.org/review/r030905a.pdf>

⁸ See for example William F. Sharpe (1964): “Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk”, *Journal of Finance*, vol. XIX, no. 3 and Harry M. Markowitz (1952): “Portfolio selection”, *Journal of Finance*, vol. XII, no.1.

*rather than to any specific financial instrument or loan (...) They frequently lost sight of the bigger picture.”*⁹

In setting the key policy rate, too, we often face more fundamental uncertainty, where it is very difficult to calculate probabilities for possible scenarios.¹⁰ In decision situations like these, it may be appropriate to establish routines that can guard against especially severe consequences.

Many might believe that since Norges Bank's key policy rate is set every six weeks, there might be scope for correction should it transpire that economic developments were not as expected. To a certain extent this is the case. But since it takes time for the effects of our decisions to come into evidence, our scope for correction is in reality rather narrow. Setting the key rate at an inappropriate level for a period of time may have serious consequences for the Norwegian economy.

Without complete and reliable information at our disposal, it is easy to err. A number of studies have shown that in such situations humans often resort to more or less qualified guesses, gut feelings or rules of thumb.

Allow me to offer an example involving distance judgement. Ordinarily, the closer an object is, the more clearly we will see it. Thus, if they see an object clearly, most people will perceive it as nearby. But when the astronauts landed on the moon, they had great difficulty judging distances, nearly always

⁹ The letter from the British Academy to the Queen is available at: <http://media.ft.com/cms/3e3b6ca8-7a08-11de-b86f-00144feabdc0.pdf>

¹⁰ See Frank H. Knight (1921): *Risk, uncertainty, and profit*, Hart, Schaffner & Marx; Houghton Mifflin Co, Boston.

underestimating them. The reason was that visibility was unusually clear and they were in a landscape without known references.¹¹

One approach to uncertainty is to do what others do in similar circumstances. The UK decided to abandon the gold standard in summer 1931. In practice this meant a devaluation of the pound sterling against the US dollar. A few days later, Norway and the other Nordic countries decided to follow suit. History has shown that the countries that devalued in 1931 weathered the depression better than those which did not.¹² Following the British lead was a decision that produced a good outcome.

In 1949 there was a new sterling devaluation, this time 30 per cent against the US dollar. As in 1931, the Norwegian government announced that the value of the krone would be lowered correspondingly¹³. But unlike at that time, the

¹¹ See the article “Fotspor med historie” [Footsteps with history], *Aftenposten*, 8 July 1989 and Rod Pyle (2007): *Destination Moon: The Apollo Missions in the Astronauts' Own Words*, Harper Paperbacks. For further discussion and additional examples, see Thomas Gilovich, Dale Griffin and Daniel Kahneman (2002): *Heuristics and biases. The psychology of intuitive judgment*, Cambridge University Press.

¹² See the discussion in Tore Jørgen Hanisch, Espen Søylen and Gunhild Ecklund (1999): *Norsk økonomisk politikk i det 20. århundre. Verdivalg i en åpen økonomi*, [Norwegian economic history in the 20th century. Ethical choices in an open economy] Høyskoleforlaget, Kristiansand.

¹³ The government had discussed how Norway should respond to a British devaluation. However, they had not reached a final conclusion and the government was split. The Minister of Trade and Industry at the time, Erik Brofoss, advocated following UK actions to the full, and was supported in this view by Gunnar Jahn, the director of Norges Bank. They feared a substantial loss of competitiveness if Norway was the only one among its trading partners not to follow the sterling devaluation. When the magnitude of the UK devaluation became known, Gunnar Jahn was attending the annual meeting of the IMF in Washington DC. He had received provisional authorisation from the government to inform the IMF that Norway would follow a moderate British devaluation. The expectation was a sterling devaluation of around 20 per cent. However, Erik Brofoss had informed Jahn that he favoured following the UK move regardless of how much they devalued. At an IMF dinner on the evening of 16 September Jahn received a business card with the date “18 September”, the number “30.5” and the words “Tell Bramsnæs” written on it (Bramsnæs was the director of Danmarks

level of activity in Norway was now high, and demand pressures were elevated. The krone devaluation triggered high inflation.¹⁴ This time, the rule “do what the UK does” contributed to a less favourable outcome.¹⁵

Groups often make better decisions than individuals

So what steps can we take to ensure that important decisions are the best they can be, even if they have to be made under uncertainty?

In his novel *L*, Erlend Loe discusses advantages and drawbacks of different decision systems. The author-narrator has embarked on an expedition to a South Pacific island with six companions. On the island they experiment with different forms of social organisation. After the group tries despotism,

Nationalbank, who was also attending the IMF meeting). The business card revealed the date and magnitude of the British devaluation. It was a busy night. Jahn sent a telegram to Brofoss where he recommended that Norway devalue the krone to the same extent as the UK. By then the Ministry of Trade and Industry had already been informed of the UK decision through official channels. Then, without first consulting with the other members of the government, Brofoss decided that the Norwegian krone should be devalued by 30.5 per cent. After being instructed by Brofoss, Gunnar Jahn informed the IMF of the decision on behalf of the Norwegian government in a letter dated 17 September. See Gunhild J. Ecklund (2008): “Creating a new role for an old central bank: The Bank of Norway 1945-1954”, Series of Dissertations 2/2008, BI Norwegian School of Management, pp. 141-143 and William Jansen (1975): “Devalueringen i 1949” [The devaluation of 1949], History thesis, NTNU, Trondheim.¹⁴ For more on the background for these decisions, see Gunnar Jahn, Alf Eriksen and Preben Munthe (1966): *Norges Bank gjennom 150 år*, [Norges Bank through 150 years] Norges Banks seddeltrykkeri, Oslo and Nicolai Rygg (1950): *Norges Bank i mellomkrigstiden*, [Norges Bank in the interwar period] Gyldendal Norsk Forlag, Oslo.

¹⁵In 1965 the former director of Statistics Norway Odd Aukrust assessed the successes and mistakes in Norwegian economic policy since the Second World War. Concerning the devaluation decision in 1949 he writes: “*This devaluation was probably the most important single economic decision made in this country since 1945, with a greater impact on prices and income distribution than any wage settlement. There can hardly be any doubt that in the 1950s, price changes would have been less abrupt in Norway if the devaluation had not taken place.*” See Odd Aukrust (1965): *Tjue års økonomisk politikk i Norge: suksesser og mistak*, [Twenty years of economic policy in Norway: successes and mistakes] Articles from Statistics Norway, no. 15.

anarchy, democracy, etc., Loe concludes that enlightened despotism has much to recommend it:

“Of course it very much depends on who the ruler is and how enlightened he or she is, but at its best this is probably one of the more sensible forms of government.”¹⁶

Martin, one of the other members of the expedition, also thinks that this system might work well. He stresses, however, that the form of despotism must be a truly enlightened one:

“Not just moderately enlightened, but ultra-enlightened. The ruler needs to be highly educated, plus be well travelled and have lots and lots of varied interests (...) Just find an exceedingly likeable individual, someone you trust, someone who is warm-hearted and good-natured, and ask him or her to manage things as best they can.”¹⁷

Most people would probably argue that despite certain benefits, enlightened despotism would not be very robust. As you may have noted, a number of assumptions underlie Martin’s conclusion, and these assumptions are not always satisfied. Delegating decision-making responsibility to a group may help to guard against situations where the individual’s weaknesses and vested interests come to dominate. It can also provide some insurance against serious missteps, which seems to be particularly important when decisions are made under uncertainty.

¹⁶ Erlend Loe (1999): *L*, J. W Cappelens forlag, p. 376.

¹⁷ Loe (1999), pp. 397-398.

This notion is part of the justification for the jury system in our courts of law. The French philosopher Marquis de Condorcet's now well known jury theorem states that the higher the number of the group is, the higher the probability is that the group will make the correct decision by majority vote.¹⁸ Group decision making has been widely accepted, not only by the courts but also by business, public administration and elected governing bodies.

In his book *The Wisdom of Crowds*, James Surowiecki cites a number of examples where large groups outperform individuals or small groups of experts. Contestants on the television game show *Who Wants to Be a Millionaire?* have various so-called "lifelines", including telephoning a smart friend or asking the studio audience for help. It has transpired that the studio audience is the contestants' absolute best bet. The majority of the studio audience votes for the correct answer nine out of ten times, beating out smart friends, who provide the correct answer only 65 per cent of the time.¹⁹

This decision-making strategy, where each individual in a group gives an answer independently of the others, can function well for some types of decisions. But there may also be advantages to allowing the group to arrive at a decision through deliberation.

¹⁸ This outcome assumes that each member of the group singly is more likely to arrive at the correct conclusion than the wrong one.

¹⁹ See James Surowiecki (2004): *The wisdom of crowds*. Little, Brown, London, pp. 3-4. This example was also cited in the speech "Uncertainty in macroeconomic policy making: art or science?", which Mervyn King, Governor of the Bank of England, gave on 22 March 2010, and is available at: <https://www.bankofengland.co.uk/publications/news/2010/034.htm> . That we both use this example may not be a coincidence. I received my copy of *The Wisdom of Crowds* from Dr. John Llewellyn. Llewellyn and King were fellow students at Cambridge.

The economists Alan S. Blinder and John Morgan have shown in several experiments that students who work together to solve a problem obtain a better result than the average of the students who work alone.²⁰ In Blinder's words:

*“...the group seems to foster some sort of collective wisdom that makes the whole (a bit) greater than the sum of its parts.”*²¹

These experiments indicate that there may be benefits to be gained from group interaction, which can provide increased access to varied knowledge, deconstruct opinions and test viewpoints. We can learn from each other.

I have learned a lot in this area from the organisational psychologist Ingeborg Baustad and her colleagues. Baustad argues that there may be a relationship between intragroup communication and task solving. Some tasks are so simple that unilateral communication is sufficient. For deliberative tasks the requirements are higher. Active bilateral communication is necessary, with a willingness to listen to the views of the others in the group. For more strategic decision-making, the level of communication must be raised a notch further. The hallmarks of such a high communication level are curiosity about the other person's views and the ability to broaden one's views or change one's mind as a result of discussion with others. This type of communication normally requires a high level of professional competence, mutual sympathy

²⁰ See Alan S. Blinder and John Morgan (2005): “Are two heads better than one: An experimental analysis of group versus individual decision making”, *Journal of Money, Credit and Banking*, 37, no 5, pp. 789 -811 and Alan S. Blinder og John Morgan (2007): “Leadership in groups: a monetary policy experiment”, CEPS Working Paper No. 151.

²¹ Alan S. Blinder (2008): “On the design of monetary policy committees”, Norges Bank Working Paper, 2008/6.

and trust and a large degree of openness. The potential reward is better decisions by the group.²²

As in most central banks, interest rate decisions in Norges Bank are entrusted to a committee. Committee deliberations are informed by advice given by the governor and deputy governor of Norges Bank. Norges Bank's Executive Board has seven members. The number of committee members at other central banks varies between three and 22.²³ A committee of many members can draw on an ample supply of varied backgrounds and opinions, but a larger number will then also have to have a say in the final decision. While research has yet to determine the optimal committee size, Anne Sibert, one of the experts in this field, has said that the committee should be "dinner size".²⁴

But groups are no guarantee for good decisions

Norges Bank's Executive Board can be described as a collegial committee. The committee seeks consensus through deliberations and its members stand behind the final decision.

The deliberative process does not necessarily lead to a better decision. When the group members share the same world view and thinking, groupthink can lead the members astray. There is typically little dissent in discussions where

²² See more about this in Erling S. Andersen, Ingeborg Baustad and Åge Sørsveen (1994): *Ledelse på norsk* [Norwegian management], Ad Notam Gyldendal, Oslo, pp. 117-126.

²³ Three in Switzerland and 22 in the European Central Bank.

²⁴ See more about this in for example Alan S. Blinder (2008) and Anne Sibert (2006): "Central Banking by Committee", *International Finance* 9:2, pp. 145-168. In September 2007 Norges Bank hosted a conference on monetary policy committees. The opening address was given by Alan S. Blinder, former vice chairman of the Federal Reserve Board, and is one of the economists who has focused most on group decision making. Anne Sibert also attended this conference.

participants think alike. The group can therefore be convinced that their common standpoint must be right.²⁵

Nor is it unusual for independent thinking to be lost in a group setting. At an internal conference, the research department at Norges Bank was divided into three groups tasked with answering three sets of questions. Unbeknownst to the other participants, one member in each group had been instructed to argue for the wrong answer within one of the question sets. They did their job well. The groups did very poorly on the set of questions where the conference organiser's confederates argued for the wrong answer.²⁶

There is thus a danger that members of a group can be swayed by other members to make the wrong choice. But falling into the opposite trap – paying insufficient heed to others' advice – is not unusual either. This is a pitfall that many people, who have been in management for a while, will be acquainted with. Psychologists have known that such exaggerated self-confidence is found in many occupations.²⁷ There is no reason to believe that we economists are so different from others in that regard.

²⁵ It has also been shown that when people are in groups of like-minded persons, and especially when they are socially isolated, they are prone to taking more extreme positions than they would on their own. The psychologist Irving L. Janis is particularly known for his research into groupthink. His analyses concerned US foreign policy, where groupthink might deserve much of the blame for competent persons making poor decisions. See Irving L. Janis (1972): *Victims of groupthink; a psychological study of foreign-policy decisions and fiascoes*, Houghton Mifflin Company, Boston.

²⁶ The psychologist Salomon Asch conducted a number of similar experiments in the 1950s. He found that "*the tendency to conformity in our society is so strong that reasonably intelligent and well meaning young people are willing to call black white.*" See Salomon E. Asch (1955): "Opinions and social pressure", *Scientific American*, vol. 193, no. 5, pp. 31-35.

²⁷ See overview and further references in Carl Andreas Claussen, Egil Matsen, Øistein Roisland and Ragnar Torvik (2009): "Overconfidence, monetary policy committees and chairman dominance", Norges Bank Working Paper 2009/17.

Norges Bank's Executive Board consists of five external members with varied backgrounds, in addition to the governor and deputy governor of the Bank. The external members have influence over decisions on a par with the internal members. The Bank is in a peculiar situation in that the central bank governor is both administrative head of the Bank and chairman of the Executive Board. The external members are not full-time employees of Norges Bank, and their primary occupations are outside the central bank. In this respect, the Executive Board has an important control function. Its external members can act as a counterweight to any internal cultures of opinion that may arise at the Bank.²⁸

In some central banks, such as Sveriges Riksbank and the Bank of England, interest rate decisions are made by individualistic committees. Decisions are made by majority voting, with each member individually accountable for his or her vote. There are advantages and drawbacks to both individualistic and collegial committees. As I discussed in last year's speech, individual

²⁸ The members of the Executive Board are appointed by the government. According to Proposition No. 81 (2002–2003) to the Odelsting, the appointment process shall ensure that the Executive Board reflects a broad range of backgrounds and expertise, with particular emphasis on economics and finance, as well as a thorough understanding of economic issues. The proposition states that the Executive Board shall be composed of persons of different backgrounds to ensure that it is capable of being critical of its own assessments. See Proposition No. 81 (2002–2003) to the Odelsting: Om lov om endringer i sentralbankloven og finansieringsvirksomhetsloven og om opphevelse av valutareguleringsloven og penge- og kredittreguleringsloven (Concerning an Act to amend the Norges Bank Act and the Financial Institutions Act and concerning the repeal of the Exchange Control Act and the Monetary and Credit Policy Act). Ministry of Finance. Board appointment guidelines and rules relating to limitations on members' ownership interests and functions are set out in the Norges Bank Act and the Regulation of 7 August 2000 relating to Norges Bank's Executive Board members' relationship to other credit institutions and undertakings. Executive Board members cannot *inter alia* be married to a member of parliament and external members cannot receive remuneration from or sit on the board or supervisory council of financial institutions, securities firms or collective investment undertakings. Nor are they permitted to buy or sell fixed income or foreign exchange products when they are in possession of information concerning conditions that may influence prices, unless the information is available to the public. In addition, the general impartiality provisions under Section 6 of the Public Administration Act apply.

accountability can provide good incentives. There is no one to hide behind. At the same time such accountability entails more work and probably full-time employment at the Bank. In that case, the former outsiders may quickly assimilate the internal culture. The control function of the external members might be lost.

How do we arrive at a decision?

We also need to think carefully about how we should agree on a decision. There two approaches: premise-based or conclusion-based.²⁹

The two approaches may have different outcomes. Allow me to offer a stylised example. Assume that a three-member committee is to reach an interest rate decision. They base their decision on two premises: inflation and pressures in the economy. The first member believes that inflation has risen more than expected, but finds that the pressures in the economy are broadly as expected. The interest rate should therefore be raised. The second member believes that inflation is broadly as expected, but the pressures in the economy are surprisingly high on the upside. This member, too, will conclude, that the interest rate should be adjusted upwards. The third member believes that developments have been as expected and concludes that the key rate should remain unchanged.

In a conclusion-based decision, the majority would vote to increase the key rate. Two out of three members came to this conclusion. But a premise-based

²⁹ For a discussion of the relationship between conclusion-based and premise-based decisions, see Carl Andreas Claussen og Øistein Røisland (2010): “A quantitative discursive dilemma”, *Social Choice and Welfare*, vol. 35, no. 1.

conclusion would in this case have produced a different outcome. Two out of the three members believed that inflation and economic pressures were as expected. A premise-based decision would thus leave the key rate unchanged.

Many will favour the premise-based approach because it gives weight to the underlying basis for the decisions we make.³⁰ Research has also shown that it is better to discuss and vote on the grounds for any disagreements than to go directly to the conclusion.³¹ At Norges Bank we base our procedures on a premise-based decision-making process.

Economists working at Norges Bank have an important role in decision-making, particularly because decisions are premise-based.³² The Bank's economists thus constitute a stabilising element in the decision-making process that is robust to changes in central bank management and the Executive Board's external members.

For the Bank's economists to perform this role properly, it is essential that they are of a very high professional calibre. Here the Executive Board also performs a vital role, providing constant feedback on the quality of the research supporting policy decisions. The Board also discusses the Bank's

³⁰ See for example Bruce Chapman (2003): "Rational Choice and Categorical Reason", *University of Pennsylvania Law Review* 151(3), 1169-1210 and Philip Pettit (2001): "Deliberative Democracy and the Discursive Dilemma", *Philosophical Issues* (supplement to *Noûs*) 11, 268-99.

³¹ See the discussion in Carl Andreas Claussen and Øistein Røisland (2010): "The discursive dilemma in monetary policy", Norges Bank Working Paper 2010/5. It should be noted that premise-based decisions can be vulnerable to strategic behaviour. It is possible to vote on the premises in such a way as to reach a preferred outcome.

³² The material on which interest rate decisions is based is published on the Norges Bank website. For a more detailed discussion, see "On transparency" in Norges Bank Occasional Paper No. 41 (2010).

personnel policy and measures to maintain and develop the skills of staff economists.

But Norges Bank has a monopoly on setting the key interest rate in Norway. One of the dangers of monopolies is a tendency towards complacency, which is why it is imperative to be in the critical spotlight. This keeps us, Board and staff economists alike, constantly on our toes and helps us to develop as professionals. This, in turn, results in better decisions.

Every year we must stand to account for the way in which we carry out our mandate. There is reporting to the government and hearings in the Storting. In addition, the Ministry of Finance commissions an independent review of monetary policy through what is known as “Norges Bank Watch”.³³ At the same time we are open about what we do and why. There are external evaluations of work routines and professional standards.³⁴ There are no comparable institutions in Norway - there is only one central bank. The benchmark must be international best practice. The evaluations are generally performed by international central banking experts or economists at other central banks.

³³ Reports from Norges Bank Watch are available at: <http://www.bi.no/en/Research/Research-Centres/Centre-for-Monetary-Economics-CME/Norges-Bank-Watch/>

³⁴ See *inter alia* David Longworth and Asbjørn Rødseth (2003): “Report on the Decision-Making Process and the Strategy Document”, Hans Genberg, Charles Wyplosz and Andrea Fracasso (2003): “How do central banks write? An Evaluation of Inflation Targeting Central Banks” and Ingimundur Fridriksson (2010): “The Monetary Policy Report process in Norges Bank”, all available at <http://www.norges-bank.no/en/about/published/publications/external-reports/>

Was the decision good?

Even if our delegating authority and critics have access to the background for our decisions and the way we arrive at them, one big question still remains: What should the criteria be for judging whether our decisions are good?

The objective of monetary policy is a natural place to begin our assessment. Have we or have we not achieved price stability? Even if we make our best efforts, there is no guarantee that we will succeed in reaching this objective. The key policy rate is not the only factor affecting the economy and that can disturb the outcome. Even so, we can give weight to accurate information, assess the most relevant alternatives and listen to input. Making a decision on this basis might excuse us from blame if the outcome should in retrospect turn out to be unfavourable.³⁵

Let us return to the decision in 1949 to follow the pound sterling. As I said, in retrospect the consequences of this decision appear to be less favourable. Nor, perhaps, was the decision-making process sufficiently thorough. Doubts have

³⁵ A fundamental principle of criminal law is that a person can only be judged if that person can be charged with a criminal offence and is proven guilty. There are two forms of guilt: One is guilty with intent, which typically means that the offender intended to produce the negative outcome. The other form of guilt is negligence, which somewhat simplified implies a failure to use reasonable care or prudence. In determining whether an offender has acted with negligence, his behaviour must be measured against ordinary reasonable and prudent behaviour in a comparable situation. A Supreme Court ruling from 1984 provides an illustration of negligence consideration. The Supreme Court was to decide whether a the driver of a car was negligent when in a very difficult intersection he crashed into a car that had the right of way on the other crossing road. The collision occurred in the midst of rush traffic, and the Court argued that crossing traffic should be expected at that time. However, a number of conditions made it difficult for the man to see the traffic before he was close to the intersection. It was dark, with rain and sleet and icy roads. On the other hand, the driver was very familiar with the site and he should have been aware of the all the risks at the intersection. As he did not adjust his driving so that he was able to stop, the Court found that the driver had acted negligently. See Norsk Retstidende (Norwegian journal of law) 1984-91.

been raised as to whether alternative courses of action were adequately assessed.³⁶

But the authorities apparently felt that they had no choice other than a comparable devaluation of the krone.³⁷ Norway's competitiveness could have been weakened substantially if they had not followed the British move. In view of this, it can therefore be argued that their motives for doing what they did were good ones.

The 1949 decision also illustrates the problem of counterfactual analyses. Determining what might have happened if the authorities had acted otherwise is no easy task. Allow me to present a hypothetical example: The central bank thinks financial imbalances are building up, and the Executive Board sets the key rate higher than it otherwise would have done. While a financial crisis does not actually materialise, unemployment rises and economic growth slows. Inflation could fall below target. In this situation, it may be difficult to assess whether the Board made a good decision to raise the key rate.

Such assessments of motives and outcomes are also the subject of moral philosophy and its discussion of what constitutes a good decision. In setting the key rate, both intentionalist and deontological ethics will provide us with

³⁶ Preben Munthe, professor of economics, believes that the government was probably surprised by the magnitude of the sterling devaluation. He writes: "*When the authorities learned of the British decision, they probably felt they were under time pressure, which is why the situation was not nearly as thoroughly discussed as it actually could have been.*" See Jahn, Eriksen and Munthe (1966), p. 371.

³⁷ Nor was this decision criticised by the business sector or the press, and in its publication "*Økonomiske utsyn over året 1949*", Statistics Norway wrote that "*the Norwegian external economy is so closely linked to that of the UK, that there was hardly any alternative to following the pound sterling*". See Jahn, Eriksen and Munthe (1966), p. 371. The decision to devalue the krone in 1949 is also discussed in Jansen (1975).

the same guidance as to what good decisions are. In both cases, the decision must be based on achieving the objective of monetary policy, and that alone. From a consequentialist standpoint, it matters little whether the intentions were good, if the consequences of the decision were not. Our decisions are good only if we reach the objective of price stability. As mentioned, our performance cannot be measured by whether inflation is always at target, partly because the economy is frequently exposed to abrupt and unexpected shocks. We will nearly always be slightly over or slightly under the target. But over time we can expect that these disturbances will even out, and in the long run we must also be evaluated on whether or not we achieve the objective of monetary policy. Have we, or have we not, achieved price stability these past ten years?

Conclusion

Making a good decision is of little use unless one also manages to have it implemented. Norges Bank enjoys a privileged position. When we make a decision, we can also implement it. Our independence gives us the freedom to decide what the key policy rate shall be.

In other areas of society, it is not always the case that those who are qualified to make good decisions also have the power to implement them. In the interest of democratic governance there may be good reasons why this is so, but the decision-making process will then require considerable attention.

We can concentrate on promoting an understanding of the decisions we make. We must be transparent about what we do, and explain premises, economic relationships and results. Our decisions must be well communicated and

understood. If we are unsuccessful in this respect, our reputation may be impaired.

Independence, transparency and good decisions are intertwined. Independence is a precondition for keeping promises. Keeping promises was the topic of my lecture here two years ago.³⁸ We must also communicate and explain interest rate decisions to the public so that they have confidence that we are discharging our duties properly. Transparency is a precondition for accountability and that was the topic of my lecture here last year.³⁹ Today I have been speaking about how we can arrive at decisions that are good ones. Adequate institutional arrangements, high-quality professionals and appropriate routines are important elements for doing just that.

Hans Rasmus Astrup died in 1898, twelve years after this building was completed. Astrup's two daughters sold the house to the Norwegian Academy of Science and Letters a few years after their father's passing. They gave the Academy a gift of 106,000 kroner to go towards buying the house. The remaining funds were raised from donations.⁴⁰

Was the decision to build this stately residence a good one? Yes, given the outcome, it must be said to have been a very good decision indeed. Ever since Astrup's time, Drammensveien 78 has been a venue for interdisciplinary discussions. The benefits of learning across disciplines are well illustrated by

³⁸ See Norges Bank Occasional Paper No. 39 (2009).

³⁹ The lecture "On transparency", the commentaries by Inge Lorange Backer, Andreas Føllesdal and Bernt Aardal and Aanund Hylland's summary of the debate are published in Norges Bank Occasional Paper No. 41 (2010):

http://www.norges-bank.no/upload/81531/on_transparency_occ_paper_41.pdf

⁴⁰ See Helsvig (2007), pp. 19-20.

the success of Olympiatoppen. Olympiatoppen serves as a venue for different sports. Where coaches and leaders have traditionally focused on international developments in their own disciplines, Olympiatoppen also gives them an opportunity to learn from one another's experiences, across disciplines. Many believe that this is part of the reason for Norway's numerous Olympic medals in recent decades.⁴¹

For 150 years the Norwegian Academy of Science and Letters, by fostering contact across academic disciplines, has functioned as a kind of Olympiatoppen for science and scholarship. The Academy has always convened its members for discussions of topics that although may be rooted in a single field, are at the same time broader in scope and of common interest.⁴² This lays the foundation for making good decisions.

Thank you for your kind attention!

⁴¹ See the article "Særnorsk oppskrift for OL-gull" [Uniquely Norwegian recipe for Olympic gold], 10 February 2010, available at (in Norwegian): <http://www.forskning.no/artikler/2010/februar/242243>

⁴² See Øyvind Østerud's introduction in the Norwegian Academy of Science and Letters annual report for 2009 at (in Norwegian): <http://www.dnva.no/c26776/liste.html?tid=26997>

Making good or right decisions?

Aanund Hylland

Honourable President, dear friends of good decisions,

A few days ago a friend asked me why the Deputy Governor of Norges Bank, Jan F. Qvigstad, was going to talk about making *good* decisions. Why not *right* decisions? My immediate response was that *right* implies something categorical: a decision is either correct or not, while *good* is more of an indication that the question is one of degree.

I do not know if this was Jan F. Qvigstad's thinking. There is also another distinction that should be made here and that perhaps can be expressed by the word pair *right* or *good*. When evaluating the quality of a decision, should one look at results and consequences, or at process and procedure? With regard to the particular topic of most concern to Mr. Qvigstad, which was his primary focus, namely interest rate decisions made by Norges Bank's Executive Board, there can be no doubt that the criterion must be tied to consequences. There the situation is that a higher-level body – and I am actually going so far as to intimate that there *is* a body at a higher level than Norges Bank – has set out an objective for monetary policy. In Norway this objective is set out by the government; it could have been laid down by statute or in the Constitution or by treaty, as in the EU, but in any case the way in which it has been laid down means it should be considered an instruction to the decision-maker. So the assessment criterion must be the degree to which this objective has been attained, something that at least in retrospect it is possible to establish with relative accuracy. Naturally, the criterion is not absolutely precise in all

contexts. It neither can nor should be, though it provides a basis for measuring the result.

Mr. Qvigstad also touched upon the issue of the moral aspect of the matter, that is the decision-makers' accountability, which raises new questions in addition to the question of the goodness of the decision. We can imagine a situation where Norges Bank as a decision-maker has acted with gross irresponsibility and incompetence, but owing to various random events economic developments turn out as the government requested in its mandate. Or conversely – the Bank has acted responsibly and competently, but random events completely beyond its control intervene and things go wrong. While this matters for accountability, the assessment of whether the decision is good must be tied to its consequences. This is acceptable in cases where there are clear objectives for what one should attempt to achieve.

It is possible that if he had been asked, Astrup would have been able to tell us his purpose for building such a magnificent house, and then we could measure retrospectively the result against this objective. On the other hand, if we turn to truly fundamental decisions made by the democratic bodies in our society, it quickly becomes harder to establish a standard for qualifying a decision as good. Political disagreement on the content of the decision will often reflect disagreement on the proper yardstick for determining whether the decision is a good one.

In that case the focus needs to shift towards whether the procedure behind the decision was correct. I am now speaking of collective decisions at the societal level, and a characteristic trait of democratic governance would be that this is

defined in terms of procedure. This principle does not apply in every instance, and if taken to the extreme, would quickly lead us into the realm of the absurd; even so, as a general rule or tendency, decisions are right *because* they have been reached according to proper procedure. Our supreme political bodies have legitimacy *because* they are elected according to procedures that are both good and right.

This stands in contrast to the way some authoritarian regimes view themselves. Participants in a military coup will often invoke the incompetence of politicians to justify their action. We can govern the country better, the usurpers claim. Here, *good* must mean substantively good. The Communist revolutions in the Soviet Union and some other countries cite the objective interests of the proletariat. These were interests that party cadres presumably knew and could therefore realise, but that the proletariat would not necessarily attain through free elections. A theocratic government might invoke God's will, the commandments of sacred scripture or the like, that is, according to a substantive standard and not a procedural standard. Here we have a distinction in the actual assessment criterion that may perhaps be expressed with the word pair good or right that I began with, in other words substantively good decisions or procedurally correct decisions.

There may be good reason to underscore that in numerous areas the former criterion will be the relevant one, because an objective was legitimately set and the job is to attain that objective. But when the issue is truly fundamental decisions made by our democratic social system, the latter standard must generally apply. This standard is not devoid of content. It is possible to formulate requirements for decision-making processes that can be met to

varying degrees and that most people will accept as reasonable. One criterion may be transparency surrounding the decision, where all voices or viewpoints can be heard and given the opportunity to participate in a debate and exercise influence. Another criterion may be that the content of the decision should depend on the standpoint of members of society and not their ability as good game players in a complicated political system.

I shall illustrate the latter criterion with an example, though because it is an instance where finding a perfect solution is impossible, it is a slightly negative one. It involves a very important decision in recent Norwegian history, namely the decision to build a new main airport for the eastern Norway region. Along with Eivind Smith and others, on behalf of the Storting I had the pleasure of looking into a number of circumstances surrounding that decision.

The reason was that after the vote in the Storting in 1992, it was claimed that the voting system had significance for the result. Because this means that a factor other than the opinions of the voting representatives helped to shape the outcome, this would have to be regarded as an undesirable phenomenon. However, given the preferences and viewpoints in the matter, the sad fact is that the outcome's dependence on the voting system was unavoidable. Decision-makers found themselves facing what is called Condorcet's paradox. This is the same Marquis de Condorcet whom Mr. Qvigstad mentioned in another context, a French philosopher who was active during the Revolution and who died in 1794. The situation was that the criterion I just formulated, whereby a correct decision requires that only the decision makers' opinions matter, is impossible to meet. Yet even though this was the case here, the

criterion is not meaningless. It can be met to one degree or another, and, at least seen in isolation, should be met to the greatest possible extent.

Another problem Mr. Qvigstad mentioned in his main presentation is what is called the *discursive dilemma*, whereby a premise-based voting system and a conclusion-based voting system can yield different outcomes. In his context Mr. Qvigstad argued that a premise-based decision-making process should be preferred.

It is not easy to stipulate that a decision is to be premise-based, as it is always possible that decision-makers can use tactical behaviour to undermine a preference for premise-based decisions. However, such tactical behaviour presupposes that the decision-makers have a personal interest in the decision beyond ensuring its optimal quality. Under ideal conditions we must expect that decision-makers' sole interest *is* arriving at the best possible decision, in which case this problem is eliminated.

On the other hand, in some areas there are rules that prescribe the opposite, that is, a conclusion-based decision-making process. As I understand it, the determination of guilt in criminal cases is to be conclusion-based. All those who for one reason or another believe that the accused should be acquitted are to vote for acquittal. If they are numerous enough to prevent a majority for conviction, then the conclusion is acquittal. Judges or juries are not supposed to vote separately on the various possible grounds for acquittal. It is fully possible to imagine a sufficient majority against every one of the grounds for acquittal, while the outcome of the method actually employed is still acquittal. If I remember the facts of the case correctly, Abraham Berge would have been

convicted in his impeachment trial if a premise-based decision-making process had been followed. There the choice of procedure would have made a difference.

There is an array of other factors that could also be raised, but I will let the main point of my contribution be this attempt to distinguish between good and right decisions using a different approach than I applied in the discussion with my friend a few days ago.

Deciding on decisions

Ingelin Killengreen

A lawyer might define a good decision as a correct decision. A police officer, on the other hand, is likely to emphasise that a good decision must be synonymous with a fair decision. We must expect people to define a good decision and how it is made differently, depending on a range of external circumstances, perhaps even including professional background. One's view regarding whether or not a decision is good is guided by the perspective from which one considers it. Of course, this does not mean that there are no commonly valid elements that are decisive in decision-making processes and, not least, decisive as regards the result of the decision that is made. Precisely this may well be the heart of the matter:

A good decision must be made in a manner that ensures that it is accepted and produces the desired result. Can it be this simple?

Decision-making ability and decision refusal

A great number of leaders have at some point had to take a test intended to judge their ability to make necessary, good decisions. Such tests may tell us something about ourselves as individuals – are we goal-oriented and willing to make decisions, or do we prefer solid processes that involve a thorough review before a decision is made? There is no absolute measure of decision-making ability. One organisation's definition of decision-making ability may be synonymous with another organisation's definition of decision refusal. I have personally had the interesting experience of moving from a leading position in

the relatively academic Ministry of Justice to the post of Commissioner of the Oslo Police. The decision-making ability I had exercised in my capacity as secretary general was quickly interpreted as decision refusal in my role of commissioner. The need to adapt the decision-making process to the long-established command-based organisation I had entered was therefore an obvious necessity.

Team leadership, involvement and decisions

There appears to be general agreement in the extensive literature published on leadership in recent decades that team leadership is a prerequisite for making good decisions. This conclusion is based on the idea that several heads thinking together think better, and more, than a one head thinking alone. This is a sensible starting point, but it assumes that the members of the team contribute constructively to a higher level of reflection and a more solid basis for the decisions that are made. The question is whether we tend to take for granted that teamwork and discussion generate synergies which cannot be achieved when individuals make decisions alone. It is not necessarily true that all groups work equally constructively, nor is it necessarily true that all decisions are suited to group work. If the decision topic is complex, if it requires coordination and imposes stringent requirements with regard to professional expertise, group processing may be a suitable organised way of working⁴³.

⁴³ Ringstad and Ødegård 2001, *Understanding Jungian Type – A practical guide*. Bergen: OPTIMAS organisasjonspsykologene as

However, this requires the team to include the right people. A team composed of like-minded people is unlikely to be as capable of making considered, good decisions as a team composed of people with varied professional backgrounds and experience bases. Ultimately, this may result in a collective dive off a cliff, where the group is held together by the agreement generated by the common education, experience base and adopted assumptions of its members. Many examples of the catastrophic consequences of groupthink can be found throughout history – the accident involving the Challenger space shuttle in January 1986 is one of these.⁴⁴

Involvement in decision-making processes is often as important a factor as group processing. If there is no such involvement, the risk of opposition is great. Anyone who has worked with trade unions will have experienced something of this. A lack of involvement can indirectly legitimise the re-fighting of old battles. This is destructive not only with regard to the assessment of the decision that has been taken, but also, and primarily, with regard to implementation and the achievement of the desired results. The next tactic is to pursue activities designed to explain away an undesirable decision. These often take the form of narrowing down the decision so that its effect is as limited as possible. Another tactic is to demonstrate a high level of activity in relation to other, related problems, in the hope that the undesirable decision will be forgotten. Humans are rarely as creative as when they are seeking to shoot down decisions and objectives that have been adopted without the participation of those who are affected. My long career in an agency with a strong tradition of equating decisions with orders has taught me that such

⁴⁴ The event is well-documented. See, for example, D. Vaughan, *The Challenger Launch Decision*, University of Chicago Press, 1996.

problems provide dearly-bought experience for many. There is every reason to confirm that the authority to issue orders confers a very limited high if used outside of its appropriate area of application. Orders are suitable for the management of teams and for operational choices.

Decisions at different levels

It could be claimed that the most important decision a leader has to make is the “meta-decision”⁴⁵, i.e. the “decision about the decision”. An example might be, “Who should make the decision which has to be made?”

I would add the following postulate: in order for a decision to be good, it must be made at the correct level. But, what exactly is the correct level?

This question is simple to answer at the theoretical level. Most people who have spent time considering the issue appear to apply models which clearly describe the connection between organisational form, decision level and decision content. In the agency I lead, systematisation in this area is the very foundation for handling challenging situations correctly and well. I would like to mention one example related to crisis management, fortunately something which most of us rarely have to tackle.

Decision levels in the public administrative sector can be categorised as follows:

The political level – the government and its individual members, who naturally bear responsibility for managing the political issues.

⁴⁵ Linda Lai (1999), *Dømmekraft* [Judgement], Universitetsforlaget.

The strategic level – the ministries, which are tasked with making strategic decisions at a superior level.

The operative level – the directorates, which are to lead and coordinate in a manner that enables frontline staff to carry out the work on the ground.

The tactical level – the frontline staff who make decisions as the accident or disaster unfolds.

Why, then, is it often the case that the problems in the disaster area quickly become the object of discussion and engagement at the political level? Questions such as who is responsible for what, and what order of priority should be given to operational measures, become central issues. This represents a clear breach of accepted crisis-management principles.⁴⁶ Does this happen because our human nature is drawn to precisely such problems, or because it is often easier to demonstrate vigour in the tactical sphere than in the political and strategic spheres? Is it simply a case of nature overwhelming discipline?

There is a theory that the more important a matter is, the higher up the decision-making tree it should be referred. However, as in all other contexts, we must ask which decisions are meant. The Norwegian authorities' handling of the victims of the Asian tsunami was subjected to intense retrospective scrutiny. One of the issues to which relatively little attention was devoted was the decision-making processes. Who decided what, and why? As someone who participated in these processes, I find it thought-provoking to reflect on what is demanded of individuals and how the actual decision-making process

⁴⁶ Similarity, proximity and the principles of responsibility as they are described in Report to the Storting No. 17 (2001–2002) relating to civil protection.

is handled. For example, should the expectations of the press and the public force politicians to participate in discussions which are not political and which do not fall under the responsibilities of a ministry? I would venture to claim that a decision is not improved by being lifted up to a level at which decision-makers never deal with such matters on a day-to-day basis. In other words, the argument that a matter is too important to permit the decision to be made at the “correct” level is a poor one. At the same time, I have no difficulty in recognizing the dilemmas which political authorities face during crises, when they are expected to be decisive and to give good answers to challenging questions.

Politics, professional content and the management pyramid

In both public agencies and private businesses, it is common to think of management and decision-making in terms of a pyramid. The Storting or company board formulates the overall strategies. The government or managing director translates these into frameworks for practical application, defines objectives and sets result-targets. Directorates, agencies and the business on the ground secure results through practical work. In the state sector, this is referred to as management by objectives and results. This form of management was introduced at the end of the 1980s, and has become the guiding management principle at and between all levels of the state sector.⁴⁷

After many years of working in public agencies, I occasionally ask myself whether the pyramid has been turned on its head, or whether the map no longer corresponds to the terrain. Conversations with colleagues from entirely

⁴⁷ Regulations for financial management in the state sector.

different fields than the justice sector have confirmed that they have observed similar things. The strategic political decisions are multiplying in number, and are becoming increasingly specific. For example, a finance bill put before the Storting may contain a decision to establish a single post, with specified tasks, at a local duty station. The reason for this may be a personal request by a member of the Storting. The annual budget allocation letters sent by ministries to their subordinate agencies may contain dozens of directives and measures. Many of these are highly detailed, and operative. They guide and limit the scope for action, and thus, of course, decisions. Some years ago, the former Ministry of Administration issued two small publications, the Ministry Book⁴⁸ and the Directorate Book⁴⁹.

The Directorate Book has the following sub-title: “A guide to the work of the directorates and the relations of the directorates with the government, the Storting and other administrative bodies.” Interestingly, a number of dilemmas are described that arise in the gap between politics and professional content. Nevertheless, there appear to be no grounds for any doubt about the fact that the ministry is the secretariat of the political leadership, while the “professional content” is the preserve of the directorates. In addition, particular emphasis is given to the need for caution with regard to micro-management, and an attempt is made to distinguish between “the management of the large and the management of the small”. Typically, this is formulated as follows: “the ministries wish to be managed more, while the directorates wish to be managed less” (pg. 77). Particular mention is made of the management guidelines of the Ministry of Finance in this regard. The ministry’s definition

⁴⁸ The Ministry Book [*Departementsboka*], published by the Ministry of Administration, third edition, 1994.

⁴⁹ The Directorate Book [*Direktoratsboka*], published by the Ministry of Administration, 1993.

of a breach of the guidelines includes cases, “where, for example, employees at a relatively low level within the ministry consider it legitimate to give material management signals or instructions to the agency” (pg. 77). Most people would readily agree that such management is less than optimal. However, this does not appear to be the pre-eminent problem today. Rather, it appears to be the amount and level of detail of the management signals that present a challenge for the agency heads who are responsible for translating policy into professional content and delivering good results. In these circumstances, much of the thinking within directorates is focused on defining the professional issues so as to exclude the ministries. After all, the ministries are the secretariats of the political leadership, and all their actions are therefore *de facto* authorised by the minister. However, when this is done, the agency head is also made responsible for the results relating to the professional content. Therefore, the same agency head must also be given authority to make decisions that, following a professional assessment, secure the results desired by the politicians. Today, many people would no doubt assert that the Storting and the ministries formulate too many of these result-oriented targets and measures. This limits the ability of individual agency heads to make good decisions at their administrative level. The situation is heightened further at what one might refer to as the lowest administrative level.

Who defines a good decision?

“When the facts change, I change my mind. What do you do, Sir?” replied the renowned economist John Maynard Keynes when criticised for having shifted position on monetary policy during the Great Depression in the 1920s and

1930s.⁵⁰ Assessing what is or is not a good decision can often be difficult. Facts may change. That which appeared clear at the time develops entirely differently. Often, the decisions that are made are characterised by uncertainty. Many of the strategic choices that have to be made, both in the private sector and in public agencies, are shaped by unsure predictions. In addition, many difficult issues have the characteristic that the results of a decision will only be revealed in the distant future. In my own area of responsibility, I have noted that one of the most difficult things to do is to make wise decisions in relation to preventative efforts. The results are difficult to measure in the short term.

Knowledge, experience and the helpful input of many practitioners provides us with a basis for adopting and implementing measures to prevent crime among children and young people. In reality, the effect of these measures will not be confirmed until we are able to determine how individual children and young people have developed. However, it is equally important to take into account that decisions will have an effect on someone. Along with my closest colleagues, I as a leader can make decisions which ensure efficient resource utilisation and higher work quality. The general public may nevertheless interpret such decisions differently. For example, the leadership of the Norwegian police force believes that there are too many small, local police stations which tie personnel up indoors. Closing some stations, thus releasing officers to undertake patrols and actively pursue investigations, would increase both the amount of police work carried out and the quality of the work. In

⁵⁰ Referred to in *Lost prophets: An Insider's History of Modern Economists* (1994), by Alfred L. Malabre, page 220.

many areas, the local population disagrees deeply. To them, seeing a house with sign identifying it as a local police station has positive connotations.

In these circumstances, is a decision to close a local police station a good or bad decision? Presumably, the decision is only good if one is able to communicate it in a manner that enables those who are affected to understand that it is good. If we accept this proposition, we have to add yet another criterion to the model for good decision-making. The decision must not only be good and adequate in the eyes of the person or persons who make it, it must also be such that its content can be communicated and understood, and even accepted, by those at whom it is directed. This corresponds with an analysis undertaken by Professor Peter Homel at the Australian Institute of Criminology. His focus was on why the high-profile UK Crime Reduction Programme was close to failing completely, despite good measures and statements and generous budget allocations. His answer was that implementation was failing because there was a “disconnect” between the “expectations, capacities and skills of people designing programs at the central level and those involved in program management and delivery at the local or regional level.”⁵¹

Closing remarks

During my many years as a leader in the administrative sector, I have noted two factors that always remain relevant, and give cause for both reflection and irritation, but which fortunately have not yet caused me to throw in the towel.

⁵¹ Peter Homel, *Joining up Pieces: What Central Agencies Need to Do to Support Effective Local Crime Prevention*. Published in *Crime Prevention Studies* Volume 20 (2006), edited by Johannes Knutsson and Ronald V Clark.

The first factor is the relationship between the decentralised management model and an increasingly centralised and detail-focus control regime. The decentralised management model, with its emphasis on local responsibility, has been praised within the public administrative sector for many years.

Centralisation is a conflict minefield, and in part a loaded term in leading political circles. Accordingly, it is thought-provoking to observe how decentralisation is monitored by a strongly centralised and ever-more oppressive control regime. Inquiries, or demands for inquiries, appear to be the answer when the expected results are not achieved. The Office of the Auditor General of Norway has developed an extensive regime for administrative audits, during which professional questions, strategies and decisions are re-examined and reviewed in the clear light of hindsight. The question is what effect this has on leaders and their priorities and decisions.

Perhaps we will see, in a few years, that the answer is extensive internal control regimes designed to head off the Office of the Auditor General. It is also likely that this will be combined with decisions that are adapted to the subsequent control regime. If I am right, this is unlikely to be a good starting point for making good decisions.

The second factor, which I have already mentioned, is the relationship between decisions and responsibility. Making decisions, often, at a level that is not responsible for implementing them, muddies the allocation of responsibility and limits the scope for achieving results. I would venture to assert that the results of many public agencies would be improved if one was bold enough to give decision-making responsibility to those who are responsible for the achievement of results.

The power of indecision

Trine Eilertsen

Thank you for your invitation and the thought-provoking contributions.

We know that the quality of a decision can only be finally and properly assessed in retrospect, regardless of how good the decision-making processes have been. Such assessments are often undertaken long after the decision is made. Consider the decision we make when we find the person with whom we wish to share our life. Our decision is seldom characterised by long, inclusive processes.

Have you ever tried to involve yourself in a process of this kind by advising a friend against becoming involved with a married man? If you ever do, you can be sure that you will not only lose your friend, but also that she will rush right into a high-risk situation, perhaps for no other reason than sheer defiance.

In such “processes”, the points at which we stop and evaluate tend to arise randomly, coming along when we least expect them: “Well, he’s shown himself to be stingy, and hasn’t she become moody, two years into the relationship? And why does he call his mother every single day? At the beginning of the relationship, she said she loved camping in the rain, but now she apparently hates it.”

New variables trickle in after the decision has supposedly been made. It is only over time that we discover whether the decision was as good as we thought at the time we made it.

It is fortunate that we have these irrational decision-making arenas. The contrast between them and the decisions we make at work should perhaps be rather stark. Each arena has its own form, and the different forms should preferably not be mixed too often.

It is fairly easy to describe and give reasons for the decisions we have made, and then to hold them up to the sharp light of history to evaluate them.

But, what about all of the decisions we *do not* make, which prove to have the effect of a decision?

Consider a leader who avoids making an unpleasant decision, and thus decides, more or less unconsciously, that the status quo should continue: the junior manager who is not functioning well will be allowed to stay a while longer, as doing something with the situation now would be so troublesome; the employee who is clearly failing to perform, and who is a nuisance to her colleagues, can stay a little longer – dealing with the situation now would cause so much bother. These examples demonstrate how an organisation and an environment can be influenced by a lack of decision-making, a lack that over time has the effect of a decision.

We have observed this phenomenon in various types of organisation, and are familiar with it in the political field, where a fear of unpopularity and poor public consultation can cause decisions to disappear amid years of committee work and reviews. Minor, symbolic decisions are made in the interim, to give the impression that something is happening. Just consider the number of reviews undertaken to study poverty in Norway. Each new government launches a new review. “Let’s see whether we have time to formulate policies,

and to make decisions, before we're out of office again." However, this approach also constitutes a decision.

Politicians have to steer a tricky course when a difficult decision has to be made. We journalists love taking down a politician on the grounds that there has been insufficient public consultation regarding a decision, i.e. that the decision has been made too quickly. We also love taking politicians down when the need for public consultation is so strong, and takes up so much time, that progress is too slow.

This summer, Western Norway provided a good example in this regard. As we all know, the government decided to build electricity pylons, popularly and unpopularly known as "monster pylons", through Hardanger. The decision stood for just a few summer weeks. Many people criticised the decision, stating that it was wrong and that a different conclusion should have been reached. However, this happens all the time, at all levels, without the decisions in question being amended for that reason.

Even more people criticised the decision due to a *lack of public consultation*. Political leaders in Western Norway had quite simply failed to do a proper job by participating in public meetings, presenting their dilemmas, and illustrating the alternatives. They had screened themselves behind the agencies and bureaucrats, and believed that that was sufficient. After all, wasn't the basis for the decision so rational and thoroughly investigated?

Well, apparently too few people thought so, bringing us back to the lack of public consultation.

In Bergen, we are now talking about a potential power crisis this winter. Mobile gas-fired power stations have been mentioned as an emergency solution, and everyone is wondering how we ended up in this situation, given that building such pylons takes years, regardless of where they are built. In other words, should/could something have been done before we reached this stage?

We have ended up where we are now because two generations of Norwegian parliamentarians did *not* make a decision. Calculating that, during the course of the 1990s and 2000s, demand for power in the region would increase by more than the infrastructure could accommodate was not a particularly complicated task. Moreover, it is quite clear that no steps were taken to influence this development during these years, for example in relation to energy-efficiency.

Upgrades and maintenance programmes could have been implemented, which could have ensured a more gradual transition into the dilemmas we now face. All of the relevant government ministers have had many years to conduct public consultations and discuss alternatives. However, this was not done. A decision was made, more or less, *not* to do these things. In these circumstances, it is simplistic to blame the failure of the decision on people from Bergen who do not understand what is for their own good and that of Western Norway.

So many other things were so much more important than making this decision. Just as in the case of railway maintenance, everything else was much more important. Politicians from the different parties could hide behind what we

leaders often hide behind: “We have to choose our battles; we cannot fight them all.” If we are honest, we might add, “at least not the most expensive and unpleasant ones.”

After a few years, the lack of a decision, or at least the largely unconscious postponement of a decision, reappears as a decision with a very strong effect on the electorate of these politicians.

Will we see the same thing in relation to schools, research and innovation when we look back in 10 or 20 years’ time?

It is interesting to take a closer look at the decisions that introduce major developments in our country. We who work in the media should definitely discuss our role in these processes. Do we ask frequently enough what the consequences are of a decision *not* being made, rather than simply finding out who is negatively affected – and there is always someone – when a decision is actually made?

It is also interesting to consider all of the decisions that in retrospect appear inspired, but which at the time they were made were incidental, or simply the result of one man or one woman’s engagement. If you ask a *siddis*, or some other inhabitant of Rogaland, what it meant at the time for Statoil’s head office to be moved to Stavanger, you will receive a very long answer, with good reason.

The Conservative politician Arne Rettedal had a vision for his region, and did what was necessary to get his way, in innumerable arenas.

In Bergen, people in corresponding positions understood little of what was going on. To them, the decision about where to locate the head office of this little company, which started as a cigar box, three people and somewhat unclear visions of a rosy future, did not appear particularly important. People in Bergen were probably still struggling to look forward, rather than back to the glories of the past. In Bergen, no energy or creativity was expended to affect the decision while this was still possible.

Industrial developments in the regions around Bergen and Stavanger during these years, the 1970s, continue to influence development today. The decisions that were taken have proven to be extremely important, even though to many people they appeared incidental and of minor importance at the time they were made.

Arne Rettedal is among those who today are declared geniuses for their foresight. Few people remember the names of his counterparts in Bergen.

The decision to establish an oil fund is increasingly regarded as a stroke of genius, far exceeding what anyone envisioned when the fund was set up. This somewhat unsexy structure, so guided by reason and focused on the long term, is fast becoming the top attraction for international economists and researchers who visit Norway.

Some of these examples touch on that which makes decisions so frightening, on the reason that they are sometimes not made, or postponed. Lack of awareness and ignorance constitute one factor, but another, more important, factor is the *discomfort of rejecting*.

The frightening thing about choosing one thing is that doing so usually involves *rejecting* something else – perhaps permanently, making the decision even more frightening. Yes, this thought is almost unbearable: that by choosing something whose consequences we do not yet know in full we risk losing that which, after all, we know, even if it is not optimal in some respects. There is a reason why we humans are, fundamentally, inflexible in our natures. We are most satisfied with the way things are, if for no other reason than because we know our circumstances.

Leaders of all kinds, both elected politicians and the rest of us, know that our efforts will be judged by history, and by those who can quickly and easily decide whether we made the right or wrong decision at the time. Did we who work in the media choose the right path during these challenging years, or will those of us who are leaders today have the questionable honour of having driven businesses into the ditch? Even if we made decisions based on the information we had, and were unable to find out more than we did there and then?

By way of example, we are currently feeling our way towards a decision about how our iPad versions should look, and not least what price we should set for them. Some of us may be declared geniuses, others will be declared idiots, but there is every chance that we will have known as much – or as little – as the next person when we made the decision.

A real, high risk is associated with waiting too long to make a decision in the hope that ever better information will emerge. We fear missing the train. At times, it may helpful to remember that few, if any, of Norway's most

successful entrepreneurs have been to management school to learn about risk. Many successful entrepreneurs cannot distinguish up from down on a decision tree, and can barely spell “risk assessment”. They simply forge ahead, taking risks, falling down, getting up again, learning as they go, and then giving interviews to *Dagens Næringsliv* in which they state that education is over-rated...

I would like to wish you the best of luck with the decisions of tomorrow, which are unlikely to be easier to make. Decisions merely become more complicated. Nevertheless, we cannot let the need for complete information direct absolutely all of the decisions we make, in all arenas. In some cases, we have to go with our gut instinct.

Thank you.

Good decisions – views and perspectives

Lightly edited transcript of the debate

Steinar Tjomsland, the Supreme Court

The term decision encompasses so many different things that, after making intensive efforts, I have given up trying to formulate distinctions for this evening. A crucial issue, as I see it, is deciding who is responsible for making the decision in question, and who in reality has made it. A lack of clarity on this point is unfortunate. I am reminded of Gudmund Hernes – it was a bad decision not to invite him to this seminar – who apparently once said, “When everyone bears responsibility, no-one is responsible.”

Section 2 of the Norges Bank Act, which Jan F. Qvigstad did not mention, states, “Before the Bank makes any decision of special importance, the matter shall be submitted to the Ministry of Finance.” There may be good reasons for a procedural rule of this kind, but could it not create some uncertainty about where the responsibility lies? The bank has the decision-making authority. The Ministry’s statement must be given weight, but how heavily should it weigh and, on the other hand, how much guidance should the Ministry give through its statements and recommendations? I should emphasise that, as far as I know, there are no indications that this provision has been applied so as to obscure responsibilities, and my point is therefore probably primarily of theoretical interest.

This brings me to a problem Jan F. Qvigstad discussed in some detail, namely whether decisions should be made collegiately. There are many good arguments for this proposition. The relevant alternatives to this form of decision-making will vary. In Norges Bank's case, an alternative could have been to appoint external experts to advise the governor, who has the decision-making authority. How would such a structure have worked, and how different would it really have been from the system we currently have?

Incidentally, my impression, and I am not thinking about Norges Bank's Executive Board at all here, is that the members of a collegium may run the risk of relying on each other too strongly, particularly when the workload is especially heavy. In such cases, I believe, it would be tempting to concentrate on the cases one is interested in and assume that others will deal with the remainder. However, there is no guarantee that they will do so. In such cases, it might be equally reassuring for one particular person to bear sole responsibility for the decision.

I doubt whether many of those here today have provided as much raw material to science as I have, and in that respect I deserve my invitation to today's event. When a decision of the Supreme Court is analysed, the focus is less on the actual decision than on the significance of the judgment for future decisions, i.e. how this decision, in reality, resolves a long line of future cases. The decisions of most bodies set a precedent. Nevertheless, I am immodest enough to claim that, on this particular point, the Supreme Court reigns supreme.

The value of precedents can be underestimated. Predictability and equal treatment are crucial elements in the assessment of whether or not a decision is good. Instead, emphasis is often given to a different quality, namely the ability to “cut through”. “She cut through”, we say with respect. On its own, being able to wield a saw is obviously a positive ability – it evidences drive. However, the expression often covers up the fact that one has chosen the path of least resistance. I am thinking of leaders and politicians who, often in response to the media or others, make decisions that cannot be reconciled with current practice. At the same time, these decisions are supposed to have the least possible precedent-setting effect. In this context, it is tempting, but perhaps too simplistic, for me, as someone is not subject to re-election, to think about the government minister from my home town about whom it was said that if he was not re-elected, he could be given employment at the cathedral. Apparently it was the role of weathervane that was vacant.

Reidun Førde, University of Oslo

First of all, thank you very much for your invitation to be here today, and for three interesting contributions. I would never have believed that I would stand here in the Norwegian Academy of Science and Letters and comment on a speech by the Deputy Governor of the central bank. Nevertheless, preparing my comments actually felt natural, as several of the terms which have been used are also key in the context of making good medical decisions. I work with healthcare ethics. We have launched a project focused on providing support when decisions or cases present ethical conundrums. Norway is leading the way internationally in this area through the establishment of clinical ethics committees at all Norwegian hospitals. Modern medicine

involves many difficult ethical decisions, in which different core values collide.

Concepts like transparency, group processes and decisions under uncertainty are key in this context. Like Norges Bank, we work with “fundamental values”. Decisions are made which have heavy consequences: life or death, health or sickness, and intensive resource use. This is true both of individual decisions and of more strategic health policy decisions. Not making a decision, which is sometimes the easier option when confronted with a choice between the plague and cholera in a hospital, is also a decision. An example in this regard is a decision about life-extending treatment for a seriously ill patient. In addition, failing to make a decision, meaning that life-extending treatment continues without any real benefit, and perhaps even with negative consequences, is often very expensive.

I would like to describe briefly the establishment of clinical ethics committees at all Norwegian hospitals. These committees are inter-disciplinary, and provide a forum for discussing cases in which a medical practitioner is unsure of what is right or wrong, and cases in which disagreements have arisen within the responsible medical team or between the medical staff and relatives. As Mr. Qvigstad highlighted in relation to Norges Bank’s decisions, these inter-disciplinary committees often include doctor and patient representatives, to ensure independence. It is just as important that the discussions of the committee are undertaken systematically.

In the medical sector, even good decisions can have tragic outcomes. Moreover, when poor decisions are made, the Lord sometimes, fortunately, intervenes to ensure that we still land on our feet! Results alone do not show

whether a decision was bad or good. What we can do is to design systems to ensure that we have in place good decision-making processes and the best possible decision-making basis. This is essential now that medicine has become so complex, and so many parties are involved in cases. A systematic approach is, of course, important both in medical decisions and in the world of finance. Not least, it is important to identify all of the facts in a case, and to know that facts are often presented as the truth, even when there is disagreement and uncertainty. Identifying what we know and what, in fact, we do not know, is very important. It is equally important that we state our values explicitly, and that we identify what interests are at stake in individual cases and incorporate the views of patients and their relatives into the decisions that have to be made.

Ethical efforts must highlight implicit and explicit guiding values, to increase the ethical awareness of decision-makers. I would dare to say to those of you who are lawyers that too many people have a naïve, exaggerated belief that legislation can solve difficult healthcare-related issues. The health sector has been the subject of many new laws in the last 10 years. However, these cannot replace reflection on both individual cases and matters of principle. On the contrary, the need for ethical reflection and good processes is simply increased. In the end, the doctor responsible for the treatment is the one who has to assume responsibility. He or she may ignore the advice provided, but can say with greater certainty that the decision is based on a broad-based discussion in which all aspects of the case have been analysed and all interests and values have been identified. The result – whether good or bad – will then be seen, sometimes regardless of whether the decision itself was good or bad.

Øyvind Østerud, University of Oslo

I have a comment and a question.

The comment is intended as a defence of the Greeks. It is true that they fiddled the books a bit, it is true that there was considerable overconsumption in the public sector, it is true that the public-sector pension age was very low, and it is true that they took up excessively large loans at excessively low interest rates as part of the euro project. All of these things are true. The question then is, “Did they make bad decisions, given their policy framework conditions?” In that regard, one can say – and I think there are rather good historical arguments for this – that Greek policy was based on a contract between the voters and the politicians that can easily be explained historically and politically. Providing generous benefits through the public sector was a way of building bridges over deep divisions in the population. It is important to realise that Greece experienced a civil war just two generations ago. Decisions adapted to Norwegian conditions would have been bad decisions in Greece, and the decisions that were made were difficult to change.

In other words, the Greek authorities were unable to change them before Greece faced a severe crisis in connection with the financial crisis. They had to be thoroughly shaken loose before they could impose cutbacks and make changes to the contract between the voters and the politicians on which the entire Greek political system was based. This is also relevant with regard to the strategic policy framework of which Mr. Qvigstad made little mention in his speech. The important thing in relation to the Norwegian policy framework is that price stability is a strategic policy norm that enjoys widespread support

in Norway. This is linked to the fact that we have not suffered any deep crises in recent decades. Some of the problems we have experienced have been linked to excessive inflation.

If we consider Germany, price stability is almost a policy dogma, which can be traced back to the period of hyperinflation almost 90 years ago. This is the nightmare scenario of how badly things can go wrong. Here are central features of the policy framework that delimit good and bad decisions. In view of these differing foreign conditions, it would be interesting to hear Mr. Qvigstad comment on the role of price stability in the remit given to Norges Bank and its role as an important premise for Norges Bank's operations. I am therefore unsure whether the Greeks were as hopeless at making decisions as we may think, if the standard is the definition of a good decision in our system.

Then to my question. It is implied by some of the comments made by Aanund Hylland and Ingelin Killengreen that the type of decision-making body must be evaluated by reference to the kinds of decisions that are to be made. In his comments, Mr. Qvigstad gave great emphasis to group decisions. There is relatively good experimental backing for saying that a group may be good at solving crosswords, as they can supplement and spark off one another. Individuals have a handicap compared to a group, and improve if they have supporters. However, if the task is to construct a crossword, the support of a group is of little help. The group situation muddles things, and renders the entire enterprise more cumbersome. The question therefore is whether there are examples of key decision-making within Norges Bank that justify the hierarchy which, after all, the bank has, in the form of the governor, deputy

governor and others further down the organisational chart. Does Mr. Qvigstad have any thoughts on the kinds of decisions, perhaps decisions other than interest-rate decisions, in relation to which an individual would be more effective?

Kristin Clemet, Civita

Thank you for your interesting contributions. As both Hylland and Killengreen referred to the political level, I thought I could raise an issue that I have been interested in for a long time, and that worries me; namely, the way the government makes decisions. It is true that the government does not make decisions, as it is not formally empowered to do so. The ones making the decisions are, as far as I know, either ministers alone or the King in Council. However, the *de facto* position is different. *De facto*, the government makes decisions. The government prepares both the decisions made by individual ministers and the decisions made by the King in Council.

Being a member of the government carries significant responsibility. A minister may be held accountable both politically and in criminal law. You may be “hanged” in the Storting [the Norwegian Parliament] either individually or along with the rest of the government, and you are held individually responsible for what happens during sessions with the King in Council, unless you have protested or dissented formally. Of course, the government is free to organise its work as it wishes, and it has always been normal practice for the government, in order to ease the workload, to appoint a committee of ministers or state secretaries to prepare and coordinate the processing of a matter.

However, there is one committee which worries me particularly. It is the “sub-committee”, of which I am sure everyone has heard and which over time has gained the reputation of an “over-committee”. It comprises the leaders of the parties forming a coalition government. Sometimes, if the party leaders are not also the finance minister or the prime minister, these ministers may also be or become members of the committee. The minister responsible for a particular matter often joins the committee too. As far as I know, this committee first saw the light of day under the Willoch government, and its use has grown since then. In my view, the use of the committee has now taken over completely, as almost all cases are shuffled out of the government and into the sub-committee. It is in the sub-committee that the real discussions take place; it is there that the decisions are made.

One might ask, “Is this a big problem?” One can take the simple view and say, “No, the rest of the government has delegated this to the sub-committee”. In my view, however, it *is* a problem, as ministers have such a heavy responsibility when sitting around the government table, but in many instances *de facto* have no opportunity to involve themselves in the processing of cases. This means that many wise heads are excluded, and very big decisions are left to a very small circle of people. One example of a very big decision, which in reality was made when I was last a government minister, was the decision *not* to participate in the war in Iraq. It was not made by the sub-committee, but it could have been made by the sub-committee. That, I feel, is rather serious.

Today, if you are a member of the board of a bank or, for example, are a member of the Centre Party leadership, it is considered quite censurable not to concentrate in meetings, read all papers and/or raise a fuss when there is

something to protest about. But, most government ministers have no opportunity to do these things. Many people probably believe that Mr. Støre is an important participant in the government's discussions. I do not know whether he is, but my hunch is that he is not, simply because he is not a member of the sub-committee.

Why, then, does this happen? This happens, in my view, because the government is no longer capable of making good decisions, because the government has grown too large. Approximately 20 people sit around the table, and there is, at the same time, an overload of cases. As I see it, there are two ways out of this problem. The first is to alter the present reality, for example by reducing the size of the government or by dealing with fewer cases at government level. Alternatively, I hope that at least some researchers will shed light on what is happening and discover whether there is a problem or not.

Endre Stavang, University of Oslo

I would like to comment on the question of the criterion for evaluating decisions – whether it is consequences or compliance with the rules. I have to agree with Mr. Hylland that the criterion for a good decision must, in the end, be consequences. Of course, it may be difficult to reflect in a consistent manner on what good consequences are, but that is a different matter. In addition, I understood Mr. Qvigstad to adopt a slightly different emphasis in relation to the bank and monetary policy when he said that the criterion for a good decision by Norges Bank must be that the rule is followed, or that the aim is achieved in the form of the rule formulated for delegation or

independence. I would like to comment on this via a digression. One might think that the *Supreme Court* should follow rules. It is clear that the Supreme Court is not completely independent. The judges have to take the law into account, but it is a well-known fact that rules do not follow directly from the law. It is necessary to take account of society's well-being when deciding what the rule should be. Accordingly, the Supreme Court can never comply fully with rules. This is different in the case of Norges Bank, which in accordance with the underlying theory of delegation and dynamic consistency clearly has legitimacy because it follows rules. Incidentally, this may be one reason why there are few dissenting opinions within Norges Bank and why the Bank gives few comprehensive statements of reasons, as we discussed last year. Nevertheless, I would like to ask the following critical questions: "Is too much energy and prestige invested in following rules for banking and monetary policy? Is there an excessive focus on the price stability rule that causes us to invest too many resources in following the rule and too few in considering whether it is good in all circumstances? And, finally, is it a problem that at European level 'we' are more concerned about protecting the rules associated with a single currency rather than considering whether a single currency is a good rule?"

Dagfinn Føllesdal, University of Oslo

I have three small points. First, every time we are required to make decisions, we have to weigh the options against one another; we have to consider alternative courses of action. In such cases, Norges Bank apparently only has to think about one thing: achieving price stability. However, in practice, situations will often be more complex, requiring consideration of alternatives.

This is probably the cause of the uncertainty described in the first speech regarding the relationship between Norges Bank and the government. It is fine for Norges Bank to focus exclusively on price stability, but there will also be other situations in which other values should weigh heavily. Øyvind Østerud mentioned the situation in Greece, and we have just heard that other factors should sometimes be considered. The question, therefore, is: “Should Norges Bank be able to take other factors into account and, if not, should other bodies do so?”

My second point is alternatives. Fridtjof Nansen was very strongly against the Academy of Science and Letters spending money on this house. He believed the money should be invested in research. Given the information he had at the time, his argument was not unreasonable. Now that we can see how this house was gradually taken into use, and now that it has become an important location for good research, with the research centre both upstairs and downstairs and the assembly hall which is used every day for specialist conferences, we can also see that a decision must be sensible in the light of the information that is available at the time the decision is to be made. The issue of alternatives is a small problem in relation to Norges Bank’s role. The second point made by Mr. Qvigstad was that it is very important to include all key perspectives. One should keep that in mind when putting together boards and committees. Such bodies are often politically determined, while what we actually need in order to make good decisions is to hear perspectives which are otherwise easily missed, perhaps because they are put forward by people who are not normally heard. In the area of physical disability, for example, many architectural solutions would be much better if efforts were made to ensure that handicapped people were always included in the relevant committees.

My third point is decentralisation. The winner of last year's Nobel Memorial Prize, Elinor Ostrom, has published a significant amount of scientific evidence that sheds light on the points raised by Killengreen.

Else-Britt Nilsen, Katarinahjemmet (The Dominican Sisters of Notre Dame de Grâce Oslo) and MF Norwegian School of Theology

I noted two statements in Ingelin Killengreen's speech. The one related to the precondition for a good decision that the decision is made at the right level. The second, perhaps less surprisingly, is the pyramid. Regarding the first: the principle of subsidiarity is central in Catholic social teaching, and has become a key term within the EU. It implies, for example, that the state should not involve itself in decisions which can best be made by families or local or regional bodies, but also that some decisions should or must be made at a higher level, for examples questions relating to the environment or security. An important aspect of the higher-level principle is that it is not right to move decisions up to oneself without this move being supported by the lower levels. In addition, moving the decision to a higher level must be necessary in order to secure the best possible solution. This principle has roots in the theology of Thomas Aquinas, which in turn was influenced by the social models of Aristotle and Plato. According to Thomas, humans are part of a divine plan, which they are to help fulfil. Human laws constitute the lowest level of a hierarchical order which also includes the eternal law and the natural law. Like Aristotle, Thomas considered humans to be social and political beings which have been given reason and which are intended to live in fellowship. In a socio-political fellowship, humans must seek out and realise the common

good, which we could also call public welfare. From this perspective, a good decision becomes a decision which serves the good of the community.

So to the pyramid: this pyramid-shaped form of governance was introduced at the end of the 1980s, we are told, at and between all levels of the state. In my church, this form of government is much older. Our directives and measures can also be highly detailed and operational, although one might at times wish that the pyramid would be turned on its head a little more often, that experiences on the grounds would be included in the Church's mapping and map-making. As Jan Qvigstad reminded us, not only excessive closeness, but also excessive remoteness, weakens our appraisal of distance, and thus good decisions.

Hans Petter Graver, University of Oslo

The comments illustrate the broad scope of our discussion. It is difficult to define simple criteria for good decision-making that can be applied across the entire spectrum. Consider, for example, the group decisions which Mr. Qvigstad mentioned. Øyvind Østerud pointed out that groups can be well-suited to making certain types of decision, but poorly suited to others. Climate negotiations demonstrate clearly that it is difficult for a group to make good decisions. A further example may be package solutions within the EU system, which often also result in sub-optimal solutions. An addition criterion was independence. Independence presupposes that it is expert assessments that are decisive for good decision-making. However, in many cases, responsibility and participation may be equally important criteria for good decisions. Even if there are clear criteria for what the result should be, the connection between

decision and result is often unknown. There need not be any connection at all between the decision and the result. I therefore believe that if we are to succeed in identifying some good, general criteria, we also have to look at the personal characteristics of the decision-makers. In this context, the important thing is to train people and to foster qualities in those who are to make decisions like a feeling of responsibility, a feeling of solidarity, and a sense of ethics, i.e. discernment. Perhaps this is the closest we can come to general criteria for good decision-making.

Tom Remlov, Norwegian National Opera and Ballet

When half-educated rogues from the art world are invited into the lofty halls of academia, we have to make at least a small repayment. I would like to contribute a footnote and then help to strengthen the small anti-ethical undercurrent I have sensed in the comments which have followed the Deputy Governor's speech.

My footnote involves complicating the term "decision" a little further. In my world, decisions often and most importantly function as guidance, not as a precondition for something, not as a stage in a rational sequence, but simply and exclusively as guidance, as a setting of boundaries that are to lead to something completely different. Let me give a very short example. Early in my career as a theatre director, I learned a lesson from an actor whom I thought I was treating with the greatest respect and the highest theatrical insight. I often said to him, "*If I were you, I would do it this way...*" – highly insightful, intimate, supportive and liberating – I thought. In the end, he said to me, "*Don't tell me what you would have done. I only need to know what I'm*

supposed to do. I don't intend to do it; I just want to know your view on what I should do. Then I'm sure I'll manage to work out how I should perform." This is how things often are in the art world and academia – after all, we have the terms “thesis” and “antithesis”. It is important to be aware that what we contribute is the antithesis, and that the goal is synthesis, which others will find. Our task is to create space and freedom for this process. And then there is the antithesis. One word that has not been mentioned throughout the debate, and strangely so since this is the actual subject at hand, is “discretion”. In the art world we are constantly exercising discretion. We have no justification other than discretion, as what we do revolves around subjective decisions. Our work is about formulating a life experience in order to set the life experiences of others in motion. Of course, the exercise of discretion is rooted in the subject, which brings us to the undercurrent I have sensed – reluctance regarding the Deputy Governor’s absolute and clearly personal attraction to group decisions. Let me give an example. We have an orchestra, which we can say consists of a hundred soloists. (My definition includes a small contrast, which I hope the audience will pick up on.) However, the soloists face a problem (among others) in relation to the recruitment of new orchestra members. Recruitment occurs through auditions.

Over the centuries, a system of audition committees has evolved, which vote on whether or not a given musician is to be accepted. I am convinced that this is not a suitable system. We have a head of music, who is the artistic head and who is held responsible for the artistic whole. I believe that the head of music should make the final decision regarding whether a new musician should be accepted or not. He must exercise his discretion, because an assessment of a musician can only be undertaken on a discretionary basis. In other words, the

issue revolves around subjectivity. We have to highlight the subjectivity in order also to highlight the responsibility involved.

In Norway's literary heritage, the simplest illustration in this regard is found in *Kongsæmnerne* (The Pretenders), which contains a quote by Hertug Skule, who pours out his envy of the heir apparent, Håkon, after Håkon has formulated what is now known as a *kongstanke* (*regal idea*), or a great idea. We can keep this great idea secret from those who do not yet know it. After all, they can ask their neighbour at dinner. Having heard the great idea, which is an innovation, an insight, an exercise of discretion far beyond any rational calculation, Hertug Skule replies, "*the sagas of Norway do not tell of such things*". In other words, it could not have been formulated by a committee, it could not have been voted on. This is discretion – a vision, a willingness to take responsibility, a willingness to stand or fall on the basis of an insight. So, there is a link between discretion and beauty.

As I was to visit the academic world, I thought I should find academic proof of this relationship between discretion and beauty. Unfortunately, this fellowship, which is phonetically and onomatopoeically very beautiful, evocative and correct, disappears in the twilight of Old German. Thus, there is no factual relationship between discretion and beauty. But, perhaps we could agree to *treat* it as a relationship?

Fredrik Sejersted, University of Oslo

Three short comments, the first directed at Killengreen with regard to decision-making freedom and subsequent answers.

Killengreen pointed out that some decentralisation has taken place in recent decades, giving agencies greater room for making decisions themselves, but that the Office of the Auditor General of Norway has taken back some of this freedom through its controls. However, precisely this constitutes the system. Decentralisation is linked to the subsequent controls. Controls are a precondition for decentralisation. Freedom with responsibility; and responsibility is ensured through the Auditor General's controls, on behalf of the Storting. It is an alternative, and in some contexts better, decision-making model to one under which the agencies are steered ahead of time by a minister. Controls are nevertheless a precondition, not a problematic and unexpected side effect.

Different decisions require different decision-making processes, with different criteria for what functions well. There is no single template. The best illustration in this regard is found in the Constitution, which sets out society's fundamental public decision-making processes, in the same system as we find in most other countries. The Constitution distinguishes between three fundamental forms of decision, and lays out three entirely different procedures for them. They are legislative, executive and judicial decisions. *Legislative* decisions (and the budget) are adopted by a parliament, a very special type of decision-maker. Decisions are made by majority vote, in an elected assembly which by definition will be home to different opinions and interests, and often

conflicts and differences. This is one form of decision-making process, which from a democratic perspective is superior to most others. We then come to *executive* decisions. These are made in a completely different form of decision-making structure, formally by the King, in reality by the government (or by the sub-committee!), or by ministers and public officials. This process is build up as a command structure, which is more effective for this type of decision. Finally, we have *judicial* decisions, which are made by the courts in a third form of decision-making structure. This form is regulated by procedural legislation, and is the most thought-through and finely regulated of all possible decision-making processes.

So to Clemet: Yes, in truth the government's *sub-committee* is in many respects the country's highest decision-making body. At the same time, it is not a constitutional or formal body, and is entirely invisible to the general public. Even the press do not write about it. Even I have found when teaching constitutional law that my otherwise generally aware students have rarely or never so much as heard of the sub-committee. Moreover, it is a puzzle – and a challenge – that we live in a democracy in which almost no-one, even among the enlightened members of the public, is aware of the existence of our highest, real, decision-making body. Having said that, in my view, the sub-committee itself is not the problem. It is natural for a government to require an inner circle of this kind, an “Inner Cabinet”. The problem is that this body is not institutionalised, that it is not publicly known, that no minutes are kept, and that it is impossible to control. That is a constitutional challenge.

Finally, many terms have been used in the debate to describe a good decision-making process. However, I miss the one thing that is key for us lawyers:

“contradiction”. Contradiction means a contrary reply, a conflict of opinion. This is fundamental to legal proceedings. Formalised conflicts of opinion bring out all sides of a matter, and a basis is secured for making a good decision which is as correct, and ideally also as fair, as possible. Two parties argue with one another, in a formalised conflict, and thereby give the judge a basis for making a decision. Everyone who has observed the day-to-day practice of the courts knows that the courts constitute an entirely superior kind of procedure for making the best decisions.

I would like to close by striking a blow for more *contradiction*, and encourage Norges Bank to develop an institutionalised system for this at its interest-rate meetings.

Ola Storeng, Aftenposten

Thank you for your excellent comments. I would like to salute Kristin Clemet for raising the issue of the government’s sub-committee, which has engaged me and which Sejerstad has also illuminated. I hope that more people will follow up on this on the research front. I think I want to begin by reassuring Kristin Clemet by saying that I believe that the Norwegian government has unusually good working methods compared with other countries. However, I believe things are moving in the wrong direction. That is my summary. In Norway, there are strong requirements stating that cases must be fact-based, and that the public administration must keep written records. From my experience in this area, I can say that comparisons with other countries show that, for example, Sweden has worse information about the decision-making basis, while the United Kingdom has no collegium. In the UK, the finance

minister dictates the state budget. So, I believe that the collegium plays an important role in this area. In the United States, laws are not drafted after being considered by the public administration and described in government memos discussed by the government. Rather, they are drafted in the backrooms of Congress, in cooperation with lobbyists. Moreover, there are cash flows in both directions, and the laws sometimes describe who is to receive what benefits in individual representatives' electoral districts in such detail that in Norway they would probably come close to contravening the corruption provisions of the penal code. When weighed against all of this, I would assert that the good working methods of the Norwegian government are probably one of the reasons why we live in a reasonably well governed society.

Ingelin Killengreen, the National Police Directorate

I find Sejersted's comment a little too simplistic. A decentralised system must have a good system of checks. In public administration, it is important to check that political decisions are implemented. My point was that if the system of checks is so wide-ranging, and goes so far in re-examining subject-specific questions, that agencies have to spend all their time checking that they do not make mistakes, good decisions are not made. We should be attentive to that risk. That was my point.

I am a strong supporter of discretion. An additional point is that, in many contexts, instead of allowing discretion to be exercised as a basis for good decisions, we ask for new legislative provisions, which then become the little plank to which we cling. We are fooling ourselves when we do this. No

legislative provision is so absolute that it may not subsequently occasion the exercise of discretion and then this becomes an endless spiral.

In closing, a small sigh of frustration: I argued strongly for group decisions, and live in an agency in which we make group decisions all the time, because we know and believe that several heads think more and better than one. However, sometimes I do wish that I could make decisions on my own, avoiding the long, heavy discussions and processes that never produce the desired result anyway. I know that saying this is completely wrong, but I say it now nonetheless.

Aanund Hylland, University of Oslo

Stavang probably exaggerated when he interpreted my comments as providing support for the proposition that decisions should always be weighed against their consequences. Some decisions must be considered by reference to consequences, while in other cases, assessments must be linked to the process. Killengreen has perhaps provided an example with regard to the closure of local police stations. Another example may be France's pension reform, where the changes are probably necessary, and where the decision is presumably relatively good, but the decision-making process itself has not been a good one, and has the potential to create major problems and undermine trust in the state and politics. So, this is an example of a decision that is good when measured by one criterion and bad when measured by another. Jan Qvigstad focused on, and said a lot about, group size. This may not be entirely the same thing as the question of how many people may attend and participate in *the good conversation*, but I have learned that there should be more than the

Graces but fewer than the Muses. I will follow Remlov's example and say that those of you who do not know how many this means may either ask your neighbour or remain in ignorance.

Jan F. Qvigstad, Norges Bank

Who, what, where, when, how and on what basis – all of these things are very clear when it comes to the interest-rate decision. *Who* – that is Norges Bank's Executive Board, everyone knows who made the decision. Everyone knows *what* and *where* – the decision regarding the official interest rate is made in Norges Bank's main boardroom on the sixth floor. Everyone knows *when* – the exact time of the decision is published on the Internet. Moreover, an incredible number of articles describes in detail *how* the decisions are made, and the procedures leading up to, and the basis for, the decisions. After the decision has been made, anyone can review the full basis for the decision. Nothing is hidden. Different people hold the post of governor, all different as individuals. The decisive factor is that the system within which the decisions are made is robust, and not too dependent on any one person. Such a system is a fundamental requirement.

Norwegian mathematics professor Knut Sydsæter is here today. He taught me the theory of dynamic optimisation. In monetary policy, however, it is insufficient to be able to describe the economy using mathematical equations, to undertake dynamic optimisation and to calculate the correct interest rate path.

Monetary policy is uncertainty. In monetary policy, the ambition is to pursue a robust policy and to avoid the big mistakes. In this context, I believe that groups produce better results.

I can also reassure Sejersted that Norges Bank gives great emphasis to employing contradiction in its work on setting the interest rate, in its efforts to arrive at the appropriate interest rate. However, I try to be careful about not misappropriating terms, and perhaps we use slightly different words to refer to what the lawyers call contradiction, but in the process leading up to an interest-rate decision, great emphasis is given to putting forward and evaluating all relevant factors. The interest rate discussion is conducted by reference to publicly known criteria for an appropriate interest rate path, and all factors that the Executive Board has considered are published in the press release issued in connection with each monetary policy meeting.

The basis for the decision is prepared by the Norges Bank's staff, and the primary requirement is solid expertise. It is the expertise that is key to the conduct of monetary policy. That is why it is important to measure staff quality.

The topic of next year's speech will be "On managing wealth".

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Ingelin Killengreen (born 1947) is a Norwegian jurist and was Police Commissioner of the National Police Directorate 2000-2011. In 2011 she was appointed as Permanent Under-Secretary of State in the Ministry of Government Administration. She has previously held positions as Deputy Under-Secretary of State (1988–1993) and Permanent Under-Secretary of State (1993–1995) in the Norwegian Ministry of Justice. Killengreen was the first female Chief of Police in Oslo 1995–2000.

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