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Panel Discussion Opening Remarks

Good afternoon and welcome to this panel session on the process of policy formulation and the evolution of transparency across central banks around the world. Before I introduce the panel, I'd like to make a few comments on transparency, since this subject will undoubtedly be one of the important topics for discussion.

As is well known, secrecy has been long a hallmark of central banking practice. Central bank policy boards have traditionally deliberated behind closed doors, much like judicial panels. The difference between the two? At least democratic judiciaries issue after-the-fact justifications for their decisions. And usually in great detail. In contrast, most central banks made no announcement at all. In the case of some countries, the degree of secrecy has been considerable — thanks in part to the nature of the social institutions and historical circumstance of those countries. Here Germany and Switzerland come to mind.

But in the 1990s things began to swing the other way. Many central banks, especially in OECD countries, moved considerably away from opaqueness embracing greater transparency in monetary policymaking.

Today, when judged by historical standards, central banks in several countries face rather high transparency requirements. For example, in New Zealand, Sweden, and the U.K., central banks are required to explain their policy decisions and actions in regular reports. These reports are disseminated to the public, sometimes in a very timely manner. The Bank of England publishes minutes of its Monetary Policy Committee's meetings, including voting records, almost immediately after its meetings. These reports open up monetary policy makers to considerable scrutiny: they provide an opportunity for outsiders to judge the quality and the appropriateness of the information and the arguments presented during monetary policy discussions.

Closer to home, the Federal Reserve's Federal Open Market Committee (FOMC) also now announces policy changes after meetings. We distribute the minutes of previous meetings to explain policy deliberations and changes in the stance of monetary policy.

The FOMC has been announcing changes to the stance of monetary policy and its intended federal funds rate since February of 1994. In August of 1999, the FOMC established a Working Group on the Directive and Disclosure Policy. This group studied the committee's disclosure procedures and proposed further improvements. The current disclosure procedures that are now in place were the recommendations of this Working Group and were adopted by the committee in December of 1999. I had the pleasure of serving on this Working Group with Larry Meyer, Bill Poole, Bob Parry, and Mike Kelley. Roger Ferguson chaired the group.

Conventional wisdom suggests that greater transparency about a central bank's objectives improves credibility and thereby policy outcomes. Clarity about decisions, in particular, enhances the effectiveness of policy quite simply by holding independent central banks accountable for their actions. As an additional plus, from a political perspective, transparency may compensate for the "democratic loss" society incurs as a result of central bank independence.

One question for this panel is whether the effectiveness of a central bank is enhanced simply by narrowing its overarching goal or mission. For instance, many believe that it behooves central banks to have a mandate to pursue a single goal such as achieving and maintaining price stability. And in fact, a number of jurisdictions such as the European Union, Canada, and New Zealand have now legislated explicitly that price stability, also known as inflation targeting, should be the primary goal of central bank monetary policy. Some would argue that it is exactly because of such price stability mandates that inflation rates have come down significantly in most of the adopting countries. But I must point out that in recent years, lower levels of inflation have also been achieved in countries where the central bank does not operate under a strict price stability mandate. The United States is a good example. By law we have objectives for both employment and price stability, among others, none of which are quantified in statute. Yet, over the past several years, lower rates of inflation have been realized.

I am sure you will agree that rationalizing transparency and openness is desirable. But it is not always so straightforward. For example, some would argue that even policy meetings should be open to the public. Clearly that would inhibit open and honest debate and discussion. Similarly, revealing information useful in the policy process, but obtained from private sources, would eventually reduce our ability to gather that very information. After all, why would a firm discuss its business decisions openly with central bank economists if they might be made public? These are very simple reasons for maintaining some level of privacy. To be sure, there are undoubtedly other more sophisticated reasons. And I have no doubt we'll hear some of them from our panelists.

Our panel features four outstanding individuals who are uniquely qualified to discuss issues related to the themes of this panel, from transparency to the broad issues of policy formulation. It is a rare opportunity to have important monetary policy-makers from four different jurisdictions on one panel — no less to discuss these critical issues. I look forward to an informative and invigorating exchange among our panelists and with the audience. In order to save time, I won't read their lengthy and impressive bios here. But they are included in your materials.

Our panel features: The Honorable Edward Gramlich, Member of the Board of Governors of the Federal Reserve System; The Honorable Christian Noyer, Vice President of the European Central Bank; The Honorable Sushil Wadwani, Member of the Monetary Policy Committee at the Bank of England; And The Honorable Charles Freedman, Deputy Governor of the Bank of Canada.