


Is 'more' always 'better'?

Communication, transparency and the clarity of message

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Is 'more' transparency always 'better'? (1)

- The answer depends on whether we are considering transparency about (i) monetary policy, (ii) market operations or (iii) the internal management of the CB.
 - More transparency is often better, but not always.
- I. Monetary policy – More transparency is better:
 - By making current policy easier to understand and future policy more predictable, transparency has two benefits:
 1. Increases policy makers' leverage over long interest rates.
 2. Reduces volatility of financial prices since they respond less to expected events in the far future than in the near future.
 - The benefits of transparency vastly outweigh the costs.

Is 'more' transparency always 'better'? (2)

- II. Market operations – More transparency is sometimes better:
 - Key issue is whether the CB wishes to impact on financial prices:
 - FX intervention vs. shrinking the balance sheet.
 - Cost of providing transparency is trivial.

- III. CB's internal management – Transparency is desirable but can be costly:
 - Appropriate for the public, journalists and others to ask questions to ensure that the CB is properly managed and is *moving with the times*.

Is 'more' transparency always 'better'? (3)

- But:
 - Not all questions are obviously intended to improve the functioning of the CB.
 - Providing answers can be costly.
 - There is sometimes a need for management to review answers and provide context.
 - There is a risk that providing information will invite increasingly detailed questions.
 - Cost-benefit considerations suggest that balance is important.
- Examples:
 - What is the CB's annual travel budget?
 - How much does it spend on taxis?
 - What was the most expensive taxi ride in 2016?
 - ...

Clarity of message (1)

- Why are CBs often seen as opaque?
- Historically, public sector agencies have often sought to protect themselves.
- Today, CBs often perceived as opaque because the public's expectations about what information is available are not always reasonable.
- **“Inflation is at target – why did you cut interest rates?”**
 - The state of the economy is more uncertain than commentators think:
 1. Data are often released with lags and are often revised, sometimes repeatedly.
 2. Not clear how some variables are best measured (e.g., labour market “slack”).
 - Policy makers build up a mosaic of the economy by looking at many different data series, attaching little significance to any individual time series or data point.
 - While this makes for better policy, it complicates communication.

Clarity of message (2)

- **“Will you will raise rates next month?”**
 - Policy is set one-meeting-at-a-time and often by a committee:
 1. CBs can not speculate about policy decisions that they have not discussed.
 2. The chair may find it difficult to speak for individual committee members.
- **“Since you didn’t raise interest rates, are you behind the curve?”**
 - The economy is less sensitive to monetary policy than is sometimes believed:
 1. While changes in interest rates over the interest cycle have large effects, it matters little if interest rates are changed 0.25% now or in 8 weeks’ time.
 2. Rates can always be changed by 0.50% if required.
 - Policy makers have more leeway to wait with changing policy than some commentators recognise.

Summary

- Transparency is generally a good thing, but the appropriate degree varies between different CB activities.
- When CBs are seen as opaque it is often because of unrealistic expectations about what information they can provide:
 - Can be difficult to describe the state of the economy since it is so uncertain.
 - Can be difficult to discuss future policy since policy makers have not yet considered it.
 - Can be difficult to explain policy when it is set by committee.
 - Some information is not readily available and can be costly to collect.

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