

Oh, What a Tangled Web We Weave: Monetary Policy Transparency in Divisive Times

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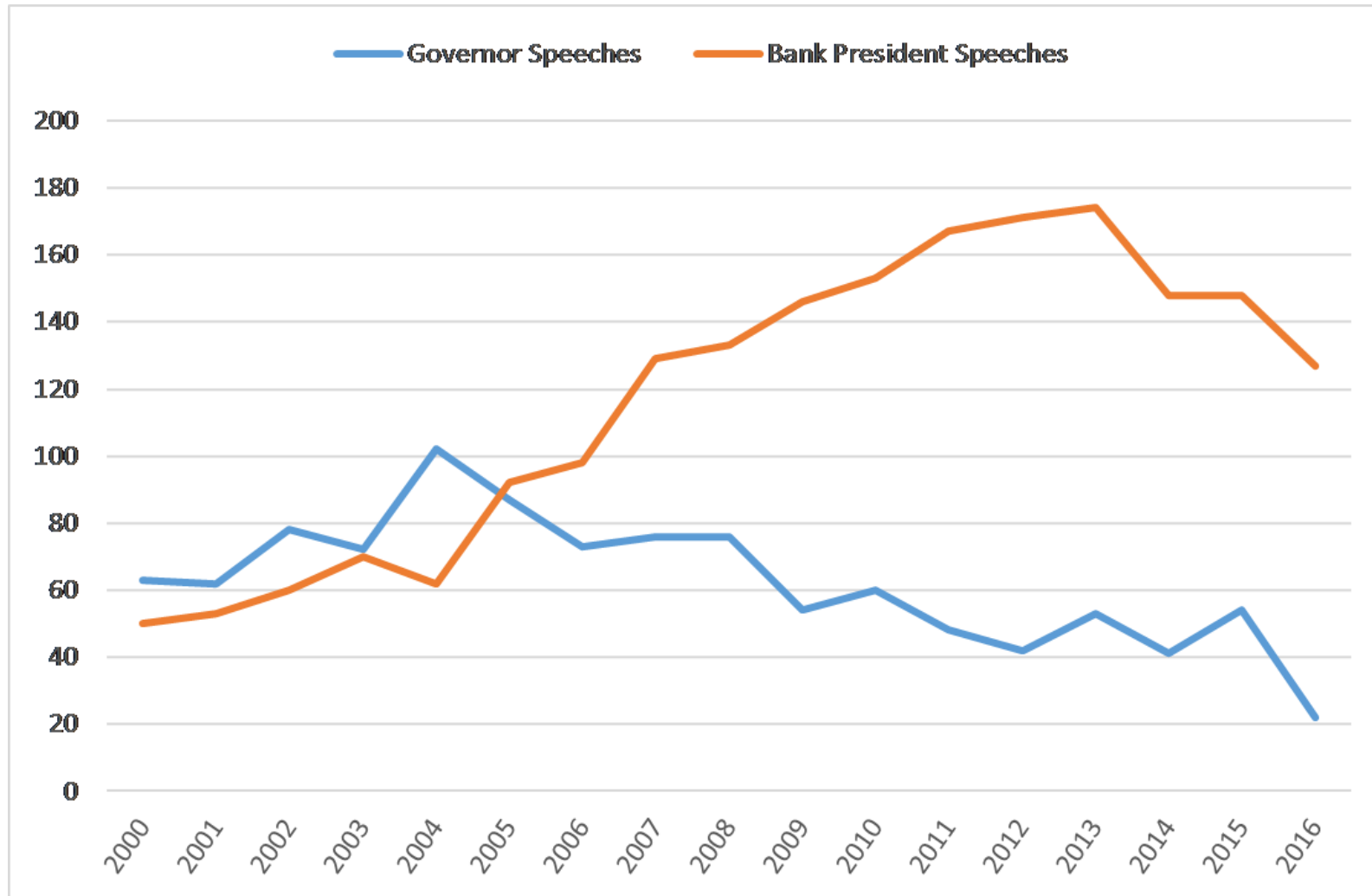
Many reasons for transparency

- Democratic legitimacy
- Accountability
- Ancillary: education and outreach

One more reason: Policy effectiveness

Policy works best when folks understand how it will work and make their plans accordingly

Adjusting to transparency



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Critical crisis phase: Fed deserves high marks for action and communication

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Late 2010: deep divisions bring transparency challenges

Welcome to reality

Transparency in contentious, deliberative negotiations fundamentally changes the policymaking process

FOMC strategy statement

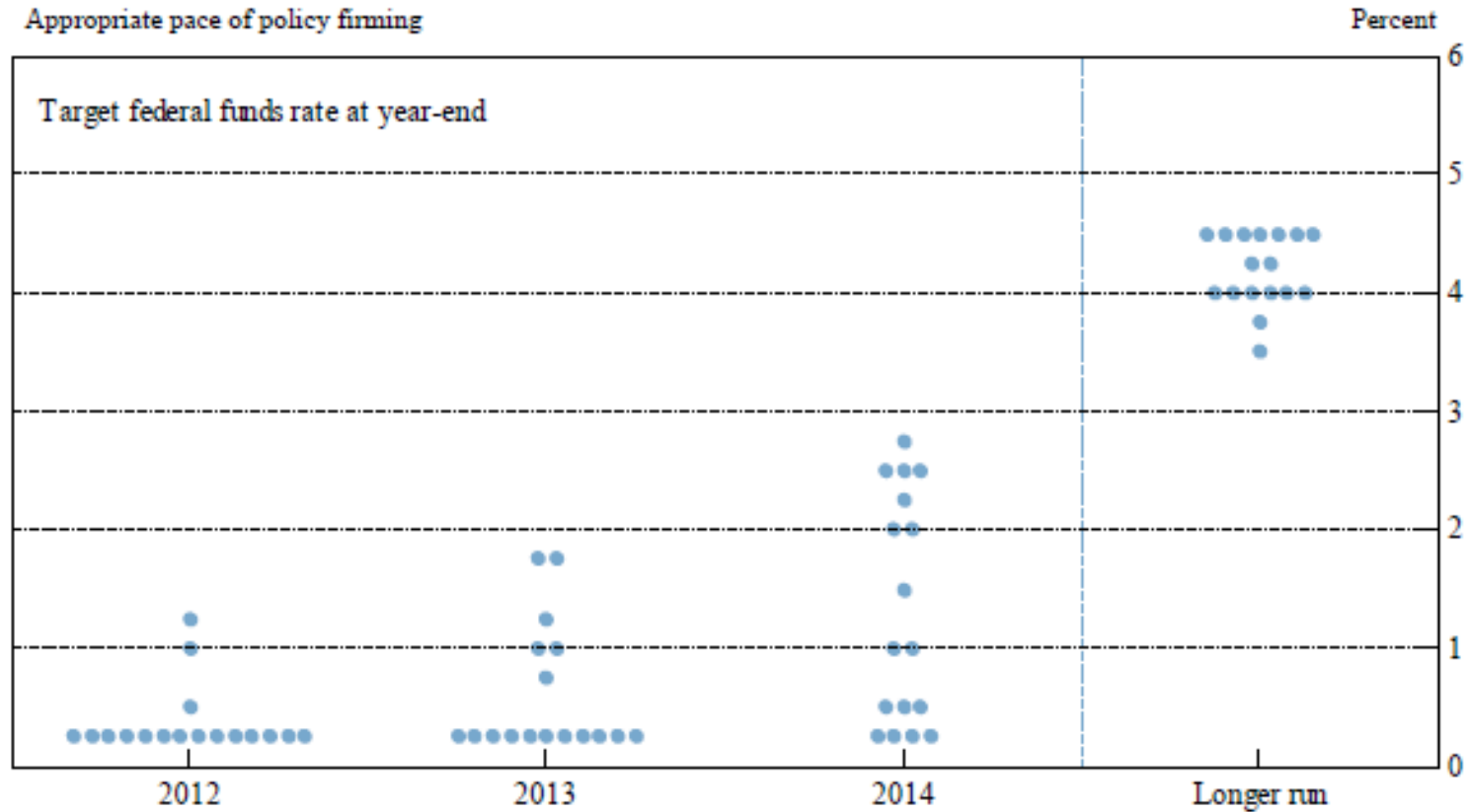
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FOMC strategy statement

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Not true. Should not be true.

SEP: ridiculous to assert 'as clear as possible'



Dots, January 2012

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Critical issue: unanimous consensus policy need not look at all like the 'typical' dots.

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- 2. Elaborate FOMC disagreement with no guidance about its resolution

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- 1. Explain likely evolution of consensus policy
- 2. Elaborate FOMC disagreement with no guidance about its resolution
- Goal of protecting deliberation has pushed most policy communication into the second category

Communications Policy since 2011



Committee participants... are free to explain their individual views but are expected to do so in a spirit of collegiality and to refrain from characterizing the views of other individuals on the Committee. In explaining the rationale for announced Committee decisions, participants will draw on Committee communications and the Chairman's press conference...

Rule of thumb for speeches

The more newsworthy the statement about future policy, the more likely that the speaker is **lobbying** for an unlikely outcome

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... and thereby are not transparent in the simple sense of the word

My suggestions:

- Focus on effective transparency
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- Focus on effective transparency
- In communication on behalf of the consensus: be more explicit about the way dispersed views are reflected in policy
- De-emphasize (or place in context) the disparate views in isolation

Forward guidance?

If there is something true that can be conveyed about the likely course of policy, convey it—whether ‘time dependent’ or not.

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My main goal: promote a conversation among a lot of folks much more invested in this topic than me