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REMARKS ON FEDERAL RESERVE COMMUNICATIONS

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Thank you. I'm glad to be here. This is one of my favorite topics, as some of you may know. I want to start with three very brief prefatory remarks about Federal Reserve transparency, the third of which will lead me smack into Jon's paper. The first two may seem like irrelevant digressions; but they are not, for reasons you will see.

So, the first one is that anyone who provides his discussant with a paper that has no page numbers should be subject to corporal punishment. You will see why shortly.

The second thing I'd like to point out to everybody is that the literary quote that begins Jon's title ends – he left this part out – "When we first practice to deceive." I don't think the Fed is trying to deceive, and I'd like to put that on the record.

My third prefatory point leads smack into the crux of Jon's argument. Though he doesn't quite state it this way, I want to state it this way very clearly and then harp on it.

There is an absolutely fundamental distinction between what constitutes transparency under group accountability versus under individual accountability, and the FOMC has group accountability, not individual accountability. I think that should be the lodestar that guides their communications. I'm going to be specific about that shortly.

Many of the Fed's recent communications problems arise because FOMC members speak as if they have individual accountability, when in fact they don't. We don't normally see – well, there are exceptions to every rule – football players saying at the end of a losing game, "well, the team stunk but I was good." That's pretty rare, and it's considered bad manners because the team has group accountability. It is supposed to win.

The Federal Reserve is like that. So my first recommendation is that Janet Yellen should pound this distinction into members' heads until they are repeating it reflexively in their sleep. The FOMC's official communications policy, which Jon quotes on page N of his paper, should be amended to emphasize that point.

My second recommendation is that the Chair should hog the megaphone more. After all, her words pretty much crowd out the others.

If on some day the Chair has spoken and three other bank presidents have spoken, you know what's going to lead the Wall Street Journal the next morning.

Having said that, let me turn more explicitly to Jon's paper. Methinks the gentleman doth protest a little bit too much in criticizing FOMC communications. For example, on page M he writes of a "ruinous dynamic" in Fed communications. I'm not sure there is a ruinous dynamic.

The truth is, and Jon pushes this point very hard, is that conveying complicated attitudes adequately when the Committee is deeply divided is a very difficult task. Add to that the fact that, if push comes to shove, the Chair of the Committee does not literally have the authority to muzzle the other members. The bank presidents aren't even government employees. Did you know that? Well, this is a very educated audience. You probably know that, but most people don't. You reach reserve banks on a .org, not a .gov.

Remember, most of the complaints about Fed communications, which the survey echoed, come from private sector Fed watchers who make their living trying to outguess the Fed, and who, present company excluded, of course, tend to be a bunch of whiners about this. No one in this room is a whiner, but there are lots of other people.

So it's not surprising that, when you come to page Q and get Jon's three recommendations at the end of the paper, they seem a little thin. I'm going to quote them and discuss each one.

First, and these are quotes, "Depicting the policy as a reasonable and constructive compromise rather than treating it as the preferred choice of a unitary policymaker might raise trust and understanding." I agree with that 100 percent, and I'm going to come back to it.

Second, "Stop sharing so much information about the diverse views of FOMC members." I agree with that, too, although not quite 100 percent. As an example, I also agree with much of the criticism Jon levels at the dot plot, and I'm going to make a suggestion to improve that shortly.

Third, "Communication on behalf of the consensus might more clearly indicate the role of past errors." I'm going to disagree with that one. Here's a rhetorical question: What agency of government, or in the private sector for that matter, goes out of its way to publicize its mistakes? There are usually other people to do that for you. The Fed has a plethora of such people.

I don't think Jay Powell, when he's sitting in his office, is thinking, "I wish we got more criticism, nobody ever says anything about our mistakes." I don't think there is a shortage of that, and I think it's asking too much of the Fed to add to it.

Now, let me come back to Jon's first recommendation; that's the most important. Group decisions are by their very nature, in Jon's words, "reasonable and constructive compromises," not "choices of a unitary policymaker." That's what he said, and he's right.

It's been a gross abdication of responsibility, I think, to allow this confusion to persist once the FOMC was transformed, at the beginning of the Bernanke era, from what was an "autocratically collegial committee" under Alan Greenspan to a genuinely collegial committee under Ben Bernanke, and now under Janet Yellen.

Let me take that point further into something I have long thought the Fed should do, and this comes right back to one of the points Jon was just making. I think it should admit to internal disagreements, explain concisely the main arguments on each side, and tell interested people – there are only a few of them – why the FOMC decided as it did.

Now, there is Fed staff in the room who are going to say that's impossible, blah, blah. It's not impossible as long as you don't expect the statement, which is short, to reveal every nuance of every argument.

You have the minutes coming weeks later that can provide a lot more nuance. You know, there is no page limit, not that I know of, on the minutes.

So, to make this idea more concrete, let me offer a rewrite of the policy paragraph, which was the third paragraph of the last FOMC statement. I picked this statement only because it was the last one, no other reason.

The Fed wrote, and you can read it, "Against this backdrop, the Committee decided to maintain the target range for the Fed funds rate at 1/4 to 1/2 percent." Now, the explanation. "The Committee judges that the case for an increase in the Fed Funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives."

Well, really? So how did the case strengthen between the previous meeting and this one, and why was that strengthening not yet strong enough to pull the trigger? Most importantly, what further evidence was the Committee waiting for before it was going to move?

So here's my suggested rewrite, which takes 72 more words—I counted them, or rather Microsoft counted them.

The first sentence is exactly the same. Now the explanation: "The Committee carefully considered several arguments, voiced by a minority of participants" – note, that was the losing side – "for raising the target range by 1/4 percent immediately. These included the notions that the economy is already at or near full employment, that this situation creates a danger of rising inflation, and that keeping interest rates near zero is contributing to financial instability.

"The majority of the Committee concluded, however, that the more prudent course of action was to wait because" – that was missing in the actual version – "there is probably still some labor market slack, inflation remains below the Committee's 2 percent objective, signs of rising core inflation are minimal, and there are few indications of serious financial instability."

Now, if you're really thinking about transparency, you may have noticed that my suggested rewrite, just like the original, omits what is probably the most important reason for waiting, which was that there was an election six days later. And we don't want, as Jon said, that much transparency.

By the way, I would like to see the Fed offer a trade: offer these fuller explanations in the statements and much fuller explanations in the minutes in return for eliminating the verbatim transcripts – which no one reads anyway except historians – or at least for releasing them with a much longer delay. It's a trade: Here's more useful information, but we take away some useless information.

I want to make one last point about the monetary effectiveness argument for greater transparency, which is the argument Jon correctly emphasizes. He doesn't mention this point, but I'm sure he doesn't disagree with it. I want to state it explicitly because I have always thought it was important.

The FOMC and the financial markets are in a perpetual kind of dance that is often adversarial but can and should be made symbiotic. The markets are constantly guessing what the Fed is going to do, and the Fed is always trying to guess how the markets would react to its policy changes.

It has always seemed to me that if and as the markets get better at predicting the Fed, the Fed would automatically get better at predicting market reactions, and that would help make monetary policy better.

I want to finish with that.