

Transparency and the Bank of England's Monetary Policy Committee

Opening remarks by Governor Kevin Warsh

We have all come a long way from Montagu Norman's 'never explain, never excuse' era of central banking.

The past two decades have witnessed a regime change in the way most central banks interface with the outside world.

For the modern central bank, transparency is the watchword.

And the Bank of England – like many of its peers – finds itself giving considerable thought to the ways it explains itself to Parliament, financial market participants, and not least, the citizens whose lives are affected by its policies.

On April 30th, Governor Carney and his colleagues commissioned me to undertake an independent Review of transparency practices, particularly with respect to the Monetary Policy Committee.

I was asked to consider the merits, and the demerits, of creating, retaining and ultimately publishing transcripts of the monthly MPC meetings.

But, transcripts should not be the sole, or perhaps even predominant, measure of transparency.

I was asked to reflect on transparency practices more broadly – could the Bank do more to advance the cause of openness and accountability?

To accomplish this task, I consulted widely.

I conducted interviews with all current members of the MPC, along with many who served in years past.

I listened to actual recordings of selected MPC meetings.

I spoke to central bankers, past and present, in other advanced economies, and to a wide range of government officials.

I considered insights from the academic literature in the fields as wide-ranging as economics and organizational theory.

And, working with dedicated staff, I conducted independent research into transparency practices at peer central banks.

The peer review was a useful means of evaluating transparency initiatives currently being practised abroad. I was curious to see where the Bank ranked on the transparency league tables. And it ranked well.

But, the most transparent central bank does not necessarily merit a gold medal.

That distinction is owed to the central bank that most effectively uses transparency to achieve its broader objectives.

Transparency is not a virtue in and of itself. It is a virtue for what it can do.

So the Review seeks to put transparency to good use in service to important Bank objectives.

These objectives – which I term the ‘Big Four’ – are as follows.

First, to make sound policy decisions.

Second, to communicate effectively such that the signal is heard through the noise.

Third, to be accountable so as to overcome any ‘democratic deficit’ common to central banks.

And fourth, to establish a fair and accurate historical record. For economic history may teach as least as much as economic theory about the practice of policy.

In this context, the Review identifies 5 fundamental reforms to strengthen the Bank in pursuit of these Big 4 objectives.

Number 1: publish a policy assessment and rationale as soon as is practicable upon the policy decision being made. The Bank is now alone among its peer group of central banks in not routinely producing a contemporaneous assessment and rationale.

It is also my judgment that the MPC’s meeting schedule is inconsistent with best practice. Real transparency doesn’t always mean ‘more’, but it should always mean ‘better’.

So, there is a strong case for reducing the number of meetings from 12 a year to 8. Rarely would a single 4 week period be optimal to revise an economic assessment.

Number 2: enhance the minutes. The MPC minutes, as they are, compare well to peers. But, the crux of the deliberations should be expanded in the minutes.

That way, businesses, households, and investors can gain a better sense of the key judgments with which the MPC is wrestling.

Number 3: publish transcripts of discussions that currently take place on Day 2 of the two-day policy meeting. That is the day when decisions on the stance of policy are determined.

A deferral period for publishing these transcripts of between 5 and 10 years is reasonable.

The Review seeks to preserve a crucial element of robust decision-making processes – that is, genuine deliberation.

Ensuring a safe space for genuine deliberation is among the most critical indicia of successful, long-lived organisations. The reform package would allow the MPC to bolster the transparency and accountability of its decisions without jeopardizing its ability to make sound policy.

Number 4: publish, with an identical deferral period to the Day 2 transcripts, the key materials from Staff that inform the MPC meeting.

Finally, number 5: strengthen the Bank’s Secretariat and archive procedures so that future historians can assess better the judgments of policymakers today.

I hope that my Review proves to be a worthy input to the ultimate judgments that will be made by the Bank and its stakeholders.