

# WORLD TELEVISION

Bank of England

Publication of the Warsh Review and the Bank's  
Response - 11th December 2014

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Jennifer Ryan, Bloomberg News: Can you talk about the costs of meeting on a less frequent basis, so in others words would this impede your ability to act in a timely fashion if need be? And then also would it put a little bit more weight on people to act at a meeting when they knew that there would be a little bit more of a lag?

Mark Carney: Well, the first thing is that we have the ability and we will retain the ability to meet at any time; so we could have an MPC meeting this afternoon and that would still be the case if we put these changes into effect, if the Bank of England Act were changed. And there are exceptional circumstances where that would be appropriate. So that's the first point. So that absolute flexibility exists today and would continue to exist and that's prudent.

Now as Governor Warsh has indicated in his opening remarks and in his report, it's seldom the case that in a given four week period there's a material enough set of information or change in the economic outlook for a change in policy, so it makes sense to have a greater lag. If you look at the history of the MPC prior to the crisis, prior to the crisis, on average action happened four times a year. So even with eight meetings you have some built in redundancy.

And one of the advantages of moving to eight meetings a year, a cycle which would have four inflation reports and then a meeting in between inflation reports, right in the middle of the timeline, is it's an ability to do a stock take relative to the forecast and provide perspective if policy action were warranted. And I would remind, obviously policy action - I mean deciding not to change policy is also a decision as well.

And I'm going to reinforce a point that comes through clearly in Governor Warsh's report and which we wholly endorse is that when we decide not to change policy, not to raise interest rates, not to change the Asset Purchase Facility there is merit in providing a full and immediate account for why we

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did so. And that's what we're moving towards by bringing the minutes to be published at the exact same time as we make a decision.

Ben Chu, The Independent:

Mr Warsh, you draw a distinction between day one and day two on the transcripts, saying that only the transcripts from day two should be published. Can you confirm is that a distinction that other banks which publish transcripts, such as the Federal Reserve make? And following on from that once these reforms are made is the Bank of England going to be, in your view, the most transparent central bank in the world, or will there be others which are still ahead?

Kevin Warsh:

Sure, so in response to your first question I think it's important to note that the Federal Reserve and the Bank of Japan are to this point the only central banks, out of a peer group of nine or ten institutions that are already in this business of providing transcripts. So the changes if adopted by the Bank of England today would put the Bank of England in that very top tier of providing transcripts at all.

In terms of the distinction itself, I would say the distinction that's being made both in my review and according to the Bank of England in their acceptance of it is a pretty important distinction in the conduct of making policy. It's a distinction between deliberations and decisions.

And the deliberations that happen on day one of the MPC meetings are, to be quite frank, quite impressive. It shows a willingness to play devil's advocate, to interrupt one's colleague and ask a follow up question. And in some sense the institutional design here of the Bank of England, with relatively fewer members in comparison to the Fed, with a more intimate surrounding, encourages that kind of robust deliberation which I think is essential to making good public policy.

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If you were to compare that to the Federal Reserve the institutional design and background of the Fed is quite different. We have 19 people that sit around the table; we have a room filled with about 60 people, which would compare to something like nine decision makers here and 15 or 16 all told in the room. And so I would say that the deliberations which I witnessed on day one of these decisions - of these meetings here are really second to none. And that is a special asset that it struck me was worth preserving in the context of policy. And so that's the reason for the decision.

If you were to read the Federal Reserve's transcripts themselves you would also see two policy go rounds, so in theory similar to what is conducted here at the Bank. But if you were to read those transcripts you would find that it is much more of a set piece discussion, where we go around the room in somewhat precise order, people make a statement, on occasion there's questions to be sure. But I would be - I think it would be incorrect for me to describe that as a robust deliberation, and again that's for reasons that I've outlined.

In response to your final question about where the Bank of England would rank, I would say with these recommendations onboard and operationalised, the Bank of England would really belong in the very top tier of best practice across transparency writ large. By various objective measures it's already really broadly speaking in the top, but with these recommendations I would say it would belong in that top tier.

But just to reaffirm as a final comment something that we try to describe - that I try to describe in the report, the winner of this contest isn't the one that ranks with the highest transparency score; the winner of this really is the one who's able to conduct its business and make the best decisions possible, communicate those most effectively, be most accountable and be most respectful to history. So by that

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broader measure of transparency being about what it can do, that's where I would give the highest ranks to the Bank of England under this set of recommendations.

Chris Giles, Financial Times:

I'm sure many of the public who care about this sort of thing will be pleased with the actions to strengthen the accountability and being able to be held to account. But being able to be held to account isn't just a passive thing where the public receive information from the Bank, it's also an active thing where they ask questions of the Bank. And the Bank of England, in its monetary policy capacity at least, has a blanket exemption from the Freedom of Information Act. I can't see in the report, I might be missing this and if I have I do apologise, any consideration even of the blanket exemption. So the question is would you be willing to give that up to be more accountable to the public?

Mark Carney:

Well, I think Chris we're doing a couple of things, let me be clear in terms of what goes alongside the publication of the transcripts of the MPC deliberations, is that we will publish all of the essential documents that we as MPC members receive in making our decision. So you'd have a contemporaneous record of not just what we said, you know my rationale for my vote, Ben's rationale for his vote and other members, but the documents that we use that were given to us by staff.

And what's interesting about it is we've thought about this. There's a core group of documents that you'll always get, the ones - we sit in this theatre, as you know, 12 times a year and have pre MPC meetings and there's the slides and the analysis that comes with that, those will always come out. Then there's essential documents that you know the demand forecast and the inflation forecast, those will always come out. But as an MPC member who is going to be held to account for my vote and what my rationale behind that vote with the transcript, I obviously have an incentive to ensure that any document that had an impact on that decision,

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influenced that decision, is published as well. And so at the time that we take the decision we will stamp those documents, they will be archived, they will be released alongside.

So I recognise that's in a longer horizon, but we're providing the complete picture, or as complete picture as we can around the decision, who decided what, what their rationale was and what information they had and analysis they had. That's the first that I think is helpful.

The second thing, I think we have a responsibility in terms of the publication of our forecast and the key judgements around that forecast. We moved just prior to my arrival and embedded in as I've been here, to implement the recommendations behind the Stockton Review to provide more information about the key drivers of the forecast. So you know informed members of the public and journalists such as yourself can then pick apart that forecast, reasonably disagree with elements of the main judgements, and then adjust your expectations accordingly or provide a different perspective on the appropriate path of policy.

Now we're open to suggestions on how to continue to improve that. This is a living process in terms of improving the information we transmit around our forecast and the decisions.

But the last point I want to reemphasise, which is something Governor Warsh has flagged a couple of times, this is not about giving just a sea of information, blanketing you with information, data, noise in the end. It's about what's most relevant, what influences decisions, providing the signal as much as possible because it's not just about the state of the economy at the moment and the stance of policy at the moment, but it's understanding as best as people can, informed observers can, of how we will react to the inevitable

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events, shocks, adjustments, that happen both here and abroad as they happen going forward.

Hugo Duncan, Daily Mail:

Governor, I'd like to know a little more about the joint meetings between the MPC and FPC in terms of the decision making process, which committees will be making decisions, will the FPC also be making decisions and will they be announced with minutes on those days?

And also just going back to what Governor Warsh said, the advantage of having an MPC meeting with just nine people around the table having a full and frank discussion rather than a sort of a much more organised and formal thing, will this be affected by that and is there a danger of if you like getting two tier meetings, MPC meetings that coincide with inflation reports, and MPC meetings that coincide with the FPC?

Mark Carney:

Okay, all very good questions. First thing, in terms of the joint meetings between the FPC, MPC, we have had some already. And the way they have worked is they've looked at issues of common interest; so the obvious one has been dynamics in the housing market, relevant both for demand inflation dynamics and also for financial stability.

So we've had a series of joint meetings between the MPC and FPC looking at common analysis, shared analysis so the MPC is aware of what the FPC is looking at, the potential reaction function of the FPC and vice versa. So we meet in this room, staff present analysis, there's robust questioning, there's further analysis done and then circulated.

But then each committee goes off and has their own policy meeting. So these are more deliberative meetings and discussion meetings understanding shared analysis. And then each committee goes off into regularly scheduled policy meetings and takes the appropriate decision. But it's a

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decision that's informed both by shared analysis and an understanding of the likely reaction function of the other committee. So that's what we're trying to accomplish.

And I'll just say that in this environment which will persist for some time of relatively low interest rates, we can see a series of potential issues that could arise beyond housing into financial markets that are relevant for both committees. And so we'll continue to benefit from them.

I should be very clear though about one of the points, one of the questions you asked, which is will there be minutes of those meetings and the answer is absolutely yes. With the examples of housing you had the minutes of the MPC and you had what we call the FPC record which are released. The difference now is that we will pull forward the MPC minutes as you now know to the date of the actual policy decision.

Ed Conway, Sky News:

Governor Warsh's study is a fascinating look at the comparisons between different kinds of transparency levels at different central banks, but in you Governor we have an example of someone who has actually experienced a situation where you have eight monetary policy meetings a year, and now you've come to somewhere where you have 12. So what was your experience of moving to that? Did you find yourself kind of thinking god we really need to move towards eight, we're twiddling our thumbs a little bit too much? I mean how did you find that transition?

Mark Carney:

Yeah, I think we meet too often I mean is the honest answer. And I would note that every review from the Treasury Committee to Don Kohn did a review of some other issues in 2002 and it was in a footnote he said the universal opinion of everyone he spoke to sort of unasked was that the MPC should move to fewer meetings. And it was noted in the Stockton Review as well, Governor Warsh, in looking at



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broader issues around transparency, made the recommendation as well.

So I agree - independently I had that view, and I think that the model that as we sat down and discussed it as the MPC and thought about this, partly in answer to Jennifer's question earlier, this model of providing a forecast, the full information, coming in front of all of you, being tested on it, then talking to economists and business people about that forecast in the weeks as going forward, and then doing a stock take in between those four forecasts.

I don't think we should do eight forecasts a year but I think it should be incumbent on us to have that midpoint meeting which says where are we in relative terms, is it material, does it affect policy? And that provides a much - my experience at the Bank of Canada was that that provided a more even topography in terms of you say the weight of making decisions at meetings, it may [gap in audio] where meetings were, if we do it right, are equal.

Now ultimately to move to this, you know, we do need a formal change of the Bank of England Act. We are changing our schedule so that we would have - we would set up these equal meetings, but we will still absolutely respect the Act in having four other MPC meetings during the course of the year to respect that we have to meet once a month. And at any of those meetings obviously we could take a decision. I don't know Ben if you want to supplement that.

Ben Broadbent:

No I think that's fine. I mean the Governor has said all there is. I don't think I've come across anybody who doesn't feel the same way about the frequency of meetings.

Phil Aldrick, The Times:

Mr Warsh, the Bank was claiming before that they didn't like to release the transcripts because it could stymie the discussion which you said obviously was very valuable, and I

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just wondered whether you'd given much consideration to that and whether you believe that the discussion could be less free flowing as a result of the transcripts being published?

And to extend that, the eight year delay, is that anything to do with the timescale of the Governor's maximum term? Is that why you chose it or is it just arbitrary?

Mark Carney:

Well I'll answer the second bit; you can answer the first bit.

Kevin Warsh:

Sure. So when I listened to the actual MPC meetings I must say I was struck by the differences between the first day of discussions and the second day of discussions here at the Bank. It was a more striking distinction than I had expected, and certainly more striking than was my experience at the Federal Reserve.

And by protecting that safe space for deliberation on day one, the goal was to ensure that we didn't do anything in the context of these recommendations that would take this very special asset and do harm to it. That is it's a remarkable, I think, development for people of different biases to go into a meeting and have a robust discussion, to try on different hats, to practise different arguments, to push each other to get to a better decision. And the predominant objective though one of the big four objectives which I state first is all of this is about making the best decisions possible amid a tremendous amount of uncertainty.

By the time we got to - I was listening to the day two discussions; it sounded like it was decision day to me. It sounded as though the Governor, his colleagues, had really slept on the decision and discussions they had had the day before and they were ready to tell their colleagues their judgement. So most often here, as is the case at the Federal Reserve on that second day, people have typed up the remarks, they have a prepared statement that they are going

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to offer, and so there's certainly listening to be done but it's really much more of an advocacy day.

Your question is really well what will be the impact of that day by now having transcripts, albeit with a delay on the level of discussion. There is some risk of course by introducing transcripts as was done at the Federal Reserve that you'd do harm to that day, but I think not. I think that the advocacy, the preparation that had been done is mostly before the bell rings when that day starts. And the judgements people make are rather considered judgements going in, and so I don't expect them to pull their punches, I expect them to state just as they are right now.

The reason of course for the delay, why these transcripts wouldn't come out instantaneously, is I want to encourage the people that sit around that table as facts change to change their minds, to not feel constrained by what they might have said a meeting ago or a year or two ago. These business cycles are long, these financial cycles are even longer, and it's incumbent upon on the institutional design to encourage people to change their mind when facts change.

So your question is a fair one, whether transcripts on day two will be doing harm, and I tend to think not because the nature of that day is about decision, it's about advocacy, and ultimately, as the Governor said, the institution like the Bank of England has the responsibility to be accountable to the citizens of Britain. And the way that that's best accomplished is so that when they do make their decisions, when they advocate individually for their views, that they're ultimately held to account and being held to account through that eight year delay that the Bank is adopting strikes me as quite consistent.

Mark Carney:

And just in terms of why the MPC landed on eight, I mean we looked at - the average business cycle is about six years in

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the UK, the average financial cycle is certainly longer than that. Yeah, I mean the Governor's term is eight, the two terms for an external member is six, but we're looking for something in that time horizon that Governor Warsh had identified. And it's really about - I think the important point is that it's proximate enough, there's enough of delay that you don't have the issues that Governor Warsh just identified, but it's proximate enough to be relevant.

What this reinforces is individual accountability. This is about reputation, who did the right analysis, how thoughtful were they to some extent with the wisdom of hindsight, who had the right voting pattern and why. And part of the reason why we release the analysis alongside, that's our intention, is to give a fuller context to the decision. Sometimes things are much clearer in hindsight obviously than they were at the moment.

So this is about individual reputation. And I think we all, or a number of us, would have looked back at the Fed transcripts during the crisis period and taken an assessment of how various Governors performed during that period. And that's what will happen with MPC members, so that's how we chose the number.

George Hay,  
Reuter Breakingviews:

Governor, isn't there an argument for the FPC and MPC meeting less rather than more? Just from the perspective of the risk that people look at the FPC and say is the reason that they're not raising capital charges on banks as they can because the MPC is effectively telling them not to hurt growth?

Mark Carney:

No I think the - well a couple of points here. First the FPC has a secondary objective to support strong, sustainable, balanced growth which we take very seriously, but in the context of a sustainable financial cycle avoiding excess credit

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creation, the boom bust history that unfortunately we've suffered in the past.

In order to take those decisions we want to be fully informed, and I guess the way I would couch this in terms of most of the meetings, most of the shared discussions of MPC FPC are about and will be about issues of medium term import. So it's not getting together to decide about interest rate policy or a short term move in the countercyclical capital buffer what you're referencing, but it's to understand deeper dynamics in the economy.

Housing is a classic example of that, broader credit cycle issues, impact of financial reform, these are other examples, cross border capital flows, scenario analysis around external risks and the impacts they could have on the UK economy. These are all the types of issues that it makes sense for us to sit down and discuss together. A) it's more efficient, there are different perspectives which is informative, and also through that process I think members of the various committees will understand better the perspectives, the reaction functions and the jargon of the other committees which is helpful in making better policy.

I'll just hammer this point, this is one of the big opportunities of putting macroprudential and monetary policy responsibility in the same institution, and so we intend to exploit it as much as possible.

Dan Hinge, Central Banking:

I'm interested in the historical aspect and to what extent history informs MPC decision making, or is it more of a sort of societal benefit that you're looking for?

Mark Carney:

Let me say one thing on history and then offer my colleagues. One thing we haven't mentioned, and Governor Warsh outlines this in the report, is the distinction between accountability and history. So accountability we meet

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through the transcripts, I think it's fair to say Governor that your discussion with historians, they also want to actually listen to the audio recordings so the emphasis and have the - so we will preserve those audio recordings and release them after a 20 year - that's the recommendation, a 20 year lag for historians, so there's that aspect of it which is important. But you've looked more broadly at the issue from a historical perspective so.

Kevin Warsh:

So I'd make a couple of points on history. First we do tend to get a bit preoccupied when we're conducting policy, at least at the Federal Reserve, in the business cycle, in the state of the economy when we look out the window in our forecasts. But if we think back about the financial crisis of 2008 we'd have to look back through a number of business cycles, and at least in the US context the best predecessor to that was the panic of 1907.

So history can really inform our judgements, it can tell us about where our predecessors made the right call, where with the benefit of hindsight they erred. And so this view of preserving the Bank's record today for historians isn't just so they can write interesting biographies, it's to inform judgements.

And so I think history can teach us at least as much as economic theory about the current practice of policy. Most of us who find ourselves in these various policy making roles end up spending and sort of going back to see what lessons learned history can tell us. And I think as the Governor suggested, the objective of treating these four categories differently is to have a different time horizon that you solve for. And trying to make sure that historians, 20 years hence can look back on this period, of the post crisis period, and judge for themselves whether they think that right decisions were made or wrong, or how people were thinking about it is really quite essential.

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So that's really what it's about and it takes us beyond economic models and how things appear, to try to put what we're doing in the hands of historians so that our successors could do a better job even than we.

Jenny Scott:

Okay. Thanks everyone for coming. Thank you.

Mark Carney:

Thank you.

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