



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Monetary Dialogue 2009-2014: Looking backward, looking forward

NOTE

Abstract

This note describes the forward guidance undertaken by the ECB, the Fed and other central banks and the theory behind it. It describes its limitations and opposing views. It also describes unanticipated negative effects that may be associated with a more general class of central bank announcements. Finally, it discusses the role of the Quarterly Monetary Dialogue in clarifying the intentions of the ECB with respect to forward guidance and its beliefs about the likely outcomes. It also discusses the past efforts of the ECON committee to promote transparency at the ECB through the Quarterly Monetary Dialogue and the prospects for promoting additional transparency – a necessary condition for greater ECB accountability.

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs.

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LINGUISTIC VERSIONS

Original: EN

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Manuscript completed in February 2014
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This document is available on the Internet at:
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EXECUTIVE SUMMARY

- Since the current crisis began in late 2007 central bank policy rates have been reduced to near zero and unconventional monetary policy measures have been put in place; central bank balance sheets ballooned and their maturity structure lengthened. The latest unconventional monetary policy to be adopted by the Fed, the ECB and other central banks is *forward guidance*.
- Some economists believe that the global economy is stagnating because real interest rates are too high. With a zero lower bound on nominal rates only expected inflation can reduce real rates. There is a view that the central bank can lower both actual and expected real rates, despite being constrained by the zero lower bound, by raising actual and expected inflation through credible commitment to a path of low policy rates that continues even after growth revives.
- It is a widespread view that it would be difficult for central banks to follow through on such a commitment to pursue excess inflation; once recovery begins it is beneficial to raise policy rates and it improves the central bank's reputation for being a credible inflation targeter. Such a policy is not *time consistent* and will, therefore, not be credible.
- Other economists believe that lowering real interest rates will not restore growth or they believe that the current stagnation is not caused by a failure of monetary policy and cannot be cured by monetary policy. An incorrect belief that monetary policy can reverse stagnation causes policy makers to delay making difficult decisions about real economic reforms that might improve matters.
- In general, central bank announcements about the state of the economy or the intentions of the central bank can have unintended consequences in the form of coordinating market participants' beliefs on a socially undesirable outcome.
- The Quarterly Monetary Dialogue should be used as a forum to question the ECB about its intentions with regard to forward guidance. Has the central bank changed its objectives? Has it changed its view of the world? Has it changed its view of the transmission mechanism? What is the theory behind what they are trying to accomplish? Is there any empirical evidence that this unconventional monetary policy is likely to work? If the forward guidance is effective, will the central bank have any incentive to follow through on the policy actions implied by forward guidance.
- From its beginning the ECON committee has used the Quarterly Monetary Dialogue to pressure the ECB to be more transparent. There are signs that the new regime may be more receptive to this than its predecessors. It is to be hoped that the committee will be able to successfully use this opportunity to promote a more accountable ECB.

1. INTRODCUTION

The Fed and the ECB initially responded to the financial crises with conventional monetary policy; by December 2008 the federal funds rate had been lowered to 0 – ¼ % and by May 2009 the ECB's refinancing rate was cut to 1 %. With policy rates hovering near the zero lower bound, unconventional monetary policy measures were brought in. Both the Fed and the ECB engaged in aggressive balance sheet expansion, through large-scale outright asset purchases and collateralised lending. The Fed's balance sheet more than quadrupled between August 2007 and November 2011; the Eurosystem's balance sheet nearly tripled between August 2007 and the summer of 2012, although it has since contracted to about twice its pre-crisis size. Unfortunately, this did not have the desired effect; in accordance with the predictions of standard economic theory most of the additional liquidity was parked as depository institutions' deposits at the Fed and as counterparties' deposits at the ECB. The desired stimulative (unanticipated) inflation was not forthcoming. In the hope of flattening the yield curve the maturity structure of the Fed's and ECB's balance sheets was shifted dramatically. Standard economic theory again suggests that this should have no effect and while it is difficult to assess the impact in the absence of a counterfactual scenario, it is unlikely that it has been significant. Still hoping to use monetary policy to achieve further recovery, the Fed and the ECB are now attempting to use announcements known as "forward guidance" to influence inflationary expectations.¹

The second section in this note considers forward guidance: its use by central banks, the theory behind it and its limitations. The third section considers more generally the benefits and possible dangers of central banks attempting to use announcements to influence expectations. The fourth section considers the role that the Quarterly Monetary Dialogue between the Economics and Monetary Affairs Committee and the President of the ECB could play in clarifying the goals and expected outcomes of the new monetary policy strategy of affecting expectations and beliefs. The fourth section assesses the past and future role of the Quarterly Monetary Dialogue in shaping the ECB's communication strategy.

¹ The Fed and the ECB also engaged in fiscal policies to restore order to dysfunctional markets and to act as a lender of last resort to both illiquid and insolvent institutions. This note, however, is solely concerned with monetary policy.

2. FORWARD GUIDANCE

The first part of this section describes forward guidance in practice. The second part describes it in theory and explains its limitations.

2.1. Forward guidance in practice

Forward guidance is not new; between 1983 and 1999 the FOMC's views about the direction of the future policy path were put to a vote. The Reserve Bank of New Zealand has published its projection of future policy rates since 1997. It was joined by Norges Bank in 2005 and the Swedish Riksbank in 2007. The idea behind this forward guidance was to make monetary policy surprises smaller; to lower the responsiveness of longer-term rates to surprises and to increase the central bank's influence over medium and longer-term rates. There is scant evidence that it was beneficial; Anderson and Hoffman (2009) found that monetary policy decisions were highly predictable and longer-term inflation expectations were well anchored in all three countries – whether or not they published their policy rate projections – and there was only weak evidence that New Zealand's publication of an interest rate path potentially enhanced its leverage over the medium-term structure of interest rates.

Recently, forward guidance has taken the form of announcing that accommodative policies (near-zero policy rates and/or balance sheet expansion) will continue for some time. Since the onset of the crisis the Federal Reserve's FOMC has provided guidance on the likely duration of events. In December 2008 it said that "... weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time". In March 2009 the expression "some time" was replaced with "an extended period". In August 2011 the Fed became more specific, saying that the policy rate would be "exceptionally low until at least ... mid 2013". In January and March 2012 the time horizon was extended to late 2014. In September 2012 it became mid 2015. In December 2012 the FOMC announced a state-contingent approach: its exceptionally low target range for the federal funds rate of 0 to ¼ % would continue to be appropriate as long as the unemployment rate was above 6.5 %, inflation between one and two years ahead was projected to be no more than a half a percentage point above the Committee's 2 % longer-run goal and inflation expectations continued to be well anchored. This same forward guidance was repeated every month until Dec 2013 and January 2014 when the Committee added that it is likely that it will be appropriate to maintain the current target range for the federal funds rate well past the time unemployment declines below 6.5 %, especially if projected inflation continues to be below 2 %.

At its 4 July 2013 post-rate-setting press conference the Governing Council of the ECB announced that "the Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation is based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics. In the period ahead, we will monitor all incoming information on economic and monetary developments and assess any impact on the outlook for price stability." This forward guidance has been repeated at every meeting since.

2.1. Forward guidance in theory

Unlike the previous announcements of inflation-targeting central banks, the Fed's and the ECB's announcements of a likely future interest rate path is not about gaining or maintaining a reputation for toughness on inflation. In normal times, a promise to commit to a particular contingent policy path is an attempt to gain credibility and to reduce the inflation bias associated with the familiar time-inconsistency problem in monetary policy

design when current outcomes depend at least in part on anticipated future policy actions. In the current scenario, a promise to keep rates low, subject to some extent to economic events, is not about rational expectations and the expectations-augmented Philip's curve; it is instead a Keynesian story.

In an old-style Keynesian view, the current real interest rate consistent with full employment is negative and has been since the crisis began. Larry Summers (2013) suggests that, as a result of an (ex ante) global savings glut, the real interest rate consistent with full employment may have fallen to minus 2 or 3 % some time in the middle of the last decade. Given the lower zero bound on the nominal interest rate the real rate has not adjusted. Thus we have large output gaps and unemployment. To restore employment and growth, expected inflation needs to increase. In an old-style Keynesian story, investment is decreasing in the interest rate. If the interest rate could be lowered, investment would increase, increasing output and consumption, which would further increase output and so on. Unfortunately, despite the efforts of monetary policy makers, the necessary expected inflation has not been forthcoming.

Willem Buiter (2013) argues that for most of the world this secular stagnation view is overly pessimistic. Growth in the emerging market economies that account for over 45 % of global GDP is projected (by Citi) to be about 5 % per year for the next five years and growth in the United States is expected to be about 3 % per year for the next three years. In the United Kingdom growth is expected to be over 3 % per year over the next two years. However, the euro area remains at risk of falling close to the output gap, as does Japan.

A new-style Keynesian argument has been made as well. In a conventional intertemporal representative agent model, optimality for the household requires that the proportional change in consumption is a strictly positive function of the difference between the real interest rate and the household's rate of time preference: this is the Keynes-Ramsey condition. The intuition is that an increase in the real interest rate reduces current consumption and increases current saving. The latter effect increases future consumption. Hence the increase in the real interest rate increases the change in consumption. Solving this difference or differential equation forward gives current consumption as a decreasing function of the current and all future real interest rates. Add uncertainty to the model and current consumption becomes a decreasing function of the current real interest rate and the expected path of all future real interest rates. Thus, it is not just the current real interest rate that matters; it is the entire expected path of the real interest rate.

The New Keynesian story is that a negative shock has temporarily dislodged consumption from its long-run trend value. Over time consumption will return to this trend value. If expected real interest rates are expected to be relatively high the shock will be associated with a relatively sharp drop in current consumption and a relatively high proportional growth in consumption as it returns to trend; if expected real interest rates are expected to be relatively low the shock will be associated with a more dampened drop in current consumption and lower expected growth in consumption as it returns to trend. Thus, if expected real interest rates were lower, current consumption would be higher. As noted in the previous paragraph, it is the entire path of real interest rates that matter. Thus in the New Keynesian story, if nominal interest rates are stuck at zero, anything that monetary policy makers can do to make current or *future* expected inflation rise will cause current consumption to increase as well.²

A problem with the New Keynesian story is that while the current level of consumption is indeed low, it is not accompanied by high growth in consumption. Dominguez and Shapiro

² See Cochrane (2013) for an interpretation and critique of the New Keynesian view.

(2013) suggest that this is due to the succession of shocks, notably the lengthy impasse over the US debt ceiling in 2011 and the growing awareness of the magnitude of the EU debt crisis. Alternatively, Cochrane (2013) suggests that the explanation is that we are seeing not just a deviation from trend consumption, but a lowering of trend consumption that that is due to bad economic policies.

In the Keynesian framework, the solution to secular stagnation is for the central bank to somehow increase current or expected future inflation. But, this view of the world is not universal. Some economists argue that decreasing nominal interest rates or keeping them at the zero lower bound for longer would do little to reverse stagnation.³

Others argue that monetary policy neither caused nor can fix the recession. Meltzer (2013) comments that, "America's biggest problems are not liquidity problems. As every economics student learns early on, monetary policy cannot fix problems in the real economy; only policy changes affecting the real economy can." The two obvious policies that might affect the real economy are expansionary fiscal policy in the form of increased government spending and fundamental economic reform reform of laws, regulations, rules and institutions affecting economic behaviour. The benefits of increased government deficit spending are much debated and there is little empirical evidence one way or the other. However, in a world already excessively burdened with public debt adding more might not be advisable.

Many economists view secular economic stagnation (that is sluggish growth of both potential and actual output rather than a large and negative output gap) as a response to too much regulation, the disincentives of ill-designed social programmes, policy uncertainty and high marginal tax rates. In the United States it may have been worsened by the impasses over the US debt ceiling, the continuing resolutions (risking shutdowns of the federal government) and Obama's Affordable Care Act that hurt employment growth, as it gives firms an incentive to reduce both the number of workers employed and individual workers' hours. In Europe it is caused in part by the need of impaired sovereigns and banks to deleverage and the need for reforms of the distortions that make many European countries, especially the southern ones (and including France), unattractive places to do business. It is mitigated by such positive economic reforms as the Single Supervisory Mechanism. An argument against economic reform as a solution to the current stagnation is that the benefits of fundamental policy change are primarily in the future and the costs are upfront. The permanent income hypothesis, however, suggests that the future benefits that increase future output and income should increase current consumption demand and possibly investment demand as well.

It is not costless for central bankers to make a show of policies that are not likely to be effective. By acting as if they can solve the world's economic problems, monetary policy makers reduce the incentives of other policy makers to undertake politically costly but necessary economic reform. As Rajan (2013) commented, "What would you have us do when we are the only game in town', [central bankers] say. But that may well be the problem. When the central banker offers himself as the only game in town, in an environment where politicians – from their own partisan political perspectives - only have choices between the bad and the worse, he becomes the only game in town."

³ See Rajan (2013).

3. SHOULD CENTRAL BANKS TRY TO SHAPE EXPECTATIONS?

The current scenario leads to the question, should central banks try to shape expectations by making announcements? In the first subsection I consider forward guidance that is intended to be a public statement of credible commitment; in the second I describe forward guidance that is meant to be a forecast. In the third subsection I briefly note how central bank announcements can sometimes have unintended consequences.

3.1. Odyssean forward guidance

Campbell et al (2012) distinguish between *Delphic* forward guidance, which is merely the central bank's forecast of what it intends to do, and *Odyssean* forward guidance, which is a public statement of commitment. Central banks engage in Odyssean forward guidance to solve their time inconsistency problem.

If a scientist solves an optimal control problem for the optimal state-contingent trajectory for a glider then his optimal plan has the property that at any instant the glider is still in flight it is still optimal to follow that same state-contingent trajectory. This is a consequence of the current location of the glider depending solely on the current and past forces exerted upon it. In contrast if an economic policy maker solves for the optimal state-contingent path of some variable he may later have an incentive to deviate from that path; this is because the existence of forward-looking market participants may imply that the value of the variable being targeted depends not just on the past and the present but upon what the policy maker is expected to do in the future. An example of this is the familiar time-inconsistency problem of monetary policy that leads to a bias toward sub-optimally high inflation. The problem of the policy maker having an incentive to deviate from his optimal plan could be solved if he could find some credible way of binding himself to following the optimal state-contingent policy.

Odyssean forward guidance takes its name from Homer's Odysseus, who – in what may be the first description of a successful commitment device – orders his men to stuff their ears with wax and to tie him to the mast of his ship so that he can hear the sirens sing but will be unable to throw himself into the sea. Unfortunately, as the enforcers of the laws, it is more difficult for policy makers to find commitment devices than it is for the heroes of ancient Greek mythology.

A possible partial commitment device might be a public statement of intent that it is costly to one's reputation to deviate from. To mitigate the temptation to produce excess inflation policy makers might announce a point inflation target. If market participants find this target credible and wages and interest rates are set based upon an expectation of target inflation, it may become optimal to have above-target inflation but policy makers might be deterred by a fear that their reputations would be damaged if they were unable to follow through on their public announcement.

In the current scenario, Krugman (1998, 2013) argues that if real interest rates are too high and nominal interest rates are near their zero lower bound then the solution is for the central bank to increase expected inflation by making a promise to engage in irresponsible monetary policy; that is to announce that it will engage in a monetary expansion that it will not be reversed once prices begin to rise. It is difficult to see, however, why such Odyssean forward guidance would be believed. Once the economy begins to recover, it is hard to believe that central banks would continue to produce inflation that is no longer necessary. For many, doing so would flout their mandate; reneging on their promise would give them credibility for being tough on inflation.

3.2. Forward guidance as misrepresentation and cheap talk

"One peso, one dollar, full stop." (Argentinian President Carlos Menem, 1999)

There may be scenarios where policy makers may know either the current or future state of the economy or their ability and willingness to do something about it with greater accuracy than the private sector.⁴ They may want to convey some information to the public, but they may also have an incentive to misrepresent the truth; they may not be fully credible. The markets did not, for example, believe Chancellor of the Exchequer Norman Lamont in 1992 when he assured them that there was not a "scintilla of doubt" about the pound. Nor did they pay any lasting attention to Alan Greenspan's warnings of irrational exuberance in 1996.⁵ It is frequently suggested that effective signals must be costly and that talk is cheap. This suggests that when there is a conflict of interest between policy makers and the public, Delphic forward guidance might not be useful as a signal of current or future events. However, this is not necessarily the case. As long as the central bank and the private sector's interests are not too divergent, forward guidance can be an additional tool for monetary policy makers; policy makers might be able to credibly convey imprecise, but useful, information to the private sector.⁶

To see this, consider a scenario where the central bank has private information about the health of the economy or about its willingness and ability to affect it. The public wants to know this information so that it can make the best possible decision. The central bank cares about the public making the right decisions, but perhaps for opportunistic political reasons, it would like the private sector to believe that the economy is doing better than it actually is or that the central bank is more able to improve matters than it actually is. Thus, the central bank and the public have some common interest: the central bank does not want the public to be too imperfectly informed. But, their interests are not perfectly aligned.

If the central bank would like to systematically fool the public into thinking that, say, the health of the economy is better than it actually is, there can be no equilibrium where the central bank provides precise information. If the public believed the central bank was biasing its report upward by some amount, the public would subtract off the amount of the bias in forming its beliefs. But, then the central bank would want to report an even higher figure and the public would subtract even more, and so on.

If the central bank and the public's information are not too imperfectly aligned, there may be an outcome, however, where the central bank can provide useful imprecise information: say, information that suggests that the economy is either doing well or not doing well. The reason that this imprecise "cheap talk" can convey information -- even though there is no exogenous cost to misrepresentation -- is that there is an endogenous cost in the form of the public's reaction. Too extreme a statement, say claiming the economy is doing "well" when it is really doing "not doing well" causes the private sector to take an action that is harmful to the central bank.⁷

3.3. Unintended consequences of central bank announcements

This section presents two highly stylised examples that remind us that central bank attempts to shape beliefs through announcements can have unintended consequences.

The first example concerns bank runs or other forms of speculative attacks such as sudden funding stops for solvent but at-risk-of-illiquidity sovereigns or attacks on fixed exchange rate regimes. In the canonical bank run model individual market participants either choose

⁴ The material here and in the next section is derived from Sibert (2008).

⁵ The examples are due to Financial Times (2007).

⁶ This is based on Crawford and Sobel (1982).

⁷ This, too, may be a justification for some forms of constructive ambiguity.

not to run on a bank in the belief that other market participants will not run and the bank is safe or they choose to run in the belief that other market participants will run and the bank will fail. In both cases their beliefs are self-fulfilling. A drawback of this story is that it is difficult to see how either outcome arises; how is it that all market participants are coordinating their beliefs in such a way?

Consider now a stylised description of a more modern version of the tale. If all market participants have only their own noisy and uncorrelated idiosyncratic information about fundamentals then bank runs can happen if the fundamentals are bad enough, but they cannot happen just because of self-fulfilling expectations. Market participants do not have enough information about other agents' information either to launch a coordinated run or to coordinate on refraining from a run. Now suppose that a central bank makes a credible announcement. The announcement may play a similar role in coordinating expectations. Suppose that the central bank has its own information about the state of the economy and suppose that in addition to each private sector agent receiving his own signal that there is a public central bank announcement of its useful information. This signal plays two roles: it provides each private sector agent with additional information and it gives them something to coordinate on.

Extracting policy advice from this is somewhat difficult. It is impossible to say whether the multiple equilibrium outcome with a useful central bank announcement or the unique equilibrium outcome with no central bank announcement is better as we do not have a theory of how likely the different equilibrium outcomes are in scenarios with multiple possible equilibria.

A second example is due to Morris and Shin (2002). In their model informative central bank announcements can make society *worse* off and lower quality central bank announcements can be better than higher quality announcements.

The intuition is similar to that in the previous subsection. In financial markets, if there is no information that is common knowledge, then people will act on the basis of what they know about the fundamentals. But if there is some common knowledge, then people might coordinate on it and ignore their own potentially useful information. An example of this was the announcements of Henry Kaufman, the Solomon Brothers economist who was famous during the 1970s and early 1980s for his interest rate forecasts. In Morris and Shin (2002) market participants may use the central bank's announcements to coordinate and this can be good or bad. By providing useful information the central bank can make the private sector better informed. But, if the private sector has an incentive to coordinate and this coordination is not socially beneficial then the private sector will place too much weight on the central bank's information and too little weight on its own information: the central bank information crowds out the private sector's information. If the second effect dominates the first, the central bank information can be harmful.

While the harmful case in Morris and Shin is probably pathological it serves as a reminder that evaluating the value of announcements is not as straightforward as it might seem. There may be more to 'constructive ambiguity', the communication style preferred by many old-style central bankers, including Eddie George of the Bank of England and Alan Greenspan of the Fed.

4. ROLE OF THE QUARTERLY MONETARY DIALOGUE

4.1. The quarterly Monetary Dialogue and forward guidance and other announcements

The possible dangers and well as benefits associated with central bank announcements and forward guidance suggest that the topic is one that should be discussed at the Quarterly Dialogue. If a central bank suddenly offers forward guidance where it did not do so before or if it changes the nature of its forward guidance a number of obvious questions arise. Has the central bank changed its objectives? Has it changed its view of the world? Has it changed its view of the monetary transmission mechanism?⁸

In the current scenario it is important for central banks to be clear about whether their forward guidance is intended to be Delphic or Odyssean. If the forward guidance is to be Odyssean a number of clarifications should be made. Is the central bank *really* committing itself to excess inflation in the future in an attempt to lower nominal interest rates in the short term? Does that mean it is planning to violate an inflation mandate? Is it feasible for current members of a monetary policy committee to bind future members to following a particular policy rate path? If a committee votes to commit to a policy rate path are dissenting members later required to vote for the rates specified in the path?⁹

The ECB should be asked to explain clearly what is the economic theory that lies behind exactly what it is that they are trying to accomplish. Is there any empirical evidence that their measures are likely to be effective? If the likely impact of forward guidance is believed to be small and uncertain that should be made clear. Policy makers facing difficult choices about economic reform should not be waiting for monetary policy to restore prosperity.

Two ECB Executive Board members Benoît Cœuré and Peter Praet have provided a detailed description of the ECB's forward guidance that answers some, but not all of the questions that one would like to ask.¹⁰ Cœuré points out that if the ECB's strategy were purely Delphic, then market participants might take it as a negative signal that the ECB knew something that suggested the recovery would be slower than they had thought. He then explains that it is not a promise to keep rates low after recovery occurs because this is not time inconsistent. Finally, he goes on to explain that the purpose is to curb interest rate volatility and to "anchor rate expectations more firmly around a path that ensures the degree of monetary accommodation warranted by the outlook for price stability". Praet emphasizes that the ECB is not changing its strategy, that its forward guidance is "an expression of commitment to [its inflation] objective". It would be useful for the ECON committee to delve further.

Unlike the Fed, the ECB has so far been firm in asserting that it is not going to have specific quantitative trigger points. This has some benefits. Unlike the world of a stylized economic model the real world is high dimensional; it hard to describe, to measure or to verify. It is not obvious that picking out one or a few trigger-point variables as a proxy is useful. It may be especially unappealing to use unemployment as the Fed has done because unemployment may drop below a trigger point because jobs creation has bounced back or because discouraged workers are leaving the work force in droves. On the other hand, a

⁸ See Buiter (2013) for a discussion of this.

⁹ Charlie Bean, the Deputy Governor for Monetary Policy of the Bank of England, explains, "[Our] guidance is intended primarily to clarify our reaction function and thus make policy more effective, rather than to inject additional stimulus by pre-committing to a time-inconsistent 'lower for longer' policy path in the manner of Woodford (2012). While such a time-inconsistent policy may be desirable in theory, in an individualistic committee like ours, with a regular turnover of members, it is not possible to implement a mechanism that would credibly bind future members in the manner required." See Bean (2013).

¹⁰ See Praet (2013) and Cœuré (2013).

central bank may be more credible when it links its commitment to some readily observable variable. Also unlike the Fed, the ECB has been cagey about how long it intends to keep rates low; what “an extended period of time” means. It is unclear whether The ECB’s fuzziest statements of intent are better or worse than the Fed’s. These are issues it might be interesting to discuss in more detail.

As a practical matter, the time allotted to a monetary policy committee to discuss possible policy rates and to vote or otherwise agree upon a particular outcome is relatively short. How is it possible that in the same amount of time, the monetary policy makers at the ECB are now agreeing upon not only the policy rate but also the rather complicated forward guidance? Are we to believe that the entire Governing Council deliberated on the matter and came up with the current policy? Are we also to believe, as asserted by Cœuré, that it was decided unanimously by the Council; that not one of the governors of the 18 National Central Banks and not one of the six Executive Board member disapproved? Or, is monetary policy being made by some subset of the Governing Council prior to meetings and the Governing Council then rubber stamps the proposal? It might be useful if the members of ECON could intensify their attempts to bring transparency to the ECB. One thing the committee might consider is asking each of the members of the Executive Board to testify before or at least to “have a dialogue” with them.

4.2. The quarterly Monetary Dialogue and ECB transparency

The ECON committee has long attempted to cajole the ECB into becoming more accountable. At the July 2012 quarterly dialogue Philippe Lamberts continued its efforts by commenting, “The ECB is already the most unaccountable of all the central banks on the planet. You operate totally independently in your day-to-day management and with absolutely no transparency in your non-standard operations.” Initially Mario Draghi tried the proof-by-repeated-assertion response that his predecessors were so fond of: “I think we are transparent. I think we are very transparent.” But, he then went on to say, “But if you have any suggestions in this connection we stand ready to be even more transparent.” Mr. Lamberts then went on to press the President with a follow-up question, asking “will you give us transparency on the LTRO?”¹¹ While the ECB policy makers continuing and rather disingenuous insistence that the ECB is a model of transparency is frustrating, the exchange at the July 2012 Quarterly dialogue has two positive aspects. The ECON committee seems willing to keep pressing the President on the ECB’s lack of transparency – even in this instance to the point of asking an insistent follow-up question – and the President of the ECB asked for suggestions on how transparency might be improved.

At the October 2012 Quarterly Dialogue Derk Jan Eppink asked, “If you look at the maquette of this building [the new ECB headquarters] it is shiny and transparent from the outside. What about transparency from the inside? When are you going to publish the minutes of the meetings of your bank’s Governing [Council]?” As usual, Mario Draghi began by extolling the virtues of the ECB, “As regards the minutes ... I would not say that the lack of minutes implies a lack of transparency. The ECB is a transparent institution ... it is way more transparent than any other central bank in the world.” He then tried the Sir Humphrey Appleby approach to disagreeable suggestions, “...it is not an easy thing to do. You cannot really do this tomorrow. It needs to be thought through...”. But, then he said, “The bottom line is that we are collectively thinking about this.” He went on to say, “Concerning accountability for the new supervisory tasks, as I said at the beginning a greater task means greater accountability ... we are 100 % in the hands of the legislators to tell us what standards they would wish...”. Thus, it appears that under its new President, the ECB is contemplating the notion of becoming more accountable; the Quarterly Dialogue

¹¹ See ECON (2012a, pp. 9 – 10).

has surely played a role in this and it appears that the ECON committee and the European Parliament as a whole are being invited to play an even more important role.¹²

DRAFT

¹² See ECON (2012b, pp. 10 – 11).

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