“Effective transparency”- how to be beacon of orientation in a complicated world

by Christine Graeff [1]

I. Introduction

I am delighted to be part of this gathering of outstanding experts, practitioners and policy-makers to discuss central bank communications. The ECB hosted a central bank communications conference back in November 2017, featuring – among many other insightful speakers – a panel of the Presidents and Governors of the world’s most important central banks.

So while there is no longer any doubt about *why* communication is important for central banks, there is still much to explore about the *what* and *how* of central bank communication. It is very encouraging to see that the National Bank of Ukraine has, in a way, taken up the baton from the ECBs conference, to drive this agenda further.

I am also proud that the Centre of Economic Policy Research decided to establish a Research and Policy Network dedicated to central bank communication, which I have the privilege of leading together with Michael McMahon.

II. Trend towards greater transparency

Over the past decades we have witnessed an inexorable drive towards greater transparency of public institutions, not just central banks, across the world.

Speaking as a *citizen*, I find this is a very good thing! Also central banks have been part of this trend: they communicate much more; they aim to be more effective in their policy and more predictable; they aim to be more accountable, especially with the broader scope of their actions since the crisis, the greater controversy around their decisions and the loss of trust in expert institutions.

Both in the academic discussion, as well as much of the political discourse, the underlying assumption with regard to the provision of information by the central bank has often been that *more is always better*.

[1] Director General Communication, European Central Bank; intervention at the policy panel on “Central banks’ policy signals in informational noise” at the Central bank communications conference “From Mystery to Transparency” organised by the Central Banks of Ukraine and Poland Kiev, 24 May 2019

The relevant literature[2] discusses the various arguments that I do not need to recall here. One central element in this process towards ever greater transparency that is particularly worth emphasising is the changed communications world. Some see it as an evolution, my interpretation is that it is in fact a revolution.

The news cycle has changed. The speed and transmission, and the scrutiny are completely different. Old assumptions about the hierarchy of information no longer hold. Today, news are produced, interpreted, transmitted and consumed in fundamentally new ways. Anyone with a mobile phone can be a reporter, commentator or publisher, move opinions of many, and destroy reputation in seconds. There is no longer 'off the record' (even Eurogroup meetings get taped, as former Greek Finance Minister Varoufakis did in 2015). Leaks or tweeting directly out of meeting rooms imply that it is very difficult to control both message and timing of publication.

In trying to cope with this communications revolution, enhanced transparency can be an effective and powerful approach. Also at the ECB we have been moving forcefully in this direction.

Take, for example, the accounts of the ECB Governing Council discussion on monetary policy, which the ECB has been publishing since early 2015. Prior to that time, the most timely communication tools for ECB monetary policy were the Introductory Statement and press conference by the ECB President, delivered almost immediately after end of the policy meeting. Publishing the monetary policy accounts has been a radical step towards enhancing transparency about the substance and dynamics of the policy deliberations inside the Governing Council, since they bring into the public domain the various positions on both sides of the argument, the respective reasoning as well as the balance of voices within the Governing Council. As a result, the reaction function of the ECB has become much clearer, and the speculation and guesswork that occurred before the publication of the accounts have been superseded by a fully transparent presentation of facts.

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[2] e.g. Warsh, K. (2014). Transparency and the Bank of England's Monetary Policy Committee. Retrieved from: https://www.bankofengland.co.uk/-/media/boe/files/news/2014/december/transparency-and-the-boes-mpc-review-by-kevin-warsh.pdf.

III. Limits to transparency

But what is the ultimate destination of the transparency journey? Are we heading for the 'see-through central banker'? Is it just a matter of time before TV cameras and live-streaming enter the inner sanctum of central bank decision-making?

I think that would be wrong. We have good reason to question the underlying assumption that 'more is always better'.

In a world where a wealth of information has created a poverty of attention[3], we urgently need to take into account excess availability of information, signal versus noise, and rational inattention. Absolute or unlimited transparency and too much communication can lead to suboptimal outcomes.

Cacophony

The first problem is cacophony. Especially for central banks that care about the clarity of their message, too much communication, too many voices can be problematic. *"A central bank that speaks with a cacophony of voices may, in effect, have no voice at all"*[4]. The ECB experience – with 25 members of the ECB Governing Council as potential voices – offers a number of reflections on this issue.

First, what some may perceive as a lack of single voice, or even cacophony, is for others a reassuring diversity of views, safeguard against group-think, and guarantor of robust decision-making. Second, the ECB Governing Council has given itself a number of tools to help consistent collective communication:

(i) The so-called 'quiet period', i.e. the seven days before the next monetary policy decisions, in which there should be no pronouncements by Governing Council members on monetary policy or the economic outlook. Sometimes that is a challenge, especially when rumours emerge just ahead of the quiet period. But given that the ECB's policy is data-driven, statements more than a week before the meetings as to what should or should not be done seem rather odd, since those are not based on the latest data, and are therefore not helpful for a constructive discussion at the actual policy meeting.

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[3] Simon, H. A. (1971). Designing Organizations for an Information-Rich World, in M. Greenberger, (ed.). *Computers, Communications, and the Public Interest*. The Johns Hopkins Press, 37-52.
[4] Alan, B. (2004). *The quiet revolution: central banking goes modern*. New Haven: Yale University Press.

(ii) The Introductory Statement which is agreed by the Governing Council, and represents its collective view. This is made available in 23 languages (in the course of the same afternoon).

(iii) The press conference where the ECB President further explains the policy decisions, and offers insights into the deliberation.

The role – and voice – of National Central Bank governors thereafter is absolutely crucial: they are the ones who explain ECB decisions in the 19 countries of the Eurozone, 'translating' what this means for local audiences, businesses, and citizens in their home countries. In that sense, the ECB and the Eurosystem as a whole need and rely on this variety of spokespeople and voices.

Self-referential echo chamber

The second problem with absolute transparency and too much communication relates to circularity of signals within the echo chamber of central banks and financial markets, where central bankers can become trapped in a self-referential bubble. *"The louder the central bank talks, the more likely it is to hear its own echo"*, leading to a situation where central banks end up *"acting on market signals that are echoes of their own pronouncements"*[5]. The flipside of such self-referential over-communication on the part of central banks may be the over-reliance, on the part of market participants, on central bank announcements for their own business decisions, allowing them to essentially 'outsource' their risk management to central banks giving detailed guidance.

Quality of decision-making

A third problem relates to the nature of the deliberations and the quality of decision-making in central bank committees, which could be negatively affected by too much transparency. Donald Kohn, Kevin Warsh and others have written extensively about this, often from their own experience. The need for a 'safe space' for open deliberation and candid exchanges is definitely there[6].

This need for a 'safe space' for deliberations away from the spotlight of public and media scrutiny has been recognised in the EU's 'Freedom of Information' rules for the

[5] Shin, H. S. (2017). Can central banks talk too much? Retrieved from: https://www.bis.org/speeches/sp171114.pdf.

[6] Warsh, K. (2014). Transparency and the Bank of England's Monetary Policy Committee. Retrieved from: https://www.bankofengland.co.uk/-/media/boe/files/news/2014/december/transparency-and-the-boes-mpc-review-by-kevin-warsh.pdf.

ECB. These rules authorise the ECB to refuse disclosure of documents that are used internally “as part of deliberations and preliminary consultations”[7].

Ambiguous impact on generating trust

Ultimately, central banks, certainly the ECB, aim to (re-)build trust, the trust of the people whom they serve. However, that relationship between greater transparency and trust is not straight-forward. As Rachel Botsman points out, the very fact that public institutions need to be transparent is evidence that they have lost the trust of the people already.[8]

ECB research aimed to give a more precise definition of the trust which the ECB seeks to establish finds a variety of concepts, which can be seen as constituent components of trust, the so-called “pillars of trust”[9]. The findings for the ECB show that credibility, ethics – that is, the ECB’s attention to the welfare of the people and responsible action – as well as success (in controlling inflation and keeping banks safe) are the most important determinants of trust.

Transparency *per se*, without further qualifications, is obviously no cure-all. I therefore propose ‘effective transparency’ as a concept that incorporates the appropriate limitations to what would otherwise be complete transparency.

IV. Effective transparency

What is to be understood by ‘effective transparency’? A start would be to take inspiration from the medical doctors’ Hippocratic Oath, and stipulate as a principle for central bank communications and disclosure: *First, do no harm!*, especially in view of central bank pronouncements on markets, financial stability, or performance and valuation of individual financial institutions.

However, as in medicine, measured and determined action can be most successful. Take, as an example, in the field of financial stability and supervision, the 2013 publication of the results of Asset Quality Review and Stress Tests of the banks that would soon come under direct supervision of the ECB’s Single Supervisory Mechanism.

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[7] European Central Bank (2015). Decision (EU) 2015/529 of the European Central Bank. Retrieved from: https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2015_084_r_0007_en_txt.pdf.
[8] Botsman, R. (2017). Who can you trust? New York: Hachette Book Group.
[9] Angino, S. & Secola, S. (2019). Pillars of trust: What determines public trust in the ECB? Mimeo

This contributed to effective transparency, because the data were there for all to see and hence created level a playing-field and countered rumours about the state of European banks. The ECB's Banking Supervision since then has gone to great length to be transparent about methodologies and processes, and published significant amounts of information.

But to generate more effective transparency, we should reflect whether and how to go further, as Andrea Enria recently pointed out, especially because *"we are moving from taxpayers bailing out defaulting financial institutions to the concept of bail-in, where private investors are first in line to take losses. We need to create an environment in which investors have an adequate access to information about the banks they invest in."*[10]

The second core principle of effective transparency means that central banks should communicate and disclose information with one ultimate end in mind: to be better understood. After all, *"transparency is only helpful if people can understand what we are saying".* [11]

That means reducing noise and conflicting messages, so that the central bank's reaction function is well understood. Financial markets and the public are then able to form reasonable expectations about central banks' future interest rate policy, which in turn enables central banks to influence interest rates at longer maturities and steer broader financial and economic conditions[12].

Wealth of information risking obfuscation

It also means increasing the clarity of what central banks say. Putting out ever more speeches, working papers, analyses, data, etc. may in fact be counterproductive to that end, since it may just increases noise.

To illustrate the point, take the ECB's website, which at present has over 160,000 pages, many of those in 24 languages. Should we increase that to 500,000 pages? Would that make us better understood? Would it make ECB policy more effective?

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[10] Enria, A. (2019). Interview with the Financial Times. Retrieved from: https://www.bankingsupervision.europa.eu/press/interviews/date/2019/html/ssm.in190319~3a9b32fbbc.en.html.

[11] Poloz, S. (2018). "Let Me Be Clear: From Transparency to Trust and Understanding." Remarks before the Greater Victoria Chamber of Commerce, Victoria, British Columbia, June 27.

[12] Draghi, M. (2015). Monetary policy communication in turbulent times. Retrieved from: https://www.ecb.europa.eu/press/key/date/2014/html/sp140424.en.html.

Would it help the 340 million Europeans whom we are serving form more accurate inflation expectations, and thus enable them to take more informed economic decisions?

I think we can have reasonable doubts. Overburdening the public with vast amounts of ultimately less relevant information may even be perceived as a deliberate strategy of obfuscation and distraction. In defining effective transparency, we also need to ask the question: cui bono? Who would really benefit for more information, more disclosure?

Targeted, layered and relatable messages

New research by Coibion et al. point in a different direction: that simple, targeted messages to the wider public can be expected to open up further opportunities to steer inflation expectations[13].

A number of central banks, including the ECB, have experimented with this, including what we call a 'layering' of information and messages. Evidence by Michael McMahon and Andy Haldane for the Bank of England[14], but also the data from our own experience at the ECB, show that this works. For example, by layering the core messages of the ECB's Financial Stability Review, and adding a new landing page to make the key findings accessible, we were able to increase interest in the actual report by 280%.

Most importantly, designing those layered messages targeted at the broader public is not, as Andy Haldane also emphasised at our ECB communications conference, "an act of communication, it is an act of policy"[15].

A promising and effective way of helping central banks to be better understood is to make messages 'relatable', i.e. when central banks explain what their decisions mean for people in their daily lives, breaking down complexity, and turning numbers – the billions or trillions of euro, dollar or sterling – that are often way beyond what can be captured by human imagination, into something more tangible.

That, however, is not without peril - for central bankers, in their communication, cannot and should not compete with politicians. In the recent past, there have been incidents

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[13] Coibion, O., Gorodnichenko, Y., Kumar, S., & Pedemonte, M. (2018). Inflation Expectations as a Policy Tool? *NBER Working Paper Series*, 24788.

[14] Haldane, A., & McMahon, M. (2018). Central bank communications and the general public. *AEA Papers and Proceedings*, 108, pp. 578-83.

[15] Haldane, A. (2017). Speech at Central Bank Communications Conference. Retrieved from: https://www.ecb.europa.eu/pub/conferences/html/20171114_communications_challenges_policy_effectiveness.en.html.

when central banks tried to get across their messages in a pedagogical manner, breaking abstract numbers down into something people can relate to. They were then accused of 'playing politics' – and allegedly undermining the central bank's credibility and independence[16]. Otmar Issing very much worried in a recent speech[17] about the risks associated with central banks aiming to be better understood, especially by the non-expert public. I have a different view overall. I do acknowledge his concern that accessible communication that tries to break down complex matters (like QE) and make them relatable, may give people the impression of simplicity where there is in fact none. The world is complex, after all – QE certainly is.

Issues that matter to people

There is also a debate about the themes central bankers should talk about. Should they for the sake of clarity of message restrict their pronouncements to a narrow range of issues that are very closely linked to their core mandate? Or should they target broader issues, still within the wider realm of expertise and responsibility of central banks, but those that really matter to people.

Right now, the vast majority of people probably do not care much about whether inflation is 1.5% or 1.8%. What they *do* care about is climate change, inequality and other big societal themes that especially young people are concerned about.

Take the example of climate change: Should central bankers communicate about this topic at all? Some think: yes, definitely. Central banks have ample economic expertise to contribute to raising awareness, providing data, shaping analysis and aiding policy design. Moreover, they can make real contribution, potentially even via their core policy, to mitigate the risks of climate change and of the transition to a new carbon-neutral *modus operandi* of our economies. Others say: stay out and be quiet, because it is by addressing "hot-button partisan political issues"[18], that central bankers get themselves into trouble.

Effective transparency must involve being clear about the limits of central bank action. For the ECB, this means to state clearly that we can and want to support the transition

[16] Bruce, A. (2018). BoE's Carney sees 'uncomfortably high' risk of no-deal Brexit. *Reuters*, Retrieved from: https://uk.reuters.com/article/uk-britain-eu-carney/boes-carney-warns-of-uncomfortably-high-risk-of-no-deal-brexit-bbc-idUKKBN1KO0VD. (.

[17] Issing, O. (2018). SNB Karl Brunner Distinguished Lecture on "Central Bank Communication – A Panacea?". Retrieved from: https://www.youtube.com/watch?v=79uPVif6Uw8.

[18] Cochrane, J. (2019). Central Bank Independence. Retrieved from: https://johnhcochrane.blogspot.com/2019/03/central-bank-independence.html.

to a carbon-neutral economy on a number of ways. It also means stating clearly that we cannot do monetary financing for green projects (as certain advocates of a 'Green New Deal' seem to suggest).

To make ourselves better understood in this issue, the ECB just launched a [dedicated webpage] to outline the Bank actively supports the transition to a low-carbon economy – within the limits of our mandate. This means, first, in relation to the ECB's competency for banking supervision, where supervisors with the supervised banks ought to raise awareness of risks emerging from climate change, so as to ensure that banks are able to manage these risks properly. Second, in relation to ECB's financial stability mandate, where we seek to measure and assess the risks posed to the financial system as a whole by climate change and communicate these findings to the public, to market participants and to policy makers. Third, in relation to the ECB's core monetary policy and related market operations, where sustainability is taken into account when managing the ECB's non-monetary portfolios. As part of the ECB's asset purchase programmes, we have invested in green bonds, but within the constraints of the need to avoid undue market distortions and maintain a level playing field.

Accessible language

Effective transparency also requires central banks to explain what they do "in as straightforward a language they can muster"[19]. Given that it still requires on average 15 years of formal education to understand central bankers' speeches[20], there is clearly still a long way to go before central banks achieve a straightforward language. On that road, heeding some of George Orwell's advice, as outlined in his 1946 essay on Politics and the English Language, would already help, e.g. (i) *"never use a long word where a short one will do"*; (ii) *"never use the passive where you can use the active";* or (iii) *"never use a foreign phrase, a scientific word, or a jargon word if you can think of an everyday English equivalent"*[21]. Recent efforts by Chairman of the US Federal Reserve, Jerome Powell, to do precisely this in his introduction to the press conference – "The US economy is in a good place"[22] – also show the challenges involved.

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[19] Tucker, P. (2018). Post-crisis, Do Central Banks Wield Too Much Power? Retrieved from: https://knowledge.wharton.upenn.edu/article/post-crisis-do-central-banks-wield-too-much-power/.
[20] Persson, E. (2017). Communication of monetary policy in unconventional times. ECB Working Paper Seriers, 2080.
[21] Orwell, G. (1946). *Politics and the English Language*. London: Horizon.
[22] Powell, J. (2019). Transcript of Chairman Powell's Press Conference. Retrieved from: https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20190130.pdf.

Choice of speakers matters

Finally, to be better understood, more attention should be paid to *who* is doing the talking. This has two dimensions. First, financial markets need to figure out whom to listen to. For example, findings of a research paper, even if reported under the ECB label, do not represent the official view of the ECB.

Second, more generally, central bank speakers tend to be mostly male, and older. In a world where people tend to trust 'a person like me' significantly more than announcements by government officials or the media, let alone social media, it seems advisable also for central banks to have diversity of spokespersons. This could, and indeed should, include central bank staffers, as ambassadors of the central bank's message. Leveraging competent, committed, and well-equipped employees to be ambassadors of the central bank's message – as is done by the ECB, for instance via a Speaker's Programme and a 'Back-to-School' programme that encourages staffers to go back to their school and talk about the euro and the ECB and the experience of working for Europe – seems a promising way to make the central bank better understood in wider circles.

Finally, new and direct channels of communications (e.g. ECB's Twitter account with about 500,000 followers, or its new Instagram account), have great potential to make central bank understood among a wider public and thus to contribute to effective transparency.

V. Conclusion

In the quest for effective transparency, there is no single or perfect way. The various processes through which central banks can achieve effective transparency, especially vis-à-vis the broader public are still under-researched. At the ECB, we are working towards filling those gaps with our own research efforts on central bank communications, and we look forward to engaging with you on this theme, based on new data, and new methods and new findings.