

# Operational Guidance from Transparency Literature

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- Can be basis of clear advice

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- Can be basis of clear advice
- But that advice is largely unrelated to the actual advice found in the papers

## Definition: Meaningful transparency

- An action raises meaningful transparency if it raises the degree to which the public understands the CBs intentions and/or views about the economy

## Transparency lit: empirical

- Exists robust positive correlation between outcomes and transparency measures

Thus,...

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- Any method that doesn't take identification seriously will find that transparency is good.

## Empir. lit.: Critique

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So in the name of transparency, I won't try
- Causal inferences about transparency in the literature are complete devoid of merit



## Empir. lit.: Critique

- Causal inference on inflation dynamics hideously difficult
- Inf. dynamics raise the nastiest econometric issues
- No convincing instruments  
Transp. comes with a host of other changes; no ability to control for societal consensus on inflation; etc.

## One example

- Strong assertions that CB should present forecast
- And even about details, what horizon, what assumptions, etc.
- No evidence supports any of this

## Good reason to doubt

- BOE and Riksbank forecasts have been very poor  
Badly dominated by simple benchmarks
- BOE's market and constant path forecasts incoherent
- Difficult to imagine these have had any positive effect

## Transparency literature: theory

- Solid and relevant result: Clarity has benefits

## Basic reason

- Lack of transp. must imply some uncertainty which has costs  
This channel present in most sensible models

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- This seems to be the main driver of transp. in practice.



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- Transparency needn't be a good thing
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- The negative results give no basis for policy

# Theory, missing the point I

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absent explicit mandate to the contrary
- Famous political scientists J. Tobin and M. Friedman

## Theory, missing the point II

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to provide CB cover when populist forces for  
nominal redistribution are strongest

## Theory, missing the point II

- We don't know why nominal debt predominates, but . . .
- So long as the majority of folks are net nominal debtors to minority this a serious issue  
Esp. at crisis times



## Theory, missing the point II

- Is opacity a good response?

## Theory, missing the point II

- Is opacity a good response?
- Who knows?

Empir. and theoret. lit. (almost entirely) ignore this channel (except Faust, 96)

## Theory: fragility

- The suboptimality of transparency generally depends on strong assumptions
- Exists no case for a generic principle with clear operational advice  
Sir Walter Scott: Oh what a tangled web we weave  
...
- Not clear any CB has the info. required to pick optimal opacity

## Robust advice

- The advice: ‘Attempt to be honest and clear’ is pretty robust in this regard

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- In reality, very porous boundary between CB and public

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- Choice is not between optimal opaque and transparent
- Choice is between sharing info. generally. . .
- And having it leak out in a haphazard and uncontrolled way  
With concomitant fairness and redistributive consequences



## Theory...

- Could go on, but cut to bottom line

## Theory, bottom line

- Best advice from democratic persp. and from an operational robustness perspective:  
strive for meaningful transparency

# Attaining meaningful transparency

- Thought experiment: CB wants to maximize understanding of its knowledge and intentions
- In models, trivial in principle  
We know how to merge info. sets
- In practice, this is the whole ball game  
Esp. in crisis

## Example 1

- Crowded theater, small fire begins backstage
- Management genuinely would like the audience to understand:  
prudence dictates an orderly exit
- Attaining meaningful transparency here is not an easy problem

## Example 2

- We have a flu vaccine shortage
- Govt. would like public to understand  
Prudence dictates that the weakest vaccinated first

## Example 2

- In practice, did PSA:  
'Don't panic, but weak should proceed in orderly manner...'
- Outcome, panic, run on the vaccine bank, at least one death

# Analysis

- In PSA, 'don't panic,' means 'we're all gonna die'
- Exist much better messages to attain meaningful transparency

## Example 3: Riksbank recently

- Svensson: reiterates a position long in the public domain  
If deflation were to arise, aggressive devaluation is a foolproof fix
- Result: Kronor drop



## Example 4: Diverse committee

- FOMC complicated committee made up of deliberately diverse parties  
Yellin vs. Lacker...
- Effective influence not at all equal

# Transparency?

- All FOMC members give speeches
- Difficult for outsider to know which views matter
- A very serious issue, esp. during the crisis

# Transparency?

- Transparency would probably require a good faith effort to communicate effective influence weights
- Obviously very problematic
- Would have general equilibrium effects on internal committee dynamics

# Conclusions

- 1. Best current advice: CB should attempt to enhance meaningful transparency
- Economists know a great deal about what should be communicated
- How best to communicate it is well outside our domain  
core dump won't do it

# Conclusions

- 2. Get help!
- There are experts in public communication
- CBs should get expert assistance in how best to improve meaningful understanding

# Conclusions

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- Inevitably break down in crisis

# Conclusions

- 4. Realistic benchmarks
- There is no prospect that macro evidence will be convincing on any moderate time scale
- More direct measures of understanding might be useful  
Marketing folks know how to do this