Increasing the transparency of the ECB could do more harm than good

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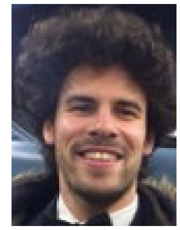

Earlier this year, the European Central Bank agreed to release minutes of its governing council meetings in response to criticism over the lack of transparency in its decision-making. **Sebastian Diessner** *writes that while there are good reasons to support the ECB becoming more transparent, lessons should also be learned from the experiences of other central banks. He notes that too much transparency can inhibit discussions and thereby lead to less effective monetary policy overall.*

The 22nd of January 2015 must rank as a truly memorable date for the ECB. Belatedly, the central bank's governing council finally announced that it would emulate the actions of its major counterparts in the developed world and embark on a programme of quantitative easing of substantive proportions. The run-up and aftermath of the decision saw an unprecedented degree of salience for Eurozone monetary policy, accompanied by unparalleled media coverage, with TV stations all over Europe broadcasting live the proceedings of President Draghi's press statement and the subsequent Q&A session. Germany's principal publicly owned TV channel even went so far as to run an unscheduled special programme right after the 8pm news, usually reserved for extreme situations such as natural disasters or violent conflicts.

Mario Draghi, Credit: ECB (CC-BY-SA-3.0)

While such a degree of publicity might be more than the Bank generally feels comfortable with, it will likely have to get used to it – and should ideally cope with it proactively. This chimes in with the long-standing dispute about the accountability of the ECB and how it can be enhanced, a debate that is as old as the Eurosystem itself and that has intensified throughout the Eurozone crisis.

In the shadow of the much-discussed decisions taken in January, another novelty introduced on the very same day went almost unnoticed. For the first time since its creation, the ECB would start to release the minutes of its governing council meetings – albeit in summarised form and with a four-week delay – in an attempt to increase the transparency of its decision-making and thus its accountability to the general public.

Some early commentators benignly concluded that the release constituted a step in the right direction regarding the old issue of accountability. As we now know more about the actual course of action of the monetary policy meetings (for example, with regard to introductory presentations that are held by executive members and that serve to reflect cleavages in the council), the ECB's transparency is somewhat increased.

Yet, these changes will hardly suffice to appease observers. The reason is that they are merely of a procedural nature and thus yield one-off effects. We are now better informed about the general proceedings of all meetings, but not necessarily about their evolving content – that is, about their substance. Critics have long classified this lack of substantial information as an overt accountability deficit that the ECB displays vis-à-vis other major central banks, and they are usually quick to recite what appear to be the facts: the Bank of England, the Federal Reserve and the Bank of Japan all provide detailed minutes or even verbatim transcripts of their monetary policy meetings, while the ECB doesn't.

But this is only part of the story. As justified as these critiques are, most if not all of them fail to dig deeper and to account for the *actual* experiences the ECB's counterparts have had with the publication of committee transcripts. The Federal Reserve's history provides us with an incisive natural experiment in this regard. In 1993, it came to light that Fed staff had for years typed up and archived recordings of the Federal Open Market Committee (FOMC), the principal organ of US monetary policy, without members of the committee being aware of it. In the ensuing discussions with Congress, the Fed later agreed to publish the transcribed recordings and to officially start releasing future FOMC transcripts, with a five-year delay.

This left scholars with a formidable opportunity to study the effects of full-blown committee transparency on monetary policy-making, and the results are informative, not least for the ECB. To all intents and purposes, the knowledge that every single word of policy meetings would be made public in a few years' time decidedly impaired the previously candid debates between policy-makers, with spontaneous and free-flowing discussions being replaced by pre-prepared texts. Transparency had thus undermined the very deliberations that were hoped to be elucidated, nurturing the painful truth that openness may compromise effective monetary policy more than it furthers it.

Meanwhile, the academic and societal battle over whether and how the ECB's accountability can be enhanced will rage on, with the institution's increased visibility having culminated in an unlikely outburst of public disaffection by protesters of the anti-austerity 'Blockupy' movement lately (cause for another unscheduled programme on German TV, yet this time truly featuring a fair amount of violent conflict). This battle will not be contained by the recent disclosure of unattributed meeting minutes, and it will far more likely be fought over the release of more detailed verbatim transcripts including governing council members' voting records.

Yet, sensitivity for the difficult trade-offs in the realm of central bank transparency is clearly advisable, and the Fed's experience with transcripts hints that there is indeed a very fine line to tread between the appropriate oversight and the effectiveness of monetary policy. In this vein, one-sided calls for the release of ever more internal documents are unlikely to satisfy the complex demands that central bank committees like the ECB governing council will be faced with in the future.

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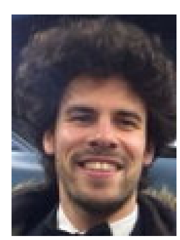

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