Why Too Much Transparency is a Bad Thing: The Warsh Review on Transparency in the BoE's Monetary Policy Committee

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Following the review of the Monetary Policy Committee's (MPC) transparency practices and procedures, the Bank of England today published a report by former Federal Reserve Board Governor Kevin Warsh. Warsh makes five broad recommendations for creating a balance between the demand for greater transparency and the intrinsic defence of genuine deliberation as the foundation for sound policymaking. **Cheryl Schonhardt-Bailey** *finds the report is a novel approach to the conundrum that transparency poses to good public policy in the face of uncertainty.*

In modern politics, where more transparency is said to deliver better governance, better policy decisions and better outcomes, it is rare to find someone brave enough to question this basic tenet. It is even rarer to find a methodical and comprehensive rationale for limiting transparency in the name of sound public policy.

Today's publication of the Warsh Review [1] provides such a rationale. Kevin Warsh's independent Review recommends fundamental changes in how the Bank of England's Monetary Policy Committee conducts its policy making meetings, but at the core, it sets out a robust defence of the role for full and frank deliberation in the formulation of monetary policy. The Review assesses the merits of the case for publishing transcripts of MPC meetings, and was prompted by Chairman Andrew Tyrie's questioning of MPC members during a March 2014 hearing of the Treasury Select Committee. Tyrie had asked why the Bank did not publish its verbatim transcripts from the MPC meetings, as is the practice of the US Federal Reserve's own monetary policy forum (the Federal Open Market Committee).

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Using both his own experience from the Federal Reserve and an insightful analysis of the academic literature, Warsh argues that extensive new measures taken by central banks during and in the aftermath of the financial crisis have heightened the need for both greater accountability and greater transparency by central banks. And yet, the predominant aim of the Bank "is to formulate sound policy in light of its democratically established objectives and the information available to it" and to achieve this aim, genuine deliberation is essential:

> *Creating a safe space for true deliberations is among the most critical indicia of organisations that make good decisions …. This Review therefore seeks to balance the need to preserve a safe space for genuine deliberation with the potential benefits that may flow from transcript publication, particularly those associated with improved accountability of the Bank and its policymakers to the wider public.*

Warsh makes five broad recommendations, but of these, two are essential for creating a balance between the demand for greater transparency and the intrinsic defence of genuine deliberation as the foundation for sound policymaking. Warsh uses the existing two-day meeting framework of the MPC to create a transparency divide between Day 1, which he describes as "a genuine deliberation, characterised by inquiry and evaluation" and Day 2, when members set out their preferred policy option and a committee decision is reached. The deliberation in Day 1 would be considered sacrosanct—i.e., discussions would be neither recorded nor transcribed. Warsh argues that "(s)hould the transcripts of the Day 1 deliberations be made public, the judgement in this Review is that the quality of the deliberative process would risk being materially impaired, to the detriment of sound-policy making." Day 2 is a different story altogether, since by then "deliberations are nearly complete …, policymakers are heard, and their judgments tallied"—and consequently, transcripts from this second day should be made public with a five to ten year delay.

One might ask, why is Warsh so concerned to preserve the deliberative "safe space" for MPC members? He points to the experience of the Federal Reserve in succumbing to wholesale transparency of its FOMC meetings as having a deleterious effect on the full and frank discussions of its members on monetary policy. As research has shown[2] publishing the transcripts of FOMC meetings (with a five year lag) has largely replaced free flowing discussions with pre-prepared canned speeches, with transparency thereby gutting the very discussions that such transparency was meant to illuminate.

The five recommendations by Warsh are a novel approach to the conundrum that transparency poses to good public policy in the face of uncertainty. Not only will they prompt reflection among academics interested in central bank transparency and accountability; they will also challenge politicians to re-think just how much transparency is really needed to ensure good public policy

[1] Kevin Warsh is former Governor of the US Federal Reserve Board

[2] Laurence H. Meyer, *A Term at the Fed: An Insider's View* (HarperBusiness, 2004); Cheryl Schonhardt-Bailey, *Deliberating American Monetary Policy: A Textual Analysis* (MIT Press, 2013)

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