

Intelligence MEMOS



From: Pierre L. Siklos
To: Bill Morneau, Minister of Finance
Date: August 2, 2017
Re: **PULL BACK THE CURTAIN, LET US SEE HOW MONETARY POLICY IS FORMED**

When it comes to carrying out monetary policy there are few areas where there is as much agreement as the notion that decisions should come out of a committee setting. However, once we move away from this principle, there is remarkable diversity in the arrangements governing monetary policy committees around the world. One of the big differences is voting structures and whether or not deliberations are published. For example, Canada operates by consensus and therefore does not publish minutes. The Federal Open Market Committee (FOMC) in the US, on the other hand, releases the votes of committee members, and the internal discussions are displayed for all to see. Should the Bank of Canada become more open? The short answer is yes.

In spite of the diversity of MPC arrangements around the globe, markets and the public have come to expect that members of a central bank's policymaking committee have their own opinions about the current stance of monetary policy and, in today's economic environment, whether and how quickly interest rates will rise, and the evidence that is relied upon to reach such judgments. The desire to emphasize consensus in setting the policy stance may give the appearance that all MPC members sing from the same songsheet, but most observers know that reality is different.

In *Central Banks Into the Breach: From Triumph to Crisis and the Road Ahead* (Oxford: Oxford University Press, 2017), I argue that expressions of disagreement among MPC members can actually enhance public perceptions of how thoughtfully monetary policy decisions are made. Even the European Central Bank finally recognized that providing an "account" of its policy deliberations, which it began to publish in 2015, did not threaten the effectiveness of monetary policy. Similar accounts published by the Bank of England and the FOMC, in the form of minutes of policy committee meetings and forecasts of future policy rates, also help the public better understand how decisions are communicated and the basis on which they are made.

When former Governor of the Bank of Canada, Gordon Thiessen, created the Governing Council it was expected that the Governor would present the committee's consensus view when the overnight rate announcement was made, without mention of the other members. Consensus may still be the order of the day but, in view of the oft-repeated 'uncertainty' around future economic conditions that prompted many central banks to conduct monetary policy by emphasizing 'data dependence', it is equally likely that there will be disagreement inside the Governing Council. Consequently, committee members' deliberations should be heard in some form. The discourse of policy would improve and if, indeed, members hold common views, this might help deflect outside criticisms that currently focus excessively on the Governor's words. Even if members' views differ, airing some of the disagreements can only serve to enhance the accountability of the policymaking committee.

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