



How the FOMC talks

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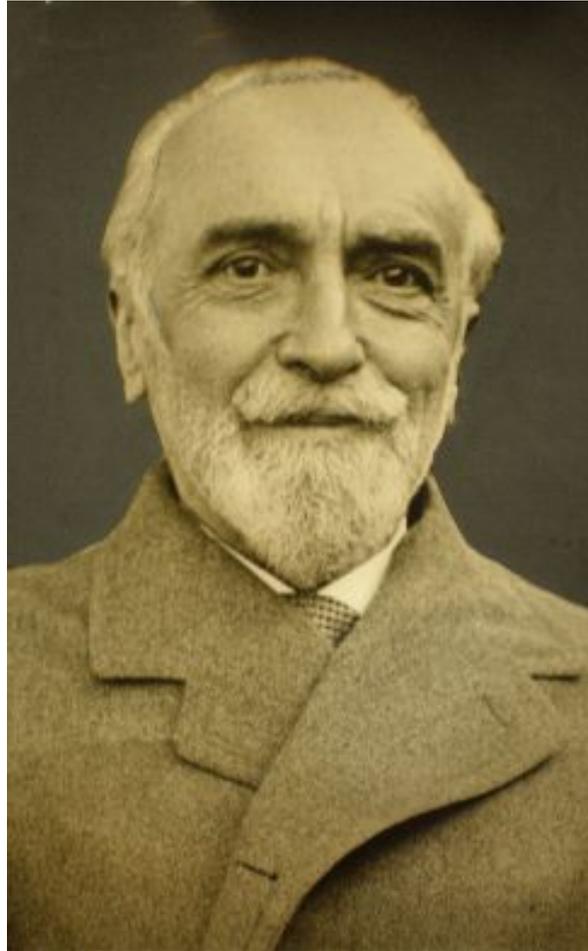
Federal Reserve Bank of Dallas

Presentation to the 2014 Economic Summit “The Challenge: Keeping Up”

June 18, 2014

The opinions expressed are solely those of the presenter and do not reflect the opinions of the Federal Reserve Bank of Dallas or the Federal Reserve System.

“Never explain. Never excuse.”



Montagu Norman
Governor of the Bank of England, 1920-44

- “Central Banking ...thrives on a pervasive impression that [it] ...is an esoteric art. Access to this art and its proper execution is confined to the initiated elite. The esoteric nature of the art is moreover revealed by an inherent impossibility to articulate its insights in explicit and intelligible words and sentences.”

– Karl Brunner, 1981

Outline

- The intellectual backdrop
 - 1970s revolution in macroeconomics
- The evolution of FOMC communications
 - Catching up with best practice
- Tradeoffs
 - From saying too little to saying too much?

A revolution in economic thinking

- Great Inflation of the 1970s
 - Breakdown of postwar Keynesian consensus
- New view:
 - How firms and households think about the future is central to how they behave today
- Implication for policy:
 - Policy should be transparent and follow rules
 - Example: Taylor Rule relating interest rates to inflation and the output gap

Federal Reserve Release



Press Release

Release Date: February 4, 1994

For immediate release

Chairman Alan Greenspan announced today that the Federal Open Market Committee decided to increase slightly the degree of pressure on reserve positions. The action is expected to be associated with a small increase in short-term money market interest rates.

The decision was taken to move toward a less accommodative stance in monetary policy in order to sustain and enhance the economic expansion.

Chairman Greenspan decided to announce this action immediately so as to avoid any misunderstanding of the Committee's purposes, given the fact that this is the first firming of reserve market conditions by the Committee since early 1989.

Milestones

- 1995: all changes in monetary policy would be announced immediately
- 1999: release statement after every meeting; specify “target” level of fed funds rate; “forward guidance” in form of balance of risks
- 2002: dissenting votes published
- 2003: forward guidance on policy
 - “...policy accommodation can be maintained for a considerable period.”
- 2004: tightening cycle
 - “...policy accommodation can be removed at a pace that is likely to be measured”
- 2008: fed funds rate to 0-¼ percent “...for an extended period”
- 2011: date contingent forward guidance “...at least through mid-2013”

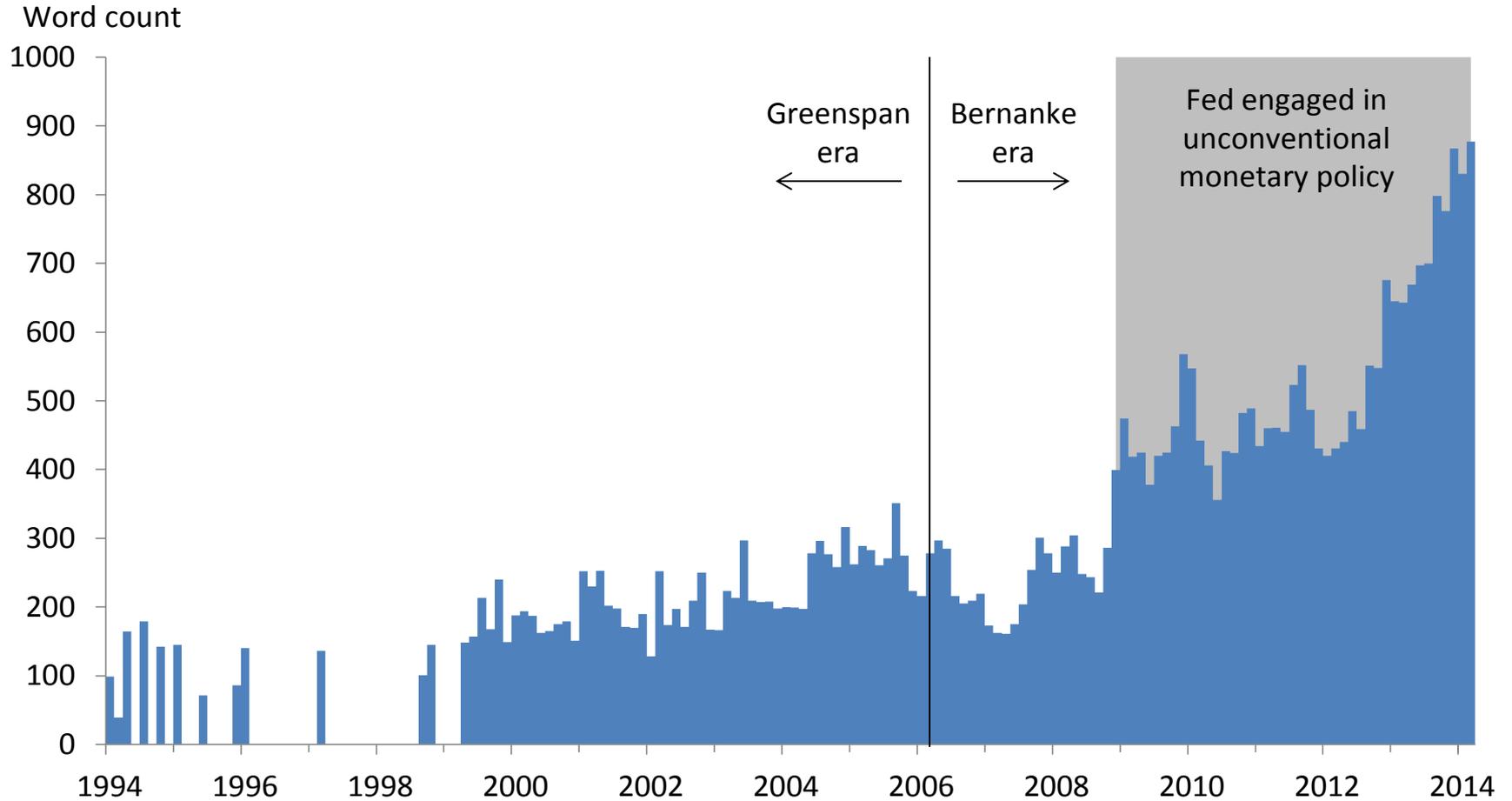
December 2012

- December 2012: switch to state-contingent guidance
 - “...this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6 ½ percent, inflation between one and two years ahead is projected to be no more than a half-percentage point above the Committee’s 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.”

March 2014

- Updated forward guidance:
 - “When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.” (emphasis added)

Word Count of FOMC Statements 1994-2014



Some simple descriptive statistics

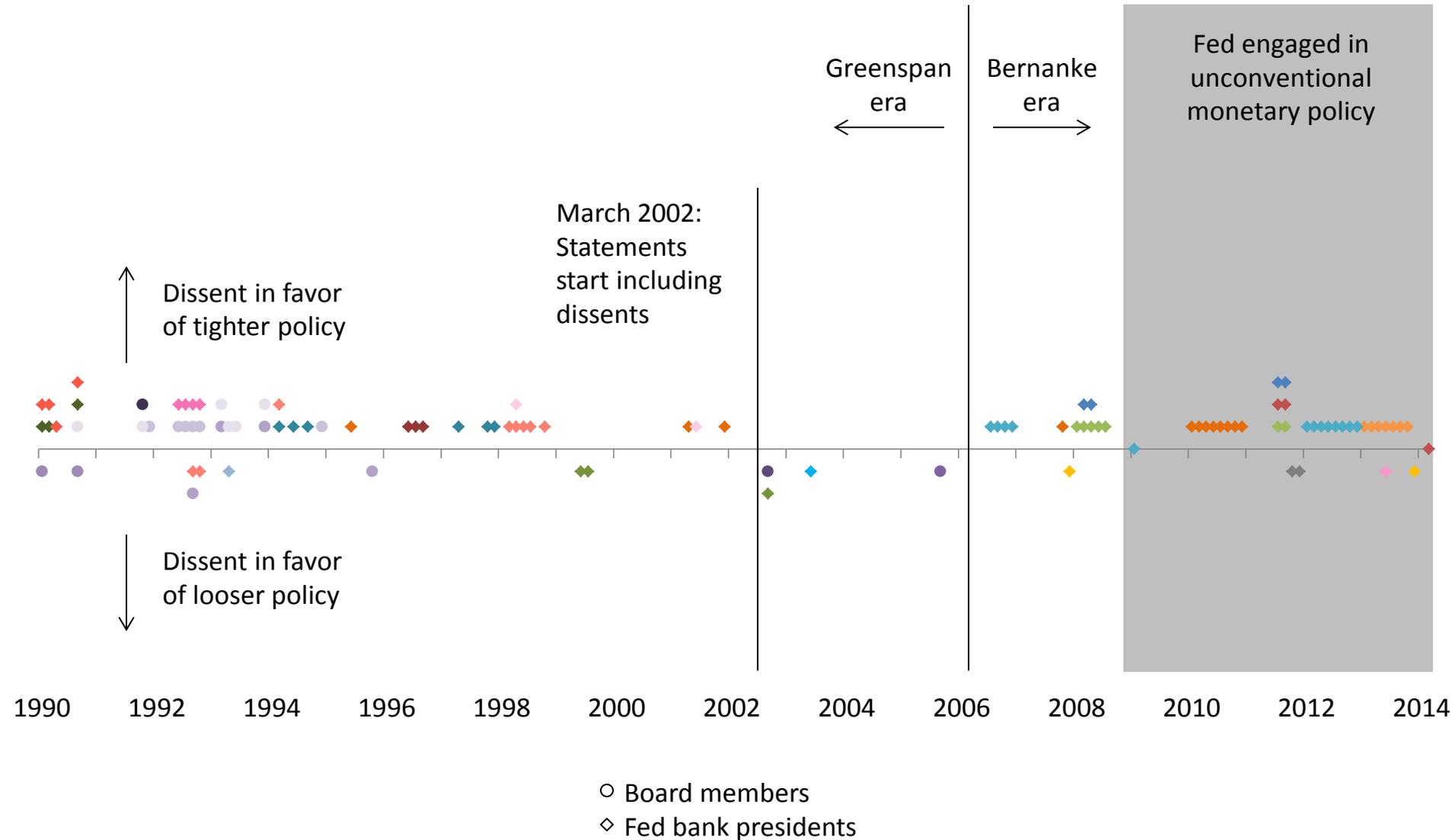
	Number of words	Flesch-Kincaid grade level
Greenspan	200	16
- Greenspan (post May 1999)	217	17
Bernanke	428	17
- Bernanke (pre ZLB)	241	15
- Bernanke (ZLB)	526	18

Simple tests for differences

Word count \ Grade Level

	Greenspan	Greenspan (post May 1999)	Bernanke	Bernanke (pre ZLB)	Bernanke (ZLB)
Greenspan		-17*	-228***	-41	-326***
Greenspan (post May 1999)	0.3		-211***	-24	-309***
Bernanke	0.4	0.1		187***	-99***
Bernanke (pre ZLB)	-2***	-2***	-2***		-285***
Bernanke (ZLB)	1***	1***	1***	3***	

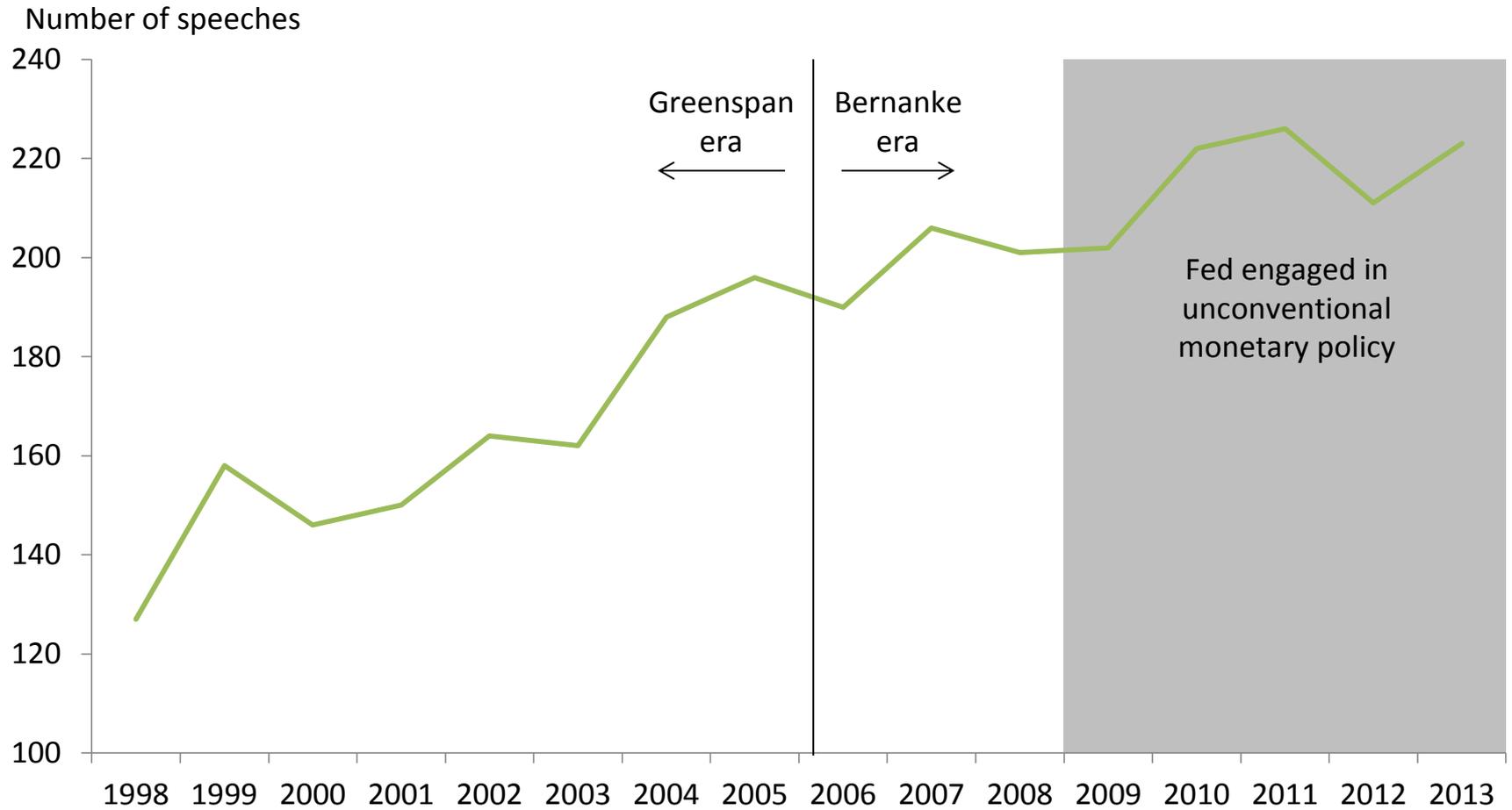
FOMC Dissents



Other tools of communication

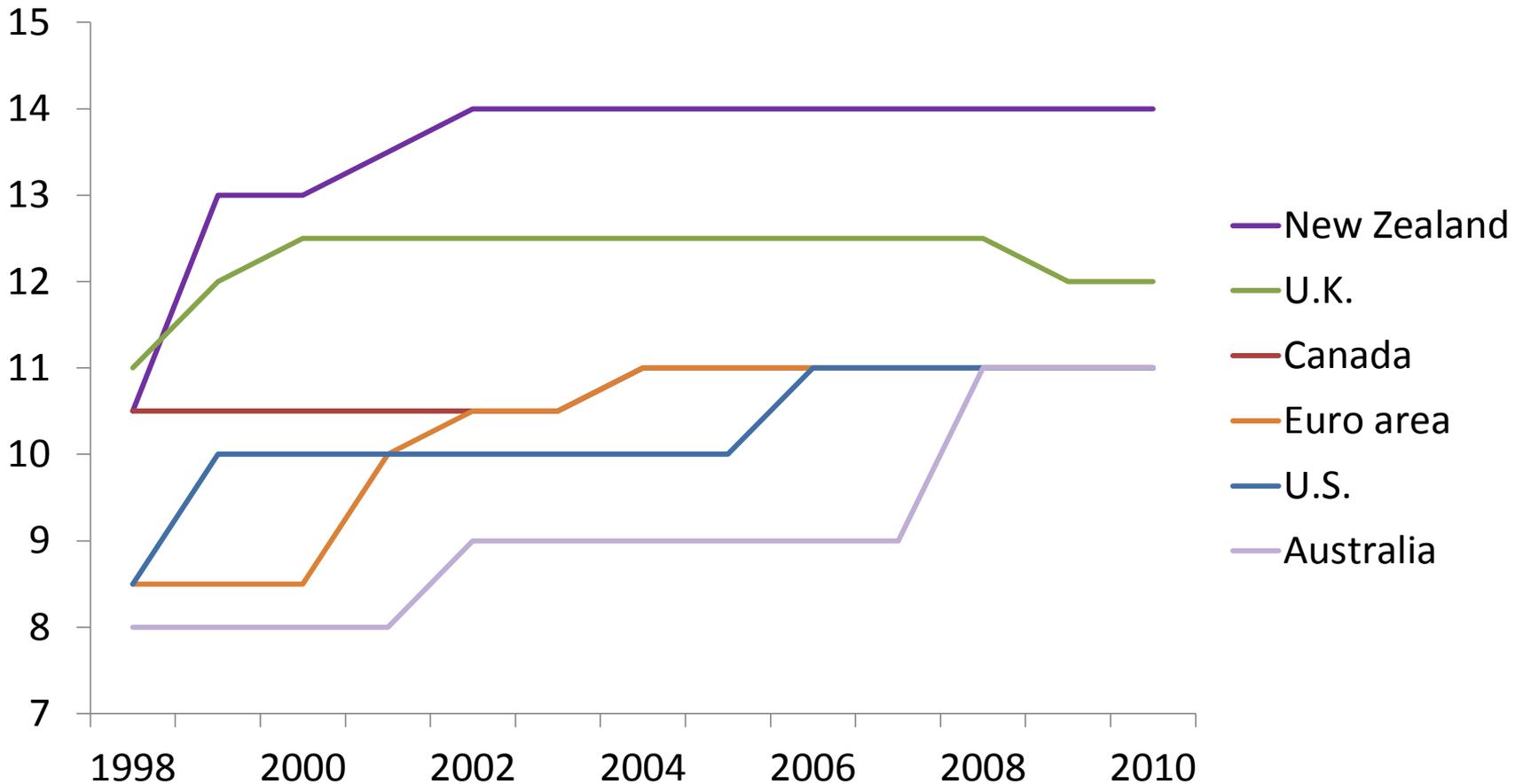
- Release of minutes
 - Fuller description of the committee's deliberations
 - Now released three weeks after meeting
- Survey of Economic Projections
 - More frequent & detailed
- Chairman's press conference
 - ~4 times a year since April 2011
- Speeches by Governors and Bank Presidents

Total FOMC Member Speeches

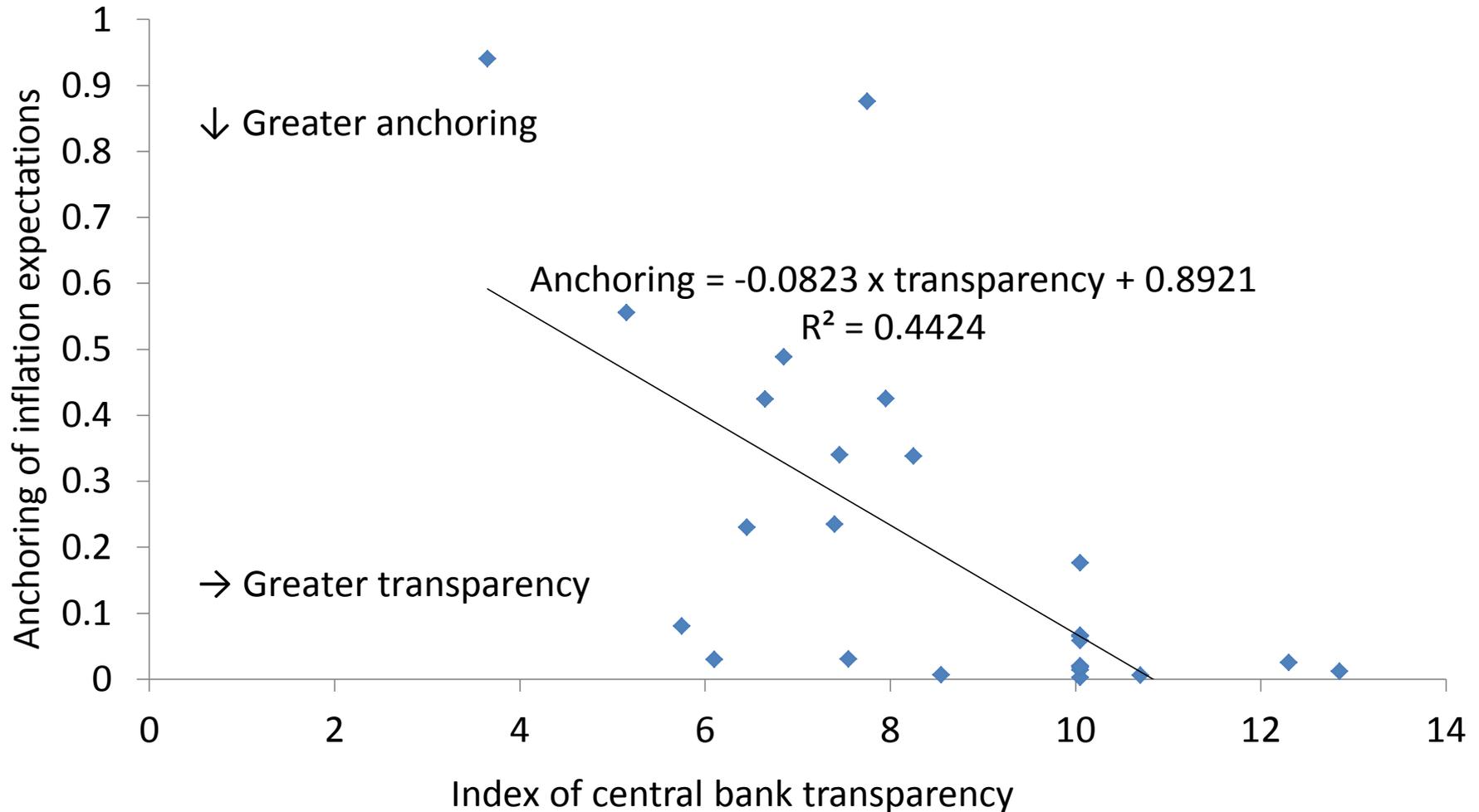


Evolution of central bank transparency

Index, ranges from 0 to 15



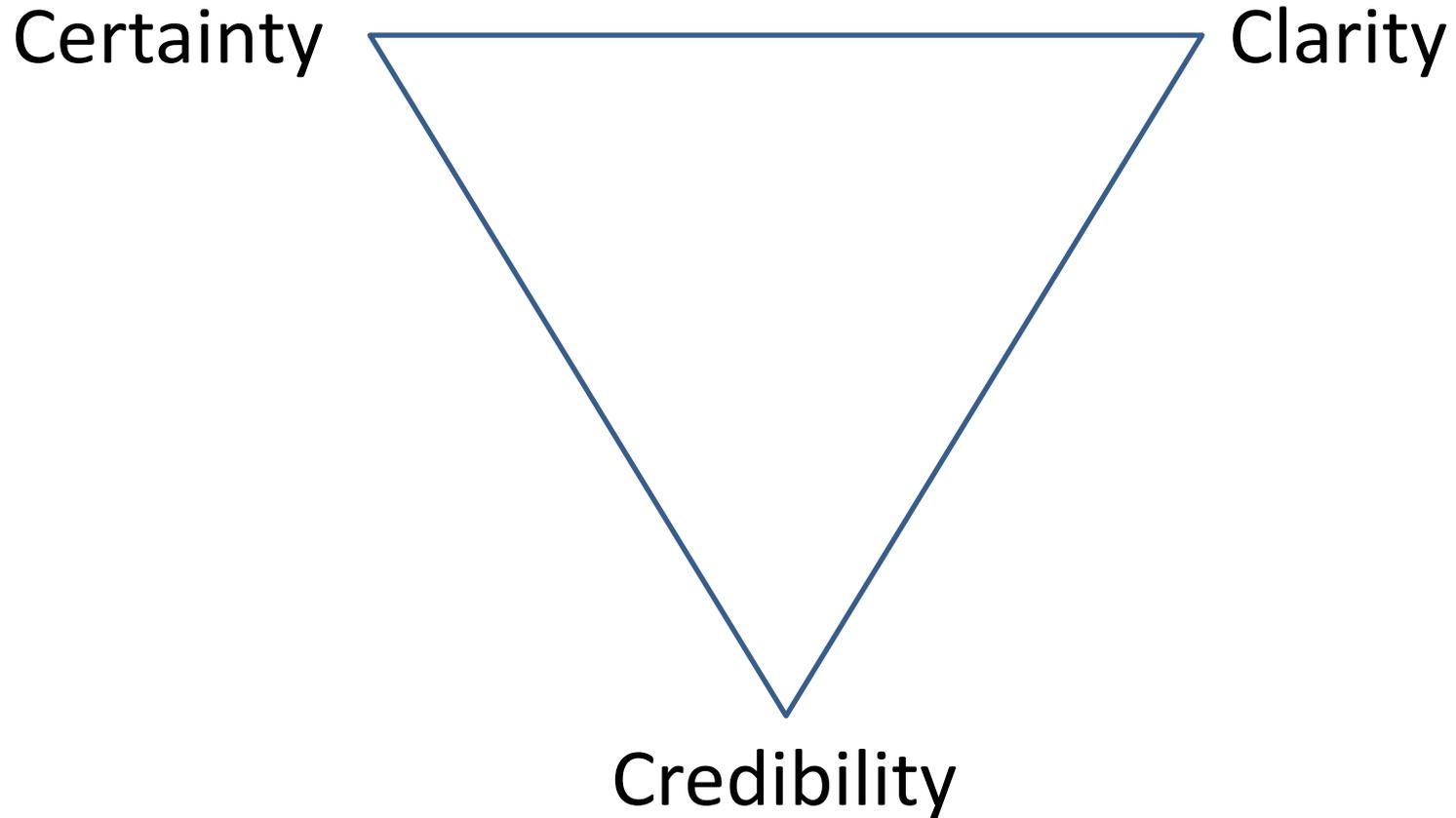
Transparency helps anchor inflation expectations



Cacophony?

- “An effective committee should resemble the Balkans before a decision is taken, and Switzerland after.”

A trilemma for central bank communications?



Conclusions

- FOMC communications have undergone a major revolution over the past two decades
 - “Ideas matter”
- Global trend towards greater transparency in monetary policymaking
- Communications matter, especially when interest rates are zero
- Could the FOMC communicate more?
 - “Wordiness” a substitute for adhering to a rule?

