Toshiro Muto: How do central banks make decisions? – monetary policy by committee

Summary of a speech by Mr Toshiro Muto, Deputy Governor of the Bank of Japan, at the Spring Meeting of the Japan Society of Monetary Economics, Chiba, 12 May 2007.

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Introduction

I am honored to have this opportunity to address a society with such a long-standing tradition. Today, I would like to elaborate on central banks' decisionmaking process, especially that by committee. Although policy changes by the Bank of Japan attract a lot of attention, I believe that the decisionmaking process, in which policy is decided by a majority vote of the Policy Board, is not widely understood. For example, according to the *Results of the 23rd Opinion Survey on the General Public's Views and Behavior* conducted by the Bank in June 2005, over half of the respondents answered that they had never heard that "monetary policy aimed at maintaining price stability is conducted based on decisions made at the Bank's Monetary Policy Meetings."

The Bank has adopted a committee structure in which decisions are made by a majority vote of the members of the Policy Board. Based on the Bank of Japan Law, which was revised in 1997 and came into effect in April 1998, the Policy Board – the highest decisionmaking body of the Bank – decides on a wide range of matters, not only those related to monetary policy but also those related to financial stability and the payment and settlement system. Policy Board meetings where monetary policy is deliberated and decided are called Monetary Policy Meetings (MPMs).

Many other central banks have also adopted a committee structure in making monetary policy decisions, such as the Federal Open Market Committee (FOMC) of the Federal Reserve System for the United States, the Governing Council of the European Central Bank (ECB) for the euro area, and the Monetary Policy Committee (MPC) of the Bank of England (BOE) for the United Kingdom.

I. The quiet revolution: decisionmaking by committee

A. Overview

One of the issues in which academic researchers have shown an increasing interest in recent years is monetary policy decisionmaking by committee. Professor Alan Blinder at Princeton University, a former Vice Chairman of the Board of Governors of the Federal Reserve System during Chairman Greenspan's era, has highlighted a "quiet revolution" in central banking practice in the past decade: namely, changes in the areas of decisionmaking by committee, transparency, and communication with the market.[1]

Decisionmaking by committee requires deliberations among committee members and collective decisionmaking. The committee structure is not necessarily unique to central banking. For example, in Japan, the Diet has standing and special committees, and the government also has independent committees such as the Fair Trade Commission. Furthermore, some corporations have adopted a committee structure.

[1] See Blinder (2004).

Is decisionmaking by committee superior to that by an individual? Intuitively, in line with the saying "two heads are better than one," groups might come up with better ideas than an individual. It seems to me that deliberations among multiple individual members with expertise and diverse insights should lead to a better policy outcome. In other words, through deliberations members can share their knowledge and skills and correct each other's misunderstandings, and the shortcomings of individual decisionmaking such as one-sided or prejudiced views, a lack of multifaceted consideration, and dogmatic attitudes can be greatly reduced.

Professor Stephen Bainbridge of the UCLA School of Law has studied collective decisionmaking by the boards of directors of U.S. corporations.[2] He refers to the issue of "bounded rationality" as one explanation of why decisionmaking by group is advantageous and argues the following:

> "Decisionmaking requires the use of scarce resources for four purposes: (1) observation, or the gathering of information; (2) memory, or the storage of information; (3) computation, or the manipulation of information; and (4) communication, or the transmission of information . . . If groups have an advantage relevant to the institution of the board of directors, it therefore seems most likely to arise with respect to either memory and/or computation . . . Put another way, group decisionmaking may be an adaptive response to bounded rationality, creating a system for aggregating the inputs of multiple individuals with differing knowledge, interests, and skills."

B. Research on central banks' decisionmaking by committee

Next, I would like to refer to some of the literature that specifically analyzes central banking and monetary policy decisionmaking by committee.[3]

Professor Blinder discusses whether monetary policy should be made by an individual or a committee and explains why the central banks of many countries have now adopted committee decisionmaking as follows:[4]

> "I believe that the main factor underlying the worldwide trend toward monetary policy committees . . . was the perceived success of the Federal Reserve and the Bundesbank, both of which had long made decisions . . . by committee. Imitation is, after all, the sincerest form of flattery. In addition, there is no reason to have a monetary policy committee when the central bank is simply taking orders from its government. So the trend toward central bank independence opened the door to committee decisionmaking."

In addition, Professor Blinder summarizes the main arguments for preferring committee to individual decisionmaking under the following four points,[5] which seem to be consistent with the study on the boards of directors of U.S. corporations that I have just referred to.

1. "Pooling: A committee pools the disparate knowledge of its individual members.
2. Diversity: Members of a committee bring different decisionmaking heuristics to a complex problem.

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[2] See Bainbridge (2002).

[3] See Fujiki (2005) for references to the related literature.

[4] See Blinder (2006a, b).

[5] See Blinder (2006b).

3. Checks and balances: Committees are less likely to adopt extreme or idiosyncratic positions.

4. Reduced volatility: Owing to "averaging" (which need not be interpreted literally), the decisions of a group are likely to be less volatile."

With regard to the fourth point, however, Professor Blinder argues that it "might conceivably be turned around and viewed as a vice instead because one person's low volatility is another's excessive inertia."

Professor Anne Sibert of the University of London notes free riding and group polarization as possible shortcomings of group decisionmaking.[6] With regard to the first issue, she points out that the free-riding problem can occur, for example, in gathering information and that larger committees are more likely to encounter this problem than smaller committees. However, I do not believe that the free-riding problem is likely to emerge in decisionmaking in committees based on my experience at the Bank, where each member participates in the decisionmaking autonomously and independently.

With regard to the issue of group polarization, biased group membership and heated deliberations make the views of individual members less moderate or more extreme. Group polarization can be inconsistent with excessive inertia, which is noted by Professor Blinder. Professor Sibert also says that it is debatable whether moderation or polarization is a good thing. In my experience, group polarization is unlikely to occur if members of the committee have profound experience and diversified backgrounds.

Summarizing what I have referred to and mentioned so far, the committee structure can be a better framework for decisionmaking because of the pooling of knowledge, the diversity of views, and the checks and balances it provides, and such group decisionmaking can be superior to individual decisionmaking. However, it should be noted that in practice, group decisionmaking can be excessively inert and the adoption of the committee structure does not necessarily guarantee the right outcome.

II. The committee's structure of the FOMC, the Governing Council, and the MPC

I will briefly explain how other central banks reach their decisions under the committee structure. I would like to discuss the FOMC of the Federal Reserve System, the Governing Council of the ECB, and the MPC of the BOE.

A. The FOMC

The FOMC consists of twelve members: seven members of the Board of Governors of the Federal Reserve System, including the Chairman and the Vice Chairman, and five Reserve Bank presidents, of whom four serve on a rotating basis. The other seven presidents also attend FOMC meetings and participate in the discussions, although they do not have the right to vote.

Members of the Board of Governors are nominated by the President of the United States and confirmed by the Senate. In making appointments, the President needs to pay due regard to a fair representation of financial, agricultural, industrial, and commercial interests, and the geographical division of the country. On the other hand, the president of each Reserve Bank is nominated by its board of directors. The nomination process is such that members of the FOMC would have diversified knowledge and insights. In fact, current members have diverse career backgrounds as, for example, academics, executives of financial institutions, high-ranking officials of international organizations, government officials, and central bankers.

6 See Sibert (2006).

With regard to terms of office, members of the Board of Governors have full terms of 14 years and Reserve Bank presidents have five years.

Transcripts of FOMC meetings reveal that members present various opinions, hold lively discussions, and make decisions by majority vote. Mr. Meyer, a former member of the Board of Governors during Chairman Greenspan's era, noted that there were two traditions at the FOMC: the first was that the Chairman was always expected to be on the winning side of a policy vote, and the second was that the FOMC strove to reach a consensus on the policy decision.[7] However, votes have not always been unanimous and one or two dissenting votes are not unusual. In fact, during the second half of 2006, Mr. Lacker, the president of Federal Reserve Bank of Richmond, dissented because he believed that further policy tightening was needed.

B. The Governing Council

The Governing Council of the ECB consists of 19 members: six members of the Executive Board, including the President and the Vice President, and the governors of 13 national central banks in the euro area. The number of euro area countries has increased from twelve to 13 with Slovenia joining at the beginning of 2007. Members of the Executive Board are appointed – from among persons of recognized standing and professional experience in monetary or banking matters – by the European Council, following necessary procedures. The governors of national central banks are appointed in accordance with national laws.

The 19 members of the Governing Council, with diverse nationalities, have a wide variety of career backgrounds, including as academics, executives of financial institutions, politicians, government officials, and central bankers. Accordingly, reflecting historical and institutional factors unique to Europe, the Governing Council is a group of experts with diversity, selected in consideration of expertise and geographical factors. Members of the Executive Board of the ECB have eight-year terms, and the governors of national central banks, depending upon national laws, have terms of five years or more.

It is often said that the consensus of the Governing Council in decisionmaking is respected and that its decision is the result of collective deliberation and debate.[8]

C. The MPC

The MPC consists of nine members: five internal members, that is, the Governor, the two Deputy Governors, the Bank's Chief Economist, and the Executive Director for Markets (the latter two are appointed by the Governor upon consultation with the Chancellor of the Exchequer), as well as four external members appointed directly by the Chancellor of the Exchequer. External members are not necessarily full time, and, for example, some members are concurrently faculty members at universities. Current members have diverse backgrounds, including as academics, government officials, private-sector economists, and central bankers. The Governor and the Deputy Governors have five-year terms, and the others have three-year terms.

At MPC meetings, dissenting votes are cast rather frequently. Sometimes there are four dissenting votes out of nine. For example, at the January 2007 meeting, the MPC decided to raise the policy interest rate by a 5-4 majority vote. Governor King was in the majority while Deputy Governor Lomax and Messrs. Bean and Tucker were in the minority. Votes among external members were three in favor of the raise and one against, and among internal members, two were in favor and three against. Moreover, at the August 2005 meeting, the

7 See Meyer (1998).

8 See Issing (2005) and Schill (2005).

MPC decided to reduce the policy interest rate by a 5-4 majority vote, and this time, Governor King was in the minority. All four votes of external members were in favor of the reduction while votes among internal members were split: one in favor of the reduction and four against. Interestingly, Governor King later testified before the Treasury Committee of the House of Commons on November 24, 2005, saying as follows:

> "[T]he decision falls out by majority vote . . . it logically follows, as night follows day, that there will be some times when each and every member of the Committee may find themselves in a minority, including the Governor, and I was in that position . . . I felt comfortable about that . . . We believe that the right thing is that at the end everyone says what they honestly believe is the right thing to do."

The FOMC of the Federal Reserve System, the General Council of the ECB, the MPC of the BOE, and the Policy Board of the Bank of Japan have all adopted the committee structure, but the design and implementation of the committee structure of each of these differ, partly due to political and historical factors. Each central bank has been making various efforts to improve its implementation to the extent possible.

III. The framework and procedures of MPMs

Next, I would like to turn to the case of the Bank of Japan and explain the framework and procedures of MPMs.[9]

A. The framework of MPMs

Monetary policy is deliberated and decided by the Policy Board at MPMs. The Policy Board is composed of nine members: the Governor, the two Deputy Governors including myself, and six other members. Members are all appointed by the Cabinet and approved by the Diet and serve for five-year terms. Under the old Bank of Japan Law of 1942, the Policy Board consisted of a total of seven members: the Governor, four appointed representatives with outstanding experience in the fields of finance, commerce and industry, and agriculture, and two government representatives without the right to vote. The Bank of Japan Law of 1997 stipulates that the six members other than the Governor and the two Deputy Governors be appointed from "among those with academic expertise or experience including experts on the economy or finance." Indeed, Policy Board members come from quite diverse backgrounds and include former academics, executives of corporations as well as financial institutions, and private-sector economists.

The number of members of the Bank's Policy Board is nine, which is the same as that of the MPC of the BOE, but it is smaller than the FOMC of the Federal Reserve System and the Governing Council of the ECB. According to a survey on central bank laws conducted by the staff of the International Monetary Fund (IMF), most central bank committees have seven to nine members.[10] If the size of a committee is too small, the accumulation of knowledge becomes difficult, there is less diversity in perceptions and opinions, and checks and balances may not function well. On the other hand, if the size is too big, discussions become less productive. For extensive and constructive discussions where Policy Board members are given sufficient time to express their views, I believe the current size of nine members is within the appropriate range for a committee.

At MPMs, the Governor and the Deputy Governors independently express their assessment on the economic and financial situation and their views on the conduct of monetary policy.

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[9] See Fujiwara (2003).

[10] See Lybek and Morris (2004).

The Governor and the Deputy Governors are also responsible for carrying out decisions of the Policy Board, together with the Executive Directors and the staff. The six other Policy Board members are full-time executives. In addition to MPMs, they attend Policy Board meetings that make decisions, with the Governor and the Deputy Governors, on important policy issues, such as those on financial stability, business operations, and management strategy. Given that they hold important positions that require neutrality, they are prohibited from taking another occupation, and restrictions are also placed on the types of financial assets they can hold and the financial transactions they can make, as in the case of the Governor and the Deputy Governors.

MPMs, where the Policy Board decides a guideline for money market operations for the intermeeting period ahead and formulates the Bank's view on recent economic and financial developments, are held regularly, once or twice a month. Aside from these meetings, Policy Board meetings where the Bank's business operations, management strategy, and other issues are decided are, as a general rule, held twice a week.

B. Preparations for MPMs

Let me describe how Policy Board members prepare for MPMs. Policy Board members accumulate various types of information useful for the Bank's conduct of monetary policy through their analysis of the economic situation and financial market developments, the daily conduct of business operations, and exchanges of views with representatives from various fields. Utilizing such information as well as knowledge, Policy Board members monitor carefully economic and financial developments.

The details of the preparation for MPMs are as follows. At least two business days prior to the MPM concerned, Policy Board members are provided with written reports prepared by the Bank's staff, which the Bank's staff later use at the beginning of the meeting to present an assessment of the current economic and financial situation. The reports include a comprehensive analysis of the economy based on available macro and micro economic information. In preparation for the MPM, members read through the staff's reports and formulate their views on the economic and financial situation, the outlook, and the appropriate direction of monetary policy.

C. Deliberations on the day of the MPM

I will now outline a typical two-day MPM. The first day of the MPM usually starts at 2:00 p.m. The meeting is attended by Policy Board members and by government representatives, namely, the Minister of Finance and the Minister of State for Economic and Fiscal Policy or their designated delegates. Executive Directors of the Bank in charge of departments directly concerned with monetary policy, and Directors-General and other senior officials of departments concerned, attend MPMs to report. Others present at the MPM include staff of the MPM secretariat supporting the proceedings of MPMs. The chairman of the Policy Board is elected by the Board members from among themselves. The Governor has so far always been the chairman.

On the first day of the MPM, the staff present reports on recent economic and financial developments. Specifically, the staff report developments including the results of the Bank's money market operations and developments in the economy and financial markets in Japan as well as those abroad. The meeting then moves on to a question-and-answer session between Policy Board members and the reporting staff.

The second day of the MPM usually starts at 9:00 a.m. The meeting begins with a discussion among Policy Board members on economic and financial developments. First, each Policy Board member in turn expresses his or her views on recent economic and financial developments and the prospects for the future, taking into account the reports presented by the Bank's staff on the previous day and other members' views. After all the members have had their turn, discussion starts and members freely and actively exchange views on economic and financial developments.

Following the discussion on economic and financial developments, Policy Board members next discuss the conduct of monetary policy. Again, each Policy Board member in turn expresses his or her views, mainly on whether the Bank should maintain or change the guideline for money market operations for the intermeeting period ahead, and the reasons. Furthermore, Policy Board members deliberate on the Bank's conduct of monetary policy in the longer term. Members then exchange views freely to gain a better understanding of each other's views and differences in their views, and proceed further with the discussion. In the course of the discussion, government representatives have an opportunity to make remarks.

D. Votes on policy decisions at MPMs

After the thorough discussions, Policy Board members take a vote on the policy proposal relating to the guideline for money market operations for the intermeeting period ahead, i.e., whether the Bank should change or maintain the guideline for money market operations.

Based on the intensive discussions among Policy Board members at the MPM, the chairman formulates and submits a policy proposal that reflects the majority view of the members. As I mentioned earlier, sometimes other Policy Board members who hold different views submit a proposal separately. The decision is made by a majority vote. This is the process of how the guideline for money market operations for the intermeeting period ahead and the release of public statements, which is also put to the vote, are decided.

After the guideline for money market operations for the intermeeting period ahead is decided, Policy Board members discuss "The Bank's View" of recent economic and financial developments as well as the outlook, which is published in the *Monthly Report of Recent Economic and Financial Developments*. The draft of "The Bank's View" is formulated based on the members' discussion and put to the vote.

Looking back at past MPMs, votes have not always been unanimous. Since my inauguration as Deputy Governor in March 2003, I have attended 63 MPMs up to this April. Among these, the number of MPMs where votes were cast against the chairman's policy proposal on the guideline for money market operations was as follows: two MPMs with three dissents, 15 MPMs with two dissents, and five MPMs with a single dissent. Moreover, there were 24 proposals other than the chairman's on the guideline for money market operations: at seven MPMs there were two proposals other than the chairman's, while at ten, there was one proposal other than the chairman's. There were five MPMs where dissents were cast against the chairman's proposal without the submission of any other proposal. The fact that votes at MPMs have not always been unanimous suggests that the autonomy of each Policy Board member has been respected.

E. Announcement of decisions

After going through the above decisionmaking process, the MPM finally comes to a close. Policy Board members are provided with sufficient time to hold extensive discussions and the decisions made at MPMs are announced so that Japanese financial markets can as much as possible digest the decisions on the day of the meeting. The guideline for money market operations decided at the MPM is announced immediately after it ends, and the Governor holds a press conference on that day, usually from 3:30 p.m. To avoid confusion in financial markets, Policy Board members have agreed to comply with the so-called blackout rule, which sets a period starting from two business days before an MPM and lasting until the end of the Governor's press conference. During this period, members must, as a general rule, refrain from making public comments on monetary policy and economic and financial developments.

IV. Decisionmaking by committee and central bank independence

Next, I would like to turn to the relationship between decisionmaking by committee and central bank independence. As previously noted, Professor Blinder makes the interesting point that "[w]hen the central bank was just following orders communicated by the government, there was not much reason to have a committee . . ."[11] However, a committee structure is not a necessary and sufficient condition for a central bank to maintain its independence from the government. More important is the concrete relationship between the central bank and the government. I will not go into central bank independence in depth today, but will elaborate on the following points in relation to the committee structure: the significance of independence for the Bank of Japan; the guarantee of the status of Policy Board members; and the attendance of government representatives at MPMs.

First, the Bank's independence regarding the conduct of monetary policy, which is referred to as "autonomy" in the Bank of Japan Law of 1997, has been strengthened since 1998, when the Law came into effect. Although the Bank remains to a certain degree under the government's control as a public organization, it is granted by the Bank of Japan Law the explicit mission to conduct monetary policy in pursuit of price stability, and thus the Policy Board can make monetary policy decisions independently without external interference.

Second, in order to ensure the independence of the Bank, Policy Board members' term of office is set as five years and during this term their status is guaranteed, with causes for dismissal limited to, for example, physical or mental disorders.

Third, the attendance of government representatives at monetary policy committees varies according to central banks. At the Federal Reserve System, government representatives are not allowed to attend FOMC meetings. At the ECB, the President of the ECOFIN Council and a member of the European Commission (usually the Commissioner responsible for Economic and Monetary Affairs) often attend the Governing Council meetings. At the BOE, a representative from the Treasury attends MPC meetings.

As for the Bank of Japan, government representatives attend MPMs, as in the case of the ECB and the BOE. The Minister of Finance and the Minister of State for Economic and Fiscal Policy or their designated delegates attend MPMs, as specified in the Bank of Japan Law. They express their views on the state of the economy, the government's conduct of economic policy, and the Bank's conduct of monetary policy. Although the government representatives do not have the right to vote, they can submit a proposal requesting to postpone the Policy Board members' vote on policy proposals to the next MPM. Such a proposal was in fact presented at the MPM in August 2000. Moreover, government representatives can submit a proposal for monetary policy measures to be decided by the Policy Board. In both cases, it is up to the Policy Board to decide whether to adopt any proposal submitted by government representatives.

In short, the Bank of Japan Law sets forth a transparent framework to facilitate the exchange of views between the Bank and the government and to ensure the opportunity for the government to express its opinion concerning monetary policy at MPMs, thereby ensuring both central bank independence and consistency between the Bank's monetary policy and the government's economic policy.

V. Decisionmaking by committee and central bank transparency

Next, I would like to turn to the relationship between decisionmaking by committee and central bank transparency. I will start by describing the communication frameworks regarding

[11] See Blinder (2006a).

policy decisions at the FOMC of the Federal Reserve System, the Governing Council of the ECB, the MPC of the BOE, and the Policy Board of the Bank of Japan.

A. Transparency of monetary policy decisions

The FOMC releases a statement concerning the decision made at the meeting on the same day. The statement contains the Committee's basic view of the U.S. economy, the Committee's decision regarding monetary policy, and the result of members' vote on FOMC monetary policy action. The minutes of FOMC meetings are released three weeks after the date of the policy decision, and transcripts of meetings are released with a five-year lag.

The Governing Council does not release its minutes, transcripts, or details of members' votes. After the Governing Council meeting, the President, assisted by the Vice-President, holds a press conference. The President makes an introductory statement, explaining the decision as well as the economic and monetary analysis, and this is then followed by a question-and-answer session.

The MPC announces its interest rate decision immediately following the MPC meeting. The minutes of the MPC meetings are published two weeks after the interest rate decision. The record of the votes of the individual members of the Committee is released in the minutes.

As for the Bank of Japan, the Policy Board announces, immediately after the MPM, the decision on its guideline for money market operations for the intermeeting period ahead. Since the MPM in February 2007, the record of the votes of the individual Policy Board members has also been released in the announcement of MPM decisions. Shortly afterward on the same day, the Bank publishes "The Bank's View" in the *Monthly Report of Recent Economic and Financial Developments*, and the Governor holds a press conference. The minutes of MPMs are released around one month after the meeting concerned, and the transcripts of MPMs are to be published ten years later. The Bank also releases the *Outlook for Economic Activity and Prices* semiannually (the April 2007 issue was released recently). In addition, the Governor reports to and attends the Diet, and Policy Board members frequently give speeches and accept interviews.

B. Central bank communication with the market

Another important issue is how central banks adopting the committee structure should communicate with the market. Given that the effects of monetary policy are transmitted via financial markets, enhancing transparency not only ensures the central bank's accountability to the public but also improves the effectiveness of monetary policy. However, enhancing the transparency of policy decisionmaking by committee involves difficult issues, unlike the case of individual decisionmaking where only one individual needs to be accountable for his/her decisions. Central banks that adopt decisionmaking by committee need to seek ways to enhance the accountability of the committee as a whole as well as that of each individual member, including the governor as the chairman. This issue of accountability also relates to central bank communication with the market and poses a difficult problem.

In 2000, the third year since the establishment of the MPC, the BOE asked the Vice Chairman of the Board of Governors of the Federal Reserve System, Mr. Kohn, who was then the Director of the Division of Monetary Affairs, to assess the transparency of the policymaking process at the MPC. One of Mr. Kohn's assessments was that "the committee structure greatly complicates transparency; it is far easier to determine and publish the views of a single person than it is those of a Committee with nine individually accountable members."[12] The response of the MPC was that "this is particularly true of one important

[12] See Kohn (2000).

theme which runs through the Report, namely the problem of reconciling individual accountability of MPC members with the need to present a collective message to the public that explains the decisions of the Committee."[13]

To deal with this problem, the ECB has "placed a premium on speaking “with one voice” and consensus in decisionmaking."[14] This reflects the need to conduct a single monetary policy in the euro area in the unique environment of European integration. A typical example of speaking "with one voice" is the press conference by the President held shortly after the monetary policy decision. Mr. Trichet, the President of the ECB, has often emphasized that it is his role as the captain to speak "with one voice" on behalf of all members of the Governing Council of the ECB.

On the other hand, with a view to enhancing the transparency of policy decisionmaking based on the committee structure, the FOMC, the MPC, and the Policy Board of the Bank of Japan release the results of the votes of individual members, thus indicating the existence of minority views, and have also made efforts to release the minutes of the meetings sooner. In addition, like the President of the ECB, the Governor of the Bank of Japan holds a press conference after the MPM on the same day to enhance transparency of monetary policy decisions.

While it is important to secure an environment where members can contemplate and hold extensive discussions at meetings in order to maximize the merits of the committee structure, at the same time the transparency needs to be enhanced, and it is therefore important to strike a balance between them. In the case of the Bank of Japan, I believe that through the release of the minutes and transcripts of MPMs, Policy Board members are all the more responsible for the persuasiveness and the consistency of their remarks, and thus the quality of deliberations at MPMs has also been improved.

In sum, the Bank of Japan's Policy Board has a highly transparent framework and is unique in that transparency is ensured both through a press conference held by the Governor after every MPM on the same day and the release of the minutes and the transcripts of MPMs by the Bank. The Bank will continue to make every effort to enhance transparency so as to improve its accountability to the public and the effectiveness of monetary policy.

C. Lessons learned from recent experience

In connection with the February policy change, there is criticism that there may have been some confusion in the process of communicating with the market since the end of last year, when the policy action began to be the target of speculation. We accept such criticism and will try to improve the means of communication in the future.

I would like to express my views on the Bank's communication with the market before and after an MPM in relation to the committee structure I explained earlier.

First, it should be made clear that information concerning the results of the policy decisions is never released by the Bank before an MPM. At MPMs, policy decisions are made by vote after thorough discussions among members. Some members may change their views as a result of the discussions, and therefore policy decisions are unknown until a vote is taken.

Second, immediately following an MPM, the Bank disseminates information on the policy decision through various communicative media that are all easily accessed by the general public. The Bank announces the guideline for money market operations, the Governor holds a press conference, and the *Monthly Report of Recent Economic and Financial Developments and the Outlook for Economic Activity and Prices* are released. Moreover, if

[13] See Bank of England (2000).

[14] See Issing (2005).

some members have voted against a policy proposal that represents the majority view, their views, in addition to the majority view, are clearly explained, for example, in the minutes of the MPMs. I believe that the process of discussions held at the MPMs has been made more transparent through the publication of minority views, and that, as a result, the policy stance and the intentions of the Bank have been made clearer.

Third, I believe there are two key types of information that a central bank needs to provide: the central bank's assessment of the economic and price situation; and its basic thinking on the conduct of monetary policy. Market participants can form expectations regarding future interest rates by adjusting their views of the economy and prices on the basis of such information, while central banks can deduce market participants' views regarding the economy and prices from market interest rates and yield curves. What we have in mind in terms of communicating with the market is such a two-way exchange of information. Hinting at the actual timing of the policy change is generally inadvisable. If such a hint were made, market participants would carry out transactions based not on their own views of the economy and prices but in response to the central bank's hint, and this would result in a breakdown of the two-way exchange of information.

Concluding remarks

As I explained earlier, there are various types of committees. Based on my everyday experience of conducting monetary policy, I believe that the committee structure has proved advantageous and effective in making appropriate monetary policy decisions. In order to take full advantage of the merits of the committee structure, central banks should constantly make efforts to improve the operation of monetary policy committees in line with changes in the environment.

Today I expressed my practical views on central banking by committee. I would appreciate it if you, leading economists, could take some of these points into consideration in constructing your economic models and theories in the future.

I look forward to learning from the fruits of your new research. Thank you very much for your attention.

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