

Jan F Qvigstad: On transparency

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Introduction

Norges Bank's Executive Board has decided that the key policy rate now should be 1.5 per cent. If economic developments are broadly in line with projections, the appropriate key policy rate will be 2.75 per cent around the end of next year.

If I had made this statement ten years ago, it would have constituted a breach of confidentiality.¹ Norges Bank considered this to be highly sensitive information. Had I been deputy chairman of the US Federal Reserve Board twenty years ago, I would not even have been entitled to reveal the latest interest rate decision.² Today, this sounds rather odd. Transparency is now taken for granted among central banks and in other areas of society.

In London in 1780, the Bank of England was put to a test. In Parliament, Lord Gordon attempted to stop a bill to restore civil rights to Catholics.³ He drew support from large numbers. Rioting led to the destruction of several public buildings. When an attack was launched against the Bank of England, the building was secured like a fortress and withstood the onslaught, hence the phrase "as safe as the Bank of England". Through the years, the phrase has been simplified into "as safe as the bank". As banks and central banks store gold and money in their vaults, their edifices have always been solid, protected by thick walls. In a figurative sense, it might be said that a safe and credible national monetary value relied for a long time on thick central bank walls insulating its internal workings from the general public.

Until our time, central banks have been closed, both physically and figuratively. Central banks were shrouded in an aura of mystique, which they probably had a hand in perpetuating. Central bank governors worldwide refrained from saying too much, and what they did say often sounded cryptic.

¹ The duty of confidentiality for Norges Bank employees is laid down in Section 12 of the Norges Bank Act. Violation of the duty of confidentiality is punishable under the General Civil Penal Code: "Any person who wilfully or through gross negligence violates a duty of secrecy which in accordance with any statutory provision or valid directive is a consequence of his service or work for any state or municipal body shall be liable to fines or imprisonment for a term not exceeding six months" (Section 121, first paragraph of the General Civil Penal Code).

² In 1975, David R. Merrill, a law student, instigated legal proceedings against the Federal Open Market Committee (FOMC) in the US, charging that the FOMC violated the Freedom of Information Act by deferring public disclosure of its interest rate decision by 90 days. The case was eventually heard by the Supreme Court. The Supreme Court ruled that the Federal Reserve could continue its practice if it could provide an adequate explanation showing that immediate disclosure would significantly harm the Government's monetary functions or commercial interests. The Supreme Court left the assessment of this explanation to the district court. The district court concluded that it lacked the expertise necessary to substitute its judgment for that of the FOMC and the Federal Reserve did not begin to release its monetary policy decisions on the same day until 1994. See Marvin Goodfriend (1986): "Monetary mystique: secrecy and central banking", in *Journal of Monetary Economics*, 17, no. 1, pp. 63-92.

³ The bill also enabled Catholics to serve in the British army. British military forces were involved in conflicts in many countries at the time and needed more manpower. See A. Andréadès (1966): *History of the Bank of England 1640-1903*, 4th edition, Frank Cass & co. Ltd.

In Norway, monetary policy was probably also perceived by many as something mysterious and remote. In the Festschrift for former Norges Bank governor Hermod Skånland, Professor Preben Munthe writes the following:

“There is a tradition that expects central bank governors to be parsimonious with words. This built up the aura that should surround a man in that position. He possessed knowledge about the secret black box – monetary policy with a capital M – and how it functioned. Without asking others, he changed the discount rate and thereby intervened in the economy with authority and deep insight. On seldom occasions did he step down from his cloud of wisdom to impart life’s economic truths to a gaping public.”⁴

A change in views and practices relating to transparency first occurred in recent years, both in Norway and other countries.⁵ It can safely be said that the change has been swift and radical. Today, most central banks are open about (i) the objective of monetary policy, (ii) its strategy for reaching the objective and (iii) the background for and the process behind interest rate decisions.

Norges Bank is no exception in this respect. In some areas, Norges Bank has gone further than others. For example, Norges Bank is one of the few central banks in the world that publishes forecasts of its own interest rate decisions.⁶

What then can explain this tendency towards greater transparency? I would highlight two main reasons. First, there has been a general trend in society towards greater transparency. Second, economic thinking has changed considerably. Simplifying somewhat, the former view was that monetary policy operated effectively by *surprising* economic agents. Today, economic theory posits that monetary policy works best if it is *predictable*.

I will come back to the economic theory, but allow me to start by some changes in society at large.

Transparency of economic policy

The economic crisis in the 1930s shattered confidence in free market forces. Markets had to be controlled. The British economist John Maynard Keynes was working on ways of regulating and improving markets. Prominent Norwegian economists, with Ragnar Frisch at the fore, went even further. They advocated that the market economy must be replaced by a planned economy. Ambitions were high. One could almost say that transparency, in carefully selected portions, was a tactical tool.⁷ It reached a head in 1973 when a commission led by

⁴ Preben Munthe (1994): “Økonomen (The Economist)” in Jan. F Qvigstad, Sigbjørn Atle Berg and Kjell Storvik (eds.): *Stabilitet og langsiktighet: festschrift til Hermod Skånland* (Stability and a long-term perspective: Festschrift for Hermod Skånland), Aschehoug, p. 73.

⁵ See for example Alan S. Blinder, Michael Ehrmann, Marcel Fratzscher, Jakob De Haan and David-Jan Jansen (2008): “Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence”, in *Journal of Economic Literature*, 46, no. 4, pp. 910-945 and Petra M. Geraats (2002): “Central Bank Transparency”, in *The Economic Journal*, 112 (November), pp. F532-F556.

⁶ See for example *Financial Times* (Ralph Atkins), 2 March 2007, p.11: “Central bankers eye Norway’s clarity on rates” and Michael Woodford (2007): “The Case for Forecast Targeting as a Monetary Policy Strategy”, in *Journal of Economic Perspectives*, 21, no. 4, pp. 3-24.

⁷ In 1959, Petter Jacob Bjerve, then director general of Statistics Norway, wrote that “Apparently, the question of whether national budgets should be published involved an optimum problem: considering both advantages and disadvantages of publishing, any cabinet will probably decide what to publish so as to achieve best possible results of its policy, according to the social preferences of the cabinet.” See Petter Jacob Bjerve (1959): *Planning in Norway 1947-1956*, North-Holland Publishing Company, p. 352.

Hermod Skånland proposed the establishment of an incomes-policy council that was to decide the limits for wage growth in Norway.⁸

But the proposal was not in tune with the new views which were already taking root in society. The council was never established. Domestic and international developments in the 1970s weakened the conviction that the economy could be fine-tuned. While market failure was the main concern earlier, focus now shifted to *regulatory failure*. The political pendulum swung away from government control and towards market liberalisation.⁹ When decision-making was to be decentralised, it was important that the decision-makers acted in line with the overriding policy objectives. New transparency and disclosure requirements were designed to this end. The requirements were largely set out in the Public Administration Act of 1967 and the Freedom of Information Act of 1970.

Today, transparency and disclosure requirements also apply to Norwegian enterprises, particularly to listed companies.¹⁰ The legislation is to ensure that all shareholders receive adequate, correct and timely information from the company. Companies must be open and assure equal treatment of all owners. Well-functioning equity markets rely on confidence that everyone has access to the same information about the company.

Transparency is natural in a democracy

Transparency is natural in a democracy and is important to ensure accountability among decision-makers. The Danish Nobel laureate in physics Niels Bohr supposedly once stated that *“The best weapon of a dictatorship is secrecy, but the best weapon of a democracy should be the weapon of openness”*.

Yesterday was the twentieth anniversary of the fall of the Berlin Wall. This event has become a symbol of the fall of the iron curtain. We recall from those times the Russian word *glasnost*, which means openness. Mikhail Gorbachev sought to modernise the Soviet Union and used *glasnost* as a means of reducing corruption and abuse of power. In western democracies, the term *glasnost* took on a broader meaning, and was associated with détente between East and West in the 1980s.¹¹

As mentioned, the shift towards a more decentralised economy both in Norway and abroad reflected the failure of centralised planning. Monetary policy is an important component of the economic policy framework.¹² In my lecture here last year,¹³ I noted that it can be demanding for the political authorities to ensure price stability because *low* interest rates are often more popular than *high* interest rates. An *appropriate* interest rate may therefore be demanding to

⁸ See NOU (Official Norwegian Report) 1973:36 Om prisproblemene (On price problems).

⁹ For an account of economic policy in Norway in the twentieth century, see Tore Jørgen Hanisch, Espen Søylen and Gunhild J. Ecklund (1999): Norsk økonomisk politikk i det 20. århundre. Verdivalg i en åpen økonomi (Economic policy in Norway in the 20th century. Ethics in an open economy), Høyskoleforlaget.

¹⁰ See i.e., chapter 5 in the Norwegian Act on Securities Trading.

¹¹ In Norway, the concept is also associated with Jahn Teigen’s contribution “Glasnost” in the national final of the Eurovision Song Contest 1988.

¹² During the financial crisis last winter the Government wrote: “Monetary policy is the first line of defence in countering a setback in the economy”. See Report No. 37 (2008-09) to the Storting (Norwegian parliament) “Om endringer i statsbudsjettet 2009 med tiltak for arbeid (On changes in the 2009 Budget and labour measures), Ministry of Finance, p. 6.

¹³ The lecture entitled “On keeping promises”, remarks by Endre Stavang and Henrik Syse and Francis Sejersted’s summary of the debate have been published in Nytt Norsk Tidsskrift 1/2009.

set in government corridors.¹⁴ Most government authorities in democratic countries have solved this problem by delegating interest rate setting to an independent central bank.

But how can the conduct of monetary policy, which has such far-reaching consequences for so many, be delegated in a democratic country? How is one to ensure that decisions are in line with the interests of society? These questions become more relevant, the more room there is for judgement in interest rate setting.

When the operational objective was a fixed exchange rate, the room for judgment was very limited. Norges Bank's task was to maintain a fixed krone exchange rate. Monetary policy was more or less on "autopilot". In a narrow sense, this was a very open policy. The public could at all times observe the krone exchange rate and monitor that the Bank was performing its duty. Many of you perhaps remember the era when a dollar cost 7 kroner and 14 øre.¹⁵ On the basis of purely democratic considerations, there was little need for transparency about the assessments underlying the use of instruments.

The exchange rate was fixed, but occasionally the target value was adjusted. At those times the cards were held close to the breast. On occasion it was even necessary to break the eighth commandment (that is to lie). Around the end of 1986, journalists in the newspaper Nordlys were asked to take a retrospective look at the past year. One of them recalled an interview with the state secretary of the Ministry of Finance, Bjørn Skogstad Aamo. In the interview Skogstad Aamo flatly denied rumours of a krone devaluation. But before the interview was printed, the news agency NTB reported that the krone had been devalued by 12 per cent.¹⁶ Perhaps the journalist was disappointed but Skogstad Aamo was not criticised for breaking the eighth commandment.

Over the last decade, the objective of monetary policy has not been a fixed krone exchange rate, but price stability through low and stable inflation.¹⁷ According to the monetary policy regulation the objective is inflation of *close to 2.5 per cent* over time. But how long is *over time*? And what is close to 2.5 per cent? With these formulations, it is no longer that easy to evaluate monetary policy. There are several reasons for this. First, it takes up to one to two years for a change in the interest rate to feed through to inflation. Second, inflation is not only influenced by the interest rate. For example, precipitation levels can have a strong impact on electricity prices. Third, we set interest rates also with the aim of promoting stability in output and employment. If the economy is exposed to severe shocks, we may at times seek to bring inflation rapidly back to target, while under other conditions we deliberately choose a longer horizon.

An evaluation of monetary policy cannot therefore be based on the latest figures for inflation. Instead, one must check whether average inflation over a somewhat longer period has been

¹⁴ This is discussed by Finn Kydland who won the 2004 Nobel Prize in Economics with Edward Prescott for their analysis of the problems of economic planning. See Finn Kydland and Edward Prescott (1977): "Rules rather than discretion: The inconsistency of optimal plans", in *Journal of Political Economy*, 85, no. 3, pp. 473-491.

¹⁵ The central value of the Norwegian Krone against the US dollar was 7.14 from 18 September 1949 to 15 August 1971. See addendum, prepared by Ragna Alstadheim, to Jan F. Qvigstad and Arent Skjæveland (1994): "Valutakursregimer – historiske erfaringer og fremtidige utfordringer (Exchange rate regimes – historical experiences and future challenges)" in Jan. F Qvigstad, Sigbjørn Atle Berg and Kjell Storvik (eds.): *Stabilitet og langsiktighet. Festskrift til Hermod Skånland (Stability and a long-term perspective: Festschrift for Hermod Skånland)*, Aschehoug.

¹⁶ This story is reported in the article "Borten i fokus og bestillingsverk (Borten in focus and commissioned works)", *Aftenposten*, 3 January 1987.

¹⁷ See for example Report No. 29 (2000-2001) to the Storting from the Ministry of Finance and the Regulation on Monetary Policy from 29 March 2001.

close to 2.5 per cent. Measuring performance is possible, but can only be done with a time lag.¹⁸

The combination of (i) delegated authority to conduct policy, (ii) room for discretion and (iii) difficulties in the day-to-day monitoring of results imply a risk of a democratic deficit. Transparency and disclosure are the institutional solution to this problem. Even if a central bank is independent in the conduct of monetary policy, it must be accountable to government. We must be measured on our performance, but also on our assessments and decisions. This requires transparency. The need for transparency therefore depends on the monetary policy regime. Internationally, there is also a tendency for inflation-targeting central banks to be more transparent than countries with a fixed exchange rate regime.¹⁹

Transparency about Norges Bank's activity is required by law. When the Storting (Norwegian parliament) amended §100 on the freedom of expression in the Constitution, the freedom of information principle was enshrined in the Constitution.²⁰ This was the first time this article had been amended since 1814. The legislative amendments were partly based on the proposals of the Freedom of Expression Commission, which was headed by Professor Francis Sejersted.²¹ In addition, Norges Bank is subject to a transparency requirement in the Freedom of Information Act and the Act on Norges Bank and the Monetary System.²²

In some areas, we are even more transparent than what is required by law. *Norges Bank's Monetary Policy Report* includes a thorough account of our assessments of economic developments and interest rate setting. As mentioned in the introduction, we even publish a forecast for our future interest rate decisions. After each monetary policy meeting, a press conference is held where we explain the interest rate decision and answer questions from journalists. The press conference is webcast live and usually broadcast on TV. People can subscribe to receive an SMS message about interest rate decisions, and Norges Bank was apparently the first central bank to publish its interest rate decisions on Twitter.

International developments have made it prestigious for central banks to be as open as possible. But transparency cannot be a goal in itself. Our responsibility is to conduct an effective monetary policy in line with the objectives laid down by the political authorities. Transparency beyond that necessary to ensure democratic accountability is a goal derived from the main goal of conducting an optimal monetary policy.

¹⁸ Lars E. O. Svensson, Deputy Governor at Sveriges Riksbank, has argued that it is possible to evaluate monetary policy actions *ex ante*. See Lars E. O. Svensson (2009): "Policy Expectations and Policy Evaluations: The Role of Transparency and Communication", address at the conference "Tio år med självständig Riksbank (Ten years with an independent Riksbank)" 11 September 2009.

¹⁹ See Nergiz Dincer and Barry Eichengreen (2009): "Central bank transparency: causes, consequences and updates", NBER Working Paper 14791 and Petra M. Geraats (2009): "Trends in Monetary Policy Transparency", in *International Finance*, 12, no. 2, pp. 235-268.

²⁰ The new legal text establishes the so-called principle of free access to public records which provides public access to central and local government documents and the right to be present at sittings of the courts and of administrative bodies elected by the people.

²¹ NOU (Official Norwegian Report) 1999: 27 "Ytringsfrihed bør finde Sted (There shall be freedom of expression)". Sejersted was awarded the Ossietzky Prize for his contribution to freedom of expression in 2008.

²² In the Norges Bank Act of 1985, Norges Bank is required to "inform the public of the assessments on which monetary policy decisions are based". In October 2009, a new government communications policy was laid down by the Ministry of Government Administration and Reform, promoting transparency as an important principle of good communication. The government's communication is required to be open, clear and accessible. The government is also required to ensure that relevant information reaches the relevant parties and that the information is adapted to the relevant target groups.

Modern economic theory argues in favour of transparency

I mentioned that the previous view was that monetary policy operated by surprising economic agents, while the prevailing view is that it works best by being predictable. According to modern economic theory, economic decisions are heavily influenced by *expectations*.²³ This has also become an important economic policy recognition. Today's key rate is important, but even more important is the expected key interest rate ahead. When the owner of a firm takes up a loan to build a new factory, the expected interest rate over the life of the loan is taken into account. When the key rate was reduced sharply in autumn last year, we sought to communicate that the interest rate would remain low for a period, and not be raised back to the former level already the following week or month.

According to theory monetary policy to a large extent seeks to affect expectations. We believe that by being transparent about our own interest rate forecasts, it is easier to influence expectations. This enhances the effectiveness of monetary policy.

But the interest rate forecast is a forecast, and not a promise. The future is uncertain. Actual interest rate developments may therefore deviate from our forecasts. We try to be open about how we will react if new information implies a different interest rate path.

Transparency about Norges Bank's reaction pattern is a necessary element in the interaction with fiscal policy. It is important that the government and the Storting know the central bank's response pattern when the size of government budgets is decided. It is also an advantage for the social partners take this into account.

Our view on transparency and good communication is inspired by Wim Duisenberg, the first President of the European Central Bank. His definition of transparency was that *"the external communication should reflect the internal deliberations"*.²⁴

We have all experienced that memory is imperfect. The easiest approach is therefore to employ the same narrative everywhere. What we say in the Executive Board is also what we say to the Minister of Finance, at press conferences and in speeches. Earlier we asked ourselves: Are there any particular reasons to release this information? Now we ask ourselves whether there are any particular reasons not to be open. The Duisenberg principle is a practice guideline for us.

Some studies show that transparency about the monetary policy target helps anchor inflation expectations.²⁵ The more credible monetary policy is, the more effective the interest rate will be in stabilising output and employment.²⁶

Transparency provides good incentives. When we publish our analyses, we tend to make an even greater effort to ensure the quality of the analysis. Open external communication also

²³ See for example Michael Woodford (2005): "Central-Bank Communication and Policy Effectiveness", in *The Greenspan Era: Lessons for the Future*, Federal Reserve Bank of Kansas City, pp. 399-474.

²⁴ Willem F. Duisenberg (2001): "The ECB's monetary policy strategy and the quantitative definition of price stability", Letter of Dr. W. F. Duisenberg, President of the ECB to the Chairperson of the Committee on Economic and Monetary Affairs, 13 December 2001.

²⁵ See for example Georgios Chortareas, David Stasavage and Gabriel Sterne (2002): "Monetary Policy Transparency, Inflation and the Sacrifice Ratio" in *International Journal of Finance & Economics*, 7, pp.141-155, and Nergiz Dincer and Barry Eichengreen (2009): "Central bank transparency: causes, consequences and updates", NBER Working Paper 14791.

²⁶ Openness about how the interest rate is set also seems to generate less volatility in financial markets at the time of monetary policy meetings, resulting in more stable market rates. See for example Richild Moessner and William R. Nelson (2008): "Central bank policy rate guidance and financial market functioning", in *International Journal of Central Banking*, 4, no. 4, pp. 193-226, and Amund Holmsen, Jan F. Qvigstad, Øistein Røisland and Kristin Solberg-Johansen (2008): "Communicating monetary policy intentions: The case of Norges Bank", *Norges Bank Working Paper*, 2008/20.

places demands on our communication skills. I am certain that many teachers and lecturers would agree that teaching is not only a means of conveying knowledge to students, but also provides the lecturer with a deeper understanding of the subject. The same applies to central bankers. External communication of our analyses has certainly not reduced our competence as economists.

How transparent should the central bank be?

How open should we be? Maximum transparency about Norges Bank's decisions would imply filming the Executive Board's meetings and webcasting them live. In addition, we could perhaps have installed cameras and microphones in some of the offices and meeting rooms in Norges Bank where the analyses are conducted that form the background for the Executive Board's decisions. Perhaps I am old-fashioned, but I think that a "reality series" about Norges Bank would not be particularly entertaining and would not foster particularly good decision-making.

Maximum transparency is probably not optimal, but how far should we go? There is no absolute answer to this. In the following, I will discuss several considerations that must be taken into account.

Should we publish voting records and the minutes of the Executive Board's deliberations? Central banks have chosen different solutions. In Sweden, the central bank publishes the voting records and provides an extensive report with the views of members by name. The Bank of England publishes a similar report of the minutes, but members remain anonymous. Norges Bank does not publish a report of the minutes of the Executive Board's deliberations, but instead publishes a detailed account explaining the Executive Board's background for the interest rate decision. The interest rate decision is based on a strategy that is described in the *Monetary Policy Report*. The Report also presents the analyses underlying the strategy. The basis for interest rate decisions is thus available to the general public.

The difference in practices partly reflects the different character of the monetary policy committees in the three countries.²⁷ Sveriges Riksbank and the Bank of England have committees that are referred to as "individualistic committees". Each member is individually responsible for his/her vote, and the decision²⁸ is normally decided by majority voting. In Norway, the Executive Board is more of a "collegial committee", where the members are unanimous in their decision. The ECB's system is of the same type. One cannot have both a collegial committee and minutes with individual views.

If all members publicly explain their own views, communication may become unclear. Alan Blinder, former vice chairman of the Federal Reserve and now professor at Princeton University, argues that "*a central bank that speaks with a cacophony of voices may, in effect, have no voice at all*".²⁹

There is also another argument in favour of unanimous decisions. Central banks are important social institutions, which should not be too closely linked to individuals but have a

²⁷ See Alan S. Blinder (2007): "Monetary policy by committee: Why and how?", in *European Journal of Political Economy*, 23, no. 1, pp. 106-127 and Alan S. Blinder (2008): "On the design of monetary policy committees", Norges Bank Working Paper, 2008/6.

²⁸ The Executive Board at Norges Bank consists of seven members, appointed by the King in Council. The Governor and Deputy Governor serve as chairman and deputy chairman, respectively, of the Executive Board. They are appointed to full-time positions for a term of six years. The other five members are appointed for four-year terms and are not employees of Norges Bank.

²⁹ Alan S. Blinder (2007): "Monetary policy by committee: Why and how?", in *European Journal of Political Economy*, 23, no. 1, p. 114.

public identity. The institution and its mandate should take precedence over the individuals who occupy positions for limited periods.³⁰

There is no formula for deciding which system is best. Each system has its strengths and weaknesses. Detailed meeting minutes ensure accountability among committee members. This may give rise to good incentives. On the other hand, such transparency may inhibit the actual discussion. Members may come to meetings with pre-drafted statements, impairing a constructive exchange of views.

Researchers have compared tapes of the Fed's FOMC meetings before and after it was decided that the minutes should be published.³¹ The tapes show that the form of discussion changed. During the period following the decision to publish the minutes, there was a greater tendency for members to read prepared statements.

Detailed minutes also entail a risk of moving the real discussion from the official meeting into closed rooms. In that case, a real increase in transparency has not been achieved. The US was aware of this risk and introduced legislation to prevent such informal meetings. They called this law the "Government in the Sunshine Act",³² where the name symbolises that important decisions should be taken in the public light. The law defines a meeting as a consultation between a quorum of committee members. Stretching it somewhat, this means that if some members are chatting in the corridor, they must stop talking about the interest rate and start talking about the weather if the group grows to a certain size.

The notion that increased transparency can hamper a free exchange of views is not new. The delegates to the Constitutional Convention in Philadelphia in 1787 decided to veil the deliberations in secrecy. According to the Virginia delegate James Madison, who later became the fourth US president, secrecy was crucial for succeeding in the work on the US Constitution. He argued that full disclosure would fuel reluctance among delegates to express their true opinions. Jon Elster has explored various aspects of transparency and constitutions in his research. He notes that that even if secrecy can lead to a freer discussion, it can also lead to negotiations based on vested interests.³³ Threats and power struggles can be effective behind closed doors, but rarely tolerate public scrutiny.

The arguments that were used in Philadelphia can be found in the debate on public disclosure of government papers and cabinet deliberations. In a supreme court ruling from 1994, the first-voting judge Steinar Tjomsland writes: "*The possibility that governments should testify before the court (...) could inhibit free political exchange of information and debate (...)*".³⁴

If we today even know what Tjomsland wrote, it is because the Supreme Court's doors were opened in 1863. The law on transparent voting in the Supreme Court was adopted after a nearly fifty-year conflict between the Storting and the other two branches of government.³⁵ In 1821, Christian Magnus Falsen put forward a proposal for the public disclosure of voting

³⁰ See for example Otmar Issing (2005): "Communication, Transparency, Accountability: Monetary Policy in the Twenty-First Century", in Federal Reserve Bank of St. Louis Review, 87, no. 2, p.73.

³¹ Ellen E. Meade and David Stasavage (2008): "Publicity of debate and the incentive to dissent: evidence from the US Federal Reserve", in The Economic Journal, 118, pp. 695-717.

³² Government in the Sunshine Act (5 U.S.C. 552b).

³³ See Jon Elster (1995): "Forces and Mechanisms in the Constitution-Making Process", in Duke Law Journal, 45, no. 2, pp. 364-396.

³⁴ Norsk Retstidende (Norwegian journal of law) 1994-1036, p. 1044.

³⁵ The Storting had adopted a Bill on transparency in the voting process four times since 1818, but assent to the Bill was refused each time.

records in the Supreme Court.³⁶ He argued that public disclosure was “*the most effective means of ensuring confidence and respect for any government authority is by awakening a noble pride among senior civil servants and hence instilling in them respect for the voice of the people*”.³⁷ The Supreme Court had a different view and argued that it could undermine confidence in the Court if the public discovered doubt or a lack of competence among judges.³⁸ Today, there seems to be little controversy surrounding the disclosure of voting records in the Supreme Court.^{39,40}

Norges Bank is not only responsible for securing price stability, but also has a duty to promote stability in the banking system and financial markets. In principle, the same transparency considerations apply here, but with certain exceptions.⁴¹

Many of us were surprised and experienced associations with the interwar years when we saw television footage of depositors queuing at the doors of the crisis-hit British bank Northern Rock in 2007. In a situation where a bank’s solvency comes into doubt, depositors may rush to withdraw their cash. It is easy to conceive of a situation where a bank that is in fact solid, but has payment problems, might collapse if the authorities expose the problems to the general public. Moreover, banks may take excessive risks if they know the authorities will come to their rescue. It can be argued that in this case it may be appropriate for the

³⁶ Guthorm Immanuel Hallager (1935): *Norges høiesteret: 1815-1915* (The Supreme Court of Norway: 1815-1915), 1 vol., H. Aschehoug & Co, p. 131.

³⁷ See parliamentary deliberations for August 1821, Part 5, Addendum, p. 119.

³⁸ The Supreme Court argued that if the citizens discern “svagheten af den menneskelige kundskab og viden netop der, hvor han ventede at finde vished da er det meget at befrygte, at saadan erfaring heller vil nedstemme den agtelse, han forhen følte for den samme domstole, saalænge han blot kjendte de for ham forstaaelige resultater af stemmegivningen og deliberationerne. (weaknesses in human knowledge and expertise notably where they expect to find certitude, there is a risk that such an experience will diminish the high esteem in which the court was previously held before their insight was confined to the comprehensible outcome of the voting and deliberations.)”. See parliamentary deliberations for August 1821, Part 5, Addendum, p. 128.

³⁹ Professor Peter Lødrup wrote in 1998: “Den offentlige voteringen er etter nåtidens rettsoppfatning en selvfølge, og det må konstateres at Høyesteretts motstand mot den var et feilsyn. (Under today’s perception of the law, public access to voting records is a matter of course, and it must be recognised that the Supreme Court’s opposition was misguided.)” See Peter Lødrup (1998): “Høyesterett 1814-1996, noen historiske glimt (Norway’s Supreme Court 1814-1996 – some historical glimpses)”, in *Norges Høyesterett* (Norway’s Supreme Court), Stephan Tschudi-Madsen (ed.), Aschehoug, pp. 29-31.

⁴⁰ We find similar arguments in the debate between Deputy Governor at the Bank of England, Sir Ernest Harvey, and T. E. Gregory and J. M. Keynes, members of the so-called Macmillan-committee. The following excerpts from the committee’s report in 1931 is reported in Otmar Issing (2005): “Communication, Transparency, Accountability: Monetary Policy in the Twenty-First Century”, in *Federal Reserve Bank of St. Louis Review*, 87, no. 2, p. 73: “Committee member Gregory: ‘I should like to ask you, Sir Ernest, whether you have ever considered the possibility of the Bank issuing an Annual Report on the lines of the Annual Report of the Federal Reserve Board, for instance?’ Deputy Governor Harvey: ‘I confess I am sometimes nervous at the thought of publication unless it is historical. The question is whether, when it is merely historical it is of any particular value, or whether from the fact that it is issued from the central bank undue importance may be attributed to certain things that are stated, more importance than perhaps they merit...’ Committee member Keynes: ‘Arising from Professor Gregory’s questions, is it a practice of the Bank of England never to explain what its policy is?’ Harvey: ‘Well, I think it has been our practice to leave our actions to explain our policy.’ Keynes: ‘Or the reasons for its policy?’ Harvey: ‘It is a dangerous thing to start to give reasons.’ Keynes: ‘Or to defend itself against criticism?’ Harvey: ‘As regards criticism, I am afraid, though the Committee may not all agree, we do not admit there is need for defence; to defend ourselves is somewhat akin to a lady starting to defend her virtue.’”

⁴¹ For a discussion of central bank transparency and financial stability, see for example Jakob De Haan and Sander Oosterloo (2006): “Transparency and accountability of central banks in their role of financial stability supervisor in OECD countries”, in *European Journal of Law and Economics*, 22, no. 3, pp. 255-271.

central bank to engage in what is referred to in diplomatic parlance as “constructive ambiguity”.^{42,43}

Striking a balance between transparency and financial stability can be difficult, as former prime minister Abraham Berge discovered. During the banking crisis in 1923, Berge provided in secrecy a deposit of NOK 25 million to support Norway’s fifth largest bank, Handelsbanken. The following year, Berge convinced the Storting to inject more capital into Handelsbanken, but failed to inform the Storting of the previous support. The secret deposit came to light after the government stepped down in 1924. The criticism that followed culminated in 1926 in an impeachment case against Berge and six of his ministers. A majority of the judges were of the opinion that the support provided in 1923 was punishable by law, but they were nevertheless acquitted on the ground of the statute of limitations.^{44,45}

The art of communication

Public disclosure of information is necessary, but not sufficient for transparency. Communication is also important, but is a difficult art.

Good communication should satisfy three criteria.⁴⁶ First, the communication should be clear. The information should not be subject to misinterpretation and should not be so imprecise that it is not given weight. Central banks have not always been associated with clear and good communication. Alan Greenspan expressed this in the following statement: “*Since becoming a central banker, I have learned to mumble with great incoherence. If I turn out to be particularly clear, you’ve probably misunderstood what I have said.*”⁴⁷

Second, communication should be *effective*. It should not be time-consuming and demanding for the recipient to find and interpret the relevant information. It must be adapted to the target group.^{48,49}

⁴² See E. Gerald Corrigan (1990): “Future Priorities in Banking and Finance”, Remarks given before the 62nd Annual Mid-Winter Meeting of the New York State Bankers’ Association, 25 January 1990. Published in Federal Reserve Bank of New York Quarterly Review/Winter 1989-90, p.7. See also p. 36 in “Norske finansmarkeder – pengepolitikk og finansiell stabilitet (Norwegian financial markets – monetary policy and financial stability)”, Norges Bank’s Occasional Papers, no. 34 (2004).

⁴³ The concept of “constructive ambiguity” refers to the deliberate use of ambiguous language in order to advance a political purpose. The concept has been particularly associated with Henry Kissinger, said to be the foremost exponent of constructive ambiguity as a negotiating tactic.

⁴⁴ See Riksrettstidende 1926/1927.

⁴⁵ On 7 November 2008, Bloomberg LP (on behalf of Bloomberg News) filed a federal lawsuit against the Federal Reserve for violation of the Freedom of Information Act. The news agency had called on the central bank to identify the US banks funded by its emergency lending because the taxpayers should be aware of the risks involved in these investments. The Fed refused to name the borrowers, disclose the amounts of loans or the assets banks provided as collateral, arguing that doing so might “set off a run by depositors and unsettle shareholders”. See article “Fed makes taxpayers ‘involuntary investors’ in banks, suit says”, Bloomberg, 15 April 2009.

⁴⁶ See for example Bernhard Winkler (2000): “Which kind of transparency? On the need for clarity in monetary policy-making”, European Central Bank Working Paper No. 26.

⁴⁷ As cited in Petra M. Geraats (2007): “The Mystique of Central Bank Speak”, in International Journal of Central Banking, March 2007, p. 37.

⁴⁸ Effective communication to market participants is particularly important. As economists with a university background, we often feel the need to build up a series of arguments and weigh various considerations before arriving at a conclusion. But this can sometimes render communication less effective. Financial market participants prefer to be presented with the conclusion first so that they can respond to it quickly.

The third criterion for good communication is that it must be *honest*. I referred earlier to the principle that the external communication should reflect the internal deliberations. It is an honest matter to communicate that decisions are difficult and often made on an uncertain basis. But it is just as important – and more challenging – to explain *why* it is difficult and which factors have been considered and given weight.

Before the rebuilding of Bislett Stadium in 2004, the organisation Bislett Alliansen was to decide where the Bislett Games should be moved. The choice stood between Drammen and Bergen. They chose Bergen. The head of the organisation said to the Norwegian news agency NTB:

*“I have participated for almost 20 years, and this was the most difficult decision I have been involved in. At the end of the day, the decision was made on the basis of an overall assessment.”*⁵⁰

The way this was reported by the news agency did not make it easy to understand the actual background for the assessment.⁵¹

I remember listening to this report on the radio while driving. It made me think about the formulations in our own press releases. To be honest, they were not much clearer. I saw room for improvement, and we have subsequently made efforts to improve the communication of our assessments. We have nevertheless experienced that it can be demanding to communicate why we arrive at one conclusion and not another.

Can we become more transparent?

Views on transparency and communication are constantly changing. As mentioned, Norges Bank has become more transparent in recent years. But is there room for even more transparency?

I readily admit that we were uncertain before taking new steps. When we first start publishing information, it is difficult to retreat. But the experience so far has been positive.⁵² In some areas, therefore, I believe there is room for increased transparency. Some observers have argued that Norges Bank and other central banks should provide information to the public about the models we use and how we use them.⁵³ I agree with this. It is difficult from a pedagogical viewpoint to explain how the models are used as a basis for economic policy.

⁴⁹ As part of its project to disseminate information about the central bank to various target groups, the Reserve Bank of India has made several comic strips for the benefit of school children. See <http://www.rbi.org.in/financialeducation/Home.aspx>.

⁵⁰ See article “Bergen fikk Bislett Games 2004 (The 2004 Bislett Games goes to Bergen)”, NTB, 6 October 2003.

⁵¹ A more detailed explanation was probably available but was not included in the media coverage.

⁵² My predecessor, Jarle Berge, delivered a speech a few years ago where he presented a mathematical equation that illustrated the assessments underlying our interest rate setting (see “Interest Rate Projections in Theory and Practice”, speech at Sanderstølen, 27 January 2007). I remember that we were uncertain about the reactions to this. My Swedish colleague Lars Svensson had recommended that such a target function be published in the interest of transparency, but no central bank had ever done this before. There was no first-page news of the type “this equation determines the interest rate”. Our “bold step” proved to be fairly undramatic. It would seem that this is really the rule rather than the exception every time we have moved towards greater transparency. Berge’s lecture was included in the curriculum of economics Professor Michael Woodford of Columbia University in New York.

⁵³ Norges Bank Watch 2008 writes: “Norges Bank should facilitate a more open discussion regarding the empirical performance of their (mechanical) forecasting models by communicating the role played by the “judgment component” more clearly. This may encourage exploitation of the cumulative learning process in the scientific community as a whole, by which existing empirical models are improved or (eventually) overtaken by new and better ones.” See Steinar Juel, Krisztina Molnád and Knut Røed (2008) “An Independent Review of Monetary Policymaking in Norway”, Centre for Monetary Economics BI, p. 44.

Because models are rough simplifications of reality, we must exercise considerable judgment when we use them. This is not always easy to document and explain. But, even though it may be difficult, it is not impossible and our aim is to improve in this area.

The management of the Government Pension Fund – Global is another activity of Norges Bank where transparency is important. Among the world's sovereign pension funds, Norway's is one of the most transparent. International organisations refer to it as an example of best practice. In Norway, the Fund has been both applauded and criticised for its communication. The Fund's annual report was one among six others nominated for the Farmand award for best annual report and website. However, the same report was also strongly criticised by the Norwegian journalist Per Egil Hegge for its impenetrable language.⁵⁴

We are working towards improving our communication of the Fund's activity. The Fund's ultimate owners are the Norwegian people and we must improve the communication of the main management principles to that target group. We are making continuous efforts to improve our quarterly reports and our annual report. We are also working to improve the Fund's website, which will include a continuous update of the Fund's value.

Conclusion

Transparency is important. Transparency contributes to strengthening confidence, and confidence is crucial for an effective monetary policy – in normal times, but perhaps particularly in times of crisis. According to Lars Weisæth and Ragnar Kjeserud, two authorities in the field of crisis psychiatry, to be successful in managing a crisis, the responsible authorities must be perceived as competent and at the same time have a reputation for openness and honesty.⁵⁵

I started this lecture by describing how the Bank of England managed the crisis during the 1780 Gordon riots. A military defence was necessary to safeguard society's values. The event gave rise to the expression "as safe as the Bank of England" and later "as safe as the bank".

We have experienced a deep financial crisis. We are now hopeful that it is coming to an end. The reputation of private banks has not been left untarnished. Banks' own behaviour was one of the causes of the crisis. The very depth of the banking crisis is attributable to a collapse of trust among banks. They no longer considered their fellow banks as "safe". Financial markets stopped functioning. The expression "as safe as the bank" became somewhat hollowed.

We have seen that the most unexpected places, such as small coastal towns and the northern region of Norway, have been hard-hit by the financial crisis. The crisis has also left its mark on our language. In a tribute published in the newspaper Troms Folkeblad on the occasion of the 50th birthday of the manager of Troms football league, he is described as "as safe as Norges Bank" in his handling of protests and violations.⁵⁶ With that, the expression was brought back to its original source. And perhaps that means that Norges Bank's reputation has survived the financial crisis – at least in Troms!

⁵⁴ Per Egil Hegge noted in particular the following sentence in the annual report: "The expected tracking error increased more than the absolute market volatility, primarily reflecting a closer correlation between returns from the different investment strategies." See Hegge's column in *Aftenposten*, 16 April 2009.

⁵⁵ Lars Weisæth and Ragnar Kjeserud (2007): *Ledelse ved kriser: en praktisk veileder* (Management during crises: a practical guide), Gyldendal Akademisk, p. 71 (Norwegian only).

⁵⁶ See article "Mr. Fotballkretsen fyller 50! (Mr. Football League turns 50)", *Troms Folkeblad*, 6 October 2009 (Norwegian only).

When the Bank of England came under attack, many citizens had already volunteered as soldiers to defend the bank. They were outnumbered, but the very sight of them probably demoralised the mobs and led to their defeat.

Expectations and confidence were as important then as now. But there is a significant difference – that can summarise today’s lecture. While central banks at that time upheld the value of money with walls and thundering muskets, today the value of money is safeguarded by confidence rooted in disclosure and transparency.