Blinder, Goodhart, Hildebrand, Lipton and Wyplosz, “How Do Central Banks Talk?”
Discussion by Lars E.O. Svensson
www.iies.su.se/leosven/

• Great paper
• Modern macroeconomics
• Theory and practice of monetary policy and central banking
• Growing literature on transparency

Strong case for central-bank transparency
– Case for creative ambiguity gets fair hearing, is dismissed
– Transparency enhances efficiency of monetary policy
  * Larger impact on expectations, term structure, asset prices
  * Objectives and intentions clearer and more credible, larger impact on price and wage setting
  * Reduces cost of unanticipated policy changes

Add
– Transparency improves discipline and commitment to objectives and process
  * Clear objectives
  * Stronger commitment to objectives
– Transparency improves public understanding of monetary policy and support for the monetary-policy regime

Price stability
– Explicit inflation target (point or range)
• Lags
  – Inflation-forecast targeting
• Set instrument so forecasts of target variables consistent with objectives
• Forecasts crucial for practical monetary policy
• Transparency about forecasts crucial
• Forecasts conditional on instrument *path*
• Unchanged policy (constant nominal/real interest rate)
  
  For:
  – Easy, default
  – Direction of desirable instrument change

Against:
  – Bad forecast, not expected, not compare w/ outcome
  – Inconsistent forecasts

• Best forecast of future instrument
  
  For:
  – Most transparent
  – Consistent forecasts
  – Best forecasts, compare w/ outcome

Against:
  – Difficult to agree on?
    * Necessary for efficient policy
    * Aggregation possible
    * Majority forecast (minority dissent if needed)
  – Commitment?
    * Good (optimal inertia, Woodford)
    * No principle difference to other forecasts
    * Works fine in NZ!