

David Miles Event

Not so long ago, central bankers firmly believed that they should not explain their actions to the public. Since the 1990s, however, this mystery-man pose has been discarded; there has been a torrent of explaining. These days members of the Bank of England's Monetary Policy Committee churn out a cornucopia of speeches. They testify, televised, to parliament. Summaries of their committee discussions are published, to be scrutinized by the public. In a speech at LSE on September 30, Professor David Miles, one of the independent Monetary Policy Committee members, asked what all this new communication can achieve. His answer was: only a little.

The key reason is simple. Central bankers cannot tell the public what they will do in the future because the future is uncertain. If the Bank of England were to commit itself irrevocably to a certain path of interest rates over the next twenty-four months, it would achieve high marks for clarity but low marks as a steward of prosperity, because it would be abandoning the option of modifying its course in the face of incoming data.

Promising a certain path of interest rates in the future might sound like an extreme option. But Professor Miles warned his audience that less specific forms of communication may also founder. Telling the public how the Monetary Policy Committee might react to certain events is harder than it sounds: current committee members cannot commit future committee members to a certain reaction function; and existing committee members are hard pressed to specify rules that would govern their decisions in unforeseen circumstances. Equally, the popular practice of publishing a central bank's future expectations about interest rates may mislead more than enlighten. The probabilities of various future possible interest rates are unknown. To specify them is to claim excessive foresight.

Professor Miles was not arguing for a return to the Bank of England of a century ago, when Governor Montagu Norman did his best to appear as mysterious as possible. Modern central banks should try to communicate, by all means. It's just that the value their pronouncements will be modest.