”A short history of transparency and central banks in the academic literature”

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A short history of transparency and central banks in the academic literature

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Introduction

It is common nowadays to talk about transparency with regard to central banks. However, the combination of the two terms has long sounded like an oxymoron. Prior to the 1990s, central banks claimed the need for secrecy. The publication of information on their activities was considered an unwarranted disturbance. Alan Greenspan, as Chair of the Fed during the 1990s, perfectly illustrated this preference for opacity by explaining: "If I seem unduly clear to you, you must have misunderstood what I said."[1] Yet just a few years later, discourse and practice had become different. From the mid-1990s, a new vision began to emerge. Central bank communication is now seen as a way to make monetary policy more effective. Taking over the leadership of the Fed in 2013, Janet Yellen told the Senate: "I strongly believe that monetary policy is most effective when the public understands what the Fed is trying to do and how it intends to do it."[2]

Abundant economic literature illustrates the Central banks' transparency revolution.[3] Three results can be highlighted. (i) Studies empirically confirm a general trend towards greater transparency since the 1990s.[4] (ii) Transparency appears as a multifaceted concept. It includes openness about objectives, about data and forecasts or about the way decisions are made and implemented.[5] (iii) The analysis of the advantages and limitations of transparency leads to an ambiguous answer. Transparency is beneficial when it enhances the credibility of commitments

1 See: Resche, Catherine: Investigating "Greenspanese": from hedging to "fuzzy transparency", in: Discourse & Society 6 (2004), pp. 723–744.

2 Confirmation hearing before the U.S. Senate, Washington, D.C., November 14, 2003.

3 For a survey about central bank transparency, see: Geraats, Petra: Central Bank Transparency, in: The Economic Journal 483 (2002), pp. 532–565; Blinder, Alan et al.: Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence, in: Journal of Economic Literature 4 (2008), pp. 910–945; or Eijffinger, Sylvester/ van der Cruijsen, Carin: The economic impact of Central Bank transparency, A Survey, in: Siklos, Pierre/ Bohl, Martin/ Wohar, Mark: Challenges in Central Banking: The Current Institutional Environment and Forces Affecting Monetary Policy, Cambridge University Press 2007, pp. 261–320.

4 See: Dincer, Nergiz/ Eichengreen, Barry: Central Bank Transparency and Independence: Updates and New Measures, in: International Journal of Central Banking 1 (2014), pp.189-253

5 See: Eijffinger, Sylvester/ Geraats, Petra: How Transparent Are Central Banks? in: European Journal of Political Economy 1 (2006), pp. 1–22.

and guides private sector expectations but can compromise ability to stabilize shocks.[6] Thus, "there is as yet no academic consensus on the economic desirability of transparency".[7] More broadly, the subject not only refers to the transparency of central banks in themselves but also to their role in improving the transparency of banks, financial products, financial markets, or even of the economy as a whole. In recent years, there has also been a strong demand for more transparency in each of these areas. According to Forssbeack and Oxelheim, the growing popularity of the concept of transparency can be explained by its "catch-all nature and general positive ring".[8] It also has its origins in "a series of events and broad trends over the last two decades" that "have charged the concern for transparency".

Based on this last comment, the purpose of this paper is to highlight the events or broad trends that have brought about the transparency revolution in central banking. We do not assume that it was merely guided by a cost-benefit analysis, but that it was also a response to a changing environment. Based on this assumption, the guiding research question is: what are the concomitant themes (or decisive events) that have led to the questioning of secret practices around central banks? Distilling these turning points in the promotion of transparency is done by a systematic literature review. The following parts of the essay is structured as follows: section 2 describes the methodological approach. Section 3 presents the global results of the systematic review. Section 4 contains a discussion of the four turning points in the promotion of transparency, which have been identified. Finally, in section 5 the main conclusions are drawn.

The method for a systematic review

A systematic literature review has to be based on an explicitly defined procedure. Although it is not intended to present a survey, we are inspired by the method used by Cucciniello et al.[9] The procedure followed here consists of four steps.

First, we delineate the source of the information. The paper works with the JSTOR database which contains academic journals, books, and some other primary sources in 75 disciplines providing a well-circumscribed source while also ensuring that a broad spectrum of research is considered. Consistent with the research question, it allows to apprehend a strictly economic object (the central bank) from inputs stemming from various disciplines (in particular politics, history, humanities, law, or social sciences).

Second, we set up a research strategy in order to acquire a first large sample. The initial search terms used in JSTOR are "central bank" and "transparency". They are searched in all possible

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6 See: Mishkin, Frederic: Can Central Bank Transparency Go Too Far? In: Kent, Christopher / Guttmann, Simon: The Future of Inflation Targeting, Reserve Bank of Australia 2004, pp. 48–65.

7 Geraats: Central Bank Transparency, p. 562.

8 Forssbaeck, Jens/ Oxelheim Lars: The Oxford Handbook of Economic and Institutional Transparency, Oxford University Press 2015, p. 3.

9 See: Cucciniello, Maria/ Porumbescu, Gregory/ Grimmelikhuijsen, Stephan: 25 Years of Transparency Research, Evidence and Future Directions, in: Public Administration Review 1 (2017), pp. 32–44.

fields for all categories of English-language texts up to 2018. Thus, both central bank transparency itself and any other relationship (e.g. the possible role of the central bank in making banks more transparent) are taken into account. This search generated 6,152 results in September 2019. A filter is applied to this first large sample in order to remove duplicates and items that are not research documents (biographical listings, programs of meeting, chronologies, author digests, legal materials, book reviews …). 5,627 articles remain in the original search.

Third, we conduct a manual sorting in order to exclude studies that seem to be too far from the context of the research question. However, a rather non-restrictive selection remains necessary in order to keep the studies dealing only indirectly with the relationship between central banking and transparency. After observing the themes in the sample, the articles whose title, abstract, or keywords include at least one of the following terms are retained: central bank, bank, money, currency, finance, interest, inflation, employment, transparency, information, communication, uncertainty, discourse, public, predictability, and openness. The sample selected for the systematic analysis consists of 4,008 articles.

Fourth, we collect the keywords associated with these 4,008 articles. Keywords cited less than 10 times are removed. The sample finally containing 556 keywords for a total of 27,903 citations. Keywords are then manually classified using the categories of the Journal of Economic Literature (JEL). It is the most recognized system of classifying scholarly literature in the field of economics. The JEL codes A through Z denote primary categories (e.g. F is international economics). Additional numbers (e.g. F35 is foreign aid) specify secondary and tertiary categories.[10] The 556 keywords of the sample are thus distributed across 157 tertiary categories. This procedure allows us to objectively identify the subjects dealt with in the articles on transparency and central banking and their evolution.

The results of the systematic review

The analysis illustrates how the academic literature has accompanied the central banking transparency revolution. Figure 1 presents the ranking of the sample articles by year of publication. It shows a dramatic increase in the number of articles associating the two terms from the 1990s onwards. Until 1991, the subject received little attention and fewer than 10 articles were published per year. Then there was a significant increase. By way of comparison, the number of publications incorporating both the words “central bank” and “transparency” increased by a factor of 4.6 between 1995 and 2015, while the number of publications incorporating (in JSTOR) only one of these terms increased by a factor of only 1.5 and 4 respectively. Figure 1 also leads to the delimitation of distinct periods in this progression. We consider the following: the decade 1992–2002 is the first period of interest in central banks and transparency (referred to henceforth as Period A). The period 2008–2013 appears to be one of renewed interest (Period B) following a period of slight decline. We also look at the

10 See: https://www.aeaweb.org/jel/guide [14.4.2020].

keywords that are mostly used in the sample articles. They indicate the themes that are associated with central banks and transparency and how these themes have evolved. Table 1 lists the three most frequently used keywords each year and offers an overview on this point. Some subjects already appear to be recurring, particularly those relating to banking regulation, international financial institutions, and the economic crisis.

Table 1: Main keywords of articles on central banks and transparency

Period	The three most frequently used keywords
Before 1982	Imports, Bank markets, Bank stocks
1982	Banking regulation, Employee pension plans, Insurance regulation
1983	Inflation rates, Developing countries, Market prices
1984	Financial markets, Stock prices, Stock shares
1985	Economic crises, Developing countries, Commercial banks
1986	Developing countries, Bank assets, Bank markets
1987	Banking regulation, Bank assets, Bank markets
1988	Bank capital, Banking regulation, Bank loans
1989	International financial institutions, Banking regulation, Bank credit
1990	World Bank, Free trade, Developing countries
1991	Currency, Economic development, Interest rates
1992	Interest rates, Treaties, Corporations
1993	Treaties, World Bank, Currency
1994	Interest rates, Monetary policy, Inflation rates
1995	Banking regulation, Economic development, International financial institutions
1996	Currency, Interest rates, Banking regulation
1997	Commercial banks, Interest rates, Bank credit
1998	International financial institutions, Economic crises, Currency
1999	International financial institutions, Economic crises, Currency
2000	International financial institutions, Economic crises, Currency
2001	International financial institutions, Economic crises, Banking regulation
2002	Currency, International financial institutions, Inflation rates
2003	International financial institutions, Economic crises, Inflation rates
2004	World Bank, International financial institutions, Banking regulation
2005	International financial institutions, World Bank, Monetary policy
2006	International financial institutions, Inflation rates, Gross domestic product
2007	International financial institutions, Monetary policy, Inflation rates
2008	Banking regulation, Inflation rates, International financial institutions
2009	Economic crises, Banking regulation, International financial institutions
2010	Banking regulation, International financial institutions, Bank capital
2011	Banking regulation, Economic crises, International financial institutions
2012	Banking crises, Banking regulation, Economic crises
2013	Economic crises, Monetary policy, Banking regulation
2014	Economic crises, Banking regulation, Banking crises
2015	Banking regulation, Bank capital, International economics
2016	International financial institutions, Banking regulation, International economics
2017	Banking regulation, Banking crises, International economics
2018	Banking regulation, International economics, Economic crises

A more detailed perspective is needed to determine the turning points across the periods. Figure 2 shows for each year, the three JEL categories with the most keywords (each line represents a category indicated by the label placed on the point corresponding to its last year of appearance). Until 1992, while the subject of transparency and central banks receives little attention, the concomitant themes are many and varied. There are 35 different categories of keywords that appear in the figure for this period. They are as much about collective decision-making (D7) as they are about production (E2), prices (E3), interest rate (E4), money supply (E5), international trade (F1), international finance (F3), financial markets and institutions (G1/2), public enterprises (L3), or economic development (O1). From 1993, the situation is very different. The academic literature is much more interested in transparency and central banks while refocusing on only a few concomitant themes. There are only seven different categories of keywords that appear in the figure for that 26-year period. Four themes appear across these seven categories. (i) The first relates to JEL categories E51 and E58, i.e. money supply and credit on the one hand and central bank policies on the other, thereby dealing directly with the transparency of central banks themselves. Figure 2 indicates that this theme is a key feature throughout Period A and is thus part of the first wave of interest in the relationship between transparency and central banking. (ii) Another concomitant theme of Period A is that of international monetary arrangements and institutions (F33). The academic literature, driven by questions surrounding international monetary relations, hones in on the interactions between transparency and central banking. (iii) Figure 2 shows that Period B is driven by other concomitant themes. These are primarily regarding the regulation of financial institutions (G28). This sub-category is a permanent feature of the sample but is reinforced from 2008 (Period B) by the more specific concomitant themes of banks or depository institutions (G21) and financial crisis (G01). (iv) The last concomitant theme relates to political processes (D72). It can be seen as a broader issue that accompanies the renewed interest in the subject of transparency and central banks throughout Period B. These four themes are further illustrated in the following section.

Figure 1: Annual number of articles on central banks and transparency

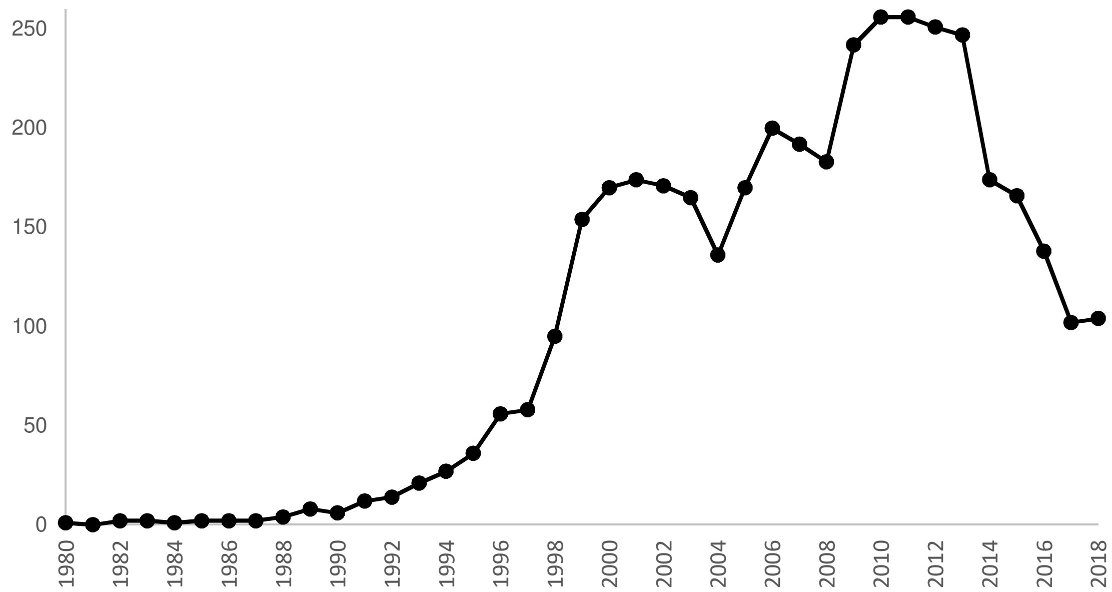
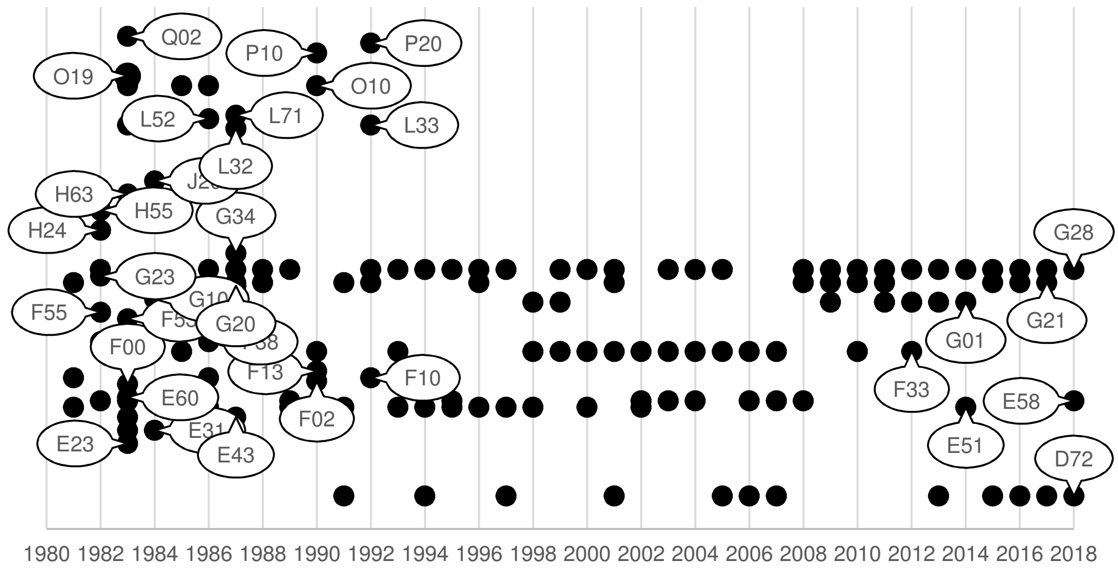


Figure 2: Three most frequent JEL categories of keywords for each year



Four turning points: inflation targeting, the euro, financial crisis, and democracy

The first surge in interest for the relationship between transparency and central banking is driven by the theme of monetary policy. From 1990 onwards, several countries move towards adopting a new policy framework: inflation targeting. It consists of announcing a numerical inflation target. Since pricing decisions are affected by inflation expectations, the anchoring of private-sector expectations on the inflation target appears to be the way to control actual inflation. Furthermore, since it is not possible to guide expectations without information or communication, transparency is seen as a component of this new policy framework. “Transparency measures can be an important part of inflation-targeting policy because the success of inflation targeting depends in part on whether private agents accept the officially announced target.”[11] But transparency is a means to an end here. Goodhart described a “trade-off between ambiguity (dust in the eyes of the public) [that gives] power to affect real variables but high inflation (…) and transparency which ties the Central Bankers’ hands to undertake countercyclical action but gives low inflation”.[12] Faced with this trade-off, inflation targeting “is offered as order to provide both, the transparency of a rule and the flexibility of discretion”.[13] It follows, that in the area of monetary policy, “full transparency” is not “a must”, “an optimal degree of transparency” exists, and “it is generally inappropriate to consider transparency as a free lunch”.[14]

11 Green, John: Inflation Targeting. Theory and Policy Implications, in: IMF Staff Papers 4 (1996), pp. 779–795, p. 781.

12 Goodhart, Charles: Game Theory for Central Bankers. A Report to the Governor of the Bank of England, in: Journal of Economic Literature 1 (1994), pp. 101–114, p. 114.

13 Van Lear, William: A Review of the Rules versus Discretion Debate in Monetary Policy, Eastern Economic Journal 1 (2000), pp. 29–39, p. 35.

14 Jensen, Henrik: Optimal Degrees of Transparency in Monetary Policymaking, in: The Scandinavian Journal of Economics 3 (2002), pp. 399–422.

The second concomitant theme during the first wave of interest in the relationship between transparency and central banking concerns international monetary arrangements. In this field, a keystone of the 1990s was the creation of the euro and the European Central Bank. Discussing the usefulness of creating the euro, transparency is seen as a product and possible benefit of a single currency. "The primary benefit of this institutional structure is that (…) greater price certainty and transparency stimulates trade and investment flows across states."[15] Then, once the ECB is in place, it is the transparency of the bank's own practices that is called into question. "The Eurosystem's repeated pronouncements about its high degree of transparency have not carried far, since critics have the easy task of pointing to other central banks that are clearly more transparent."[16] The discussion still focuses on transparency as a means. "Most critics focus on the standards of transparency […] of the ECB. Some urge the ECB to change its strategy by moving toward explicit inflation targeting."[17] But it is also about transparency as an end in itself, i.e. as an ideal for society. "In addition to the provisions of independence, the ESCB [European System of Central Banks] will also operate in secrecy. […] The process has led to considerable concerns about democratic accountability."[18]

The second wave of interest on the relationship between transparency and central banking is also driven by the financial crisis of the 2000s. Some attribute the origin of the crisis to a lack of transparency ("throughout the period 2007-2009, the situation was a lingering lack of transparency, not only vis-à-vis market participants but also among policy"[19]). For others, on the contrary, it lies in too much confidence in it ("a regulatory regime endeavouring to promote the stability of the financial system by enhancing transparency has failed spectacularly"[20]). As financial regulators, central banks are at the heart of this debate. They are expected to be more active and there is a call for more transparency. "What the Fed is doing now is too little, too late" estimates Roubini. "It will take years to resolve the problems that led to this crisis. Lack of transparency about complex financial products, poor risk management, […] the list goes on and on."[21] But the literature also underlines the certainty that "to argue for more transparency is not enough" because in practice, transparency could be "a game of information overload so that the receiver is misled" and that "financial institutions supported by their expensive lawyers learn how to disclose so much information" and to be "responsible for nothing when anything goes wrong".[22] Central banks and other regulators should therefore not

15 Sheridan, Jerome: The Déjà Vu of EMU. Considerations for Europe from Nineteenth Century America, in: Journal of Economic Issues 4 (1996), pp. 1143–1161, p. 1150.

16 Svensson, Lars: The First Year of the Eurosystem: Inflation Targeting or Not? In: The American Economic Review 2 (2000), pp. 95–99, p. 98.

17 Corsetti, Giancarlo/ Pesenti, Paolo: Stability, Asymmetry, and Discontinuity: The Launch of European Monetary Union, in: Brookings Papers on Economic Activity 2 (1999), pp. 295–372, p. 299.

18 Verdun, Amy: The Institutional Design of EMU. A Democratic Deficit? In: Journal of Public Policy 2 (1998), pp. 107–132, p. 111.

19 Pisani-Ferry, Jean/ Sapir, Andre/ Tille, Cédric: Banking crisis management in the EU: an early assessment, in: Economic Policy 62 (2010), pp. 341–373.

20 Vestergaard, Jakob: Crisis? What crisis? Anatomy of the Regulatory Failure, in: Finance. Danish Institute for International Studies Working Paper 25 (2008), pp. 5–40, p. 29.

21 Roubini, Nouriel: The Coming Financial Pandemic, in: Foreign Policy 165 (2008), pp. 44–48, p. 48.

22 Sheng, Andrew: The First Network Crisis of the 21st Century: A Regulatory Post-Mortem, in: Economic and Political Weekly 13 (2009), pp. 73–79, p. 76.

"be satisfied with pledges of more transparency" but they also have to "introduce new regulatory constraints".[23] If transparency is an instrument, it can be more or less effective in achieving the objective.

At the turn of the 2010s, analyses of the financial crisis gave rise to reflections on the place of finance in democracies or on the primacy of politics over it. Transparency, this time as a value in itself, is one element of this question. This new subject appears as another concomitant theme of the interest that academic literature has in the relationship between transparency and central banking (Period B). Notably, it is a question of democratic control versus client politics. Central bank action could degenerate "into agency capture by the very financial constituency that the central bank should be regulating".[24] Because "policymaking in this domain has been in favour of a narrow range of financial industry interests", an "alternative route to input legitimacy" in the governance of finance institutions "is to involve societal actors directly in policymaking".[25] Transparency then is essential. "Social control of the very profitable, very risky, and dangerous high-leverage financial product and institution system requires transparency. We cannot control what we cannot see."[26] This need for transparency may concern both financial or banking institutions, financial products, and the central bank itself. Transparency in this area enriches the transparency of political institutions. "Democratic politics is an inherently effective means of revealing information" and "central bank transparency can be a beneficial complement to political transparency."[27] But the latter can also replace the former. "Transparency of a democratic political system can substitute for the lack of transparency of central bank."[28]

Conclusion

By analysing trends in academic literature, this study was intended to highlight the concomitant themes that have been at the heart of the debate on transparency and central banks over the past 30 years. The rationale for this question lies in the assumption that it is relevant to understand the context behind the "transparency revolution" and to appreciate the factors which brought it into being.

The systematic review of the literature reveals two distinct periods of interest in the issue at hand. The first concerns the decade from 1990 to 2000. The second occurs from 2008 to 2013. This partition makes it possible to identify four topics that coincided with the rise in

23 Wade, Robert: The First-World Debt Crisis of 2007–2010 in Global Perspective, Challenge 4 (2008), pp. 23–54, p. 24.
24 Canova, Timothy: The Failing Bubble Economy: American Exceptionalism and The Crisis in Legitimacy, in: Proceedings of the Annual Meeting (American Society of International Law) 9/12 (2008), pp. 237–244, p. 243.
25 Mügge, Daniel: Limits of legitimacy and the primacy of politics in financial governance, in: Review of International Political Economy 1 (2011), pp. 52–74, p. 56.
26 Nielsen, Richard: High-Leverage Finance Capitalism, the Economic Crisis, Structurally Related Ethics Issues, and Potential Reforms, in: Business Ethics Quarterly 2 (2010), pp. 299–330, p. 322.
27 Freeman, John: Competing Commitments: Technocracy and Democracy in the Design of Monetary Institutions, in: International Organization 4 (2002), pp. 889–910, p. 892.
28 Bodea, Cristina: Independent central banks, regime type, and fiscal performance: the case of post-communist countries, in: Public Choice 1/2 (2013), pp. 81–107, p. 86.

transparency. One of these relates directly to the implementation of inflation targeting as a new monetary policy strategy in the 1990s. Two other topics stand out: The creation of the euro also in the 1990s and then the financial crisis from 2008 onwards. Finally, the aftermath of the financial crisis and its lessons raise the question of the relationship between transparency in the financial or banking sector and the functioning of the political or social system.

In addition, our brief analysis illustrates two more general observations regarding transparency in the area of central banks. Firstly, in this area as in others, transparency has a dual nature.[29] Transparency is an instrument and can be expected, for example, to influence agents' inflation expectations, improve price competition, or control complex financial products. But transparency is also a value in itself. For example, it can be seen as a right to know, without which an independent central bank cannot be integrated into the democratic process or without which the legitimacy of financial institutions will be questioned. Secondly, like any instrument, transparency can be more or less effective. For example, the counter-cyclical action of the central bank may call for flexibility that is not compatible with full transparency. Transparency requirements may be insufficient to regulate banking or financial institutions. Therefore, it makes sense to analyse the conditions for the effectiveness of transparency, i.e. to identify the contextual conditions and how they affect the outcomes of transparency.[30]

29 See: Forssbeack et al.: Oxford Handbook, p. 10f.
30 See: Cucciniello et al.: 25 Years of Transparency Research, p. 41f.