President's Message

On September 11, 2001, the United States was subjected to a vicious terrorist attack. I'm sure that the country will have many special observances on the annual anniversary of that day indefinitely into the future. At this conference, held on the one-month anniversary, it is appropriate for us to observe a moment of silence to honor those who lost their lives and to honor their families and friends.

It is a great pleasure, and honor, for me to introduce Chairman Greenspan. Actually, I'm not going to introduce him in any conventional sense because everyone here, and almost everywhere, knows the basic biographical facts about the Chairman. But I am going to introduce the topic of the conference—"Getting the Markets in Synch with Monetary Policy."

Much of the discussion of central bank transparency has focused on political accountability. That is an important topic, but not the primary focus of this conference. Much of the next day-and-a-half will be devoted to whether transparency has enhanced the public's understanding of what central banks are doing, and the extent to which greater transparency has made a difference. The Federal Reserve and other central banks have made great strides in being more forthcoming and transparent in the last decade or so. An important question is "Does greater transparency translate into better policy outcomes and better economic performance?" Economic theory suggests that it should. Some of the research presented here will answer this question empirically.

Central banks have long been sensitive to the public's expectations about the direction of monetary policy. The role of expectations about policy became a central feature of macroeconomic theory in the 1970s. It is now widely recognized that the effectiveness of policy depends, at least in part, on the public's ability to anticipate central bank actions. This is particularly true of financial markets where erroneous information about policy can generate unnecessary and unproductive fluctuations in asset prices. Nevertheless, our confirmed empirical knowledge about the formation of expectations about monetary policy is limited. Personally, one of my greatest challenges since coming to the St. Louis Fed is how to explain to the public what the Fed is doing and how the Fed might better convey its direction.

I know from reading market commentary and watching market responses to statements, speeches, and testimony by Fed officials that even skilled observers do not always understand very well the actions and intentions of the Fed or other central banks. Having been on the receiving end of such information during my years as an academic, I know the feeling well. Now that I am on the producing end of such information, I find it a tremendous challenge to figure out how we can more effectively convey the direction of policy. Let me put the challenge to each of you: What would you say, for example, in the statement released at the conclusion of each FOMC meeting? Are you sure that an expanded statement could convey more accurate information? Should the statement be even shorter than the current statement? And whatever you believe in this regard, how would you conduct research to test your instincts?

I know for a fact that Chairman Greenspan has thought a lot about these issues. His tenure as Chairman has seen major changes in Federal Reserve practice in releasing information. The Federal Open Market Committee now immediately discloses policy actions, explains the rationale for those actions, and gives the public an assessment of the economic risks going forward. We are pleased that Chairman Greenspan is able to present his reflections on the subject of this conference.

William Poole
President and Chief Executive Officer
Federal Reserve Bank of St. Louis

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