

# EUROPEAN ECONOMIC PERSPECTIVES

## Policies for the Poor

**Trade liberalization is an important ally in the fight against poverty in the developing world. But how can policy-makers ensure that its impact on the poor is as beneficial as possible? A new Report explains how to think through the key issues.**

Openness to trade has long been seen as an important element of sound economic policy – and trade liberalization as a necessary step towards achieving it. At the same time, continuing extreme poverty in developing countries is perhaps the biggest blemish on the global economic canvas. A new Report examines how our concerns about the latter should affect our attitude towards and implementation of the former. It draws on economic analysis and practical experience to construct a framework to analyse the complex links between trade liberalization and poverty. And it shows policy-makers how they can use the framework to identify the critical features in their economies so they can ensure that the poor benefit from liberalization.

In general, the Report argues, trade liberalization is an ally in the fight against poverty: it tends to increase average incomes, providing more resources with which to tackle poverty. And while it will generally affect income distribution, it does not appear to do so in a way that systematically worsens poverty. Nevertheless, it is important to recognize that most trade reforms

will hurt someone, possibly pushing them into, or deeper into, poverty, and that some reforms may increase overall poverty even while they boost incomes in total. Thus, despite the general presumption in favour of trade liberalization, there remain important public policy questions of how to implement it in a way that maximizes its benefits for poverty alleviation and what to do about any poverty that it does create or exacerbate.

The Report contains a number of lessons for policy-makers, both general in terms of the broad potential linkages between trade liberalization and poverty, and specific in terms of the linkages in relation to particular sectors and instruments of trade policy:

- The weight of evidence suggests that openness to trade is good for growth and that growth benefits the poor. But to enjoy the full benefits of trade liberalization, it should be accompanied by sound policies in areas such as transport and communications infrastructure, market facilitation, competition, education and governance.
- There are three broad pathways through which trade liberalization can have a direct effect on

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*Agriculture is the key sector for poverty alleviation*

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poverty: through its impact on the prices of liberalized goods, through its impact on profits and hence on employment and wages, and through its impact on the government's fiscal position. The outcome depends on whether the poor are net consumers or producers of liberalized goods, what types of labour they supply, and where their wages lie relative to the poverty line.

- Although it is possible to describe the pathways through which each aspect of liberalization might affect poverty, the impact of trade liberalization on poverty is very country-specific. This means that policy-makers themselves will have to identify which of these pathways are the most important in their particular circumstances.

- The range of potential linkages between trade liberalization and poverty is wide, but the most important effects in any given country are likely to be relatively simple and obvious. Hence policy-makers can develop suitable policy responses to help the poor gain from trade liberalization.

- For many dimensions of trade liberalization, the direct effects on poverty will be negligible. Where they are not, the appropriate response is not to stop liberalizing but to proceed while pursuing complementary policies to help the poor gain from liberalization and to provide social protection to support those who may lose. Trade-related compensation packages will not generally be feasible or desirable in developing countries.
- Trade liberalization almost inevitably involves adjustment costs, notably job losses in formerly protected sectors. The best way to ease the pain of transition is to protect social expenditure and ensure appropriate targeting of the poor, offering a cushion without undermining their incentives to adjust.

- Trade liberalization can change the nature of the risk and uncertainty that poor households face although not always for the worse. It can also affect their ability to cope with risk and uncertainty. Policies such as improving access to credit markets can help a great deal here along with improvements in asset distribution and in the flexibility of local labour markets.

- If the long-term benefits of the trade liberalization are to reach the poor, households must be able to respond by adjusting their supply of labour or their production of goods and services. These supply responses will be influenced by where the poor are located and by their demographic structure and their gender, health status, education and assets.

Complementary policies are likely to be necessary in such areas as investment in infrastructure and the development of markets for credit, agricultural inputs and services.

- In most countries, agriculture is the key sector for poverty alleviation: despite rising urban poverty, the poor are still predominantly rural, agriculture is their major source of income, and farm incomes have large spillovers to others in the rural economy. Moreover, food accounts for a major share of all poor people's expenditure.

Liberalizing agricultural trade, both unilaterally and multilaterally and by both developed and developing countries, has the potential for considerable poverty alleviation, although particular groups of poor people may suffer.

- Trade in manufactured goods still faces significant barriers in developed countries (on products like clothing and footwear) and to a greater extent in developing countries.

Liberalization will foster poverty alleviation by enhancing growth and productivity and improving resource allocation. But the conditions have to be in place for firms to respond to new threats and opportunities; and, even so, some manufacturing jobs may be lost. Safety nets may be necessary if alternative forms of employment are not rapidly available for displaced workers.

- Trade liberalization in services offers particularly promising – but largely neglected – opportunities for poverty alleviation, especially if temporary movements of relatively unskilled workers were to be allowed. Some service reforms can aid the poor directly – for example, those in transport, health and education, and others may increase unskilled employment – such as tourism, or boost local efficiency and competitiveness – such as financial services.

- The long-term effects of strengthening protection for intellectual property rights are uncertain, but in the short to medium term, although such moves may benefit some middle-income countries, they will almost certainly hurt small and poor economies.

- Specific interventions in international trade such as export subsidies, anti-dumping duties and local content requirements will rarely be to the advantage of the poor, who have too little power to prevent the transfers from being captured by other groups. Hence poverty concerns will rarely justify resisting liberalization in those areas.

- Strengthening domestic labour or environmental standards may help the poor, but linking higher standards to trade agreements is much more likely to hurt them.

This article summarizes 'Trade Liberalization and Poverty: A Handbook' by Neil McCulloch, I. Alan Winters and Xavier Cirera. McCulloch and Cirera are at the Institute of Development Studies; Winters is at the University of Sussex and a Research Fellow in CEPR's International Trade programme. The research was supported by the UK's Department for International Development.

# Nice Try

**The Nice summit of December 2000 sought to improve the European Union’s decision-making rules ahead of Eastern enlargement. A new CEPR Report argues that it largely failed in this objective, but that the Treaty should be ratified nonetheless – it can be repaired at the next Intergovernmental Conference in 2004.**

*Nice sought to ensure that the EU institutions work efficiently after Eastern enlargement*

The Nice summit had two goals: to remove obstacles to Eastern enlargement of the European Union (EU) imposed by the Amsterdam Treaty; and to adopt reforms to ensure that EU institutions will operate efficiently and legitimately after membership nearly doubles. According to CEPR’s latest *Monitoring European Integration (MEI)* Report, the summit was successful on the first goal. It failed almost completely on the second.

The Amsterdam Treaty left three issues open, explicitly requiring that they be settled before enlargement: the size and composition of the Commission; extension of ‘qualified majority voting’ in the Council of Ministers; and reform of Council voting rules. The first two were not settled at Nice: on Commission reform, a makeshift, temporary reform was adopted; and on qualified majority voting, there was basically a house-cleaning exercise with little change in sensitive areas.

On reform of Council decision-making, Nice actually made things worse. With little more than hurried, late-night staff work and their political instincts to guide them, EU leaders adopted a massively complex system. Using the quantitative tools of voting theory, the Report reveals that far from maintaining efficiency, the Nice voting reforms will *lower* the enlarged EU’s ability to act. Nice also lessens the system’s legitimacy, shifting power to large members to such an extent that the historical balance between the EU as a union-of-states and a union-of-people has been fundamentally altered.

Nice was supposed to implement all the institutional reforms necessary for enlargement. But it largely ignored the fact that enlargement implies that the Governing Council of the European Central Bank (ECB) has the same ‘numbers problem’ that put Commission reform on the summit agenda. Enlarging an unreformed

ECB to include five or twelve new members would turn this critical policy-making body into an unwieldy group that would have trouble making difficult decisions at the right time. The Nice Treaty simply invites the ECB and Commission to propose solutions, and institutes an ‘enabling clause’ that allows limited ECB reform in what amounts to a single issue Intergovernmental Conference (IGC).

The summit also sought to lock in a long-term enlargement procedure. But enlargement is a process, not an event, and there is a strong possibility that the first enlargement wave may seriously delay subsequent waves and hinder the reform momentum in applicant nations. To redress this, the Report argues that the EU should commit to a series of Maastricht-style ‘entrance exam’ dates that lock in occasions for evaluating whether nations are ready to join. This is not necessarily a matter for Treaty changes, but Nice would have been the ideal opportunity for a political commitment to dates.

In terms of the institutional balance of power, the Nice Treaty will significantly alter the way the EU functions. The Report argues that because of the Council’s reduced decision-making efficiency, the standard method of integration – which relies on legislation and the Council’s ability to act – will be slowed. Further integration is likely to be driven more by members’ initiatives, perhaps channelled through new ‘enhanced cooperation arrangements’. Thus, to the extent that the European Parliament and Commission derive their power from influencing legislation, Nice reduces their power.

As a body, the Council’s power will also be diminished. The winners will be members who wish to proceed with deeper integration in the form of enhanced cooperation or outside the EU framework altogether. The Commission has a crucial role in enhanced cooperation arrangements

*The Treaty removed the obstacles to enlargement but made EU decision-making less effective*

*The Treaty should be ratified and then repaired at IGC 2004: institutional reform can wait but enlargement should not*

*Reform of ECB decision-making should happen before IGC 2004 with authority delegated to independent experts*

so if they become more common the Commission's influence may expand. This may have been its biggest victory at Nice.

So should the Nice Treaty be ratified? The authors' answer is a simple yes: institutional reforms can wait but Eastern enlargement should not. Enlargement, quite simply, is a historical imperative while Council voting weights will be a historical footnote. Moreover, killing the Treaty would recreate the situation that first caused a problem. The Amsterdam Treaty made reform a precondition for enlargement. This sequencing was at least part of the reason why Nice became the longest IGC in history and still failed. When reform is a precondition, interests that are lukewarm to enlargement enjoy important leverage. Had enlargement instead been locked in first, such 'hostage taking' would have been less effective.

Now, if the Nice Treaty is ratified, the sequencing will be reversed. When reform is next considered, enlargement will have happened or be imminent and no one will face the choice between accepting damaging reforms and delaying enlargement. There is even hope that the new members will have some say and this should make the reforms more sustainable. Fortunately, Nice also created an opportunity for reform: the IGC to be held in 2004, for which the agenda could be expanded to include 'emergency repairs'.

Can any of the damage be fixed before then? The ECB's numbers problem should be fixed soon, and the Treaty's 'enabling clause' should make it possible well before IGC 2004. There are three practical solutions: first, rotation of voting rights among central bank governors; second, representation of groups of members by a single central bank governor; and third, delegation to a group of independent experts, with the governors participating in the debate but not in the vote.

The Report recommends the third option: it would yield a manageable-sized voting body whose composition was stable. Moreover, unlike the other two options, it would not encourage the public to view monetary policy from a national perspective. The ECB is likely to be deadlocked over a solution, handing a unique opportunity to the Commission. The Commission should exploit it by tabling the only rational proposal: delegation.

Assuming that EU leaders want the Council of Ministers to be able to act, IGC 2004 should adjust the voting procedures instituted at Nice, which involve a triple majority. The damage to the efficiency of an EU of 27 members could be fixed by lowering two of the three majority criteria. Specifically, the next Treaty should lower the 74% vote threshold to two-thirds, which would restore the Council's ability to act. But since

it would also reduce further the power of smaller members, the population threshold should be lowered to one-half.

But all this presumes that EU leaders meant what they said in Cologne: that the goal of Nice summit was to 'ensure that the European Union's institutions can continue to work efficiently after enlargement.' Yet the question remains: did EU leaders know what they were doing at 4:30 in the morning on Monday 11 December 2000?

In one view, EU leaders did not realize the strong inefficiency consequences of their actions; the outcome was a collection of unintended consequences stemming from ill-prepared, late-night debates. This is not entirely implausible: the Council voting system that was adopted was never discussed during the IGC; and the reforms do not look so bad from the perspective of the 'EU15' – the Council that these leaders know well. Yet in an 'EU27' – a Council that might seem distant to leaders who are unlikely to hold office for even five more years – the efficiency consequences are dramatic.

In another view, the EU leaders got what they bargained for: a crippled legislative process that strips the Commission and Parliament of their agenda-setting power and the old 'Community approach' of its viability. In such circumstances, future integration will be guided by intergovernmental initiatives with the large members inevitably playing a role more commensurate with their economic and demographic importance. This view is also plausible: for some members, integration has reached the highest level perceived as legitimate by the voters and their leaders may be satisfied with an EU where the key institutions are seriously constrained and decisions are mainly taken directly between governments.

The question of which view is correct matters greatly for what comes next. If it was an oversight, then there is still time for emergency repairs and IGC 2004 provides a perfect opportunity. If it was wilful, it may take several high-profile decision-making crises in an enlarged EU to mobilize the resolve necessary to repair the Nice reforms. Either way, the Nice Treaty was no better than a 'nice try'. Although it failed to adjust EU decision-making to the realities of a Union with 27-plus members, it did open the door to enlargement. It should be ratified and then repaired at IGC 2004.

This article summarizes 'Nice Try: Should the Treaty of Nice be Ratified? *Monitoring European Integration (MEI)*

No.11' by Richard Baldwin (Graduate Institute of International Studies, Geneva, and CEPR), Erik Berglöf (SITE, Stockholm School of Economics, and CEPR), Francesco Giavazzi (Università Bocconi, Milano, and CEPR) and Mika Widgrén (Turku School of Economics and Business Administration, and CEPR).

*Voting procedures in the Council of Ministers can be made more efficient by lowering the majority criteria*

*The question remains whether the inefficiencies created at Nice arose from oversight or intent*

# Different Strokes

**CEPR's *Monitoring the European Central Bank* series brings an independent pan-European perspective to bear on key issues facing the Bank. The latest Report examines whether inflation differentials within the euro area matter, and defines a macroeconomic framework for the monetary union.**

Should the European Central Bank (ECB) be concerned about emerging inflation differentials and current account imbalances among members of the economic and monetary union (EMU)? And should there be explicit policy coordination with the fiscal authorities of the euro area? These are some of the questions addressed in CEPR's latest *Monitoring the European Central Bank* (MECB) Report, published earlier this year, and the September 2001 *MECB Update*.

The Report notes that there are widening inflation differentials between high-growth countries – Ireland and Spain in particular – and the core of the euro area. Should the ECB worry? The MECB team's answer is that inflation differentials should not be demonized. In a common currency area, they are the mechanism for adjusting real exchange rates where adjustment is needed. So for a country in a currency union, above average inflation may be entirely appropriate. This suggests that having first convinced citizens that inflation is an undesirable phenomenon, governments and the ECB must now proceed to step two and explain that temporary inflation differentials can be desirable, leading to higher real income and the proper

macroeconomic adjustment.

The current situation in Ireland provides a first testing ground. The country can clearly sustain a high growth rate for the foreseeable future, but not quite the current growth rate. The Irish economy is now above its sustainable level of activity and should slow down. What form should the adjustment take? Given fast growth and strong investment demand, the appropriate current account position for Ireland may well be a deficit, a reliance on world saving. This points to the adjustment occurring through a reduction in external demand, and thus through inflation and real exchange rate appreciation. In other words, the Irish economy should be slowed down by increasing the relative price of Irish goods, and thus by increasing the real income of the Irish people.

Ireland has a large budget surplus and at present, an even larger surplus may not be necessary. Indeed, there is a strong case for using part of the surplus to finance public investment to keep infrastructure in line with the rapidly growing economy. But this is not the case in Spain, another EMU member with above average inflation. The Spanish current account deficit is large and getting larger, but in contrast with Ireland, it is not matched by high investment and high productivity growth. Spain provides a clear case for slowing down the economy through the use of fiscal policy, rather than through a real appreciation and an increase in the current account deficit.

*MECB Update*, published in September, considers whether the current account deficits of two other countries outside the core of the euro area – Portugal and Greece – should be a source of concern. It concludes that they should not: these deficits mostly finance the increase in investment rates induced by these countries' deeper integration into the European Union (EU). Outside financing is possible because the single

*Inflation differentials and current account imbalances should not be demonized*

*Inflation differentials are the way real exchange rates adjust in a monetary union*

*Current account deficits typically reflect investment booms in poorer EMU members*

## Recent *MEI* Reports:

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Charles Bean, Samuel Bentolila, Giuseppe Bertola and Juan J Dolado

*The Nice Treaty allows more formal dialogue between the ECB and euro area finance ministers*

currency and the single market have increased the degree of financial integration in Europe. And since external borrowing mostly finances investment, higher output in the future will pay for the interest on the foreign debt – again, no reason to worry.

Moreover, the channel that could turn an investment boom financed abroad into a balance of payments crisis – that is, a currency mismatch between foreign borrowing and domestic lending – is much weaker within EMU, at least to the extent that foreign borrowing takes place within the euro area. So for a country that is integrating more deeply into the euro area and which starts with a level of income below average, a current account deficit is typically the manifestation of the build-up of domestic capital. Stopping it would amount to closing down an important source of finance.

Finally, the MECB team considers what attitude the ECB should take *vis-à-vis* the fiscal authorities in EMU given its considerable degree of political autonomy, and whether or not it should volunteer to participate in policy coordination exercises. This issue has come to the fore following the EU's Nice summit: the Treaty provides a new institutional framework that could formalize the currently informal dialogue that takes place among the twelve euro area finance ministers and between them and the ECB president in the so-called Eurogroup.

A peculiarity of the European situation, compared with, say, the United States, is that the ECB faces not 1, but 12 fiscal authorities. This raises two issues. The first is whether or not coordination among the 12 fiscal authorities is necessary. The second is that it makes these meetings more formal than, say, a weekly breakfast between the chairman of the Fed and the US Secretary of the Treasury.

So is explicit coordination of monetary and fiscal policies necessary? The Report's answer is no. If the monetary and fiscal authorities acting on their own 'keep their houses in order', there is no need for explicit coordination. If the fiscal authorities deviate from prudent fiscal policies

### Previous MECB Reports:

- **One Money, Many Countries** MECB 2  
Carlo Favero, Xavier Freixas, Torsten Persson and Charles Wyplosz
- **The ECB: Safe at Any Speed?** MECB 1  
David Begg, Paul De Grauwe, Francesco Giavazzi, Harald Uhlig and Charles Wyplosz

because of a variety of short-run political incentives and constraints, then explicit coordination may even be counterproductive.

Formal meetings between the monetary and fiscal authorities designed to coordinate policies are either unnecessary or harmful, the Report argues. Informal meetings may be a useful channel of information exchange. The benefits of this exchange of information must, however, be weighed against the possibility that these meetings may be turned, by the fiscal authorities, into occasions for putting pressure on the ECB. The participation of the ECB president in the Eurogroup meetings has to be viewed in this context. These meetings may be useful as an exchange of information, but, if they are sanctioned as 'formal', they may become more than information exchange and so become counterproductive.

What about national fiscal authorities? Should the twelve finance ministers coordinate their policies? If it was certain that fiscal policy decisions in each country were shielded from short-term political incentives, coordination would certainly make sense. Coordination could, however, lower the political cost of incorrect policy actions, thus making them more attractive.

This article summarizes 'Defining a Macroeconomic Framework for the Euro Area: *Monitoring the European Central Bank* No. 3' and the September 2001 MECB Update by Alberto Alesina (Harvard University and CEPR), Olivier Blanchard (MIT), Jordi Galí (Universitat Pompeu Fabra, Barcelona, and CEPR), Francesco Giavazzi (Università Bocconi, Milano, and CEPR) and Harald Uhlig (Humboldt Universität zu Berlin and CEPR).

*But explicit coordination of monetary and fiscal policy may be counterproductive*

*And coordination of national fiscal policies could lower the political cost of bad policy*

### HOW SHOULD CONCERNS ABOUT EXTREME POVERTY IN DEVELOPING COUNTRIES AFFECT ATTITUDES TOWARDS, AND IMPLEMENTATION OF, TRADE LIBERALIZATION?

**The Institute of Development Studies invites you to attend a panel discussion on this issue.** (Questions from the floor are welcome in advance by email or on the evening before the discussion has started)

**Speakers:** Barry Coates, World Development Movement; Dr Neil McCulloch, Institute of Development Studies; Kevin Watkins, OXFAM; and Professor L Alan Winters, University of Sussex.

**Date:** 6:30pm on Thursday 1 November 2001.

**Venue:** The Conway Hall, 25 Red Lion Square, London, WC1R 4RL.

**For more details contact Clare Gorman, IDS. Email: C.Gorman@ids.ac.uk Tel: 01273 877752**

# It's Good to Talk

**Gone are the days when monetary policy-making was conducted largely behind closed doors: central banks are becoming increasingly open in their communication strategies. A new Report evaluates how they talk – to the markets, the press and the public.**

Not so long ago, secrecy was the watchword in central banking circles. Now, the unmistakable trend is towards greater openness and transparency. Increasingly, the central banks of the world are trying to make themselves understood rather than leaving their thinking shrouded in mystery. A new CEPR Report, published jointly with the International Center for Monetary and Banking Studies (ICMB) in Geneva, describes and evaluates how central banks talk to the markets, the press and the public.

The case for transparency is very strong, the Report argues: it is based on both policy effectiveness and democratic accountability. Monetary policy is more effective when the central bank is better able to condition the market expectations that are so critical to the transmission of monetary policy. And transparency and accountability go hand in hand with central bank independence – a kind of exchange for the broad grant of authority.

The essential message that any central bank must convey to the public is its *policy regime*: what it is trying to achieve; how it goes about doing so; and its probable reactions to likely contingencies. Of course, no central bank can spell out in advance its reaction to every conceivable contingency; nor is it necessary to reveal every detail of its operations. Two guiding principles apply:

- First, the bank should reveal enough about its analysis, actions and internal deliberations for interested observers to see the logic behind each policy decision.
- Second, the burden of proof should be on those who would withhold information. There are valid reasons for secrecy but it should be the exception, not the rule.

What should central banks talk about? First, they need to spell out their long-run objectives clearly. This is a simple task for banks with a single target, such as the inflation rate or the exchange rate, a

more difficult one for central banks with multiple goals. But they should articulate their aims as best they can. Central banks should also reveal a great deal about their methods, including their forecasts, the models used to derive them and to explore alternative policies, and the precise methods for implementing policy changes.

The Report recommends that central banks reveal at least the broad contours of their forecasts as often as they are made. This runs counter to the old conventional wisdom that central banks should never give ‘forward-looking’ information. Should the central bank publish a *conditional* forecast predicated on *unchanged* monetary policy, or base its published forecast on its actual projections of *future* monetary policy changes? The authors’ pragmatic view is to acknowledge that central banks typically do not formulate explicit plans for future monetary policy, and so cannot reveal future policy changes.

Central banks should provide more information about their internal models than they have historically done. But most central bank watchers only care about the bank’s basic view of how the economy works, so well chosen words supplemented by a few key numbers may suffice.

When they intervene in foreign exchange markets, central banks almost always try to catch market participants by surprise, and they rarely reveal how and when sterilized interventions have taken place. Lack of sufficient ammunition – foreign exchange reserves – to affect market behaviour can justify this departure from transparency, according to the Report.

In contrast, all decisions about domestic monetary policy should be publicly announced as soon as they are made, with no informational advantage to select ‘insiders’. Central banks should also provide indications about their tentative future plans, perhaps through statements about which way they are ‘leaning’.

The precise ways in which a central bank communicates will vary depending on whether

*The case for transparency is based on both policy effectiveness and democratic accountability*

*There are valid reasons for secrecy but it should be the exception, not the rule*

*Central banks should spell out their objectives and their methods, including their forecasts*

*The Fed should explain its objectives, forecasts and policy decisions more clearly*

monetary policy decisions are made by a single individual or, as is increasingly the norm, by a committee. If decisions are made by a committee, the communications strategy will also vary depending on whether decisions are presented as achieved by consensus – a *collegial* committee – or by individuals voting their own preferences – an *individualistic* committee.

Policy decisions are usually announced with a brief statement. In the case of a single decision-maker, the statement should explain the reasoning behind the decision. A highly individualistic committee may find it difficult to agree quickly on a statement, but in this case, detailed minutes – including the vote – should be released as soon as possible. In collegial committees, there is room for choosing how much to explain immediately (in the statement) or later (in the minutes).

Conflicting signals emitted by committees confuse markets and get in the way of transparency. Committees must strive to convey a consistent message even though the transparency of individualistic committees means that differences of opinion are inevitably aired in public.

So how do central banks actually talk? The Report concludes with a review of the communications strategies of some of the most prominent central banks:

- The US Federal Reserve has changed its communications policies dramatically since 1993, and while perhaps still lagging behind other central banks, it is clearly moving toward greater transparency. The Report recommends that the Fed states its objectives more clearly, publishes its forecasts and clarifies their nature, and offers fuller statements to explain its policy decisions.
- The European Central Bank's (ECB) much criticized communications policy is complicated by the short history of the Bank, its multinational nature and its confusing 'two pillar' monetary strategy. Nonetheless, it is already more transparent than the Bundesbank ever was. The Report recommends that the ECB clarifies the time horizon for its inflation

target, improves its published forecasts and publishes minutes.

- Having been granted independence in 1998, the Bank of Japan (BOJ) has become much more open than it used to be. The Report recommends that the BOJ clarifies its inflation objective and provides a better explanation of the reserve-targeting policy regime that it adopted earlier this year.
- The Bank of England adopted inflation targeting in 1992 and became independent in 1997. Both events led to dramatic increases in transparency, which, by now, place the Bank near the vanguard. The Report recommends that the Monetary Policy Committee issues a statement immediately after each meeting and tries to limit the multiplicity of alternative viewpoints.
- The Reserve Bank of New Zealand has been leading in central bank transparency since its 1989 reform. It now even publicly projects its own future behaviour. The Report can recommend no further steps to improve transparency.

This article summarizes 'How Do Central Banks Talk? *Geneva Reports on the World Economy* No. 3' by Alan Blinder (Princeton University), Charles Goodhart (London School of Economics), Philipp Hildebrand (Union Bancaire Privée), David Lipton (Moore Capital Strategy Group) and Charles Wyplosz (Graduate Institute of International Studies, Geneva, and CEPR).

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*The Bank of England should try to limit the multiplicity of alternative viewpoints*

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