The Recording and Publicizing of Decisions Concerning Open Market Policy*

STATEMENT *by* ALFRED HAYES
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As Mr. Rouse stated when he appeared before you yesterday, the Federal Open Market Committee has selected the Federal Reserve Bank of New York to carry out all transactions in United States Government securities for the account of the twelve Federal Reserve Banks. The selection of the Federal Reserve Bank of New York is the logical consequence of its physical location in the nation's money market center, where the great bulk of all transactions in Government securities, and in other money market instruments, actually takes place. The securities acquired pursuant to such operations are held in a "System Open Market Account" in which the twelve Reserve Banks participate.

The general position of the Federal Open Market Committee as to credit policy is set forth in the directive it issues to the Federal Reserve Bank of New York at each meeting. Each directive is amplified by the statement of the consensus of the Committee and by the full discussion of the participants in the meeting, all of which are noted in the minutes of the meeting.

The primary responsibility for the conduct of day-to-day open market operations rests with the Federal Reserve Bank of New York, acting in accordance with the directions of the Federal Open Market Committee, whose members are kept currently informed of these operations. Within the Bank, this responsibility is centered in the Manager of the System Open Market Account. The Manager has the advantage of frequent consultation with the President of the Bank, who is a member of the Committee, with the First Vice President of the Bank, who is an alternate member of the Committee, and with a staff in constant touch with the market. All of them have an incentive to keep continuously informed and to be readily available for consultation because of the institutional responsibility which they share. This sharing of responsibility has the additional advantage of permitting an internal arrangement whereby, in the absence of the Manager, the First Vice President acts as his alternate in respect of open market operations.

In his statement yesterday Mr. Rouse referred to the fact that the Federal Reserve Bank of New York, as fiscal agent of the United States, executes transactions in Government securities for the Treasury Department and that the Bank also conducts similar transactions in behalf of foreign central banks and certain international organizations. These transactions, which are conducted under the general supervision of Mr. Rouse in his capacity as Vice President of the Federal Reserve Bank of New York, affect member bank reserves and thus are relevant to, and must be closely coordinated with, System policy. The conduct of such Treasury and foreign transactions by the New York Bank enables the Manager and his staff to be informed as to their potential market impact and thereby to achieve, where desirable and possible, a closer integration of such transactions with the aims of System Open Market operations. As Mr. Rouse mentioned, it is at times possible for us to avoid an undesirable market impact of foreign account transactions by arranging transactions among those accounts or directly with the System Open Market Account. The fact that the Federal Reserve Bank of New York, as an institution, acts as fiscal agent of the United States and serves as correspondent bank for foreign central banks, monetary authorities, and international organizations greatly facilitates the carrying out of the objectives of the Federal Open Market Committee.

I understand that you are particularly interested in the subject of the adequacy of the information provided by the Federal Reserve System, especially with reference to the record of policy actions taken by the Federal Open Market Committee. I assume that you would like me to comment first on the adequacy of the information in the *Annual Report* of the Board of Governors that pertains to the record of policy actions of the Open Market Committee.

The policy record of the Federal Open Market Committee, which is published each year as part of the *Annual Report* of the Board of Governors records all formal actions taken at each meeting of the Committee. The directive to the Federal Reserve Bank of New York is given in full, together with the names of all members voting for or against its continuation or change, as the case may be, at each meeting. Furthermore, the consensus arrived at is recorded, and the considerations leading to it are summarized in some detail.

When decisions are not unanimous, the views of the

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minority are presented and occasionally it is also indicated what changes in the text of the resolutions adopted would have made it possible for the minority to vote for them. The secretary circulates the draft of the policy record to all members of the Committee in order to assure the presentation of a comprehensive and fair picture of our deliberations.

I believe that the Board's report, including the Federal Open Market Committee policy record, presents in an effective manner a comprehensive record of steps taken as well as a review of the underlying rationale. Students of monetary affairs have found this to be a valuable report.

The policy record is published once a year in the Board's *Annual Report,* as required by law. It has been suggested that the policy record be published more frequently. It has been pointed out that under present practice the record of the last meeting of any year becomes available with a delay of only about three months, while about fifteen months elapse between the first meeting of any year and the publication of the record of that meeting in the *Annual Report;* and it has been suggested that the policy record could perhaps be published quarterly, with an appropriate lag. This possibility has been raised within the System. While I can see merit in the suggestion for quarterly publication under some circumstances, I would emphasize that the Federal Open Market Committee has not yet considered the matter in detail. I am sure that the Federal Open Market Committee would wish to avoid any hasty conclusions on this matter, in view of its importance.

I should not like to leave this subject without pointing out that students of monetary matters, and all those who must make decisions in credit and capital markets, follow closely the wide range of weekly and other periodic banking statistics published by the System, including the recently inaugurated release of data on United States Government securities markets, a matter concerning which your Committee has shown great interest. A timely and comprehensive review of business and credit conditions is available in the various monthly publications of the Federal Reserve System, including our Bank's *Monthly Review,* which carries each month a very detailed analysis of the credit and securities markets with particular attention given to United States Government securities and to Treasury financing operations. In addition to this material, which is written for those who closely follow current financial developments, we make an effort to provide less technical material, dealing with System functions, operations, and policies, designed to be of interest to a much wider segment of the public.

I should like to address myself now to the first of two related questions in which I understand the Committee is interested, that is, whether monetary policy can be determined for longer periods in advance, and made public. It must be understood in this connection that an effective monetary policy requires a continuous review and reassessment of the evolving business and credit situation, both domestic and international, in which there must be a prompt and sensitive reaction to the interplay of factors affecting the development of policy. As you know, the Federal Open Market Committee generally meets every three weeks for a full-scale review of these matters, and special meetings can be called on short notice. Monetary policy has the major advantage of a high degree of flexibility—an advantage that would be lost if it became a practice to determine and announce policy intentions for long periods in advance. Fiscal policy does not, generally speaking, enjoy the same degree of flexibility. There would clearly be no wisdom in reducing the flexibility of over-all economic policy by making monetary policy less sensitive and less adaptable to changes in the business and credit situation.

The second related question in which this Committee has evidenced an interest is whether it would be advisable to make a prompt announcement of policy decisions. In response to this question, I could say that theoretically it would be possible for the Federal Open Market Committee to make an immediate announcement following each meeting as to the policy it had adopted. In practice, however, such public announcements would seriously interfere with the effectiveness of monetary policy. For example, business and credit conditions may at times be so clouded that the Federal Open Market Committee may wish to undertake a modest shift in the extent or direction of its operations and then evaluate the effect on credit conditions and on the money market. Depending upon the results, this shift might develop into a full-fledged move, or might be quickly reversed. The usefulness of such operations would be destroyed if the market were informed as to what was being attempted. Moreover, an announced shift in System policy might set off a wave of optimism (or pessimism) which, in turn, might result in substantial changes in securities prices and yields. If somewhat later the System found it appropriate to reverse policy and made a public announcement to this effect, an opposite swing in market sentiment would be quite likely. In other words, a policy of prompt announcement might subject financial markets to disruptive swings in prices and yields that would serve no useful function. Conceivably such a policy might introduce an unnecessary and unwarranted degree of rigidity into System actions for fear of the very swings just mentioned.