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Statement by

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before the

Committee on Banking, Finance and Urban Affairs

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Mr. Chairman and members of the Committee, I appreciate this opportunity to comment on provisions of the Federal Reserve System Accountability Act (H.R. 28) that pertain to the release of information on monetary policy.

The Federal Reserve currently provides a great deal of information to the public about the monetary policymaking process both formally and informally. We report to the Congress semiannually on our objectives and plans for monetary policy, and we provide additional testimony on request. We publish a considerable volume of timely data on our monetary policy actions. In addition, we publish minutes of each FOMC meeting shortly after the following meeting. These minutes fully summarize the discussion at Committee meetings and are reasonably timely. Federal Reserve officials frequently discuss the economic situation and monetary policy in informal contacts with members of the Congress, members of the Administration and their staffs. We publish numerous articles relating to monetary policy in System publications.

Members of the Board and Presidents of Federal Reserve Banks have an obligation to the public to explain their policy positions, and we therefore often speak out through speeches and other forums, not just on monetary policy but on economic policy more generally. We go out into communities across the nation, partly to understand the economic circumstances and concerns of all Americans, but also to articulate the Federal Reserve's position on the economy. For example, Mr. Chairman, I have visited the fine city of San Antonio twice during my 23 months as a Governor and have met with citizens from all walks of life to listen to their needs and to explain our mission. In fact, in virtually every city to which I have travelled, over 30 in all since becoming a Governor, I have met with local businesspeople, bankers and citizens to discuss the economy and its direct impact on their businesses and daily lives. I consider the process of carrying on a public dialogue to be central to my responsibilities. There are no mysteries regarding my position or thinking. And I believe the same is true of my colleagues.

In my view, the provisions of the proposed legislation directed at increasing the availability of monetary policy information probably would suffer from the law of unintended consequences. Videotaping FOMC meetings would likely reduce the usefulness of these meetings considerably. Participants would hesitate to use hypothetical or speculative examples to explain points, because these examples could be misinterpreted and cause unnecessary volatility in the financial markets. Information learned from meetings and travels is often proprietary in nature, and thus could not be shared if the meetings were taped. More generally, the give and take in the discussion among policymakers would be sharply reduced. Policy discussions would tend to take place outside of Committee meetings, and members of the Board and Reserve Bank Presidents would come into meetings with preconceived views to a much greater degree than is the case currently. Videotapes of these meetings might, in fact, consist of nothing more than prepared speeches by the Board members and

Reserve Bank Presidents.

The ideas that arise in the current process of open, candid discussion would no longer be produced at Committee meetings, and thus would not be reported in FOMC minutes. Their loss would limit the flexibility and give and take of the policy process and in so doing produce the unintended consequence of actually reducing the net amount of publicly available informed debate on monetary policy.

I am also skeptical that, on balance, immediate release of the directive would be useful. While there may be some advantages, there are also costs. Under current procedures, market participants and others are able to recognize an actual shift in the Federal Reserve's policy stance on the morning that the change is implemented. Thus, an immediate verbal statement on policy changes would provide no additional information to the market. A requirement to publish information could be damaging in cases where policy contingencies are part of the FOMC directive. In fact, increased market volatility could potentially result due to market speculation. Moreover, such a requirement could diminish the Committee's ability to provide instructions to the Federal Reserve Bank of New York to respond to contingencies, potentially hobbling the Federal Reserve's ability to resolve financial crises.

Let me turn next to the three specific questions that you posed in your letter of invitation to this hearing. First, I do take very sketchy notes during FOMC meetings to help organize my own comments. These notes are discarded by me after each meeting. Second, I believe that others will be describing their own note taking practices and that the Chairman will describe the note taking process of the FOMC Secretariat. Finally, I have no information for the Committee on any premature release of FOMC confidential material.

In summary, Mr. Chairman, I believe that there will always be a tension between the benefits of an open and ongoing public debate on economic policy and benefits of confidentiality. Although the current system is imperfect, it is probably better than resolving the current tension in favor of either fuller openness or greater confidentiality.