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Statement by

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Member, Board of Governors of the Federal Reserve System

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 give you my views on the accountability of monetary policy. As I have indicated previously in correspondence with you, my perspective is of one who throughout his career as an elected and appointed official has been in favor of opening government proceedings to the public and the press. Our democracy demands that the actions of its government be conducted "in the sunshine" to the greatest extent possible to ensure that the process of public policy formulation is appropriate and equitable; it also demands that government agencies adopt the very best policies. In some cases, there is a trade-off between these two objectives. As my statement will explain, I believe the current legislative requirements for monetary policy accountability and the Federal Reserve's current policies regarding the provision of monetary policy information strike a reasonable balance between these objectives.

Monetary policy is best formulated within a framework that provides an appropriate degree of insulation from day-to-day political pressures while requiring full accountability. The Congress gave the Federal Reserve some insulation, for example, by establishing long terms for members of the Board of Governors and by exempting the budget of the Federal Reserve System from Congressional appropriations of funds.

But at the same time, the Congress has provided for full accountability of monetary policy. As you know, the Board of Governors is required to report to the Congress on its monetary policy plans and objectives twice each year. In hearings before this Committee and the corresponding body in the Senate, the Chairman of the Board presents testimony on the monetary policy report and responds fully to your questions on monetary policy. Federal Reserve

policymakers also testify as requested before this and other Congressional Committees about monetary policy and other matters of interest, including a detailed accounting of our expenditures.

Beyond the statutory requirements, the Federal Reserve provides significant additional information to the public about the conduct of monetary policy. In particular, the Federal Open Market Committee publishes minutes of each of its meetings. These minutes summarize fully the discussion and indicate the attendance at the meetings. They show the results of all recorded votes, including statements that explain dissenting votes. Significant decisions taken by the FOMC should always be made on the basis of recorded votes--in accord with an important principle of accountability. Each member of the Committee is afforded an opportunity to participate in the preparation of the minutes so that no individual or shared views are omitted. In my view, the minutes present an accurate account of each FOMC meeting.

With regard to the timeliness of the release of such minutes, as you know they are published shortly after the following Committee meeting. It seems to me that such a lag is appropriate. The immediate release of information on the Committee's plans for contingencies could increase market volatility, particularly in circumstances when the contingencies do not eventuate. Such volatility is unnecessary, and could be especially counterproductive if concerns about possible volatility deterred some members of the Federal Open Market Committee from discussing such contingencies or drove them to relying on implicit or behind-the-scenes understandings. On balance, the market and the public are better served by more detail and more openness with delayed publication as compared with the

realistic alternative of less specificity that would likely accompany earlier publication.

Similarly, I believe that provisions in the Federal Reserve System Accountability Act (H.R. 28) that would require release of videotapes or transcripts of Committee meetings would have deleterious consequences. In any setting, the recognition that one's remarks will be reported verbatim will dampen participation of most members in the discussion. In the context of monetary policy, such provisions likely would cause many policymakers to be much less willing to conjecture about future economic and financial developments, to explore alternative policies, or to challenge others' views. Under those conditions, discussions during FOMC meetings are less likely to lead to appropriate policy decisions. The willingness of individual members to explore verbally what may seem to be low probability events may be the beginning of a new perspective that elicits more careful watching and continued debate. The process of developing a consensus view through an open contrarian forum is essential if monetary policy is to lead toward monetary stability.

For these reasons, I believe that the relevant provisions of H.R. 28 would do little to make the monetary policy process more transparent and, unfortunately, would do much to make the conduct of monetary policy less effective. In my view, our current procedures regarding disclosure are on the right track: They permit a careful review of alternative policies while allowing the Congress and the public to analyze both the process by which our decisions are reached and their results.

In addition to soliciting my comments on the accountability of monetary policy, you also asked about notes or records regarding FOMC meetings and about premature release of information pertaining to

the discussion at such meetings. It has been my practice to take sketchy notes during the course of FOMC meetings; the notes are kept, solely for my own use, in a locked file cabinet in my office at the Federal Reserve. Others may also take notes, but I have no information regarding the location and disposition, and I assume the others will answer your question themselves. Some years ago I became aware of the existence of rough transcripts of the meetings when I was writing a dissenting statement. The secretary of the FOMC made available to me a transcript of my statements, and only my statements, from the previous meeting. With regard to premature disclosure of confidential FOMC information, over the years I have been troubled by the appearance in the press of information that serves to give credence to conjecture and thereby damages Federal Reserve credibility. I have no knowledge as to the source of such information.

Thank you again for the opportunity to testify on this important subject.