

For use at 10 a.m., EDT
Tuesday, October 19, 1993

Statement of

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Washington, D.C.

Hearing on Issues Raised by HR 28
"Federal Reserve System Accountability Act of 1993"

Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

October 19, 1993

Chairman Gonzalez, Congressman Leach, and members of the Committee. I appreciate your invitation to report my views on that portion of H.R. 28, "The Federal Reserve System Accountability Act," dealing with disclosure. I would like to offer this Committee a perspective that was gained from my career both inside and outside the Beltway.

Before I arrived in Washington, I taught and conducted research in financial economics for over a decade. Many of my professional writings explored the estimable ability of financial market participants to absorb and interpret information and then reflect that knowledge in market prices. As a policymaker in Washington, serving in a variety of jobs at the Treasury and the Federal Reserve, I have been exposed to the flow of confidential intelligence on the condition of financial institutions, the settings of policy instruments, contingency plans for a wide array of conceivable emergencies, the views of other agencies, and the operations of foreign official institutions. I have routinely participated in meetings with other officials and staff of the Federal Reserve, the Congress, the Treasury, and banking and securities regulators, as well as representatives of foreign governments and international institutions. From this experience I would respectfully offer three points.

First, what often makes news is not always informative. As the members of this panel are well aware, part of the deliberative process is actually thinking out loud. In my current role, whether in meetings of the Board or the FOMC or in

less formal settings, I routinely engage in dialogues with others who are concerned about the nation's interest, exchanging views on possible policy options, planning for contingencies that none of us hope will happen but that must not catch us unprepared, and contemplating the market's reaction to what we might do. Much of the job of a central banker involves worrying about events that have a small probability of occurrence, but would impose large costs on the financial system and the economy were they to occur. Unfortunately, the public release of such discussions would only serve to focus attention on the sensational--the differences in opinion, the fears about individual institutions, and the concerns about worst-case scenarios--that normally have little consequence on net to the setting of policy and that would distract people from more fundamental issues, almost certainly heightening market volatility.

Secondly, and this is generalizing from a frustration that I likely share with anyone who has sat in many public meetings, the prospect of detailed and complete exposure tends to cast a chill on some proceedings. A speaker has to weigh the effects of every word, guarding against the possibility that subtle distinctions in opinion or conditional speculations will be splashed about the newspapers. One possible outcome of this fear of unfortunate headlines is that the critical conduct of policy gets pushed onto the sidelines, where fewer people can participate. The result could be less public disclosure of the policy process. My chief concern is that the quality of policymaking would suffer, with

adverse consequences for the nation. If too many participants in a deliberative group speak to the record rather than to each other, innovative ideas do not get their due and the search for a consensus settles too quickly on the status quo or the easiest, though not the best, solutions.

Third, from my experience, the monetary policy process is open where it counts. Our actions matter, not our deliberations. It is our actions that affect interest rates and the economy, and those actions are made public immediately. Changes in reserve conditions are transparent to the market by 11:30 am on the day of the change in the open forum of the financial market. The reasons for the action are laid out in the minutes of the meeting that are released just six weeks later, and all votes are tallied and dissents explained. Discount rate changes are also publicly announced. To provide a broader overview to Congress, the Chairman of the Federal Reserve offers a semiannual review to members of the Banking Committee and their counterparts in the Senate encompassing recent policy decisions, a summary of the economic forecasts of members of the Board and Reserve Bank presidents, and plans for policy for the coming year. On a more irregular schedule, members of the Board, Reserve Bank presidents, and officials of the Federal Reserve System often sit before committees of Congress to discuss aspects of monetary policy. Meanwhile, System staff produce a steady stream of analyses of the economy and critiques of policy that are

published in the Federal Reserve Bulletin, Reserve Bank Reviews, and the academic press.

To sum up my views on the issue of disclosure, the central concern is the quality of monetary policy decision-making, which depends upon the effectiveness of the FOMC deliberative process. I believe a substantial degree of confidentiality is necessary to ensure the effectiveness of this deliberative process. It is my view that, on the whole, the current process works well and proposed substantial changes in disclosure of FOMC deliberations would threaten the quality of monetary policy decisions, and therefore such proposed changes would not, in my view, serve the public interest.

With respect to the other information requested in your letter of invitation, during FOMC meetings I do occasionally note very rough summary observations which are subsequently kept in my locked confidential files and are destroyed after approximately one year's time. I also keep edited notes of some of my personal oral interventions in the FOMC meetings in my locked files. I have observed others present at FOMC meetings occasionally engaged in note-taking as well. As I believe Chairman Greenspan plans to discuss, I am aware that FOMC staff do retain some detailed, though edited, notes and rough transcripts for use in preparation of FOMC minutes.

As for your third question, I do not know of any case of willful or intentional leaking of confidential FOMC information to the press or the public, although I am aware that there has

been confidential communication with appropriate senior administration officials. While all involved are very careful to avoid release of confidential information, it is possible that leaked stories may have resulted from inadvertence or skillful inferences. In my view, it is imperative that we ensure the confidentiality of FOMC information, and I can assure the Committee that we are making every effort to do so.