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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

U.S. House of Representatives

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Mr. Chairman and Members of the Committee --

I am here with my Federal Open Market Committee colleagues to comment on the initiatives in H.R. 28 which are purportedly designed to improve the accountability of the Open Market Committee for monetary policy. Specifically, you have asked for comment on the proposed requirement for a full and, timely accounting of each FOMC meeting.

I would strongly urge the Committee to continue, as in the past, to concentrate its appropriate oversight efforts on the substance of monetary policy rather than on the procedures by which it is determined. The mandated Humphrey-Hawkins testimony, presented twice a year and intensely scrutinized and analyzed by Congress and the media, provides a rather full description of policy moves, historic economic performance and future objectives for policy, expressed in terms prescribed by the statute. It is perhaps the fullest public accounting of monetary policy provided by any central bank in the world.

I can honestly see no purpose to be gained by publication of a verbatim transcript of the Federal Open Market Committee's deliberations and even less purpose in a videotape record of the proceedings, which might provide prime-time competition for Congressional Committee hearings and speeches on the floor of the House, which I don't believe have particularly high ratings.

A verbatim transcript or a videotape recording of the meetings of the Open Market Committee might significantly inhibit the members from the free exchange of ideas which presently characterizes our meetings. We are, after all, human, and we all

have a certain amount of self-consciousness about being "on stage," as we would certainly be under the suggested protocol. This problem would be heightened by the knowledge that the matters under discussion are highly sensitive for financial markets here and around the world. Consultation "in camera" gives the members of the Open Market Committee the same privileges of open communication and free exchange, enjoyed by juries. Importantly, it also gives the Committee members the same right to change their minds as jurors enjoy. I can't imagine how juries might deliberate in the presence of a scribe or a tape recorder or a video camera. I am sure the quality of jury decisions would be significantly changed. I am equally sure the process of developing monetary policy would suffer under such a regime of public performance.

I am much less concerned that the quality of policy decisions would be adversely affected by a memorandum of discussion carefully edited to delete market-sensitive information provided on a confidential basis and released on some delayed schedule, perhaps one year after the meeting it described. Even there, some behavioral change on the part of Open Market Committee members could be expected, but I would not think it would be sufficient to significantly inhibit the deliberations of the Committee or alter the course of policy.

Finally, the issue of the timely release of the Directive for open market operations is a tricky one. On the one hand, the market knows at 11:30 or so the morning after the FOMC meetings whether there has been a policy shift. This is almost immediately discernible from the way the Desk at the New York

Federal Reserve Bank enters the market. So, from this perspective, there is little to be gained or lost from the publication of FOMC decisions within a week, as proposed under H.R. 28. On the other hand, immediate release of the directive would probably discourage the use of asymmetric language in the directive, because asymmetry reflects the tilt of the Committee either toward ease or tightening. Markets might react impulsively on such news, to no one's best interest except speculators. And, internally, such a stricture against asymmetric language would inhibit quick inter-meeting response to changing market conditions.

As to the three specific questions in your letter of invitation:

1. I make no notes at FOMC meetings other than brief bullet points to outline my own comments to assure coherence. These, together with all analytical materials supplied by the staff prior to the meeting, are given by me to my executive assistant for destruction as soon as the FOMC meeting adjourns.
2. I have no knowledge of notes or records made or retained by other members of the Committee.
3. I have no knowledge of the source of the notorious "leaks" of FOMC information. Such "leaks" are irresponsible and reprehensible. If unintentional, they reflect a naiveté which should not be allowed to lurk anywhere near the FOMC. If intentional, they should be punished to the full extent of whatever

remedies are available, no matter who the culprit may be.

I appreciate the opportunity to participate in this hearing and look forward to answering any further questions the Committee may have.

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