STATEMENT PREPARED FOR THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
HEARINGS OF OCTOBER 19, 1993
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Mr. Chairman, you invited me to appear before the Committee to present my independent views regarding the accounting of FOMC meetings. As you know, it is not possible for me to appear at the hearings, but I submit herewith my views, as well as the answers to three questions to me in your letter of September 20.

I believe that the primary responsibility of the Federal Open Market Committee is to develop and carry out a monetary policy which contributes to sustained economic growth with price stability. Therefore, I address myself to the question before us guided essentially by whether the present accounting of the FOMC meetings is more or less supportive of that responsibility than would be the case under the provisions proposed in the legislation being considered, H.R. 28.

In addition to serving as President of the Federal Reserve Bank of New York and Vice Chairman of the FOMC, I also bring to this consideration a period as Manager of the Federal Reserve System Open Market Account with responsibility for the day-to-day execution of FOMC decisions. In the hope of adding some specialized value to the Committee's consideration, I will direct my consideration to the market effect of one
aspect of H.R. 28, release of the policy decision of the FOMC within seven days as compared with the release of the directive the Friday after the subsequent meeting, i.e., with a delay of about seven weeks.

We all may have differing views either in general or from time to time regarding the right direction of monetary policy. But whatever these views, the actual carrying out of monetary policy in the best interest of the American people must involve flexibility. Why?

It is frequently the case that the right monetary policy conclusion is not an immediate change in policy. On occasion, the FOMC decides that there should be a "tilt" between meetings towards a shift in monetary policy; that "tilt" may or may not result in an actual policy change, depending on how circumstances in the economy and in financial markets play out. The present policy of releasing the minutes and the directive after the following meeting permits this flexibility, since by the time of release under the present policy it is a clear fact whether policy has been changed or not.

A person who has not spent much of his or her life in these markets may say that nothing would be lost by immediate disclosure. That is simply not so. I can assure the Committee, based on over two decades of private sector experience in financial markets, that the disclosure of an FOMC
policy tilt would be translated by the financial markets in moments after the release to an execution of the policy shift. A policy change which the FOMC thought might make sense only if certain economic circumstances evolve would become an executed policy as market participants acted instantly to either profit or avoid loss. In other words, market participants would immediately assume that the policy tilt would become reality and protect themselves by immediately moving market rates accordingly. With that being the case, the FOMC would be deprived of the inter-meeting flexibility which I believe is essential for carrying out the optimum monetary policy. The Committee would be convinced that it could not choose a tilt, even if it thought a tilt was the right decision. The FOMC would be left with only the binary choice of maintaining present policy or changing it immediately. Monetary policy is simply too important to the good of the American people to force it into that kind of arbitrary and inappropriate straightjacket. The greater good of the best monetary policy which the FOMC can devise and carry out must be given priority over a great, but lesser, good of immediately informing the public.

Mr. Chairman, you asked that I also respond to three specific questions included in your letter to me of September 20. I provide these
answers as follows:

First, I have made no notes or records of the FOMC meetings I have attended.

Second, an officer of the Open Market Function at the New York Fed attends the FOMC meetings to provide backup for the Manager for Domestic Operations. That officer prepares informal written notes during the meeting which are not intended to be a record of events, but rather a guide to the Open Market officers in the day-to-day management of the account between meetings. These notes are given very limited distribution within the New York Fed: to the President, the First Vice President, the General Counsel and the other system account officers, a total of about seven people. Recipients return the notes to the officer who has prepared them and they are immediately destroyed. No file is maintained.

The Research Director of the New York Fed is my principal advisor on monetary policy matters. He attends the FOMC meetings and keeps handwritten notes; these notes are not transcribed and are kept in the Research Director’s own files, not those of the Research Group.

I have no personal knowledge of any other notes or records that others may have made at FOMC meetings or the release of FOMC meeting
information prior to the official release of that information.

As President of the Federal Reserve Bank of New York, I appreciate this opportunity to address myself to the Committee. The Federal Reserve was created by the Congress and we are accountable to the American people through the Congress as the people’s elected representatives. I hope that these comments are helpful to you in your deliberations.