Testimony by

Alan Greenspan

Chairman

Board of Governors of the Federal Reserve System

before the

Committee on Banking, Finance and Urban Affairs

U S House of Representatives

October 19, 1993
I appreciate this opportunity to provide my views on the appropriate degree of disclosure by the Federal Open Market Committee (FOMC).

The issue of fuller or more immediate disclosure of FOMC discussions and decisions has been a controversial one historically. In Congress, the financial markets, and academia, this topic has been debated repeatedly over the years. The FOMC itself has reviewed its policies and procedures in this area frequently and has revised its practices several times. At the heart of this issue is balance. The appropriate degree of openness comes from striking the right balance between the public's right to know and the need for effective policymaking and implementation.

In a democratic society, public-policy decisions should be in the open, except where exposure impedes the primary function assigned to an institution by law. Accordingly, the Federal Reserve makes its decisions public immediately, except when doing so could undercut the efficacy of policy or compromise the integrity of the policy process. When we change the discount rate or reserve requirements, those decisions are announced at once. When we establish new ranges for money and credit growth, those ranges are set forth promptly in our reports to Congress. Moreover, we publish our balance sheet every week with just a one-day lag, enabling analysts to review our operations in considerable detail.

What we do not disclose immediately are the implementing decisions with respect to our open market operations. However, any changes in our objectives in reserve markets are quickly and publicly signalled by our open market operations. And we publish minutes of the policy deliberations and decisions from each FOMC meeting shortly after the next regular meeting has taken place.
These minutes, a copy of which for the meeting of February, 1993, I have attached to this statement, can run from 15 to more than 30 pages, presenting a comprehensive record of the economic factors and analysis and alternative policy approaches considered in reaching our decisions.

Nevertheless, the Federal Reserve, like other central banks, has a reputation of being secretive. I suspect this is largely a result of the nature of a central bank's mission. The operations of central banks have a direct impact on financial and foreign exchange markets, therefore, these institutions often find themselves in the position where complete openness and disclosure could inhibit or even thwart the implementation of their public purpose.

Suppose, for example, a central bank that operated by targeting the foreign exchange rate decided that it might be appropriate to change the target rate at a given point in the future. Or, to bring the discussion closer to home, say that the central bank phrased its policies in terms of contingency plans—that is, if certain economic or financial conditions prevailed, a particular action would be taken. If those decisions were made public, markets would tend to incorporate the changes immediately, preventing the policies from being effectively carried out as planned.

More broadly, immediate disclosure of these types of contingencies would tend to produce increased volatility in financial markets, as market participants reacted not only to actual Federal Reserve actions but also to possible Federal Reserve actions. It is often the case that the FOMC expresses a predisposition toward a policy change in its directive to the Open Market Desk. Such a predisposition, for example toward easing, implies that the FOMC is more concerned about developments that would dictate an easing of policy rather than a tightening, and therefore wants to
respond relatively promptly to information suggesting the need for such action. We often express this predisposition without any change in instrument settings in fact resulting in such circumstances, the release of those directives during the period they are in force would only add to fluctuations in financial markets, moving rates when no immediate change was intended.

As a consequence, a disclosure requirement would impair the usefulness of the directives, as Committee members, concerned about the announcement effect of a directive biased either toward ease or tightening, would tend to shy away from anything but a vote of immediate change or of no change at the meeting. An important element of flexibility in the current procedures would be lost, which can scarcely serve the public interest. Immediate disclosure of the directive would change the nature of monetary policymaking, and it would not be a change for the better.

To repeat, as a general matter, it is desirable for public institutions to conduct their business in the open. The Federal Reserve endorses this principle and adheres to it, except when doing so would prevent us from fulfilling our fundamental mission of producing sound public policy.

Holding open meetings of the FOMC or releasing a videotape, audio tape, or transcript of them would so seriously constrain the process of formulating policy as to render those meetings nearly unproductive. The candid airing of views, the forthright give and take, and the tentative posing of new ideas likely would disappear. Monetary policy would suffer, and the economy with it.

A number of important items currently discussed at FOMC meetings simply could not be mentioned in open forum. We would no longer have the benefit of sensitive information from foreign central banks and other official institutions.
or of proprietary information from private-sector sources, as we could not risk the publication of information given us in confidence.

Moreover, to avoid creating unnecessary volatility in financial and foreign exchange markets, the FOMC might have to forgo explorations of the full range of policy options. Our discussions would, in effect, become self-censored to prevent the voicing of any views that might prove unsettling to the markets. Even a lag in releasing a verbatim record of the meetings would not eliminate this problem, but only attenuate it. Unconventional policy prescriptions and ruminations about the longer-term outlook for economic and financial market developments might never be surfaced at meetings, for fear of igniting a speculative reaction when the discussion was disclosed.

Let me take a moment to describe more fully the process followed at FOMC meetings to reach decisions on monetary policy. After staff presentations of recent developments and emerging economic trends, a roundtable discussion of all nineteen participants begins. The Reserve Bank presidents describe conditions and developments within their districts, and both they and the members of the Board of Governors go on to evaluate the outlook for the U.S. economy. All members bring in, where relevant, international economic and financial considerations. In light of this discussion, we then consider whether the stance of monetary policy needs to be adjusted, either immediately, or possibly in the future under particular circumstances.

A considerable amount of free discussion and probing questioning by the participants of each other and of key FOMC staff members takes place. In the wide-ranging debate, new ideas are often tested, many of which are rejected. Ideas initiated by one participant are frequently
built upon by others. This type of discourse is an invaluable ingredient of our policymaking process. As I indicated before this Committee last week, the prevailing views of many participants change as evidence and insights emerge. This process has proven to be a very effective procedure for gaining a consensus around which a directive to the Open Market Desk can be crafted. It could not function effectively if participants had to be concerned that their half-thought-through, but nonetheless potentially valuable, notions would soon be made public.

I fear in such a situation the public record would be a sterile set of bland pronouncements scarcely capturing the necessary debates which are required of monetary policymaking. A tendency would arise for one-on-one pre-meeting discussions, with public meetings merely announcing already agreed-upon positions, or for each participant to enter the meeting with a final position not subject to the views of others. Such a record would be far less informative than the minutes we currently publish.

It has been averred that, because the minutes we release do not indicate which individuals voiced which views at the meetings, the FOMC members themselves escape accountability for their actions. This is contrary to fact. The vote of each FOMC member is recorded, by name, and the reasons for that vote are also recorded. In the case of a dissent from the majority, the reasoning behind the vote is generally explained separately. In the case of a vote cast with the majority, the members review drafts of the minutes to assure themselves that the record will accurately reflect their views and the reasons for voting as they did.

In both the Freedom of Information Act (FOIA) and the Government in the Sunshine Act, Congress explicitly recognized that there were types of information and kinds of meetings that should be protected from dissemination to the
public. Certain exemptions have been provided in FOIA for information that, for example, is of a confidential financial nature and in the Sunshine Act for meetings that would prompt speculation in financial markets. In the various exempted areas, it was determined that release of information would not be in the public interest. For similar reasons, I believe that the consequences of requiring the prompt release of a verbatim record of FOMC meetings would most certainly not be in the nation's best interest.

Mr. Chairman, in your letter of invitation to this hearing, you also posed several specific questions related to the maintenance of notes or records of FOMC meetings and to the premature release of FOMC information. I would like to turn now to the answers to those three questions.

At FOMC meetings, I take very brief, rough notes on the views expressed by participants. These notes assist me in keeping track of Committee sentiment as the meeting progresses and thus in judging where a consensus may be reached with respect to monetary policy. After the meeting, the notes are kept in a locked file cabinet along with other FOMC materials.

Others attending the FOMC meetings may also be taking notes, and I am sure they will tell you about them in their own responses. I have suggested to the Reserve Bank presidents that they respond to your questions regarding whatever records may be kept at their own Banks. I will cover records made by the Board staff, and, in particular, by the FOMC secretariat.

Some individual members of the Board staff take handwritten notes and retain them to help them in discharging their responsibilities. The meetings are recorded electronically by the FOMC secretariat. These audio tapes are used to assist in the preparation of the
minutes that are released to the public following the subsequent meeting, thereafter, the tapes are recorded over. In the process of putting together the minutes, an unedited transcript is prepared from the tapes, as are detailed notes on selected topics discussed in the course of the meeting. These materials generally are seen only by the staff involved in preparing the minutes, and the documents are kept under lock and key by the FOMC secretariat.

With regard to your final query, on the release of information about FOMC meetings, I would again state my strong view that any unauthorized release of FOMC decisions is a very serious matter. Leaks of FOMC proceedings are clearly unfair to the public, potentially disruptive of the policymaking process, and undoubtedly destructive of public confidence in the Federal Reserve.

Any leaks that may have occurred were most assuredly not orchestrated or directed by the FOMC. A deliberate premature leak of information is repugnant. Our current policies that call for delayed release of information are in place for good reasons, as I indicated previously. They are grounded on an assumption of confidentiality, leaks undermine these policies.

I suspect that, to an extent, what appear to be deliberate leaks may instead represent something quite different. In some cases, FOMC participants who speak to the press may believe they have revealed nothing about recent monetary policy decisions, but they may in fact have inadvertently provided enough of a sense of the policy considerations to allow conclusions to be drawn, especially for experienced reporters speaking to several sources. This puts us in a difficult situation. We should not reveal confidential information about our decisions. At the same time, we cannot and should not wall ourselves off entirely from the media. It is our obligation to explain the broad
considerations that motivate monetary policy, to correct certain misimpressions, and to convey as much information as possible, without roiling markets, creating inequities, or violating the trust of our colleagues.

The FOMC has discussed this issue extensively, and we have taken several steps that we believe will curb any further unauthorized release of information. We have re-emphasized the necessity of avoiding contact with the press during the periods surrounding FOMC meetings and of caution at other times. Moreover, it has been made clear that any future leak from an FOMC meeting will be followed up very aggressively—by a full investigation that will include gathering sworn statements from all attendees.

As to whether I personally played a part in past leaks of FOMC information, I can assure you that I have never knowingly released to the press or to other members of the public any information about the results of an FOMC meeting prior to the formal, scheduled release. I would include one footnote to this statement, however. From time to time, I have briefed members of various Administrations about the outcomes of FOMC meetings, because that knowledge could assist them in the formulation of government policies for which they have responsibility. This qualification has not, however, been a relevant one over the past year or so, as the Federal Reserve has not altered its instrument settings.

I trust the problem of leaks is behind us. If I am wrong about this, the FOMC's policy on delayed disclosure of decisions will have to be reevaluated. Should we have to change our policy as a result, it would be unfortunate, for I firmly believe that a shift to prompter disclosure of the substance of our deliberations will adversely affect our discussions and decisions and therefore monetary policy itself.