

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF MONETARY AFFAIRS

Date: December 16, 1992
To: Federal Open Market Committee
From: Donald Kohn *DK*
Subject: Response to Chairman Gonzalez on Videotaping etc.

Attached is a draft letter to Chairman Gonzalez, responding to his letters to the Chairman and to the presidents on the subjects of videotaping, detailed minutes, and accountability for views and votes.

I would appreciate receiving any comments you might have by next Tuesday afternoon.

D R A F T
December 16, 1992

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

My letter to you of October 22 noted that I wanted to consult with my colleagues on the Federal Open Market Committee before replying to your questions and suggestions to me and to the Reserve Bank presidents concerning how proceedings at Federal Open Market Committee meetings are reported to the public.

Our discussions revealed broad agreement on three themes. First, that a public body like the Federal Reserve needs to operate under a presumption in favor of releasing information unless there is a compelling reason not to do so. Second, that the FOMC already makes available a good deal of information about its deliberations and votes in the "record of policy actions" released with a lag of about six or seven weeks. This document contains not only the directive, but also an extended summary of the Committee's discussion of economic developments and monetary policy. Third, that the overriding objective of the FOMC is to arrive at the best policy for our nation's economic welfare, and that anything that might impair our ability to move in this direction must be avoided.

Against this background, Reserve Bank presidents and Board members see serious drawbacks to releasing at any time a literal record of FOMC deliberations--through videotaping or other means such as word-for-word transcripts. They also perceive important

disadvantages from publishing a very detailed accounting of FOMC discussions in any form sooner than several years after they occur. The major concern is the effect of such release or publication on the deliberative process--the free flow of information and ideas essential to policymaking. In the course of their policy discussions, FOMC members use a wide array of information, some of it supplied on a confidential basis, for example by individual firms or foreign central banks. Uncertainty about whether such information could be kept confidential would reduce the willingness of outside sources to provide it to us and would inhibit members in sharing the information they are able to obtain. In addition, members need to feel free to trade ideas, question assumptions, make projections, speculate on alternative policies and possible outcomes, and especially to change their views in response to the arguments of others. Discussions would be circumscribed and constrained by the prospect that the details of individual arguments would be published when the issues and positions still had the potential to influence markets. If a tape or transcript were to be made public, members would need to be even more circumspect since each statement would appear as uttered in the heat of discussion and subject to being taken out of context. This would not be an environment conducive to a full airing of all sides of an issue and to bringing all available information to bear on decisionmaking.

With regard to accountability, members noted that the record of policy actions already gives a comprehensive summary of the main points made in the course of Committee discussions. This record is reviewed by Committee members before it is released to the public. Affirmative votes are reported, and it is a reasonable

presumption that those voting with the majority generally share the basic analysis in favor of that decision. To be sure, nuances may exist among members in the majority, but if they are important such nuances are reported in the policy record. Members who dissent file statements giving the major reasons for their vote.

The issues that you raise are important to the conduct of monetary policy and the understanding by the public and its elected representatives of that policy. The Federal Reserve has these and other closely related issues under continuing review.

Sincerely,



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ALAN GREENSPAN
CHAIRMAN

December 16, 1992

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In your letter of December 1, you raise a number of questions regarding the Federal Reserve's treatment of the ranges for monetary growth. One involves how the public is to read our intentions. If the broad money aggregates were reliably related to spending and inflation over time, our ranges for their expansion would be a good measure of the intended thrust of monetary policy, and we could make their behavior the determinant of our posture in supplying reserves to the banking system. Since we believe there are good reasons to question how the M2/spending relationship is evolving, we look at a wide variety of information in formulating policy, including, but not confined to, that involving the various different measures of money growth. The extraordinarily rapid expansion of M1 and the monetary base this year, in the context of weakness in the behavior of M2 and M3, reinforces the notion that unusual crosscurrents are affecting financial markets and the pattern of intermediation.

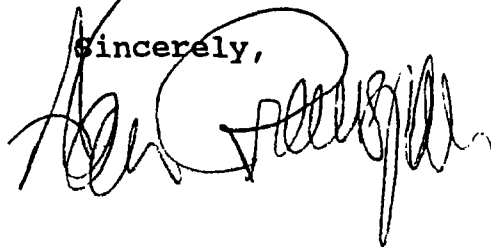
In these circumstances, what we say in our testimonies and reports to Congress, as well as our actions themselves, will be important methods of conveying our intentions. With regard to the treatment of the M2 range and the value of this aggregate in formulating policy, most of the points made in my recent letter to you were already contained in my testimony before the House Banking Committee in July. In that testimony, I noted that changes in the pattern of finance related to the extraordinary balance sheet adjustments occurring in our economy had depressed the broad monetary aggregates relative to spending, complicating their use in policy. I talked about the uncertainties in the outlook for velocity, and remarked that if velocity showed little further increase, money growth within the 1992 and tentative 1993 ranges would be consistent with noninflationary economic expansion. But if unusual velocity increases were to persist, growth

The Honorable Henry B. Gonzalez
Page Two

around or even below the lower ends of the ranges would be implied. In the event, velocity has continued to move higher, M2 and M3 look as if they are coming in at or below the lower ends of their 1992 ranges, and the Federal Open Market Committee will have to consider whether an adjustment to the ranges for 1993 to take account of the strictly technical factors affecting the relationship of money to income is appropriate.

I hope you have found these comments useful.

Sincerely,

A handwritten signature in black ink, appearing to read "Henry B. Gonzalez". The signature is written in a cursive style with a large, prominent loop at the end.