CONFIDENTIAL (FR)

To: The Federal Open Market Committee Subject: Possibility of

reducing time lag in publication of FOMC policy records from 90 to 60 days.

From: The Secretariat

This memorandum, prepared in response to a question raised by Mr. Brimmer at the March 10, 1970, organizational meeting of the Federal Open Market Committee, considers the desirability of reducing the lag for the release of the Committee's policy records from the current 90 days to 60 days. The following matters are briefly discussed: (1) the considerations originally leading to the choice of a 90-day lag; (2) the experience under that procedure with the kind of directive employed prior to January, 1970; (3) considerations under recent directives placing greater stress on the monetary aggregates; and (4) changes in administrative arrangements likely to be necessary if the lag is to be reduced to 60 days.

Our conclusion is that it would not be desirable to reduce the publication lag to 60 days, assuming that (1) in formulating its policy decisions the Committee continues to specify targets for the monetary aggregates for three months or so ahead, and (2) the records are to include reasonably specific information on these targets-reporting them in quantitative terms at least for quarterly periods (as in the records for the meetings since February of this year). On these assumptions, there would be some appreciable risk that publication of the records with a lag of only 60 days could have

undesired effects on financial markets. In our judgment this risk would outweigh the undoubted advantages, in terms of serving the spirit of the Public Information Act, of shortening the lag.

The original choice of a 90-day lag

The so-called Public Information Act (Public Law 89-487) was approved on July 4, 1966, and became effective July 4, 1967.

The Federal Open Market Committee considered the effect of the Act on its procedures at a number of meetings in the first half of 1967, prior to revising its "Rules Regarding Information, Submittals, and Requests." One issue examined was the length of the time lag, if any, that might be desirable and legally defensible in the publication of information on the Committee's policy actions, in view of the new law's provision that such information should be "currently" published. The Committee's General Counsel expressed the opinion that some delay could be justified; he noted that the Justice Department Manual prepared for the guidance of Government agencies in complying with the Act indicated that the law did not require any disclosure that would impair the effectiveness of an agency's statutory functions.

The various arguments that were advanced in favor of a lag, or of some particular lag, can be summarized as follows. "Premature" release of a policy record might have undesired consequences insofar as it led the market to modify its judgment about the Committee's

current policy stance. If the change in expectations was sufficiently marked, it could result in such sudden movements in securities prices as to interfere with the orderly functioning of financial markets.

But even short of this result, premature release could reduce, if not destroy, the Committee's ability to implement policy changes gradually. It could also reduce the Committee's ability to "probe" in a particular policy direction in the expectation of backing off if circumstances so dictated.

Such consequences would be especially likely if release of the policy record occurred very soon after a meeting, or at least before the following meeting. But they could also ensue even if one or more subsequent meetings occurred before publication--so long as the information released (a) contained some element of news (b) which the market believed was relevant to current policy.

Also noted was the possibility that release with too short a lag might lead the market to make <u>incorrect</u> inferences regarding the policy in effect at the time of release--with undesired results of a different kind. For example, if events since the meeting had differed from Committee expectations as described in the record for the meeting, observers might conclude that the Committee had shifted policy in a particular direction at subsequent meetings. If such conclusions were erroneous the Desk's ability to achieve the Committee's actual current objectives would be impeded; and market conditions might

fluctuate sharply as participants first acted on the basis of wrong judgments and then came to realize their error.

Obviously, the longer the lag in releasing the policy records the less likely that they would serve as the basis for inferences-correct or incorrect--regarding the current stance of policy. At the same time, as the Committee's Counsel noted, the longer the lag the more difficulty might be encountered in defending it as consistent with the requirements of the Public Information Act.

Judgments differed as to whether the appropriate lag was 60 or 90 days—the only two possibilities seriously considered. \(\frac{1}{2} \)

Some Committee members thought that a 60-day lag would probably prove sufficient, but that caution suggested beginning with 90 days since it would be easier to shorten the original lag than to lengthen it. Others thought that a lag of 60 days probably would be adequate in the great majority of cases, but felt that the possibility that a longer lag might occasionally be needed argued for its regular use. The Committee's final decision in favor of 90 days was made on the understanding that the lag could always be reduced to 60 days at some later time if that should prove desirable.

^{1/} A staff memorandum noted that the process of orderly drafting, review, revision, and final approval of the policy record would tend to consume close to 60 days, so that that period might be considered the minimum from a practical point of view if current procedures were to be maintained.

Experience through 1969

Experience from mid-1967 through the end of 1969 demonstrated that a 90-day lag in the release of policy records was ample for the purpose of avoiding undesired market effects. We have not undertaken a detailed meeting-by-meeting review to determine whether there might have been such effects under a 60-day lag because we believe that the conclusions would not be decisive for the future, given the recent change in Committee procedures. However, staff both at the Board and at the Trading Desk are doubtful that any major market problems would have been created in this period by a 60-day lag.

Considerations under current procedures

Since the beginning of 1970 it has been the practice of the Committee to adopt targets for the money stock and the adjusted bank credit proxy extending roughly three months into the future.

Presumably, as a matter of historical accountability, the policy

^{1/} A 60-day lag for some meetings in 1966 might well have produced problems. For example, on August 23 of that year the Committee issued a directive that represented the culmination of an increasingly restrictive policy course, calling for "supplying the minimum amount of reserves consistent with the maintenance of orderly market conditions and the moderation of unusual liquidity pressures." The economic climate changed rapidly in the weeks following and by October 22--60 days later--the Manager was seeking to ease money market conditions under the proviso clause of the then-current directive. Publication of the August record at that time might well have complicated the Manager's task.

^{2/} Targets were specified through the first quarter at the meetings of January 15 and February 10, and through the second quarter at the meetings of March 10, April 7, and May 5. The "longer-run objectives" referred to in the directives issued at the meetings of May 26 and June 23, 1970 were specified through the third quarter.

record should continue to include reasonably specific information on these targets -- reporting them in quantitative terms at least for quarterly periods. If so, a reduction of the publication lag to 60 days would mean that the record was released at a time when the period for which the targets were reported still had a substantial time to run. For example, if the March 10 record had been published on May 9, more than 7 weeks would have remained of the (second-quarter) target period; and if the May 26 record were to be published on July 25, more than 9 weeks would remain of the (third-quarter) target period. From knowledge of the quarterly targets for the aggregates and information on their actual performance thus far in the quarter, the market could be expected to draw inferences about the likely nature of System operations over the rest of the quarter. These inferences might or might not be correct, but in either case they could well create difficulties for operations. It is for this reason that we would recommend against a reduction in the lag to 60 days. $^{1/2}$

The intensity of these problems might be reduced by omitting from the record any quantitative information on the Committee's

^{1/} Some such difficulties are likely to arise even under a 90-day publication schedule, but they should be more manageable-both because the residual part of the target period, if any, would be a month shorter and because there would have been one more intervening meeting, raising the odds from the market's point of view that the earlier target was no longer relevant.

targets, perhaps limiting their descriptions to terms--such as "modest" or "moderate" growth--of the sort used in recent directives. If such a course were adopted primarily to make a 60-day publication schedule feasible, the cost to the public in terms of loss of information probably would outweigh the gain in terms of speed of reporting.

There may be other arguments for avoiding quantitative descriptions of the targets, but these should be weighed against the risk that the result would be a sequence of records suggesting that the Committee rarely if ever changed policy.

Administrative considerations

The present level of staffing in the FOMC Secretariat function has been more or less adequate under a 90-day publication schedule. However, problems have arisen from time to time in connection with vacations or other absences, and in recent months demands on available staff have been such as to lead to a backlog of work on policy records for extended periods.

An analysis of policy record processing schedules by half years from mid-1967 through 1969 indicates that in none of those five six-month periods would the staff have been able to prepare and clear all policy records within 60 days. Rough calculations suggest that, for the whole period, the average elapsed time before the records could have been released was about 70 days.

It is evident that additional resources would be required in this area before the staff could implement a decision to shift to a 60-day publication schedule. Some simplification of current clearance procedures might also prove necessary.