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TO: Federal Open Market Committee DATE: November 12, 1982

FROM: Messrs. Axilrod and Sternlight SUBJECT: Immediate Release of FOMC Decisions: Pros and Cons

In response to a suggestion by Governor Teeters, this note summarizes pros and cons of immediate release of the FOMC policy directive rather than waiting until three days after the next meeting, as is now done. Technically, immediate release of the Committee Directive to the Trading Desk would be relatively easy to accomplish. The Directive is only a few paragraphs and the present operative language -- the growth rates for the aggregates and the Federal funds consultation range--is brief. It is assumed in the points that follow that a "policy record" summary of discussion and background on the Committee's decisions would continue to be published with some lag--at a minimum, of about three weeks--to allow time for its preparation and circulation to Committee members for comment before publication. Votes of individual members would probably have to be released along with the directive, however; so that the votes would appear prior to full explanation.

Points in favor of immediate release

(1) In a democratic society the public has a right to know as promptly as reasonably possible the important government economic and financial decisions that affect them. Indeed, it can be said that "information delayed is information denied." Delay should be permitted only if there is overwhelming evidence that immediate release would be detrimental to the processes of policy formation and implementation, and to the over-all workings of the nation's financial markets and the economy. The timing of the release of the policy record, including the Directive, has been moved up in recent years in recognition of this principle. Semi-annual

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decisions on the annual targets are now disclosed relatively promptly. There have been no ill-effects from these moves and the public has been better served as a result. The logical next step in this process is immediate release of short-run FOMC decisions, which would allow people to make financial decisions with maximum available information. (Discount rate and reserve requirement decisions, of course, are by their nature necessarily disclosed immediately).

(2) Immediate release would avoid the problem of premature leaks of FOMC decisions. Unauthorized disclosure, whether accurate or not, is not only an embarrassment, it is inevitably unfair. Some learn of the information before others and may profit from it. Disclosure of incomplete or inaccurate information can be particularly damaging, setting off exaggerated reactions that may not even be consistent with the thrust of the Committee's decisions.

(3) The first few instances of immediate release might generate special market attention and some unwarranted reactions, but after a while it is reasonable to expect market responses to most Committee decisions to be fairly smooth. Interest rate movements following meetings now involve a searching process to find the rate levels consistent with expected or perceived policy. Immediate release would aid the search process and thus could well improve the transmission of policy. From time to time the Desk's efforts to produce increases or decreases in borrowings or money market pressures have been retarded by market perceptions that no change in policy or operations has taken place. Alternatively, the market sometimes concludes that a change in market pressures is being implemented when this may not be the case. Immediate release of FOMC directives would

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provide the market with better information on which to base judgments about current Desk actions, thus reducing the likelihood of misjudgments.

At times, an unexpected Committee decision could have a sizable market impact when announced, but at least it would be an impact in the intended direction. Moreover, under present reserve-targeting procedures it seems less likely that decisions would generate large reactions than in earlier days of interest-rate targeting.

(4) Under existing publication shcedules, the public learns about the M1 and M2 objectives for a particular quarter about half way through the quarter. (For example, the June-September growth rates established at the July meeting were released right after the August meeting.) There does not seem to be any adverse market consequence from having this information known while the last month and a half of the quarter unfold. The market's ability to deal well with information about the quarter at the midway point suggests that similar information early in the quarter could also be handled satisfactorily.

(5) Large institutions now devote extensive resources to divining FOMC policy. The average businessman, small investor, or consumer cannot devote comparable resources to this search and they are at a consequent disadvantage in making their consumption/savings or investment decisions.

(6) Immediate release of the directive would reduce the criticism that the Federal Reserve tends to excessive secrecy. While the Merrill suit was decided in favor of the Federal Reserve, it might be harder to defend delayed disclosure in the future, in part due to the change in operating procedures.

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Arguments against immediate release

(1) Immediate release might affect the policy formation process adversely. The glare of press attention would be quite intense before and right after the meetings. Immediate responses to the decision would be sought from the Administration and Congress. Decision-making would inevitably take place in a more political environment. The announcement of decisions during the period covered by those decisions would allow time for public and political pressure to build up--e.g. there could be Congressional hearings or Presidential statements--to temper or reverse those decisions. Politically difficult decisions would be easier to postpone. It would also be more difficult to avoid providing information such as the staff GNP or interest rate forecasts that might be thought to be a basis for the decisions.

(2) With its decisions so quickly known the Committee might become reluctant to risk moves--such as a substantial change in a federal funds rate range--that could be followed by substantial "announcement effects." Or the Committee may become unwilling to undertake probing or tentative steps because the possibility that some might need to be reversed would undesirably affect the public's confidence in the System's policy process. The implementation of policy would become less effective.

(3) Market scrutiny of Desk activity would be no less intensive with immediate release than it now is, as commentators sought to determine whether the activity is consistent with stated policy. Indeed, any seeming deviation would call for explanations to reassure market participants that announced policies were still being followed--thus inhibiting the flexibility of policy implementation over an intermeeting period.

(4) An institutional response to these problems might be to reduce the information content of the released Directive. Specific numbers

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on growth rates might give way to vague statements about "more rapid" or "less rapid" growth over the "near term"; the funds rate range might be eliminated or narrowed. The Committee could develop a tendency to operate more on the basis of unwritten understandings rather than the relatively straight-forward directives now in use.[1/]

(5) The market response to unexpected decisions at regular or interim meetings could be highly exaggerated. Even if a sizable response is justified on the basis of the decision, it may occur so abruptly as to be detrimental to the orderly functioning of the market. With a delay in the release, there would be time to implement decisions in a deliberate and orderly fashion, with discretion to take account of new information as it develops during an intermeeting period.

(6) Publication of the Directive, without the background of the policy record to put the Directive in its appropriate context, could lead to much greater, and unwarranted, concentration on the specific numerical content of the Directive. In its summaries of the discussion and the reasons underlying Committee decisions, the policy record provides the background from which market participants can make better informed judgments about the significance of the specific content of the Directive.

1/ In the wake of the Merrill suit, the Committee in December 1977 considered how the directive might be structured in case court rulings required immediate release. The report of a subcommittee at that time, under the policy approach then taken, suggested that at least initially the funds rate range be kept small, to ½ percent, and that the directive include a sentence authorizing the Manager to take account of emerging financial market conditions in carrying out the Committee's decision.