

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF MONETARY AFFAIRS


Date: January 21, 1994
To: Federal Open Market Committee
From: Normand Bernard *NB*
Subject: Memoranda from Chairman Greenspan and Mr. Kohn

Confidential (FR)

Class II -- FOMC

Attached are short notes on FOMC meeting procedures by Chairman Greenspan and Mr. Kohn. In his note, the Chairman also refers to the issue raised by certain public comments by FOMC members and notes the possibility of discussing one or both matters at the next FOMC meeting.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: January 21, 1994
To: Federal Open Market Committee
From: Chairman Greenspan 
Subject: FOMC Meeting Procedures

I would like to bring to your attention the attached memo I received from Don Kohn on procedures at FOMC meetings. I also had been concerned over the tendency Don discusses and agree that policy discussions might benefit if we keep in mind the points Don raises.

I might also note that recent public statements of FOMC members seem to have drifted toward very specific, often numerical, forecasts of the economy, with implicit or even explicit implications for monetary policy. Such statements can tend to lock people into policy positions before FOMC meetings. Moreover, we have noted before the difficulty people have in differentiating the individual speaker from the FOMC as a whole. (And, I am told, some market observers are interpreting some of the numerical forecasts as those of the staff in the Greenbook.) Clearly, public discourse on the economy benefits from the participation of informed, thoughtful observers, like FOMC members, and the public should be aware of factors the Federal Reserve is looking at in weighing its policy

options. Still, we need to be careful about the specificity of our forecasts and their policy implications.

If anyone wishes to, we could discuss either of these issues further at the next meeting.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF MONETARY AFFAIRS

Date: January 21, 1994
To: Chairman Greenspan
From: Donald Kohn *DJK*
Subject: FOMC Meeting Procedures

Several members and staff observed to me at the last FOMC meeting that a number of members (more than usual) were including specific and strongly stated policy recommendations in their discussion of the economy in the first go-around--a practice they thought detracted from the deliberative process. I noticed the same thing, and share their concerns.

Policy prescriptions naturally flow from analysis of the economic and financial trends. However, announcing that prescription before everyone has had a chance to speak implies little, if any, weight on the points others might raise in their discussion of the economy or policy options, narrows the scope for the give and take essential to good policy formulation, and may complicate the Committee's ability to reach consensus later in the policy discussion. It may be that the difficult nature of policy choices at this time has prompted the return to early recommendations, but this situation would seem also to put a premium on hearing out all relevant considerations before taking a position.

I remind you that in the past one factor motivating this practice was said to be concern for getting policy prescriptions on the table before you made your recommendation, which then became the standard for others to agree with, "settle for", or

reject. Obviously, if you feel strongly about a specific policy course, you need to let other members know this. But, as I noted the last time this issue arose, having you give a range of options when feasible, even while expressing a preference, might help to open up the policy discussion a little.