

A *Corollary* OF *Accountability*:

A HISTORY OF FOMC POLICY COMMUNICATION



By: *Tim Todd*

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EXECUTIVE SUMMARY

The Federal Reserve's Federal Open Market Committee (FOMC) currently operates with a level of transparency unthinkable for much of the Fed's history. Until 1994, the FOMC did not issue a policy statement until weeks later, forcing market participants to closely monitor the activities of the Fed's open market trading desk in hopes of determining if the Fed was adjusting monetary policy.

Today, the FOMC issues not only a lengthy policy statement, but also releases minutes, quarterly projections and holds press conferences. The Fed also has a process for making available FOMC meeting transcripts.

In recent years, the annual transcript releases have attracted significant levels of media and public interest because they offer insight to the Fed's deliberative process during the credit crisis, recession and a period of unprecedented policy action.

Although Fed policy calls for making the transcripts available after five years, because of the way that the policy is implemented – releasing a full calendar year of transcripts at a time – and the fact that there is no established release date, significant portions of the transcripts are actually unavailable to the public for six years.¹ Occasionally, it has been suggested that the Fed might consider shortening this lag. In this regard, it is worth noting that the FOMC processes for the public release of post-meeting statements and meeting transcripts were simultaneously implemented in 1995. Since then, post-meeting statements have evolved and provide a higher level of disclosure and are periodically accompanied by a press conference. In the meantime, the transcripts continue to be released under the original schedule.

GREATER TRANSPARENCY

In 1993, there were two catalysts that forced the FOMC to improve its disclosure policies:

- Political pressure from Texas Rep. Henry Gonzalez, chair of the House Banking Committee (House Committee on Financial Services) and long-time Fed critic;
- A series of what appeared to be possible press leaks out of policy meetings.

¹ For example, all of the 2010 FOMC transcripts were released to the public on January 2016. The 2009 FOMC transcripts were released on March 2015. The 2008 transcripts were released in February 2014.

Gonzalez became head of the House Banking Committee in 1989, but had been a vocal Fed critic for his entire House career. As head of the Banking Committee, he was able to push more aggressively on the central bank by challenging its practices and requiring a thorough investigation. He wrote a seemingly endless stream of letters to Fed Chairman Alan Greenspan and others – sometimes multiple letters in a single day – requesting documents and reports. Meanwhile, he similarly flooded the press with news releases critical of the central bank, particularly accusing the Fed of not doing enough to stimulate the economy.

Virtually at the same time that Gonzalez took over the Banking Committee, the FOMC began having a problem with what appeared to be press leaks about policy actions. The FOMC was not publicly announcing policy decisions until six weeks after each meeting, but accurate and detailed reports about Fed policy directives began appearing on the front page of *The Wall Street Journal* only a few days later with some regularity. It is unclear how many were actual leaks as opposed to the press determining policy directives based on the activities of the Fed's open market desk, but the press accounts and the possibility that they were based on leaks became an increasing problem for the Fed's credibility.

By 1993, the Fed was under significant pressure to address the process for publicly disclosing its policy actions. Meanwhile, the public revelation that the FOMC held 17 years' worth of old FOMC meeting transcripts was a surprising discovery even to many of the Fed's other top officials and introduced an additional challenge for policymakers.

It is a wonder how this confluence of events did not open the door to Congressional action –offering Gonzalez a chance to achieve his overall goal to give the government more direct control over the central bank. However, in 1993, the Fed had two factors very strongly in its favor:

- The economy;
- The White House.

While the Fed had been criticized for not doing enough to prevent the 1990-91 recession, by 1993, the economy was well into recovery mode. After posting negative Gross Domestic Product (GDP) growth in 1991, GDP grew 3.6 percent in 1992 and was on pace for 2.7 percent growth in 1993. Stocks, meanwhile, ended 1993 in the 38th month of a bull market with most key indexes posting double-digit percentage gains for the year. Consumer confidence, which had

dipped as low as 63.9 during the recession, was much improved and would open 1994 at 94.3, as measured by the University of Michigan Index.

Given the strength of the economy, it is not surprising that President Clinton had little interest in criticizing the Fed. Clinton went so far as to send Gonzalez a letter in September 1993 expressing concerns that the proposed legislation “run(s) the risk of undermining market confidence in the Fed.”²

Clinton also supported the Fed in his public comments.

“Does anybody in his right mind think we would do anything to change the independence of the Fed,” Clinton asked rhetorically at a 1993 year-end press luncheon.³

Following Clinton’s lead, other influential House Democrats similarly opposed Gonzalez’s efforts.

While the Fed had its political allies, they would not prevent the Fed from an inevitable reality: circumstances forced a change in the FOMC in policy announcements and the Fed made the transcripts publicly available.

Understandably, given the Fed’s history of its policy work being done out of the public eye, and the risk of unintended consequences, many Fed officials were reluctant to embrace these changes. On the issue of the policy statement, Fed officials worried that that they might introduce instability to the markets. However, left unsaid at the time was that secrecy had almost become something of a policy tool – what Greenspan later called “constructive ambiguity.”

“The idea was that markets, uncertain as to the direction of interest rates, would create a desired large buffer of both bids and offers,” he said in 2007.⁴

This view carried over to the policy statements. Issued weeks after they had been superseded by new policy directives, for much of the public it remained unclear what the statements meant. As a result, an entire cottage industry had emerged with individuals deciphering what the Fed was saying for a fee.⁵

² Gonzalez wrote letters to more than just Fed officials. In the spring he sent Clinton a letter complaining about salary increases for Fed employees.

³ *The Washington Post*, Dec. 12, 1993.

⁴ Greenspan, Alan, *The Age of Turbulence*, New York, The Penguin Press, 2007.

⁵ Among them were former Fed officials. Wayne Angell, for example, left the Board of Governors in 1994 and promptly began charging clients \$100 a minute for his insight on Fed policy.

For example, the policy statement issued on Feb. 8, 1991 announced that “the Committee seeks to decrease slightly the existing degree of pressure on reserve positions, taking account of a possible change in the discount rate. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period.”⁶

Here’s what actually happened: the Fed dropped the fed funds rate 25 basis points the week before Christmas and opened the door for additional cuts before the next FOMC meeting. Those cuts, in fact, occurred with a 25-point cut on Jan. 9 and a 50-point cut on Feb. 1. As a result, while close market watchers and participants may have known what had happened, by the time the public was able to read the statement, the Fed had slashed the fed funds rate by a total of 100 basis points – most of that in moves the public would not learn about until weeks later.

Greenspan said that there was a growing realization within the Fed that it was going to have to become more open with its policy announcements, but it was not moving as quickly as Gonzalez would have liked.

In regard to the transcripts, even now it remains unclear exactly who was aware of what was going on and precisely when they became aware. It appears some of the governors were aware of the transcripts for quite some time – likely years – while at least some of the Fed presidents seemed to learn of them only when Greenspan was preparing to address the issue with the House Banking Committee. This created at least some sense of betrayal among the FOMC members who were unaware. According to the transcripts, it appears that several committee members signaled their displeasure by talking about how their predecessors were being treated unfairly with seemingly private remarks about to be made public.

In many ways, moving ahead with the transcript release – although the event itself had virtually no negative impact on the Fed – was a much more difficult and painful issue for the Fed to resolve than the policy announcement question.

“I was opposed to the idea of throwing these meetings open. The FOMC was our primary decision-making body,” Greenspan said later. “If its discussions were made public, with the

⁶ FOMC record of policy actions for the Dec. 18, 1990 meeting, issued Feb. 8, 1991. p. 16-17.

details of who said what to whom, the meetings would become a series of bland, written presentations. The advantages to policy formulation of unfettered debate would be lost.”

FOMC members had some very real concerns about the implications of making their private deliberations public. Gonzalez was pushing for creating a videotape that would be released to the public in as little as 60 days – something that would virtually prevent any type of true policy deliberation without creating market volatility and likely political pressures on individual FOMC members.

Even with a long delay in releasing transcripts, Fed officials were concerned that their open discussion would turn meetings into a more formal and scripted affair. This fear was borne out, at least partially. Even a casual reader of transcripts will see a more formal tone from many FOMC members after they become aware of the transcript process.

With these types of concerns, it is not surprising that the Fed’s eventual disclosure policy seemed focused on keeping the transcripts under wraps as long as possible. While several committee members suggested a three-year lag would be sufficient, the Fed opted to hold onto the transcripts for five years – primarily because Greenspan and others felt it was the longest period of time that the Fed could hold them and still have support from the Department of Justice should the Fed receive a Freedom of Information Act (FOIA) request.

For the Fed, the most substantive change that resulted from sharing its transcripts is that it took away a little bit of the central bank’s mystique. Many newspaper reports compared the event to the pulling away of the curtain in the Wizard of Oz. Reading the transcripts, the public found not some powerful group of wizards controlling the economy, but a meeting of individuals doing their best to understand the economy and foster its stability.

AUTHOR'S NOTE

Much of this paper relates to FOMC deliberations occurring over a 14-month span starting in fall 1993 and continuing through early 1995. The focus is on issues related to policy communication, disclosure and transparency. It does not, however, detail all of the nuances associated with some of these issues. For example, this paper does not recount in detail deliberations focused on specific wording of press releases or debate about the types of information that would be redacted from the public transcripts – all issues that received considerable discussion from the FOMC. Additionally, the Fed over this period was faced with a number of other matters well beyond the public disclosure issue, including a Clinton administration proposal to consolidate banking regulation under a single entity, an effort by the U.S. Attorney General's Office to address lending discrimination, and an emerging Mexican peso crisis. These events receive only a passing, if any, mention in the paper. For the Fed, however, all of these issues, along with the usual monetary policy deliberations, demanded significant attention.

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“The mystique thrives on a pervasive impression that Central Banking is an esoteric art. Access to this art and its proper execution is confined to the initiated elite. The esoteric nature of the art is moreover revealed by an inherent impossibility to articulate its insights in explicit and intelligible words and sentences. Communication with the uninitiated breaks down. The proper attitude to be cultivated by the latter is trust and confidence in the initiated group’s comprehension of the esoteric knowledge.”

*-- Karl Brunner
The Art of Central Banking, 1981*

“You know, there’s one thing that I’ve become accustomed to in my life at the Federal Reserve, and that is, no matter what you do, you’re going to get some criticism.”

*-- Federal Reserve Chairman Arthur Burns
FOMC meeting, April 20, 1976*

The revelation in the early 1990s that the Federal Reserve’s Federal Open Market Committee had been producing detailed transcripts of policy deliberations for years was one of the most significant events in the Fed’s communication history.

For the Fed, which was then facing a harsh congressional critic at the head of the House Banking Committee, the revelation of the transcripts and a recording system used to create meeting audio tapes brought about more than a few comparisons to former President Richard Nixon and the Watergate scandal.

The Fed began producing detailed records of FOMC meetings from the time of the first FOMC meeting. In the early days, the FOMC relied on stenographers and others to produce

minutes. The recording system, meanwhile, was installed in 1966, but it is not clear that it was utilized until years later. It is believed that the taping and transcribing process that resulted in the production of detailed meeting reports may have started in late 1973 or early 1974.⁷

But while the Nixon tapes confirmed the suspicions of Nixon's many critics, the FOMC tapes and transcripts helped to disprove incorrect notions held by some of the central bank's critics about what happened in closed-door policy sessions.

Looking back, it seems clear that the drive to keep these documents out of the public view caused far more problems for policymakers than anything revealed in the transcripts. If the Nixon tapes raised the curtain on an abuse of power at the highest levels, the FOMC transcripts revealed top Fed officials doing their jobs, absent the type of machinations and motivations that some expected to find.

A FIRST STEP

The process by which the FOMC communicates its policy decisions and how it informs the public about the reasoning behind those decisions has changed dramatically over the Fed's history. For more than 30 years after the FOMC's current structure was created with the Banking Act of 1935, the FOMC only communicated its policy actions annually. What was known as the Record of Policy Actions, which appeared in the annual report's appendix, provided very little detail and offered virtually no insight related to deliberations. In the 1936 annual report, for example, the FOMC's four 1936 meetings each received about two pages of very general commentary.

This was, of course, not the only record of FOMC deliberations. The FOMC also maintained meeting minutes that were more extensive in their coverage of the meetings. These minutes were written from a third-person perspective and often included many specific details, attributing specific policy views to individual FOMC members. While these documents are not transcripts, and do not include direct word-for-word remarks, they are extremely detailed.

It is probably not unreasonable to think that the first person to accuse the FOMC of being too secretive was voicing that opinion before the ink was dry on the 1935 legislation. And it is likely that Rep. Wright Patman was that person.

⁷ David E. Lindsey, "A Modern History of FOMC Communication: 1975-2002." Federal Reserve.

Patman, who began what would be a nearly 50-year House career in 1929, is the Fed's original critic, and his attacks on the central bank are legendary. Less than three years after Congress created the modern FOMC structure balancing government and private-sector interests, Patman proposed legislation that would have eliminated the Fed's public/private structure. Among other things, Patman wanted to expand the Board of Governors and make the 12 Federal Reserve Banks a single government-owned institution.

Given that Patman was pushing a wide range of initiatives to change the Fed, it is probably not surprising that he played a role in bringing additional transparency to the FOMC in the 1960s. It was a first step that eventually led to the FOMC sharing its meeting transcripts with the public 30 years later.

In January 1964, a subcommittee of the House Banking Committee that Patman chaired requested the FOMC's internal minutes for meetings held from 1960 through 1963. This was not the first time that the Fed had received this type of request. In fact, the Fed had actually granted a similar request in the past. In July 1961, the FOMC provided its 1960 meeting minutes to the Joint Economic Committee (JEC), also chaired by Patman, with the provision that the records not be shared publicly. The JEC, in turn, gave the minutes to John G. Gurley, a Stanford economics professor, and Asher Achinsein, a specialist in legislative reference services at the Library of Congress. Together, the pair wrote a 74-page digest of the minutes for the JEC that was at least partially leaked to the press, making headlines nationwide.

In 1964, the FOMC ended up denying the initial request for the documents from 1961 through 1963 after consultation with the U.S. Treasury about issues related to foreign currency discussions in the minutes. The decision was supported by Treasury Secretary C. Douglas Dillon.

Patman reiterated his request in a second letter, and the FOMC denied it a second time with a lengthy letter from Fed Chairman William McChesney Martin that talked specifically about the problems that occurred with the 1960 minutes.

"You ... said that when you had the 1960 minutes you 'had to ask the staff to explain them, so we got two of the best experts in the United States, and they were going to interpret them for us and tell us what they meant,' but unfortunately it 'took them nearly a year,'" Martin wrote, alluding to comments Patman had made publicly about the Gurley and Achinsein report. "Let us suggest that there is an easier and more effective way: tell us what you are looking for, and we will see if we cannot get you the answers more quickly than that."

However, in a move that likely surprised Patman, in the next paragraph Martin wrote that the FOMC was going to make the minutes for all FOMC meetings prior to 1961 available to the public by depositing them in the National Archives.

“This will serve the needs of both the Congress and students of monetary policy, without running the risk of disclosing matters sufficiently current to be damaging to the public interest,” Martin wrote.

RELEASING THE EARLY DOCUMENTS

While reviewing the 1964 request from Patman, Martin said he believed that the FOMC was either going to have to begin sharing more information or present the information it was sharing in a different form. While he did not think it was an immediate issue for the Fed, he expected that pressure on the Fed to make more information publicly available was only going to increase in the future. In fact, the 1961 request from Patman had prompted discussion among FOMC members about possibly publishing minutes from “some appropriate past period.”⁸

While the 1961 discussion did not advance, Martin had raised the issue with the FOMC during a Dec. 3, 1963 meeting. At that time, it was Martin’s view that releasing FOMC minutes from 1951 through 1960 would “be a worthwhile way of making public ... how the Committee operated.” While Martin realized such an unprecedented move could create some challenges for the FOMC, he believed it was a price worth paying. Martin believed that “a great many people misunderstood the nature and the conduct of the Committee’s meetings. Publication of the minutes would not completely dispel such misunderstanding, but it would give a better basis for understanding than was now available in published materials.”⁹

Although Martin did not expect there to be significant public interest in the documents, the timeframe he suggested was purposefully selected because it encompassed the period around the Treasury accord – something that he thought would be of public interest. While some on the FOMC had seemed willing to consider the idea previously, Martin’s suggestion was not warmly received. Many thought the documents would do little good in educating the public while potentially inhibiting policy deliberations. If the Fed was going to release the documents, a lag

⁸ FOMC meeting minutes, July 11, 1961.

⁹ FOMC meeting minutes, Dec. 3, 1963.

would be necessary – suggestions ranged from 3 to 25 years. Martin eventually convinced the FOMC to support his position on the old documents.

THE FREEDOM OF INFORMATION ACT

Two years later, President Lyndon B. Johnson signed the Freedom of Information Act (FOIA), which went into effect the following year. Fed officials were concerned that the new legislation was going to force them to make the detailed minutes available more quickly than they preferred. A five-year lag had now essentially become policy for the minutes, but that period might now be too long.

To address this concern, the FOMC decided to split the minutes into two documents in 1967:

- The Minutes of Action (minutes) which were very general – almost an administrative-type document – including only attendance and a few paragraphs about any policy action. This document would be used to satisfy FOIA requests.
- The Memorandum of Discussion (MOD), which contained most of the content that would have been in the original version of the minutes – essentially a meeting narrative that might be 100 pages in length.

Under this system, the minutes and the Record – which included some economic data and a very general economic commentary – were released about 90 days after each meeting, while the MOD was released after a five-year lag.

The Fed's solution to the FOIA problem ran into a legal challenge in 1975 when David R. Merrill, a student at Georgetown University Law Center, filed a lawsuit after the Fed had denied him access to the Records and MODs from the January and February 1975 FOMC meetings. The Fed argued that the MOD fell under a FOIA exemption protecting “agency memoranda” from disclosure while the Records’ release was acceptable under the requirement for prompt disclosure.

The courts felt otherwise, with both the U.S. District Court and the U.S. Court of Appeals ruling in Merrill's favor. One of the key issues for the courts was that the Fed's document release schedule meant that meeting documents were only available after the next meeting was held. As

a result, the FOMC “never currently publishes its Domestic Policy Directive, but rather publishes one which is outdated.” The courts said that factual material must be released to the public more promptly.¹⁰

While the litigation was moving through the court system, the FOMC reworked its schedule, cutting the release lag for both the Record and the minutes (which were not part of the Merrill suit) to 45 days. Meanwhile, a subcommittee under the leadership of Gov. Philip Coldwell was assigned the task of looking at the Fed’s options for its detailed records.

Among the various options, the Coldwell committee suggested an essentially expurgated version of the MOD that would contain only what the FOMC hoped the court would view as the “reasonably segregable factual portions” of the document – the content they would have to disclose. Areas of deliberation or speculation would not be included.

However, after reviewing the proposal, some Fed officials became concerned that the new MOD said too little. Then-Fed Chairman Arthur Burns worried that, once the document was stripped of the deliberations, it looked like the FOMC was doing very little other than reviewing the data.

“(I)t’ll be on Capitol Hill before long and I can (imagine) the derogatory statements that might be made on Capitol Hill,” Burns told his counterparts during a March 1976 FOMC meeting.¹¹ “This is what that Committee (does). They sit around, and they talk, and what they know and the number of facts they consider is very scanty.”

Burns was also afraid that this new MOD would only lead to new lawsuits, where the Fed would once again have to defend its deliberations. Fearing that that the mere existence of the MOD in any version could become a legal issue – and recognizing that the Fed had already spent a lot of time in the courts on the current lawsuit – Burns favored eliminating the MOD and replacing it with what would be a “new and more elaborate” version of the Record.¹²

The new Record, released more promptly, Burns told the FOMC, “would go a long way toward meeting the charge ... that the Federal Reserve operates in an atmosphere of secrecy.”

¹⁰ Merrill, David R., 1976, Plaintiff v. Federal Open Market Committee of the Federal Reserve System, Defendant. Memorandum opinion. U.S. District Court for the District of Columbia, Civil action no. 75-0736.

¹¹ Transcript of FOMC meeting, March 29, 1976.

¹² Transcript of FOMC meeting, April 20, 1976.

While the Record might appease the courts, at least some at the FOMC meeting were concerned about the message that would be sent to the public.

“I can live without (the MOD) very easily,” then-New York Fed President Paul Volcker told Burns. “The only question in my mind is whether, on balance, it helps or hurts us in terms of basically defending ourselves in the present situation, when we may be subject to the accusation – as nice a face as you try to put on it, we are hiding more than we are revealing against the hope and expectation that they get the policy.”

As Burns was trying to keep FOMC deliberations secret, the House of Representatives was completing its work on the Government in the Sunshine Act. Although the legislation, did not impact how the Fed handled the records of its policy meetings, it put the Fed in a somewhat awkward position -- even if the Fed could satisfy the court with the new Record, the public’s expectations were likely going to be changing. Despite that likelihood, and the concerns voiced by Volcker, the FOMC agreed with Burns’ proposal to eliminate the MOD and begin issuing both the new Record and minutes documents six weeks after each FOMC meeting in May 1976.

As expected, the new Record was not the old MOD. Instead of providing specific details, the document relied heavily on statements such as “a number of members felt,” and “other members leaned toward,” instead of talking about individual positions. Even in size, there was no comparison. For example, the Record for the January 1977 FOMC Meeting was 31 pages, or nearly 100 pages shorter than 123-page MOD created after the FOMC meeting held a year earlier.

As far as the Merrill case was concerned, the FOMC appealed the decision to the Supreme Court, arguing the case on several points related to the earlier release of information having a potential negative impact on issues ranging from unfair speculation to the possible risk of inappropriate market reaction.

Allan Meltzer, professor of Political Economy at Carnegie Mellon University and author of an extensive and detailed Fed history, later called the Fed’s positions in the case “a mishmash.”¹³

¹³ Allan Meltzer, *A History of the Federal Reserve, Volume 2, Book 2, 1970-1986*. Chicago: University of Chicago Press.

“We cannot know that the lawyers and economists who made these arguments believed them; possibly they were the best arguments they could muster to support the secrecy policy,” Meltzer wrote in 2009.

Surprisingly, the Supreme Court found in the FOMC’s favor, viewing the policy statement as essentially the government’s version of a market order being sent to a broker. The court vacated the decision and remanded the case to the District Court, noting specifically the potential damage to monetary functions or commercial interests. The District Court eventually ruled in the FOMC’s favor in June 1981.

While the Fed won in court, the decision to eliminate the MOD became a target for Fed critics and sowed the seeds of another far more complicated challenge for Fed officials.

POLICY LEAKS

Pressure on the Federal Reserve to bring additional transparency to the monetary policy process continued through the 1970s and 1980s. Heading into the 1990s, Congress took an increasingly active look at possible ways to reform the Fed. In 1989, Rep. Lee Hamilton sponsored legislation to return the Treasury secretary to the Federal Reserve Board. Two years later, Sen. Paul Sarbanes introduced legislation that would strip the Federal Reserve Bank presidents of FOMC policy votes.

In 1993, Texas Congressman Henry Gonzalez, chair of the House Banking Committee scheduled a series of hearings focused on his goal of remaking the nation’s central bank.

“I am very determined about reforming the Fed,” Gonzalez told a *New York Times* reporter. “This is no subterfuge. If the Fed became more accountable to the public on its own, it would be a cause for celebration.”

Gonzalez had a long history as a vocal critic of the Fed in the tradition of Patman before him and Ron Paul after him. In 1985, Gonzalez had tried to impeach then-Fed Chairman Paul Volcker along with 10 other members of the FOMC. That effort was in addition to a separate initiative focused on Volcker individually.¹⁴

¹⁴It was not the first effort to impeach Fed officials. In 1917, Rep. Charles Lindbergh, Sr. sought impeachment of five members of the Board of Governors. In 1933, Rep. Louis Thomas McFadden sought impeachment against a long list of current and former government officials. Among them were 20 current and former Federal Reserve employees, including the presidents of all 12 Reserve Banks.

The legislation Gonzalez proposed in 1993 would have implemented many of the changes suggested by Fed critics for generations, including making Reserve Bank presidents presidential appointees and auditing the Fed.

Among Gonzalez's many criticisms was the elimination of the MOD – a matter he said that he was particularly troubled by. As a result, he wanted to increase FOMC transparency by forcing the FOMC to release meeting minutes within a week of each policy session. In one of the many letters he wrote to Fed Chairman Alan Greenspan, Gonzalez suggested installing video cameras in the FOMC boardroom and making FOMC meeting video tapes available to the public after a two-month lag.

While many of Gonzalez's ideas found little support even among his political allies, he was not alone in being frustrated about the Fed's communication practices.

At the time, the FOMC was not announcing its policy actions until six weeks after each meeting, but the markets and the public were often learning of the decision much sooner. *The Wall Street Journal* reported on one-third of the FOMC policy decisions within one week of the FOMC meetings between March 1989 and May 1993.¹⁵ These reports were not only accurate, but in some cases they included an extremely high level of detail about what had unfolded behind the Fed's closed doors.

A few different theories emerged on the leak issue. In one instance, Fed Governor Wayne Angell admitted that an unnamed Fed official had made "a slip" in talking with a *Wall Street Journal* reporter after a meeting, inadvertently revealing what policymakers had decided.

During one FOMC meeting, Greenspan said that he believed in at least some cases, the "leaks" were actually reporters closely monitoring public comments from FOMC members prior to the meetings and then drawing their own conclusions. In the post-Watergate era, Greenspan said reporters were far more aggressive and savvy than they had been when the Fed chairman was at the Council of Economic Advisors.

Regardless of who was to blame or how it was happening, the FOMC now faced two distinct but related challenges with communication:

- How to disclose policy actions in a way that addressed the leak problem;

¹⁵ *The Wall Street Journal*, Oct. 20, 1993.

- How to disclose the process that led to those policy actions in a way that might head off some of the ideas Gonzalez was putting forward.

Not surprisingly, disclosure became a topic during FOMC meetings and resulted in the creation of a subcommittee to explore the issue.

Fed officials generally recognized the need for increased transparency, and some expressed a desire to begin coming up with solutions rather than having to react to the ideas of Gonzalez and others. A number of ideas were considered, including hosting a press conference – an idea that was probably almost unimaginable at the time.

At its March 1993 meeting, the Committee moved toward what it hoped might be a solution, combining the minutes and Record into a document titled Minutes of the FOMC which would be released on the Friday after the subsequent FOMC meeting.

It was not going to solve any problems.

PREPARING FOR CONGRESS

Heading into the fall of 1993, Gonzalez asked all of the Fed’s governors and Bank presidents to appear together before his House Banking Committee to discuss his pending legislation. In his invitation letter, Gonzalez said the House Committee was trying to determine “whether to require a full and timely accounting of each of the FOMC meetings,” and said he wanted FOMC members to provide the panel with:

- A detailed description of any notes they had taken;
- A description of any notes or records they were aware of others making;
- Any information about the release of FOMC prior to the official post-meeting statement.

Under the House Committee schedule, Greenspan was scheduled to testify alone on Oct. 13, and the full FOMC would appear together on Capitol Hill the following week.

The FOMC convened an Oct. 5 conference call to discuss the hearings. Greenspan said he was not trying to get a uniformity of views, but wanted to keep everyone informed on his plans for testimony. Among other things, he told the FOMC that he was against both an immediate release of the policy announcement and also against making available any recording or transcript of FOMC deliberations.

Greenspan also shared with the Committee his plans for answering Gonzalez's advance questions, which would be addressed during the second hearing. In response to the question about being aware of the notes or records of others, Greenspan was going to tell Gonzalez that he was aware that FOMC meetings were being recorded by the secretariat for use in preparing both the minutes and unedited meeting transcripts, which were kept by the secretariat. The tapes, Greenspan would say, are then recorded over during the subsequent policy meeting. He also added that his answer would "reveal that raw materials still exist for drafting MODs going back a number of years."¹⁶

Those taking part in the call apparently either did not understand what Greenspan had told them or did not grasp its significance. Instead of talking about transcripts or the tapes, the discussion turned to the idea of bringing back the MOD, which many opposed because they felt it would inhibit deliberations.

The existence of the old transcripts came up again with the FOMC during another preparatory call. This time, the FOMC members understood what Greenspan told them.

"The main problem that we have, as I think most if not all of you know by now, is that fairly recently [we became aware that] we have raw, unedited transcripts going back ... 10-plus years," Greenspan told the committee early in the call.¹⁷ He went on to say that there may be mistakes in the transcripts including misheard comments or things not clearly understood.

"They are clearly, wholly inappropriate things to make available (to the public)."

Greenspan's announcement was a revelation for least some FOMC members.

Chicago Fed President Silas Keehn told Greenspan he would now have to go back and rewrite his prepared testimony based on what he had just learned.

Philadelphia Fed President Ed Boehne, who was a senior vice president in the mid-1970s and attended FOMC sessions around the time that the MOD was eliminated, said it had been his understanding that recordings were made only to assist in preparing the minutes. He had been under the impression that there were no transcripts and that the tapes were recorded over during subsequent meetings.

¹⁶ Transcript of FOMC call, Oct 5, 1993.

¹⁷ Transcript of FOMC call, Oct 15, 1993.

“The rules, as it turned out, are different from what people have proceeded on for roughly the last 15 years,” Boehne said. “Now, whether or not that would have made a difference in terms of what people said, who knows? But the point is that this is essentially ‘new news’ and at least violates, I think, what was common knowledge or what was thought to be common knowledge by the Committee as to how we were to proceed in the post-Memorandum days.”

Greenspan told the Committee that he had only learned about the transcripts a year earlier in what he called “a sort of indirect way.” He said that he thought that their existence was common knowledge.

“I did not become aware that it was not common knowledge until very recently,” the chairman said.

Later, Greenspan said while he had been aware that recordings were being used to prepare the minutes, he had only learned while preparing his testimony for the Gonzalez hearing that the staff had been keeping complete, unedited transcripts of FOMC meetings dating back to the 1970s.¹⁸

INTERLUDE 1: WHY DID THE FED KEEP THE OLD TRANSCRIPTS?

At the time of their apparent early-1990s discovery, the transcripts were stored in four locked file drawers not far from Greenspan’s office.¹⁹ At some point, likely in April 1976, someone on the Board of Governors staff put a 43-page document in one of those drawers, or a drawer very much like it, a first step in creating what is now the world’s most widely-available and detailed record of central bank policy deliberations.

It is not an accident that the oldest available transcript of an FOMC meeting is from the March 29, 1976 executive session. The meeting opens with a discussion about the then-unfolding Merrill litigation and how to satisfy the court. The Coldwell committee had recommended the approval of the revised MOD at an earlier FOMC meeting and while some members had suggestions for possible changes, the recommendation for a new MOD was

¹⁸ Greenspan, Alan, *The Age of Turbulence*, New York, The Penguin Press, 2007.

¹⁹ *The Washington Post*, Nov. 13, 1993.

generally supported. At the March 29 meeting, however, Burns began to make the case to do away with the MOD, spelling out what he saw as the risks.²⁰

While Burns eventually won over the Committee's support to his position on doing away with the MOD, he was not convinced that it was really the end of the MOD. As a result, he told Fed staff to change the procedure with the transcripts. Instead of getting rid of them, the transcripts would be kept; at some point they might have to begin producing MODs for past meetings.²¹

After that, no one stepped in to change the process. Stephen Axilrod, who had been the Fed's top staffer on monetary policy through 1986, later said he tried to get someone to approve getting rid of the transcripts during his tenure but no one would do it and he would not make such a move independently, especially in an era where government recordings and their destruction had been in the spotlight.

"No one would authorize the destruction. It all got mixed up with the publicity of the Nixon tapes," Axilrod said.²²

MORE GOVERNMENT TRANSPARENCY

Through the 1960s and 1970s, key changes in the FOMC's disclosure policies aligned with significant changes in government regulations related to public transparency. In the 1960s, it had been FOIA and in the 1970s it was Government in the Sunshine. In 1993, it happened again. In early October, the Department of Justice announced a complete reversal in how it would handle future FOIA requests. Attorney General Janet Reno said that there would now be "a strong presumption for disclosure." The move, part of the Clinton Administration's Openness in Government Initiative, essentially reversed a more defensive policy put in place during the Reagan Administration.

²⁰ A few years later, lawmakers actually considered legislation to block the premature publication of detailed Fed minutes. The bill was offered several times and gained House approval in 1979 but could not pass the Senate. Lawmakers gave up on the issue in 1984.

²¹ This series of events is based on a number of conversations and findings by Walker Todd that are detailed in a footnote to David E. Lindsey's paper "A Modern History of FOMC Communication: 1975-2002"

²² The Washington Post, Oct. 27, 1993.

There are provisions under the Act that allow documents to remain sealed. The DOJ announcement, focused on the specific exemption that would have, only a few years earlier, likely allowed the Fed to keep the transcripts hidden.

“The Justice Department’s view is that the agencies in this town have placed too much reliance on (the exemption) ... They’ve used it too much, and they’ve used it inappropriately; and that is exactly what this new policy is aimed at,” Fed General Counsel Virgil Mattingly explained during the FOMC’s October 15, 1993 conference call.

Effectively, the change meant that, even if the FOMC made it through the upcoming House hearing without further discussing the transcripts, this was an issue that the Fed was going to have to address. An eventual FOIA request was likely inevitable.

Interestingly, near the Oct. 15 call’s end, Greenspan makes a lengthy observation that is, in itself, a very strong case in favor of making transcripts publicly available.

“You know, the more I listen to this conversation, strangely, the more I feel comfortable about discussing this sort of thing,” Greenspan told the FOMC.²³ “Let me tell you why. What was disturbing me in Wednesday’s (Congressional appearance) is this extraordinary view – unexpressed really – that there is something clandestine about the FOMC. It’s interesting that Bill Greider in his book (“Secrets of the Temple: How the Federal Reserve Runs the Country”) conveys that; but in his most recent testimony, somehow after talking to a number of people of the FOMC, he has changed his mind. In fact, he was basically arguing before the Banking Committee the other day that one of the reasons why this should be eventually released, even though with a lag, is that it is very educational for the public as to what, in fact, the crucial choices are on the issues of economic policy. What a discussion by us of the pros and cons of making transcripts, Memoranda of Discussion, or other things available would bring forth very clearly, as indeed it has today, is the crucial nature of the give-and-take we have [at FOMC meetings] and the means by which we reach a consensus for the directive to the desk up in New York.

“My impression is that the nature of the debate and the differences amongst us are all in the context of proper public policy. The fundamental premise underlying all of it is what, in fact, is the case – namely, that there is no special interest stuff going on in this group. It’s not an issue

²³ Transcript of FOMC call, Oct. 15, 1993.

of there being representatives of private interests or public interests. It does not sound, I must tell you, like some of the caucus meetings that go on up on the Hill or other things in which exactly that is going on. This is literally an academic endeavor to get at the best policy.”

Greenspan talked about the environment he had encountered during his solo appearance before the House panel, almost as a warning to the rest of the FOMC.

The representatives, he said, seemed prone to ignoring his answers.

Specifically, he noted questions from Wisconsin Rep. Toby Roth, who accused the Fed of not publishing a budget. Greenspan happened to have the 66-page Fed budget with him at the time, held the document up and said he felt it was the “most detailed budget of expenses” he had seen from any federal agency. Roth ignored the response.

“What we are confronted with here is a very peculiar degree of nonrationality,” Greenspan said. “It’s not irrational; it’s nonrational.”²⁴

Things were about to get nonrational.

THE SECOND GONZALEZ HEARING

FOMC members agreed that Greenspan would raise the issue of the transcripts in his prepared statement.

“The meetings are reported electronically by the FOMC secretariat,” Greenspan said in his opening testimony at the Oct. 19 hearing. “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 the 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.”

As might be expected, the discussion did not end there.

Later in the hearing, Gonzalez asked Greenspan for additional information about the recordings:

²⁴Transcript of FOMC call, Oct. 15, 1993.

Gonzalez: But today's testimony by Chairman Greenspan reveals to me, at least, that the FOMC meetings are tape recorded. As far as I know, I had not been aware of that, or know of anybody else that had been aware of that. I don't think we had been previously informed that there were these tape recordings. What I am going to ask is if any of you knew or know about these recordings being made when you submitted your written testimony for today's hearing, or are you unaware that tape recordings of FOMC meetings are customarily being made. Can you tell me exactly of any tapes of FOMC meetings now in existence that you know about? I would be glad to hear from any of you.

Greenspan: Mr. Chairman, may I clarify that?

Gonzalez: Certainly.

Greenspan: In my remarks, what I indicated was that the FOMC staff, in the preparation of the minutes, takes a recording for purposes of getting a rough transcript, but the tapes are taped over. In other words, we don't keep the actual tapes themselves. We do not have electronic recordings of the meetings.

Gonzalez: I am a little bit confused here. In other words, you have no tape recordings of the actual proceedings?

Greenspan: We have them only – as far as I know, what the staff does is, in order to assist its presentation and preparation of the minutes, it takes recordings but then tapes over them so they are not available thereafter.

Gonzalez: Well, I am glad my staff doesn't. Of course, I don't know that I would grant that much blanket authority.

Gonzalez then began talking about the leak problem.

Later in the hearing, New York Rep. Maurice Hinchey sought clarification from Greenspan about the recording process and the meeting minutes.

Hinchey: As I understand it, there are tape recordings taken of the meetings by staff. Those tape recordings serve as the basis for the preparation of the minutes that are released a month or so later after the next meeting. And in the interim, those tapes are then taped over so that no permanent record exists in that way. Is that correct?

Greenspan: There is no permanent electronic record. That is correct. We obviously do have rough notes –

Hinchey: You make recordings but the recording is taped over?

Greenspan: That is correct.

Hinchey then began talking about the review process for the documents.

Despite these exchanges, the issue of the recordings and the transcripts received very little attention immediately after the hearings. In the following morning's edition of *The Wall Street Journal*, coverage of the meeting appears on page 16 and focuses primarily on the fact that Fed officials strongly opposed the changes Gonzalez was seeking. As far as the transcripts are concerned, their only mention comes in the final sentence of the next-to-last paragraph of the story: "(Greenspan) also said the Fed staff prepares unedited transcripts of the meetings."²⁵

Two days after the hearing, Gonzalez sent Greenspan a letter citing the exchange with Hinchey and asking about "tape recordings, unedited transcripts, and any other records of FOMC meetings that are maintained."

Absent from the request, however, was the urgency that the issue would soon take on for Gonzalez.

INTERLUDE 2: "NONRATIONAL" BEHAVIOR

The October 1993 exchange between Greenspan and Gonzalez that lacked the fire that would come in the weeks ahead was actually the second time that a Fed chairman told an extremely vocal Fed critic in the U.S. House of Representatives that the FOMC was recording meetings on audiotapes.

In 1975, Patman, who was then chair of the Subcommittee on Monetary Policy, wrote to Burns once again seeking any unedited FOMC meeting minutes or transcripts. Burns responded with only the meeting minutes, prompting Patman to write back with a more detailed request to make sure Burns understood. Patman also specifically wanted to know about the process used for capturing what happened in the meetings. He said he had heard that the FOMC utilized a handful

²⁵ *The Wall Street Journal*, Oct. 29, 1993.

of individuals to take detailed notes of the deliberations and he suggested that there was a better alternative.

“Is there any reason why a stenotypist or a tape recorder is not employed so a verbatim transcript can conveniently be made of the proceedings which is similar to those prepared for Congressional hearings?” Patman asked in his April 11, 1975 letter.

Burns responded a week later, saying that the FOMC would consider the request and then offered some insight on the process that was used to keep a record of what happened in the sessions.

“Over the years, we have experimented with various means of recording the proceedings at meetings of the FOMC, including note taking, stenotyping and tape recording. Currently, we are employing a combination of note taking and tape recording. In any event, the materials are disposed of when they have served their purpose...”²⁶

It is almost impossible to understand how the issue of the taped meetings and transcripts did not erupt after this written exchange. Only months earlier, the nation saw a president forced from office due in large part to what was revealed on previously secret recordings. Patman’s committee, in fact, played an important role in trying to uncover the source of the \$100 bills found on the Watergate burglars.

For whatever reason, however, the matter was apparently pursued no further. In June, the FOMC ended up denying Patman’s request, pointing him instead to all of the information the Fed had made available and noting that only a month earlier, the Supreme Court had issued a ruling protecting the government decision-making process related to a lawsuit between the National Labor Relations Board and Sears, Roebuck & Co.

Interestingly, when the FOMC voted to reject the request, Gov. Jeffrey Bucher had cast a lone dissenting vote.

“Mr. Bucher expressed the view that the Federal Reserve should do everything possible to counter the frequent charge that it was unduly secretive and that it should, on its own initiative, reduce the lag with which the FOMC memoranda of discussion were made public ... to one year,” reads the MOD from the FOMC’s May 20, 1975, meeting.

²⁶ David E. Lindsey, “A Modern History of FOMC Communication: 1975-2002.” Federal Reserve.

Other members said that the committee might consider reviewing a change “at an appropriate time.”

POWER OF THE PRESS

While Patman seemingly did not grasp what he had learned in 1975, Gonzalez had media reports to make sure he understood what was said almost 20 years later.

David E. Lindsey, a Fed official who was involved in the deliberations, later wrote that the transcripts rose to the level of becoming a significant issue only after the publication of an Oct. 22 article on Wires Washington, a weekly analysis of Fed and the U.S. economy written by Christopher Whalen. Whalen, who previously worked for the House Republican Conference Committee and had also spent three years as a financial analyst at the New York Fed, provided what, to that point, appears to be the first substantial media coverage on the transcripts:

“Officially, the Fed says that it re-records over the same tape used to prepare summary minutes of the FOMC’s monetary policy sessions and that no other electronic records are maintained. But Gonzalez and his veteran staff hear increasingly from insider sources that, contrary to the party line from Fed’s bureaucratic mandarins in Washington, a nearly complete set of verbatim written transcripts does exist of the FOMC’s secret deliberations. According to one source, Fed Governor Wayne Angell has used old transcripts when preparing for FOMC meetings. The same source claims that the documents stretch back to the era of Fed Chairman Arthur Burns ...

“The existence of a body of transcripts comes as stunning surprise to both Fed insiders and outside academics familiar with the issue.”²⁷

On the same day, after apparently reading Whalen’s piece, Gonzalez sent two letters to Greenspan. The first letter was very brief asking Greenspan not to destroy any of the “extensive records of FOMC meetings.” The second letter is a long list of questions, where Gonzalez notes he was “surprised to learn from your testimony for the first time about the practice of recording FOMC meetings and keeping transcripts.” Similar letters were sent to other hearing participants saying that they had failed to disclose the recordings and transcripts and asking them to respond with additional information about the recordings.

²⁷ David E. Lindsey, “A Modern History of FOMC Communication: 1975-2002.” Federal Reserve.

Meanwhile, Greenspan had convened another conference call, this one focused on a proposal that Mattingly, the Fed's general counsel, had put together where the FOMC would bring back the MODs and begin preparing them going back to 1976. Under the plan, once the MOD was finished and approved, "the transcript for that meeting could be dispensed with." The proposal also suggested the FOMC might seek legislation preventing the release of MODs until after a three-year lag.²⁸

Committee members generally supported Mattingly's proposal, although Kansas City Fed President Tom Hoenig doubted that it would satisfy the now growing demand for Fed transparency.

"The idea of transcripts is now out there; and they exist. ... I get the impression that the only thing that will be acceptable is, in fact, some form of transcripts, verbatim nearly," Hoenig told the Committee. "I have the sense that the Memorandum of Discussion now would probably not be well received."

Greenspan said rather than try to figure out how the MOD "will be received or not received," the Committee should focus on "what's the right thing to do," and suggested that the MOD might be superior to the transcripts "for the purpose of getting across the central, major discussions..."

As far as the transcripts, Greenspan said he was concerned about accuracy and that they did not go through the type of preparation or review process that might have been involved had they initially been prepared with the idea of an eventual public release. He was also concerned about the fact that those participating in the discussions had held the assumption during those meetings that their comments would remain private. By the end of the call, the Committee had agreed that Mattingly would talk with the Department of Justice (DOJ) about the issue.

Gonzalez, meanwhile, continued to escalate the issue. Without a response from Greenspan to his most recent letters, Gonzalez issued a press release on Oct. 26 to announce he was opening an inquiry to determine if the Fed was trying to intentionally mislead Congress about the existence of the transcripts.

²⁸ Virgil Mattingly Memo to the FOMC, Oct. 21, 1993.

While the initial mention of transcripts may have barely made it into a story buried in *The Wall Street Journal*, Gonzalez's press release, where he said the Fed was maintaining "a code of silence" turned the issue into front page news nationwide.

Greenspan responded with a letter, also shared with the press, that said comments from Fed officials during the Oct. 19 hearing "cannot reasonably be construed to have confused or misled" the Banking Committee. Greenspan said that he had informed the FOMC about the tapes and transcripts during conference calls on Oct. 5 and 15 and that he had also told them that he would testify on them because the documents were created and held by Board of Governors staff. That, he said, is what happened during the hearing.

A couple days later, Whalen reported that he had learned some Fed staffers were trying to work out a resolution to the issue in private. The deal that Whalen reports is difficult to understand – it is either incorrect or it shows that the Fed was extremely concerned about the transcripts.

"Interestingly, the Fed Board of Governor's staff in Washington has engaged in quiet negotiations in order to fashion a legislative 'compromise' that would leave the board nominally autonomous, while further restricting the independence of the regional banks," Whalen wrote. "This would do greater damage to the Fed's independence than would releasing FOMC transcripts.

"The Fed's 'independence' comes, in large part, through the regional Federal Reserve Bank presidents, who are removed from the day-to-day influence of Washington's political stew. Whereas the Fed's board in Washington can be relied upon generally to toe the line from the White House and the majority party in Congress, the regional bank chiefs, who are appointed by privately-elected boards of directors of each Federal Reserve Bank, are genuinely feared because they occasionally tell the truth in public, a mortal sin in Washington."

LIMITED CHOICES

Gonzalez sent Greenspan another letter on Nov. 9 demanding the transcripts from all FOMC meetings since 1976. His letter was in addition to ten FOIA requests that the Fed had recently received from scholars and the media.

The FOMC's regularly scheduled Nov. 16 policy meeting began with an update from Mattingly about informal conversations he was having with the DOJ.

It was his view that the DOJ would, in fact, defend the Fed if it sought to keep the documents sealed, at least for meetings held in more recent years.²⁹ Determining the timeframe was still a question and, obviously, the older documents would not be protected.

Mattingly had also explored the possibility of destroying the old transcripts and replacing them with a MOD-type document, but that idea was unlikely to proceed. The transcripts, however, were covered under the Federal Records Act, which put them under the purview of the National Archives. Not surprisingly, the Archives had significant reservations about destroying the documents.

As was the case every time that the FOMC was confronted with the disclosure issue, the Fed once again faced a choice: It might be able to come up with something to pass legal muster, but that solution would likely fall short in the court of public opinion.

Don Kohn, FOMC secretary and economist and also director of the Division of Monetary Affairs, talked about that issue with the FOMC.

“There is an important ... class of considerations that has been highlighted by the hearings and their aftermath – that is, the public’s perception of the FOMC information release process, and the implications of that perception in the political sphere. The Fed was already viewed as insufficiently open – and our reasons for current practices somewhat inscrutable – by many in the press, Congress, and the markets,” said Kohn, who later served as Fed vice chairman.³⁰ “The existence of the transcripts has no logical bearing in terms of the effects on markets and monetary policy of what we do going forward, but it has heightened public and Congressional awareness of current practices and seems to have placed additional pressures on us either to change practices or to come up with more convincing explanations.”

Greenspan, with what some might consider unusual clarity, told the FOMC that with the older transcripts the Fed’s “choices are extraordinarily limited.” The documents could not be destroyed and the older transcripts would eventually lose any legal protection related to FOIA. However, a possibly bigger issue was that Gonzalez’s committee could subpoena the documents

²⁹ David E. Lindsey, “A Modern History of FOMC Communication: 1975-2002.” Federal Reserve.

³⁰ FOMC meeting transcript, Nov. 16, 1993.

and the Fed would be left essentially powerless to do anything except hand them over. The House Committee could then release them publicly if Gonzalez so desired.³¹

Much of the rest of the Nov. 9, 1993, meeting is filled with discussion about what to release from the past and how to proceed after future meetings. Kohn presented the Committee with a full range of options from releasing the past transcripts to the National Archives after 30 years, which was the government standard, to a shorter period of perhaps five years, as was done with the MOD.

The idea of the five-year lag for the old meeting transcripts gained support after Greenspan suggested that he also believed five years was a timeframe the DOJ would support.

“Basically, it’s a judgment call,” Greenspan said.³² “I think it’s a question essentially of what types of FOIA requests we may get and what the Justice Department would be willing to support us on. My guess is that five years is an easy one and would be more appropriate than 10.”

Greenspan also suggested that, going forward, the Fed might want to return to the MOD, which would be issued after a three-year delay. The shorter lag, he said, is because participants would know during the deliberations that their positions will eventually become public. The two-year difference between the older meetings and those going forward might seem difficult to understand more than 20 years later, but throughout the process, FOMC members repeatedly voiced their anger about what they believed to be private comments by their predecessors being made public.

“I think it’s tragic that the rules can be changed and people’s rights can be reversed ex post facto, that’s my most important concern,” said Fed Governor Lawrence Lindsey. “In that regard, I would prefer that the (transcripts) never be released. Failing that, I would prefer 30 years; failing that, I’d prefer 29 years. My 26th choice would be five years. How does one function in a world where there are no property rights and laws can be changed willy-nilly?”

Their predecessors, at least the ones talking with the press, were not as concerned.

³¹ Gonzalez had, in fact, subpoenaed Fed documents previously related to bank examinations. In those cases, Fed officials said Gonzalez had been careful and not publicly released information.

³² FOMC meeting transcript, Nov. 16, 1993.

“I’m not worried about what they will show,” former Richmond Fed President Robert Black told *The Washington Post*.³³ “In those discussions, everyone had the best interests of the country in mind. ... They are as apolitical as anything could be.”

After giving all of the FOMC members a chance to comment on the various options that had been suggested, the FOMC agreed to release the old transcripts with a five-year lag.

As far as the approach for transcripts from future meetings, the issue was far more complicated and would involve not only what type of document the FOMC wanted to issue, but when that document would be released.

In regard to the first question, the Committee was evenly divided across the three options:

- Complete transcripts, which would be lightly edited;
- The resumption of the MOD, which some argued was more informative than the transcripts because it focused on key points and eliminated extemporaneous comments;
- Enhanced minutes, which might provide additional details about which members supported particular positions but possibly to a lesser degree than the MOD.

The three options reflected the general concern voiced during the discussions that the key issue to address first was the question of attribution. Recognizing that there was essentially a three-way tie among all the options, Greenspan changed the subject to the one that he said actually needed to be resolved before all of the others: Were they going to turn the tape recorder off?

If they decided to stop the tape immediately, then that would eliminate the transcript option. However, Greenspan also recognized, that stopping the tape was an almost impossible move politically and, at the very least, perhaps more reactionary than the chairman felt was necessary.

“I will just tell you that my own view is that this is the wrong time to turn off the tape,” Greenspan said. “There may occur a later time when that is a desirable thing to do. I think it’s premature. It’s an action at this stage that I don’t think is warranted.”

The comment was similar to one that Minneapolis Fed President Gary Stern had made earlier in the deliberations.

³³ *The Washington Post*, Nov. 13, 1993.

“I don’t think this is the right time, frankly, to change our procedures with regard to taping and transcripts,” Stern said. “In a way, I think that would be self-defeating in the sense that while we’re trying, essentially, to be more open, that would give the appearance, at least, that we were becoming less open.”

After more than 3½ hours of discussion, the Committee delayed the decision on how it would handle future meetings. The tape continued to run.

OUT WITH THE OLD

Greenspan notified Gonzalez that the transcripts older than five years would be made available after editing to correct obvious errors and redact confidential information related to businesses, individuals or foreign central banks. The FOMC had agreed that the first transcripts to be released would be the most recent – those from the 1988 policy meetings – because, the Committee assumed, those would be the most in demand.

As far as the process for meetings going forward, Greenspan said the Fed needed more time.

Gonzalez called the measures “wholly inadequate.” He also revealed to the press that he held what he called “detailed notes” from the Oct. 15 FOMC conference call where Fed officials discussed “how to evade full disclosure of FOMC transcripts.”³⁴ While the authenticity of those notes was questioned in some early press reports, the documents did, in fact, come from Cleveland Fed President Jerry Jordan. The notes and a memorandum were prepared by Edward Stevens, an assistant vice president and economist at the Cleveland Fed. Jordan had provided them to Gonzalez in response to the congressman’s investigation on the day the first Wires Washington article had appeared.

Gonzalez continued increasing pressure on the Fed. On Dec. 3 he asked for both the tape and the transcripts from the Oct. 15 call. A few days later, he told *American Banker* for its Dec. 8 edition that the Fed reminded him of Nixon and the Watergate scandal:

“First they stonewalled and then they started lying.” Gonzalez later said he was not calling Greenspan a “liar” but he stood by the Watergate comparison.

³⁴ *The Bond Buyer*, Nov. 16, 1993.

Greenspan wrote Gonzalez a letter on Dec. 16 noting that: “the record obviously shows that you and the committee were informed of (the transcripts) existence. Thus I am unable to understand how you could suggest we concealed the information.

“I find your accusations of improper conduct by myself and my colleagues – in the face of facts absolutely to the contrary – to be inexplicable and distressing.”

The word “distressing” might also describe the environment at the FOMC’s next meeting held on Dec. 21. In addition to Gonzalez’s continued public positioning and demands, the Clinton administration in late November unveiled a proposal to remake the nation’s bank regulatory structure. Under that proposal, the regulatory duties fulfilled by the Fed and the other regulators would become the responsibility of a new Federal Banking Commission.

All of this appeared to be on the brink of spilling into the Fed’s monetary policy deliberations. At the time, the FOMC was heading towards its first policy tightening since early 1989 when the fed funds rate stood at 9¾ percent. Since then, the economy had been through a recession and a prolonged period of policy easing, with the fed funds rate at 3 percent – a level that was exceptionally low compared with the historical standards at that time.

While a rate hike was largely seen as approaching on the horizon, some outside the Fed were beginning to suggest that the FOMC might end up holding off on a move to try to reduce some of the political pressure it was facing from Democrats.³⁵ During the Dec. 21 FOMC meeting, however, some suggested that a move higher at that time – earlier than many expected – might actually be a way of showing the market that the Fed was not losing focus on monetary policy despite the growing outside distractions.³⁶

Greenspan told the FOMC it was imperative that they keep the “variable and many” pressures distinct from the policy deliberations.

“(W)e cannot trade off in any way the policy prescriptions that we decide at this table on the grounds that some other event is occurring which might change our view,” Greenspan told the Committee. “Monetary policy is our primary responsibility; everything else is secondary.

³⁵ *The New York Times*, Jan. 25, 1994.

³⁶ Aside from the issues with communication, Gonzalez was also focusing on the Fed’s poor record in hiring and promoting women and minorities, including releasing a study of the issue. Additionally, Attorney General Janet Reno had been critical of the Fed for not doing enough related to her efforts to uncover lending discrimination.

And we should isolate this activity in the central bank from all other issues over which we are going to be on the battlefields.”

Greenspan then told the FOMC that he believed they should grant Gonzalez’s request to allow his staff to hear the tapes from the Oct. 15 call. The Fed would also invite others from the minority party to listen as well in hopes of preventing Gonzalez’s team from taking comments out of context or attempting to mislead the public about what they’d heard. Greenspan said that he made the recommendation with some reluctance, and that it would likely not bring any resolution to Gonzalez’s attack on the Fed, but that it was an important step in addressing how the rest of Congress and the public might be viewing the Fed based on Gonzalez’s recent comments.

“(T)he type of environment in which we exist, as I’ve indicated previously, is one in which there is a deep-seated suspicion of this institution. It’s regrettable, but I guess it comes with the turf,” Greenspan said. “I think it’s important that we put the notions of that particular conspiracy behind us.”

The FOMC supported Greenspan’s recommendation.

A Banking Committee staff member from each party came to the Fed’s office in January to listen to the recording. As might be expected, the fact that the Fed had allowed access to the call did little to change Gonzalez’s view of what had actually transpired. He continued to contend that the Fed had collaborated in an attempt to mislead Congress and, on Jan. 27, his committee issued a hefty report, “The Federal Reserve’s 17-Year Secret,” that included out-of-context quotes from the call that Gonzalez said supported his view. The report also included a startling revelation: Gonzalez’s committee had uncovered 3,000 pages of old FOMC transcripts at the Gerald R. Ford Presidential Library. The documents covered FOMC meetings from 1976 through 1978.

A RATE MOVE AND A REFOCUS

In public comments, Greenspan and other Fed officials had strongly suggested that a rate hike was likely on the horizon prior to the first FOMC meeting of 1994. The two-day session, however, presented the FOMC with what Greenspan saw as a scheduling challenge: Rather than occurring midweek, it was set for a Thursday and a Friday. Greenspan opened the meeting by telling the Committee he was concerned that the FOMC could find itself in a position of heading

into a weekend and not communicating publicly that it had made its first policy tightening in years.

“I am particularly concerned that if we choose to move ... we make certain that there is no ambiguity about our move,” he told the FOMC.³⁷ He viewed that by changing the funds rate after an extended period, the Fed was essentially “hitting a gong ... And I think we ought to stand up and hit it.”

Greenspan wanted to be able to communicate the policy change, if one was decided upon later in the meeting, but also did not want to set a precedent, particularly since the Fed was still considering how it was going to proceed with future transcripts. He told the Committee he believed that the release of the 1988 transcripts would provide “a lot of significant, useful evidence” for how future transcripts might be handled, but those 1988 transcripts were not yet ready for release.³⁸

Before discussing the policy decision on Friday, Greenspan wanted the committee on Thursday evening to give him approval to make an announcement if one was necessary.

In discussing the issue, Greenspan said he did not necessarily see this announcement as setting a precedent – for example former Fed Chairman Paul Volcker had held a press conference in 1979 and the Fed had taken unusual steps during the 1987 stock market crash. Others on the Committee, however, did not agree with him.

“I have a hard time understanding how this would not be precedential,” the Kansas City Fed’s Hoenig said. “If we say it is desirable to announce this time because it makes sense and we’ve got this issue of a Friday and so forth, I think it will be difficult from a credibility point of view to argue against announcing in the future should we want to make that argument.”

Stern, the Minneapolis Fed president, said that he also felt it would be precedential, which would be fine because it would resolve many of the issues the Fed had been facing.

“(W)e’ve been in an awkward situation where we have kind of acknowledged that people in the markets get the news and the signal immediately, but for those who are not close to the

³⁷ FOMC meeting transcript, Feb. 3, 1994.

³⁸ At the time of the February 1994 FOMC meeting, work had been completed on redacting information from three 1988 transcripts: the first two and the last one. The transcripts from the middle of 1988, however, were described as “a garbled mess” because the recording equipment had malfunctioned. The discovery prompted Philadelphia Fed President Ed Boehne to rhetorically ask his fellow FOMC policymakers: “Why is it that life can never be simple?”

markets, the news kind of dribbles out depending on how quickly they read the financial press or consult other sources of information,” he said.

The committee supported Greenspan’s suggestion.

The following day, the FOMC decided to increase the fed funds rate 25 basis points, and the Fed issued its first immediate post-meeting policy statement press release:

Chairman Alan Greenspan announced today that the Federal Open Market Committee decided to increase slightly the degree of pressure on reserve positions. The action is expected to be associated with a small increase in short-term money market interest rates.

The decision was taken to move toward a less accommodative stance in monetary policy in order to sustain and enhance the economic expansion.

Chairman Greenspan decided to announce this action immediately so as to avoid any misunderstanding of the Committee's purposes, given the fact that this is the first firming of reserve market conditions by the Committee since early 1989.

In its front-page coverage of the increase, *The New York Times* said the Fed had shown “a new level of political sophistication for an agency increasingly under attack for its obsessive secrecy” with the announcement.³⁹

Gonzalez praised the Fed for making the announcement, but sided with many congressional Democrats in voicing “complete disagreement” with the increase.

He also said the openness would not last: “The monks at the Fed will recede behind their ivory gates.”⁴⁰

A NEW ERA

It is difficult to overstate the significance of the February 1994 announcement in terms of launching a new era of central bank transparency. As it turned out, the announcement was, in fact, precedent-setting for the FOMC. After that meeting, the Fed continued issuing policy statements when it took action.⁴¹

As far as the political environment, the announcement was essentially a game changer.

³⁹ *The New York Times*, Feb. 4, 1994.

⁴⁰ *USA Today*, Feb. 7, 1994.

⁴¹ Policy statements began to be issued at the end of every meeting, regardless of action, in 1999.

Gonzalez had engaged in a headlong rush to paint the Fed as the second coming of the Nixon administration. In his search for damning transcripts – or some kind secret tapes – he had essentially stopped talking about the original, and more pressing, issue: the FOMC’s continuing problem with policy leaks.

While the post-meeting announcement did not end Gonzalez’s war on the Fed, he had lost support, particularly from the press, which largely stopped writing about the transcripts. Soon, Gonzalez also lost some of his stature. In the 1994 elections, the House saw what became known as the “Republican Revolution,” with 54 seats going from the Democrats to the Republicans. As a result, the chairmanship of the House Banking Committee went to Rep. Jim Leach of Iowa. For the Fed, the result was that a once-tumultuous political environment that seemed very close to influencing policy deliberations had quickly turned “very benign,” in the words of Fed Gov. Lawrence Lindsey.⁴²

In the interim, the first of the old transcripts became public. The first batch, about 350 pages from FOMC meetings held during the second half of 1988 were released in early March 1994. A few weeks later, the FOMC moved ahead with a second rate hike and issued a press release.

The Wall Street Journal, with a nod to the then-recent new openness in the Soviet Union, ran a front headline suggesting glasnost had come to the Fed.⁴³

“The Temple doesn’t have quite so many secrets anymore,” begins the article, which notes that the change in disclosure was occurring at the same time that policy challenges were increasing.

“(A) slow lifting of the veil at a particularly vulnerable moment. The Fed is now in the process of increasing interest rates, never a popular course. And it doesn’t have a clear compass to rely on. The ups and downs of the money supply are no longer reliable as a guide to future inflation. And neither gold, commodity prices, nor anything else has emerged as an acceptable substitute. As a result, the once-secretive Fed is being forced to acknowledge that its policy meetings are little more mysterious than a bunch of people sitting around talking about the economy.”

⁴² FOMC meeting transcript, Jan. 1, 1995.

⁴³ *The Wall Street Journal*, March 24, 1994.

The paper compared it to the curtain being pulled away in the Wizard of Oz to reveal not a wizard, “just a man frantically yanking on the levers.”

A second batch of transcripts – this time 600 pages from meetings held in late 1987 through mid-1988 was released in July. These transcripts, which detailed the Fed’s response to the 1987 stock market crash, received wide attention, as Fed officials expected.

Despite continuing to issue meeting statements and progress on the old transcripts, the Fed had not adopted policies. The matter of how to proceed with future transcripts had officially remained at the subcommittee level since 1993, with the FOMC postponing a full discussion of the issue. The subcommittee did, however, send a recommendation to the FOMC in August 1994 suggesting, among other things, that the meeting recordings continue and transcripts be released with a five-year lag. The FOMC sought to resolve the issue during its first meeting in 1995.

A NEW POLICY

In presenting the subcommittee report, which called for essentially taking what the Fed had been doing and making it official policy, Fed Vice Chairman Alan Blinder began his comments talking about the importance of disclosure and public accountability.⁴⁴

“The overall philosophy of this proposal is that the central bank’s independence carries with it a corollary of accountability,” Blinder said. “Perhaps ... the Federal Reserve has not quite acquitted itself of this responsibility and accountability, at least not as well as it might. In particular, the public has a right to know more about what the Federal Reserve is doing and why it is doing it.”

While some FOMC members may not have been particularly comfortable with the policies, and there was certainly discomfort with the tape, they also did not have many options. Politically, it was virtually impossible to stop recording the meetings and, as long as the recordings existed, there would be demand for their contents. Inadvertently, by starting to keep the transcripts, Burns had created a situation virtually identical to the one he had faced nearly 20 years earlier when he feared that the mere existence of the MODs assured the MODs would become an issue.

⁴⁴ Blinder had become head of the subcommittee and the Fed’s vice chairman after David Mullins resignation in February 1994. Wayne Angell’s term also ended in January 1994.

Fed officials had also recently learned from congressional staff that the only thing preventing legislation mandating a transcript or tape release schedule was the fact that Leach, the chair of the Banking Committee, understood the Fed was going to handle the matter.

“The impression I have – I don’t know how firmly-based it is – is that if we don’t set our own policy, there will be real interest in (the House Banking) Committee in trying to do something,” Greenspan said. “Whether or not the issue would go to the full House is a question, but my suspicion is that there is more support for FOMC openness, on both sides of the aisle, than I think we have realized up to now.”

During the deliberations, there was discussion about establishing instances where the recording might be stopped. Greenspan suggested that the FOMC might want to run the tape only when discussing matters related to monetary policy and specifically noted that the FOMC might not want a tape of meetings such as the 1993 conference call prior to the House Banking Committee appearance. That meeting, which included no discussion of monetary policy, was the tape that Congressional staffers sought and eventually came to the Fed’s offices to hear.

Philadelphia Fed President Boehne, however, said that the recording of the 1993 session had actually proven beneficial “because it was very useful in showing that there was no conspiracy, that there was no evil activity going on.”

While some members expressed frustration, much of the deliberation focused not on releasing information, but on more detail-oriented questions. For example, would members regularly author statements in support or dissent of policy actions, and what would be the review process for future transcripts?

After a comparatively brief discussion, the Committee formally adopted the new disclosure policies: Statements would be issued after FOMC meetings where policy action had been taken and future transcripts would be released with a five-year lag.

Gonzalez told *The Washington Post* that the announcement was a “victory.”

He added that he would be reintroducing legislation requiring the Fed to begin videotaping its meetings and make the tapes publicly available.

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