

Representative REUSS. Wouldn't you agree with me that if the Fed wants to announce something, it should do it in plain English and say what it means, and should not talk this mystique through discount rates?

Mr. MITCHELL. I don't want to be facetious at this point, but there are problems of semantics involved in the system. There are seven members of the Board of Governors and there are five more reserve bank presidents on the Federal Open Market Committee, and the semantic problem of saying exactly what you want to do is pretty large. It isn't that easy. To do something is one thing, and to say, "I did it because" is something else again, and this is a real problem in dealing with the announcement effect.

I think there are some times when an action does speak for itself, and I really think that position is entitled to that much consideration. But this is the case I would say only one out of 10 times, with the change in the discount rate. The other times you are better off, you know, doing it gradually, so that the markets are more orderly, and I think the reaction of the markets to what the system is doing is better.

Representative REUSS. There is still plenty of time for putting the Federal Reserve Committee's views on the discount rate and its announcement effect in more precise form prior to the promulgation of your draft regulation which as I understand it will presumably come in a few months.

Mr. MITCHELL. Yes; that is right.

Representative REUSS. I would hope that when you do that, you would make the changes in discount rates as automatic as possible. You have just said that nine times out of 10 the discount rate change, if this new system is adopted, would be automatically geared to money market changes.

Mr. MITCHELL. In terms of the way we operate it now it is nine out of 10. It would probably be more under this system where you would have changes in the rate maybe every month or every 2 weeks.

Representative REUSS. I would think so.

Mr. MITCHELL. So there would be even fewer times when an announcement effect would be desirable. But this is one of the problems that seriously concerned the study committee.

You don't want to give up any measure that helps your monetary control, and if there are times when an announcement effect is desirable, maybe it shouldn't be given up completely. And I think it is consistent with the proposal of the committee to use this, well, let me say 19 out of 20 times in the way in which you have interpreted it. On that 20th time we might use it with an announcement effect.

Representative REUSS. This brings me to my point. I would hope that when you promulgate your regulations, you will indicate that where there is intended to be an announcement effect, you are going

Mr. MITCHELL. Yes.

Representative REUSS. Otherwise you are going to vitiate the whole exercise.

Mr. MITCHELL. Yes.

Representative REUSS. Because the world will think there is a hidden announcement effect in every one of these changes.