Do you think this is a practical approach or do you feel that the announcement effect is something we have to be concerned about, the loss of its impact?

Mr. GIES. I do not know that there are not other ways for the Federal Reserve to express itself to the market in an open-mouth sense of the word. This is in effect what we are saying they do when they employ the discount mechanism. The announcement effect is clearly just that. It is a psychological operation. I would think that the proposed modification would work perfectly successfully if you changed the differential by a substantial amount such as the sort that you speak of from a 50-basis-point difference to a 100-, 200-basis-point difference, whatever you wish to have, you surely could get the message across. However, I am not sure it is the only way. I see no reason why you could not speak to the financial community directly in terms of how you as the Board of Governors view business and credit developments and what you feel is an appropriate kind of offsetting measure for the Fed to take. I do not think the Fed has to livit its open-mouth operation to speaking through the discount window.

Chairman PROXMIRE. Mr. Ritter, would you like to comment?

Mr. RITTER. We have heard a lot about messages lately. You know, the medium is the message, we have been told. And in this case the medium of the discount rate often gives a very garbled message. Usually we do not know what it means. We do not know whether the Federal Reserve is deliberately instituting a change in policy or whether the Federal Reserve, when the discount rate changes, is just following the market along and relatively passively continuing a policy it instituted previously.

It is a very bad way to give a statement to the public as to your intentions.

Chairman PROXMIRE. This might give us an opportunity for improving that, then.

Mr. RITTER. Yes. A lot of people are disturbed about the announcement effect because it is not easy to interpret what the announcement is. So that perhaps some refinement in this could be utilized with this new mechanism.

I do not understand really why the Federal Reserve is always so wary of simply stating what it believes—what it thinks it is going to do. The English language is much more efficient as a transmitter of ideas than changing a discount rate.

Chairman PROXMIRE. Well, that is true, but you know, words have a way of slipping away from you, too. Do they really mean it? What do they mean when they say they are going to follow a policy—I do know how they put it—of tighter money or of more restraint, and so forth? When they raise the discount rate it is a concrete specific act that may have a little more value than language.

Mr. RITTER. Perhaps they could do both simultaneously and use language along with the discount movement.

Chairman PROXMIRE. Mr. Robertson?

Mr. ROBERTSON. Under my proposal the discount rate could change daily. It might remain constant for 2 or 3 days on end, or it might move several basis points within the same time period.

Chairman PROXMIRE. That would be no announcement effect.