BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

January 22, 1973

To: Federal Open Market Committee

From: Robert C. Holland, Secretary

Subject: Safeguarding the Confidentiality of FOMC Information.

I should like to call the attention of the Committee to the attached copies of articles that appeared in recent issues of the American Banker. In these stories, the reporter purports to reveal current monetary policy and decisions reached at the FOMC meeting of December 19.

When questioned about the story, the reporter replied that he had talked to officials in the Federal Reserve. He further stated that he talked with Government security dealers, economists throughout the Federal Reserve System and people who attended the FOMC meeting, "people who are in a voting capacity."

It seems clear from what he said that the approach used by the reporter was the approach discussed in my memorandum of October 13 entitled "Safeguarding the Confidentiality of FOMC Information."

I share the background of these articles with you to provide an updated example of how hard some reporters will try to extract comments from Federal Reserve officials which can be represented as conveying the kind of confidential policy information that FOMC rules strictly embargo. I believe this instance also suggests how careful Federal Reserve officials must be to avoid such reportorial interpretation.

Attachments (2)

JAN 3 1973
American Banker

JAN 3
American Banker

WEDNESDAY, JANUARY 3, 1973

# Market Tone, Reserve Position Displacing Money Stock as Main Objectives for Monetary Policy

By BEN WEBERMAN

NEW YORK.—The evidence is becoming clear that monetary officials have become disenchanted with money supply as a principal target for credit policy and have moved back to market tone and bank reserve positions as better near-term objectives to guide the manager of the Federal Open Market Account.

This change has taken place as monetary policy has been shifted toward the most active degree of restraint in more than three years. Federal Reserve officials have become convinced that the economy is pushing ahead with gathering power and that the time has come to apply the brakes.

Until last month, policy could have been characterized as one that was not fully accommodative to growing demands for funds and, therefore, permitted credit to tighten of its own accord.

Now, however, the central bankers are willing to agree that they are following a course of outright restraint in order to slow down the rate of business expansion. The cushions of unused manpower and productive capacity are disappearing faster than had been expected as recently as November—and the policy officials are starting to fear that demand-pull inflationary pressures will appear shortly.

The retreat from use of the aggregates as a tool has come about of necessity, as they have found it almost impossible to control money supply expansion.

While there always has been a faction within the Federal Reserve which has opposed use of the aggregates as the principal target since the technique was first adopted in January, 1971, this group had been in the minority until the Open Market Committee meeting Dec. 19.

That meeting took place only a few days after the publication of statistics showing that money stock (M1) jumped $3.3 billion in the week ended Dec. 6. The money managers knew that the increase was unintentional. But they also agreed that they do not possess the ability to drain the increase over a reasonably brief period of time.

It is still too soon to have a precise indication of the pace of expansion in M1 for December because latest data cover the period through Dec. 20 and do not incude information about the key final 10 days of the year.

But extension of results for the first 20 days shows that money stock may well have grown at a 10% annual rate — or more. This would be far in excess of the prescribed 5%-6% track.

The unexplained aberration in money stock was very disappointing to the monetary officials because it repeated a similar movement last July when stock grew at a 14.5% anual rate — for which the ensuing months have brought no explanation.

Consequently, monetary officials are convinced that they can use M1 for policy guidelines only as a check on long-range action. Thus, goals can be set down for desired expansion over the forthcoming six months or a year, taking into account change over the past six months or longer.

But Federal funds now provide the basic means of exercising day-to-day control over policy objectives. And reserve positions are the chief month-to-month guideline.

Thus, the market is paying close attention to the level of fund trading, even though yearend transactions are adding to the difficulties encountered by the manager of the Open Market Trading Desk.

In recent weeks, most trading has been within a 5¾%-5¼% range, indicating that the target ranges up to 6% and down to 5%, with intervention started about a quarter of a point inside.

This reflects an increase of about ½% from the target of last November, when most funds traded between 5¼% and 4¾%, within the acceptable range of 5½% and 4½%.

The market also is giving considerable weight to the tightening of credit as reflected in the rise in net borrowed reserves to well over $500 million in the past three weeks. Indeed, the $863 million of net borrowed reserves in the latest week, following $1.070 billion in the Dec. 20 week, represents the tightest position in three years.

Some market participants are keeping a close watch on the level of borrowings at the discount window. These rose to $1.223 billion in the Dec. 20 week and barely closed off to $1.120 billion last week. Both were well above leasts-han-$100 million a day through the first six months of 1972 and the $500 million to $600 million rate of September through November.

If the borrowings ease off in the early weeks of this year, Federal Reserve officials will ascribe the jump to yearend adjustments.

But if the borrowings held at a high level in the early weeks of the new year, they will encourage the central bankers to lift the discount rate and narrow the differential between this key rate and the money market.

JAN 8 19
American Banker

JAN 8 1973
American Banker

# Continued 4½% Discount Rate Is Dependent On Total Borrowing at Fed in Next 2 Weeks

By BEN WEBERMAN

NEW YORK.—The country's money managers are going to keep close watch on commercial bank borrowings at the discount window during the next two weeks or so to decide whether it is necessary to raise the discount rate from the current 4½%.

Federal Reserve officials acknowledge that the discount rate is out of line with the level of yields in the money market, but they admit to a desire to refrain from making a change unless it becomes necessary.

At a time when the Federal Reserves would like to slow down the pace of rising interest rates, an increase in the discount rate which could be interpreted as a signal of tighter credit would be counterproductive.

Use of the discount window jumped sharply in mid-December from the $500 million-$600 million range which had prevailed since August to $807 million in the Dec. 13 week and to more than $1 billion ever since, culminating in the 20-year high in the last statement week of $1.751 billion borrowings each day.

The central bankers confirm that the data shows credit was tightened a month ago. They cannot discern, however, how much of the expanded use of the discount facility has been brought about by the newly-introduced restraint and how much has been caused by the massive flows of funds that created seasonal distortions in December.

If borrowings subside this week and next to less than $800 million, perhaps, the central bankers could very well be willing to live with the 4½% discount rate which has prevailed since Dec. 13, 1971.

But if banks continue to raise money from the Fed at 4½% in large volume in a market typified by Federal funds trading around 5¼%, three-month bills at 5.10% and 30-day CDs at 5.4%, the monetary officials will be forced to act.

The pronounced rise in money market rates over the past month will make it easier for the central bankers to move the discount rate.

Political considerations make it difficult to raise the discount rate without generating an outcray from Congressmen.

If it is clear that the Fed is following the market, the criticism is dampened somewhat.

Therefore, an increase in the discount rate would be considered an adjustment to market conditions rather than a signal of tighter credit. The central bankers would have to raise the discount rate more than the usual quarter-point increment to signal that the time has come for much tighter credit.

The last time the discount rate was changed by ½ point was April 4, 1969 when the rate was moved from 5½% to 6%.

Federal Reserve officials wryly admit that a change in the discount rate, the first in more than a year, would conform to the behavior that Board Chairman Arthur F. Burns has asked of commercial banks in establishing changes in the prime lending rate. He has suggested that prime rate increases lag behind the money market visibly and with placidity.

A change in the discount rate would meet these qualifications. In December, 1971, when the discount was cut from 4¾% to 4½%, the prime rate was 5½%, funds were close to 4¼% and 30-day CDs were quoted at 4⅜%. The three-month Treasury bill was around 4.05%.

Yields on money market instruments started to climb in early December and are now generally about 50 basis points higher. Thus, a 25 basis point change in the discount rate would be moderate in size and have minimal impact.

Stability of the discount rate throughout 1972 belies the wishes of the Governors of the Federal Reserve Board. They have published studies recommending a rate that changes frequently and in small amounts. But this oourse was followed only when yields were declining.

Between Nov. 13, 1970, and Dec. 13, 1971 there were eight changes in the discount rate. Of these, seven were reductions and one was an increase.

An increase in the discount rate now would be ascribed to efforts to curb abuses of the window by bankers borrowing cheap funds for reinvestment in higher yielding instruments.