TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE MEETING

April 20, 1976

Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Meeting of Federal Open Market Committee

April 20, 1976

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, April 20, 1976, at 9:00 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Balles
Mr. Black
Mr. Coldwell
Mr. Gardner
Mr. Holland[1/]
Mr. Jackson
Mr. Kimbrel
Mr. Partee
Mr. Wallich
Mr. Winn

Messrs. Baughman, Guffey, Mayo, and Morris, Alternate Members of the Federal Open Market Committee

Messrs. Eastburn, MacLaury, and Roos, Presidents of the Federal Reserve Banks of Philadelphia, Minneapolis, and St. Louis, respectively

Mr. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Guy, Deputy General Counsel
Mr. Axilrod, Economist (Domestic Finance)
Mr. Gramley, Economist (Domestic Business)
Messrs. Brandt, Hocter, Keran, Kichline, Parthemos, Reynolds, and Zeisel, Associate Economists

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1/ Left meeting at point indicated.

Mr. Holmes, Manager, System Open Market Account
Mr. Pardee, Deputy Manager for Foreign Operations
Mr. Sternlight, Deputy Manager for Domestic Operations

Mr. Coyne, Assistant to the Board of Governors
Mr. Keir, Adviser, Division of Research and Statistics, Board of Governors
Mr. Gemmill, Adviser, Division of International Finance, Board of Governors
Mrs. Farar, Economist, Open Market Secretariat, Board of Governors
Miss Klaput, Secretary, Open Market Secretariat, Board of Governors

Messrs. Boehne, Doll, Eisenmenger, and Scheld, Senior Vice Presidents, Federal Reserve Banks of Philadelphia, Kansas City, Boston, and Chicago, respectively
Messrs. Balbach and Burns, Vice Presidents, Federal Reserve Banks of St. Louis and Dallas, respectively
Messrs. Fousek and Kareken, Economic Advisers, Federal Reserve Banks of New York and Minneapolis, respectively
Mr. Sandberg, Assistant Vice President, Federal Reserve Bank of New York

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CHAIRMAN BURNS. All right, gentlemen, we'll get our meeting under way. As you all know, we have scheduled a luncheon in honor of George Clay at 1 o'clock. And also, sad to say, this is the last meeting that Governor Holland will be attending, and we'll break bread with Mr. Holland at luncheon on the day of our May meeting.

First item on the agenda is to take care of the minutes of the March meeting. Is there a motion to approve?

SPEAKER(?). So move.

CHAIRMAN BURNS. Motion has been made and I hope seconded. They're approved. Now let's turn to Mr. Holmes, who will report on foreign currency operations.

MR. HOLMES. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN BURNS. Thank you, Mr. Holmes. Any question or comment? Mr. Black, please.

MR. BLACK. Yes, really a simple one. Alan, do you think the efforts of the Japanese to promote the use of the yen as a reserve currency are going to have any significant long-run impact on the demand for dollars?

MR. HOLMES. I'm not sure about that one. This is something we have under study right at the minute. I'm not quite sure of all the measures they have taken. It seems to me that it can work both ways. You know, reserve currencies can be hit with big withdrawals as well as big gains. And so I'm not sure whether, over the long run, it has any great implications for the yen-dollar relationship, but I'm certainly not clear on that at the moment.

MR. PARDEE. It would have some implications for the yen-dollar [relationship] since there will be more purchases of yen and holdings of yen, but in our experience the yen-dollar relationship is independent of the [dollar's] relationships with [currencies in] Europe, so it's sort of in a separate channel. So we'll not have a generalized effect, as far as the U.S. dollar is concerned, against other currencies.

MR. BLACK. I gather you do not expect to use the yen as an intervention currency, necessarily, if they did move toward it as a reserve currency.

MR. PARDEE. No, I don't think so, perhaps over the long run some of the other countries in Asia might make specific use of the yen as an intervention currency, but that's a long way down the road.

CHAIRMAN BURNS. All right, yes, Mr. Partee.

MR. PARTEE. Just for the record, if the Mexicans devalue the peso, we’re fully covered aren’t we?

MR. HOLMES. Yes, we would be covered in the swap drawing.

MR. PARTEE. On that side, there’s no sharing for that responsibility, on the other side of this.

CHAIRMAN BURNS. I think it might be useful at this point, Alan, if you informed the Committee a little more precisely about the safeguards we have taken in the case of the Italian line.

MR. HOLMES. Gladly, Mr. Chairman. First, in our cable to the Italians renewing the swap for three months, we made it quite clear that we have every expectation that that would be paid at the end of that three-month period. Secondly, we reiterated our understanding that they had pledged borrowings either under the EC oil facility or the IMF to repay the swap. Now this is what we said formally in a wire.

In addition, we are watching their reserve position very closely. We know at the moment where they stand, what they have available still from the EC oil facility, which they should be getting later this month, and their [position with] the IMF. And while we haven’t established a firm trigger point, I think we’re going to have to watch very carefully, and as soon as reserves come down, we’re going to have to insist, if they continue to come down, that they repay the swap. But [that would be] long before they’re out of reserves altogether because I don’t think we want to be the one to take their last $500 million away from them. This would be my feeling, Mr. Chairman.

There have been other conversations directly with the Italians. They have a really tough political situation. If they could solve that, you could see some hope, but until something happens there, it’s very hard to see any real solution. Fortunately, the lira in the last four or five days--of course, the market was closed for a long Easter weekend, and that certainly helped--the lira tended to stabilize around 875 after having been as low as 916 without intervention. In fact, they acquired a few million dollars. Scott, what was the quote this morning?

MR. PARDEE. 874-875.

MR. HOLMES. 874-875, so it seems to have stabilized, at least for the time being, on its own, and I think the Italians are quite realistic in knowing they can’t defend any particular rate. They just can’t afford it, and they are as aware of the paucity of their reserves as anybody else.

MR. BAUGHMAN. Mr. Chairman, on the Mexican thing, probably a fairly minor detail. They have drawn about two to three times the amount of currency from the Federal Reserve offices in the Eleventh District pre-Easter this year than they normally do. On the other side of it, I guess it’s the other side of the same thing, there seems to be an unusual amount of shopping by Mexicans in the border cities in Texas this year, indicating that they have apparently passed word to the inspectors at the border to be a little more liberal with people carrying merchandise back from this country. They drew $31 million in 50s and 100s from our shops in the week before Easter.

CHAIRMAN BURNS. These are interesting facts. What is your interpretation of these facts?

MR. BAUGHMAN. Well, there is more. It is our impression that there is more speculation now in terms of conversation about a possible devaluation this year than there has been in recent years, and presumably the managers of the Central Bank of Mexico felt that they would have a heavier demand for U.S. currency, and they wanted to be in a position to supply without question in the interest of trying to quiet or hold down this rising conversation. And I would think the same thing might well be true with respect to the shopping across the border.

If they could convey an impression to their people that they are in a position to accommodate at least the usual amount and maybe more than the usual amount of buying of foreign merchandise, then that would also help to quell the concern about a devaluation.

MR. COLDWELL. In the past, Mr. Chairman, in situations like this--we've had them recurring, I guess, about every four to six years--the orders that Ernie refers to of 50s and 100s, I think you will find them coming back to him very promptly. And they come back in the form of people moving their money out of Mexico. Usually with the use of the 100 dollar bill down there.

MR. BAUGHMAN. It gives us a little operating problem in that we have to round this up, pass it out, and then process it when it comes back.

CHAIRMAN BURNS. Mr. MacLaury.

MR. MACLAURY. Alan, you mentioned in your comments that we had no requests from the Bank of England for a drawing. I just wanted to ask whether we had done any anticipatory thinking as to how we might react to such a request for a drawing by the British, and can you cite conversations that, given a new budget, that this might provide the sources for intervening.

MR. HOLMES. They have ample reserves for the time being. If, however, for some reason they thought it would be useful to draw on the swap, and they still had their package intact and that was a clear takeout, then I personally think that we should be sympathetic to a British drawing. But as I say, they seem to have ample reserves if they come in.

MR. WALLICH. I'd like to inject, Mr. Chairman, that there is a growing understanding internationally that the swap lines are not simply available for the asking. There have to be negotiations, conditions, and circumstances that make it plausible that they will be paid off within the proper time. Now, in the past, this repayment often has been based on the expectation of a turnaround in the balance in payments and capital flows. Under conditions such as today's, this has become a little less plausible for some countries, and as a result we have increasingly leaned on specific takeouts like an IMF drawing or the EC loan. I think it is beginning to be understood that these are bridging credits.

CHAIRMAN BURNS. There's no takeout provision in the Mexican drawing, is there?

MR. HOLMES. No, there is no takeout provision on the Mexican drawing, but we do know that they have rights in the [International Monetary] Fund. I mean, this is in the background, there is nothing specific.

MR. PARDEE. When I talked with them, I made it very clear that we would look to their Fund drawing rights as a takeout if necessary. This is the way we have always handled it, making very clear what the takeout would be, but not [making a specification] as we have in the Italian case and, as Alan has suggested, in the British case. That is, not making it a specific firm condition of the drawing that the funds be there. They understand the background to it, but we haven't formally made it a condition of the drawing.

MR. JACKSON. Alan, have there been any developments in Italian private debt as a consequence of all this?

MR. HOLMES. I know of no recent developments. As you know, many banks are concerned about some of their Italian loans, and that concern certainly continues, but I don't know of any specific development that indicates a crackdown on the private credit side. I think it would be much harder for Italian private firms to borrow, although an Italian bank is borrowing $60 million this week.

CHAIRMAN BURNS. Any other questions? Thank you very much, Mr. Holmes. Now, at this point a motion to confirm the transactions of the Foreign [Trading] Desk would be in order.

MR. COLDWELL. So move.

SPEAKER(?). Second.

CHAIRMAN BURNS. The motion has been seconded. I hear no objection. Mr. Holmes, do you have any recommendation with respect to--

MR. HOLMES. Well, there are swap drawings up for renewal in the next month. I've already mentioned the Bank of Italy drawing, which falls due on this Thursday but has been rolled over for three months.

We also have the first renewal of $54 million in [deutsche] mark drawings on the Bundesbank coming up in early May. I'd like to recommend renewal, but I would hope we can repay that drawing before maturity. We have most of the funds accumulated toward that already.

The second--and this is more painful--the full $191 million pre-1971 Belgian franc [swap debt] and the full $1,147 million of Swiss franc swap debt is again up for renewal, and, I'm sad to say, it is for the 19th time. We have made some pretty good progress in getting the Belgian debt down, but as I've noted, we've only made a very small dent on the Swiss franc debt, given the strength of that currency. I reluctantly have to recommend renewal, since there is nothing else we can do, but we would hope that we can continue to make at least some progress on the eventual settlement of both of these debts.

MR. COLDWELL. May I ask a question, Mr. Chairman? We've talked about these two debts for a long time. Are we still making some efforts to get Treasury to bail us out of this?

MR. HOLMES. We have not recently, we've been going ahead all right on the Belgian [debt]--I think I'm quite satisfied that we're right on target. It's the Swiss one that is the tough thing, and you know the Treasury has its own debt in Swiss francs. We're under no pressure from the Swiss to repay. They've been very cooperative in trying to devise procedures by which the markets [unintelligible] in favor of the dollar. We can move ahead, and we have acquired some Swiss francs in off-the-market deals, but we have not been going into the market because I don't believe that's appropriate given the strength of the Swiss franc. These are very small amounts relative to our debt. It would take a major turn in the exchange markets for us to make real progress.

MR. WALLICH. And we have achieved a relatively favorable loss-sharing proposition with the Swiss.

MR. HOLMES. Yes, but we still have more losses to share with them--that's the thing.

MR. COLDWELL. We aren't even attempting to ask the Treasury to take us out of this?

MR. HOLMES. We have in the past, and I'd be glad to renew that, but let me say that I don't think there is much chance of positive action right now.

MR. HOLLAND. Well, as a nag about our debts on the swap line drawings, I am pleased enough with the progress on the Belgian side to be glad to move its renewal. And I'm happy I won't be here to have to move the umpteenth renewal of the Swiss one.

MR. BLACK. I suggest that he ought to stay at least until we had that. He said [we had] made such progress that he felt free to leave.

CHAIRMAN BURNS. Well, I think it would be useful, Alan, for the subcommittee to take up the question raised by Mr. Coldwell, and I doubt that we can make any progress at this meeting, but I do think we ought to sit down, and we might even call on Messrs. Volcker and MacLaury--we know how to tempt the Treasury for assistance in our deliberations at the subcommittee level. I take it that we have a motion before us to accept the Manager's recommendations.

MR. COLDWELL. Second.

CHAIRMAN BURNS. And has been seconded. I hear no objections, and I take it that the motion is approved. Let's turn now to Mr. Gramley's report on the economic outlook.

MR. GRAMLEY. Thank you, Mr. Chairman. Mr. Zeisel will [begin] our comments this morning with a review of recent economic developments.

MR. ZEISEL. [Secretary's note: This statement was not found in Committee records.] Mr. Gramley will now complete our [presentation with a discussion of policy alternatives].

MR. GRAMLEY. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN BURNS. Thank you, Mr. Gramley. I'd like to ask one question. How do you reconcile, Lyle, the Commerce figure of 7-1/2 percent annual rate of growth and physical volume of the nation's total production with the Federal Reserve's more restricted measure of industrial production, which shows a low rate of growth? Now, I don't think that is an easy exercise.

MR. GRAMLEY. If I remember the numbers right, the index of industrial production on a quarterly average basis did go up more than 7-1/2 percent [unintelligible]. What is puzzling, and you are right in this connection, is that the rate of increase of industrial production slowed from the fourth quarter to the first, whereas the rate of increase in real GNP increased from 5 to 7-1/2 percent. My best guess is that we may be suffering from some potential revision in the industrial production numbers for March.

CHAIRMAN BURNS. Well, that's interesting. This has been my guess, that the [unintelligible] may be that the Department of Commerce is now overestimating the increase. I've had the uneasy feeling for some time that our industrial production index is understating the rate of growth.

MR. GRAMLEY. There is a real possibility that, when we get the April employment figures in, we will find that the March decline in the average length of the work week was a statistical aberration, and this may then in turn [unintelligible] with revision in the March production index. It is a puzzle, and these puzzles do occur on a quarterly basis not infrequently, and it sometimes takes some time for them to be resolved.

MR. COLDWELL. Are we still using about 50 percent man-hour data?

MR. ZEISEL. I think it's about 40 percent for one month. In subsequent months the weight of the man-hours [unintelligible] sharply.

MR. GRAMLEY. But that March estimate that we put up would be heavily based on the man-hour figure.

MR. WALLICH. Could I ask a question about this table, Mr. Chairman? I find puzzling some of the projections here. It is a hard thing to estimate the consequences of M1 growth, but I note for instance [regarding] unemployment that a 1-1/2 percent difference in the rate of growth in real GNP is associated only with a minute 0.2 [percentage point] difference in the level of unemployment. I would have expected something closer to 0.4 or 0.5 bearing in mind the familiar 3-to-1 rule of thumb here.

MR. GRAMLEY. Governor, I think what you need to look at is the level of real GNP by the end of the projection period because, while the rates of growth are quite different by the end of this period, that is true just in the final part of the projection period. The level of real GNP with the alternatives is not as large as the growth rate might suggest--that's less than 1 percent difference in real GNP by the end of this projection period.

MR. WALLICH. The other point I have is the expected effect of the Treasury bill rate. It has been frequently suggested that at least [for] the long-term rates, a change in the rate of money growth might have not the typical effect [in which] the faster money growth reduces interest rates but may actually, through expectations, raise them. Here at the short-term end, the assumption seems to be very clear that over a period of five quarters, short-term rates will move significantly in the direction in which one would traditionally have expected--that is, an increase in the supply of money continues to reduce the short-term rate.

MR. GRAMLEY. The model has no direct expectational effect built into it. I am inclined to the view that, if we are talking about policy alternatives which differ by these amounts, we might reasonably neglect expectational effects and reckon that this would be a probable alternative course of rates that would emerge. I think that that assumption would become much more questionable if we were talking about more divergent policy alternatives.

MR. WALLICH. I see. Thank you.

MR. PARTEE. While [we are] on the table [discussed by Mr. Wallich], I think it is correct, Lyle, and I would like to remind the Committee that what really these alternatives one, two, and three show are the differences that you would expect to result if you had a little higher money growth, a little lower money growth. That is, the basic presumption is that the 6 percent rate of money growth would bring an increase in real GNP of some 5 percent.

MR. GRAMLEY. That is correct.

MR. PARTEE. And that is the judgmental projection, and all the alternatives are giving you are the implied differentials that would result from those alternatives. So all these figures look disappointingly low to me in terms of real growth rates. But then the question is, is the judgmental projection likely to be accurate or not? Is the base rate of growth in real GNP likely to be cruising down here around 5 percent or could it be higher? This table, of course, doesn't answer that.

MR. GRAMLEY. That's correct.

CHAIRMAN BURNS. I think on that point, as Mr. Zeisel suggested, were these projections being made today instead of yesterday and the day before, they would probably be higher, that's point number one. Point number two, the differences between the several lines corresponding to different rates of growth of M1 appear small as compared with the difference of the 5-1/2 percent figure [for GNP] estimated by our staff and the 7-1/2 percent figure estimated by the Commerce Department for the first quarter of this year. Therefore it is very difficult for me to take these figures as being more than indicative of the probable direction intended.

MR. GRAMLEY. That's the way we would wish it to be interpreted, particularly in view of the considerable uncertainty we face as to the amount of money that is needed to finance any given increase in gross national product. That makes an exercise of this sort all the more difficult.

CHAIRMAN BURNS. Yes, because you really are relying on a model that, during the past 18 or 20 months, has produced poor estimates of the relationship between money and economic activity.

MR. PARTEE. But we don't know that the differentials are increased.

MR. GRAMLEY. And we don't know that they are not, Governor Partee. That's where the source of the uncertainty lies.

MR. PARTEE. All we are using the model for is to estimate the differentials from the basic judgmental projection.

MR. MAYO. To come back to the point, if we made these projections today rather than yesterday we would have a little different picture. I somehow got the impression, with the quick review of the first-quarter report, that so much of this is inventory--in which figures I have very little confidence anyway--that I am not sure that, in, perhaps, a conservative mood I wouldn't stick with what we have. I'm not sure that my opinion of the staff forecast has changed much as a result of the publication of the first quarter. Would the staff care to comment on that?

MR. GRAMLEY. I'd be happy to, President Mayo. The impression has been gained [from] the statistics in the newspaper that final sales rose relatively weakly in the first quarter. In fact, that reflects the decline in net exports. If you take a look at private final sales excluding net exports, they went up at a 7.9 percent annual rate in the first quarter, which is a very strong increase. If you put in the government [purchases], the increase is not so large--on the order of 6 percent, but that's still a good increase. I would not interpret these first-quarter results as implying the necessity of radical changes in our forecast, but this is certainly not a weak report.

MR. MAYO. I had interpreted it, perhaps superficially, Lyle, at least in part, as a moving up of inventory accumulation earlier than we had expected. But that, you would say, is not the major lesson to be learned.

MR. GRAMLEY. I think that is the major lesson.

MR. MAYO. You do?

MR. GRAMLEY. I think that is the major thing that led to a stronger forecast, a stronger first quarter than we had anticipated. But I would want to stress the fact that this would by no means be suggestive of involuntary accumulation of inventories. We did not see a weak final sales picture in the first quarter, and I would remind the Committee also that this is an estimate based on two months of inventory, and not all the price data that are needed to evaluate the inventory [unintelligible], so I think we ought to wait just a bit.

I would also note in this connection that the thing that would concern me most in terms of potential underestimation of expansive forces would be evidence that business attitudes toward inventory accumulation have changed in a significant way. We are now [unintelligible] to build up stocks to high levels, and in this connection the Redbook tells a very different story. It tells a story of a business community that is still being very cautious.

MR. WINN. I sense, however, Lyle, a change taking place very quickly in business attitudes along this line. For example, in steel, they cleaned out inventory from one end of the system to the other. They are now actually talking allocations by the third quarter in a few lines and real allocations by the fourth quarter. They are expecting that the first quarter earnings are not going to be too much of an improvement over the first quarter of last year, but they are expecting to put super earnings together back to back in the second and third quarter. That's going to be the basis for the real plant expansion that has to come if we are going to see growth over a period of time, and they are really talking about fantastic kinds of numbers.

Now, if you get to this allocation problem, the thing that is going to be reflected, of course, is price changes. And that's the sort of thing that is bothersome. In the rubber industry, for example, they are talking about 8 percent tire price increases without the cost-of-living aspect of [their labor negotiations] that they are fighting very desperately. But [industrial customers] don't look for any shortage of tires from manufacturers because they all have private companies that are outside the big four that will take over if [the unionized workers] strike, so the strike doesn't really pose a real problem for them in that sense of the term. The paper industry is talking about allocation by the fourth quarter of this year.

So you really get a dramatic kind of a change in attitude. But figuring what this is going to do to price--I suspect you are going to get a swing back because everybody will scramble for inventory with this kind of a shift that's taking place.

The other side of this thing is the feeling that we may be starting to have more trouble in the [unintelligible] reactions--their feeling is that the comeback is all political, and they are [now] very quiet. But they feel that they have been "had" in the last economic downturn, and they are going to be quite aggressive to catch up, and so you see it in the cost of living effort [in contract negotiations]. But I think in the labor set-up you are going to see an even more dramatic kind of solution to get economic recovery. If [the unions] become convinced that things are really good, I think you are going to see a far more aggressive attitude than we have seen in the last several years.

MR. COLDWELL. Did you say that the automobile makers can survive a 90- to 120-day rubber strike with no [unintelligible]?

CHAIRMAN BURNS. I thought it was 60 days.

MR. WINN. I don't know what the set-up is. You know, the companies have their own private companies. You've got Kelly and Springfield and all of those. And the automobile companies have stockpiled some tires in anticipation of a strike, and they feel that these other manufacturers can pick up the slack, so they don't feel as exposed as you might think.

MR. COLDWELL. Well, I recognized that there was some flexibility in that, but I didn't think the flexibility was very large in the [potential] size of pickup by the [unintelligible].

MR. WINN. [Vehicle manufacturers] have put all of their new investment into the independents. They haven't put it into their own companies, so you've had Kelly and some of these with big plant expansions. This has been their effort to deal with some of these problems. You've got more flexibility there than you think.

MR. MAYO. We understand that the majors have a significant stockpile inventory, too, quite apart from the independents, but in truck tires it's a more serious--

MR. WINN. I think that is correct.

CHAIRMAN BURNS. Figures I've heard are a 30-day leeway for the truck manufacturers and 60 days for the automobiles.

MR. MAYO. 60-90 [for automobiles] and maybe as much as 30 [for trucks].

VICE CHAIRMAN VOLCKER. Just to return to the general economic outlook question. First quarter [unintelligible] were certainly affected by inventories that we didn't anticipate, and I share some of Bob Mayo's questioning about that. But I should say that the final sales, as Lyle mentioned, have been sharply affected by net exports, which we would not expect to continue in terms of a decline. Certainly, we have been looking at numbers in New York that are in this case significantly higher than what the Board has been projecting, ranging higher by roughly 1/2 to 1 percentage point, quarter by quarter.

CHAIRMAN BURNS. This is for real GNP?

VICE CHAIRMAN VOLCKER. Real GNP over the next year.

MR. PARTEE. 5-1/2 to 6 percent is your range?

VICE CHAIRMAN VOLCKER. For the time periods I have here, it runs about 6 percent beginning on a quarterly basis, depending upon whether you go a year ahead or 18 months ahead.

MR. BLACK. Lyle, the thing that intrigues me more than anything else about this is that all this inventory building seems to have been financed primarily from internal sources. This, of course, gets into Steve's area as to what this may mean for credit demands later on and for the money supply ultimately, too, if inventories are built up.

And as I start kicking those figures around, I wonder if the loan demand is going to be anything like as strong and if there is going to be anything like as much upward pressure on interest rates in the business sector. Look at the internal flows of cash in businesses--the financing gap they've got looks pretty small, the commercial paper rate of 7-1/2 percent looks like a pretty sharp jump, yet they're able to do all this without external financing.

MR. GRAMLEY. Let me say one thing about internal sources. As I interpret business loan figures, I think we are still getting a very substantial improvement of corporate profits going there. The fourth quarter numbers don't show anything in that regard; they show profits leveling out. But if you look at the statistics for the fourth quarter, what you find is that we had an enormous shift in the statistical discrepancy in the GNP accounts, from a minus 3 to a plus 5. That means that product went up more than income did, and it may well be that subsequent revisions of the numbers will indicate that we have had more growth [unintelligible] than we know about.

MR. AXILROD. President Black, we would suspect that the internal [cash] flows remain very strong relative to business need. But we expect needs for funds to creep up relative to internal flows, so that while we don't have a large financing gap developing later this year and in early '77, we do have a financing gap developing. And we would expect it to be reflected more in short-term borrowing than in any pickup in long-term borrowing, that is, we would expect long-term borrowing to stay about where it is or perhaps come down some because a lot of restructuring of debt has been done.

We would expect the rising short-term borrowing to put some additional pressure on banks, reducing the banks' ability to buy government securities, shifting some of the need to buy government securities over into the nonbank public and also increasing banks' issuance of CDs. Those two factors are putting generalized upward pressure on short rates and also, by extension, on commercial paper, so those would be the underlying credit shifts that we believe would accompany the projection of rising short rates, given our assumption [unintelligible].

MR. BLACK. I would agree with the line of your reasoning. It's just a question of degree. And I guess I was just probably premature in asking that at that point. The gap is so small in relation to what I think the needs will be that I would not think there would be that much upward pressure for some unknown reason.

Have we ever had this much inventory building, Lyle, from internal sources? I cannot remember any time when you've had this much swing without some pickup in business loan demand.

MR. GRAMLEY. I would have to go back and look at the statistics much more closely. The weakness in business loan demand through the fourth quarter didn't surprise us all that much because inventories were still declining at that time. The weakness in the first quarter gets more puzzling, but I don't know whether or not this is an exception which is so outstanding as to be without parallel.

MR. PARTEE. The interest in internal funds is very sharp, very much more than--

MR. GRAMLEY. Yes, no question about that.

MR. PARTEE. So you could, I presume, finance a larger inventory--

MR. GRAMLEY. Right.

MR. PARTEE. --with those increased internal funds.

MR. MACLAURY. I want to weigh in on the side of saying that the outlook is stronger than the Greenbook forecast. Our research staff in Minneapolis had revised upward its first-quarter figures before we got the Commerce Department figures. And therefore we were very surprised to see the Board staff going in the opposite direction on that occasion.

And as you know, for the past six months or so, we have been more bullish both [unintelligible] as to real output for the four or six quarters than had been the Board's staff. I think we were more confirmed in that view, and I have been hesitant to even use the numbers that we have been developing, but now that we are looking at the year 1976 over 1975, we are on the order of real growth at a 7-1/2 [percent] rate rather than a 6 percent rate, which is what the Board has on a year-over-year basis.

I had not heard the kind of comments that Willis Winn just reported to us about shortages and allocation, but I do think that the expectation is of a pick-up around the world, not just in the United States. The signs are coming in of greater strength in Europe and Japan. And while it is too soon to talk about a cumulative boom, I think that there's a greater risk that we will be facing boom conditions by this time in '77 than that there will be any petering out.

MR. BALLES. I would like to ask Lyle a question. I understand that some of the congressional committees have been doing the sort of alternative money growth assumptions that you have in terms of effects on the economy. Do you have any idea how their results come out compared with yours? Are they using essentially different models? What can you tell us about that?

MR. GRAMLEY. I have not studied their results in comparison with ours closely enough to give you a good answer on that. Perhaps we ought to put out a memo on it and send it around to the Committee.

CHAIRMAN BURNS. What is your guess?

MR. GRAMLEY. My guess is that the results of [money growth] alternatives on other models would show less difference in nominal GNP. We tend to have quite high money multipliers in our model relative to other models. So I think what you would find is that a 1 percent increase in M1 or a 1 percent decrease would have less effect on nominal GNP on, say, the DRI model or the Chase econometrics model than it would on ours. But I would want to look to be sure about that.

MR. BALLES. The only relevance to that obviously is the collected influence [on the] thinking of both the staff and the principals, and it would be nice to know what these Congressmen are being told by their staffs.

MR. GRAMLEY. We will be happy to send a memo around.

MR. BAUGHMAN. Just a brief comment, largely impressionistic. Of course, it's against a background where we have had pretty good business conditions in the Southwest, but I do not hear the claims of expectations of real bullish change from where we are at the present time. In part, of course, that is because the drilling activity is down significantly. I understand that there normally is a seasonal decline in that activity from the end of the year through the first quarter. But the decline is more this year than usually occurs, and there is a sharp difference of opinion as to whether it's going to continue or whether it's going to turn around. I just want to register that--to some extent--impressionistic feeling, that it is a little different in that part of the world from what I have just heard.

MR. EASTBURN. Loan demand has been very sluggish in the reports. Numerous discussions that I have had recently with small to medium-sized country banks suggest to me that demand is much more vigorous than figures would suggest, and this may be reflecting itself in the numbers as they are coming out of the next--

CHAIRMAN BURNS. I think there has been a difference for some months between the larger banks and the smaller banks across the country.

MR. AXILROD. That's correct, President Eastburn. And we made an analysis of the weekly reporting banks vis à vis the others, and things have been much less weak at the nonweekly reporters.

MR. EASTBURN. The question has to do with productivity. Our assumption has been fairly bullish on the rate of increase in productivity, which tends to lead to a fairly optimistic view as to the impact on wage push and so on. What kind of a figure do you have?

MR. GRAMLEY. After the first quarter, we are assuming an increase of productivity of around 3 percent, 2.9 percent. Our first quarter number was quite low, and this is one reason why we feel more comfortable that the numbers that Commerce has come up with in GNP are now beginning to make more sense given the figures we have been looking at in terms of man-hours.

But a 3 percent increase in productivity is about what you would expect, I think, if the rate of real expansion is 5 to 5-1/4 percent. If we are in the process of revising up [the] rate of real expansion, as I think we will be, this will have more optimistic implications for productivity. But I think one can't discount the fact that the economy is stronger. You really can't anticipate that this improvement in productivity will work through to a lower rate of increase in prices. And I think you have to figure that shortage problems will begin to develop in particular industries, and you will get particular price increases, which will mean a more rapid rate of increase in the average price level.

MR. MACLAURY. John Balles reminded me of a question with his question on staff on the Hill. The news releases from the Senate Budget Committee came out with a more expansionary fiscal policy than the President had proposed. [It was] argued in the press release that this was less inflationary and [provided] more real bang for the buck in terms of real growth. I think they argued it on the basis that they were not going to have higher payroll taxes, which would in turn be passed directly on in price increases. I wonder what the staff felt about this line of argument. Was this a strictly political document in that context or was there some truth to it?

CHAIRMAN BURNS. Let me answer that. Nothing on Capitol Hill is done by economists. [It] is strictly political--it's just bad economics.

MR. GRAMLEY. There's an element of truth to the argument.

CHAIRMAN BURNS. There's an element of truth to all things erroneous.

MR. GRAMLEY. If payroll taxes are not raised, that is one less [thing] pushing [unintelligible] on the price level. But if you are talking about a more expansive fiscal policy generally, other than that element, I don't think you can argue it is going to be less inflationary.

MR. PARTEE. It's the same argument, isn't it, that holding down interest rates prevents inflation?

MR. GRAMLEY. In a similar fashion, yes.

MR. WINN. Dave's comment on the country banks showing a little more strength than the city banks reminded me that I was surprised to discover what rapid strides the credit unions had made as a source of consumer credit and the relative proportion of increase that has taken place in their status as a supplier in this area. It's the most striking change of all the groups.

MR. GRAMLEY. Yes, it's growing very rapidly.

CHAIRMAN BURNS. I think we have gone as far as we usefully can at this point in our discussion of the economic outlook. Let's turn to Mr. Sternlight's report on operations at the Domestic [Trading] Desk.

MR. STERNLIGHT. [Secretary's note: This statement was not found in Committee records.]

CHNAIRMAN BURNS. Thank you very much. In the future it would be desirable to submit to the Committee before the meeting a report of how the Desk might have operated under the criteria on nonborrowed reserves. Now, you might do it at the meeting as well. But I found the latter part of your report extremely difficult to follow. And I am not sure that I would have grasped it if I had had the report in advance, but I would have had the opportunity to study it.

MR. STERNLIGHT. But we have put indications in our weekly reports and the report that covers the four-week period ending last Wednesday.

CHAIRMAN BURNS. You've done that? Well, I'm sorry, I just haven't read that.

MR. STERNLIGHT. It is perhaps not as easy to follow there, where we are all charting our way through unfamiliar territory, and we will try to improve the [unintelligible].

CHAIRMAN BURNS. I just had some difficulty following the last part of your report, and I don't know whether others did. I may not be sufficiently awake this morning. Yes, Mr. Coldwell.

MR. COLDWELL. Peter, has the market reacted, or does it know of a change in our acceptance [unintelligible]?

MR. STERNLIGHT. No, I've seen no comment from the market on that at all. I don't believe they are really aware of it.

MR. COLDWELL. Second question. Do you see any signs of a longer range--I don't mean in the immediate weeks ahead, but longer than that--decline in corporate bond offerings?

MR. STERNLIGHT. [From our talking] to the underwriting houses that seek to make estimates of what's coming, I think there's a general feeling in the market that the volume will be tapering off as the year goes along. I think there was a feeling a few months ago that there would be an even sharper drop than has transpired, but there is still a feeling that it will decline as we go along this year.

CHAIRMAN BURNS. Mr. Black.

MR. BLACK. Peter, you mentioned in your discussion of what would have happened under a nonborrowed target that we did run into a problem with overly narrow constraints on the federal funds rate movements, which we might have expected. Did you see any other mechanical difficulties that you thought the Desk would encounter if we were in fact operating on such a target?

MR. STERNLIGHT. I wouldn't describe them as mechanical difficulties, no. But I did point out that we would have been led to a firmer stance in the provision of reserves even though, through most of the period until the last few days, it looked as though monetary growth was pretty much close to its midpoint. So had we been looking through the nonborrowed guide, we would not have wanted to have a firmer federal funds rate.

CHAIRMAN BURNS. Mr. Kimbrel, please.

MR. KIMBREL. Moving back to the acceptances, Peter, were these reductions accomplished altogether in maturities?

MR. STERNLIGHT. Yes, we did not sell any. What we have been doing is reducing our pace of buying so that we don't cover the maturing amounts week by week.

MR. HOLLAND. Mr. Chairman, may I just say that Peter's playing "what might have been" is a hard game, and I thought you made a valiant effort to try to relive that span with another life. I think as you keep at it and put it down, it may fall into a better shape.

I would say I believe it's going to [require] looking back over more than one episode, probably several episodes in a row. Then we will begin to see whether, on balance, that world of "what might have been" has a real meaningful attraction to the Committee. One of the things it's bound to produce are [periods] when one of our specifications or one of our instruments is a bit out of sync with the others, that's one of the things that evidence has made very clear, and I think it will take several episodes to put it in the proper perspective.

MR. MACLAURY. But as you extend your experiment in that fashion, it gets increasingly hard to say what might have been because you start with a base and you get a little further away from it unless you are taking one-month chunks. But to know after five months of experiment where you would have been--I think it is relatively easy with one month and relatively more difficult as you expand that experiment.

SPEAKER(?). The more difficult the more important.

SPEAKER(?). He has to keep track of--

CHAIRMAN BURNS. My guess would be that it ought to be done in one-month chunks; otherwise you would be piling assumption on assumption--you wouldn't begin to know where you are. I think you can learn something, if, let us say, we do this for six months. At the end of the six months, using the cumulative evidence of the one month's chunks, [we might conclude] that we would have done better had we relied on nonborrowed reserves to a larger extent.

Well, that would affect our judgment with regard to the future. But, of course, it might be better with that scheme for six months and then do more poorly in the next six months--that's something else again, but that is the risk that goes with whatever we may do.

I would like to ask one question. If you had operated on nonborrowed reserves, do you think that, considering the objectives of our monetary policy, which I am not going to define at the moment-- I'll let you define it in your own way, and don't do it out loud, please--do you think that you would have done better than we have done during the past month? Do you have a view on that?

MR. STERNLIGHT. I am not convinced that we could have done better. No.

MR. EASTBURN. Mr. Chairman, there is a problem defining what is better and what is worse, it seems to me, without criteria as to what you are trying to do.

CHAIRMAN BURNS. Well, we will get a long discussion if we pursue that thought. Obviously, no matter what we do, we are not doing these exercises for their own sake. We are going through these exercises in the interest of the real economy as far as employment goes, production goes, and the price level.

MR. WALLICH. Mr. Chairman, my question has been answered by this discussion.

MR. PARTEE. I was simply going to say that I thought this first month was a telling kind of experiment because, if I understand it, M1 and M2 were right on target, very close to the midpoint. There was, in a sense, a mechanical problem and its specification on nonborrowed reserves, that is to say, the multiplier, changed a little bit. So you would have had to have raised the federal funds rate by 1/2 percentage point by the end of the period, even more if you hadn't been following a rule on constraint, even though the M1 and M2 figures were quite good. I think you do ask whether there was a mechanical problem here in the sense of specification of the multiplier that would have resulted in a disservice to the [unintelligible] had you used the nonborrowed target.

CHAIRMAN BURNS. Or this might look a little different six months from now.

VICE CHAIRMAN VOLCKER. Or it might look different next month or it might be just what the doctor ordered.

MR. PARTEE. No, I don't think that's fair.

VICE CHAIRMAN VOLCKER. The money supply increasing both the target rate--

MR. PARTEE. No, I'm simply talking about the fact that nonborrowed reserves ran high relative to the observed money numbers. Now that has nothing to do with the dynamics of the situation. That has to do with the specifications of the relationship.

VICE CHAIRMAN VOLCKER. There is a question of a lag here, and the money supply has been running a little high in the last couple of weeks.

MR. PARTEE. But the lag goes the other way, because there are [unintelligible] two weeks left.

CHAIRMAN BURNS. Take the end result, the rising federal funds rate--six months from now that might look awfully good to us.

MR. PARTEE. But that would simply be luck if that happened. There is nothing in the observation of that relationship that would lead to that conclusion. It would just be luck.

CHAIRMAN BURNS. It's a [unintelligible] to be on the side of luck.

MR. AXILROD. Governor Partee, it's not entirely beyond the projection period because we did have more strength in M1 in the week of April 7, for example, which is affecting our required reserves in the week of April 21. That's one of the weeks that's throwing Mr. Sternlight off his path.

MR. PARTEE. I see.

CHAIRMAN BURNS. To elaborate on that point, if we're to say, we ignore zones of tolerance, and if we attempted fine tuning under our present scheme, I think the Desk would have been raising the federal funds rate a week or so before [unintelligible].

SPEAKER(?). Very recently, very recently. But not the most [unintelligible] period.

MR. AXILROD. As a matter of fact, for most of the five-week period, Mr. Sternlight and I were carrying on a conversation of what you would really do if you had nonborrowed reserves, and we were debating whether you would raise it early or wait. And that was the nature of the debate, and if you are actually on a nonborrowed reserve target for an average period, that is innate in that the Desk always has the option as to whether to operate early or late.

SPEAKER(?). Maybe your estimate of nonborrowed was just wrong.

SPEAKER(?). That's possible.

CHAIRMAN BURNS. Well, I think we've entered the wrong possibilities.

MR. JACKSON. My only comment was, if you had gone ahead and operated on a strict basis as the Chairman mentioned, then the disparity between the results you did achieve and the results you might have achieved would have been narrow. So perhaps you weren't off as far as it might initially appear.

MR. STERNLIGHT. I think that's right. As I mentioned, we think we came out about $90 million above, but had we been on the targeting basis we would have come out say $40 million above on nonborrowed [reserves] but with a concomitant firming of the money market.

CHAIRMAN BURNS. Let me ask you this question. In operating through this simulation exercise on nonborrowed reserves, did you allow for a zone of tolerance, if my question makes any sense? What I am trying to say is that the two methods [unintelligible] should be comparable, and if one [method] allows for a range of tolerance, then so should the other.

MR. AXILROD. Mr. Chairman, I believe we have done some work on the relationships between the two-month zone of tolerance. [In] this intermeeting [period, the] nonborrowed [reserves] target] and the plus or minus $50 million that the Subcommittee on the Directive recommends appear to us to be consistent with a zone of indifference of about 2 percentage points on a two-month period.

MR. STERNLIGHT. I would say that, as we were going through this, we were trying to envision what nonborrowed number we would aim for week by week, and unless we were constrained by the federal funds constraint, we would aim for the target number. So, in that sense, I think it is a little different from the zone of indifference that we talked about when we are guided by the Ms in setting the federal funds rate objective. I regarded this plus or minus $50 million range as something that the Committee might be indifferent to in assessing whether the Desk has [hit] a target or not.

It seems to me as I read the output of the Subcommittee on the Directive that they would direct us to try to hit a nonborrowed number, but a $50 million [deviation on] either side of that would be regarded as essentially hitting that number. They were not telling us to keep money market conditions unchanged as long as it looks as though you come within $50 million of the center of the range.

CHAIRMAN BURNS. I think there's a technical point here that we ought not to try to unravel. It does seem to me that there may be a flaw in the comparison. That kind of hypothetical exercise could logically be compared with the method that we have been operating under without the zone of indifference. Engaging in [unintelligible].

SPEAKER(?). I think that's right.

CHAIRMAN BURNS. I think this is something that members of the staff ought to discuss and perhaps revise the estimating procedure that you engaged in. Or you might reach the decision that you are just going to try. But I don't think we ought to pursue that here any further. Any other questions? Thank you Mr. Sternlight. A motion to confirm the transactions of the Domestic Desk will now be in order.

SPEAKER(?). So moved.

SPEAKER(?). Seconded.

CHAIRMAN BURNS. We want to turn now to our longer-run targets, and I want to say something on the subject before we turn to a discussion.

As I believe the members of the Committee know, we must testify once again on the subject, and the testimony is now scheduled before the Senate Banking Committee on May 3. At that time we will need to announce our prospective monetary ranges for the year starting in the second quarter of 1976, and we'll have to reach a decision on that at this meeting. I'd like to review with you some of considerations that will bear on our decision as I see it, and I'll make a recommendation to the Committee. But first a few words by way of introduction.

One year has now elapsed since, acting under House Concurrent Resolution 133, we first announced our expected monetary ranges. Looking back over the past year, we've come rather close to the monetary ranges that we announced last year. Between March of 1975 and March of this year, M1 grew by 5 percent, [whereas] our announced range for M1 was 5 to 7-1/2 percent; M2 grew by 9.4 percent, and our announced range was 8-1/2 to 10-1/2 percent; and M3 grew by 12.1 percent, and our announced range was 10 to 12 percent. So, M1 was at the lower end of the range, M3 at the upper end, and M2 close to the middle of the range. And therefore a fair conclusion I think would be that we've done reasonably well. We're meeting our own expectations as of a year ago.

That, however--and we must always remind ourselves of this--is no cause for self-congratulations. The congressional resolution recognizes clearly that we, members of this Committee, must feel free to modify our goals and that we may do so at any time. The congressional resolution recognizes that our objective is and must be the good performance of the economy, not the achievement of this or that predetermined monetary magnitude. And if we judge ourselves by that criterion, namely, the performance of the economy, as I think we should, we could all take some satisfaction from the way in which monetary policy was conducted during the past year.

Now another word or two by way of introduction. Since March 1975, we have changed our monetary ranges to some degree. Last October we reduced the lower limit of M2 from 8-1/2 to 7-1/2 percent, and at the same time we reduced the lower limit of M3 from 10 percent to 9 percent, and this January we made another change--we reduced the lower limit of M1 from 5 percent to 4-1/2 percent. So during the past year we have made three changes and all in the direction of lowering the lower limit, with the consequence that our ranges have become wider, and they were not narrow to begin with.

The question before us is, of course, where do we go from here, and let me comment first on M1, which, to my judgment unfortunately, is still the monetary magnitude that is followed most closely--a fact that we cannot ignore. There are several considerations, I believe, that point to the desirability of lowering our range for growth in M1. One fact, of course, is that the expansion is now one year old, and we're looking another year ahead. Therefore, we are looking to a point in time that is two years away from the trough of the recession. One could reasonably argue, and I would, that some moderation of monetary stimulus would appear desirable if inflationary pressures during the coming year are to be kept under reasonable control.

A second consideration pointing to the desirability for lowering the range [for M1] is that we've said all along, often to ourselves and at times to the general public, that our longer-range objective on the price front, looking beyond the [coming] year, is for a return to general price stability. And being in the more advanced stage of the expansion, this may well be an opportune time to take [a] small step toward the goal of returning [growth of] our monetary aggregates to a level that is consistent with general price stability.

That magnitude is variously estimated and, without discussing the matter in any detail, we're well above any such magnitude with the M1 figure. Even ignoring changes in financial technology that would be consistent with general price stability, it is probably in the range of 1 to 2 percent and, in my own judgment, closer to 1 percent than to 2 percent.

There is still a third reason for lowering the expected range of growth for M1, as follows: During the past six to nine months, the growth of M1 has in fact been even lower than the lower limit of our present range for M1, and the growth that we've had has clearly been sufficient to finance a good economic recovery. So it appears that the rate of growth that is needed to finance a good economic recovery has been overestimated, and this is the subject that our staff has commented on at some length, and this is a matter that we've testified on at congressional hearings.

But the arguments do not all point in one direction. I think that several cogent arguments can also be advanced for leaving the range of M1 where it now is, or possibly even raising it. One argument pointing to such a conclusion would be that unemployment is still very high, and those inflationary pressures perhaps have eroded, and that any lowering of the range for M1 at this time would be premature.

A second argument that could be advanced to support such a conclusion would be that we cannot be certain that the demand for M1 will continue to decline relative to GNP or economic activity at large, and that a reversal is in fact possible.

Still a third argument that could be advanced in favor of leaving the range [for M1] where it is or possibly even raising it might well be that we've experienced low rates of growth of M1 during the fourth quarter of last year and the first quarter of this year, rates of growth well below our expected range. We therefore may wish to compensate for the relatively low rates of growth in the immediately preceding quarters.

Now these are the considerations, pro and con, as I see them, and there will be others. On balance, as I see this problem, I believe the case is stronger for lowering the range of M1 than for leaving it unchanged or raising it, but I also believe that the reduction should be small, and I would suggest to the Committee that we merely reduce the upper limit of M1. In other words, the range of growth that we announce would be 4-1/2 to 7 percent instead of 4-1/2 to 7-1/2 percent, which it is at the present time or which it was when we last made our determination. The change that I suggest, while small, would in my judgment justify and help to reinforce the widespread confidence that the Federal Reserve's monetary policy now enjoys in our country.

On the one hand, it would mean that we remain mindful of the need to prevent a resurgence of inflation and that we are working gradually, very responsibly, toward a restoration of general price stability. At the same time, the modest change that I recommend would also mean that we are willing to tolerate for the next year a rate of growth that may be as high as 7 percent in M1. This rate of growth is well above anything that we have experienced during the past two years, so I see no reason why, if we announce a range of 4-1/2 to 7, anyone should be concerned about a shortage of money or credit developing during the coming year.

So much for M1. Now let me turn much more briefly to M2. I would be inclined also to lower the upper limit of M2 by, again, 1/2 percentage point, and some of the reasoning that I have gone through about M1 carries over M2. But beyond that and more specifically, I would point out that experience during the past year indicates that we simply have not needed as much scope at the upper end of the M2 range as we've allowed in our projections.

Turning to M3, there, perhaps a bit paradoxically, I would leave it alone, leave it where it is, for two reasons. First, in contrast with M2, we have actually used in full the upper end of the range for M3. In fact, we have exceeded it slightly, but there is another reason that I think deserves some weight. M3 contains, as you know, the deposits of the thrift institutions, and if we lower the range or lower the upper end of the range for M3, that is bound to lead to some interpretation and speculation. People are bound to say, I believe, that we at the Federal Reserve expect the flow of funds to our thrift institutions to be reduced because we expect market interest rates to rise, so that incipient forces of disintermediation would be released.

Now some of our critics, and we have one or two in our country, would stop there, but some might go on and say that not only do we expect market interest rates to rise but, since we at the Federal Reserve control interest rates, we are planning to make them rise. I would find such an interpretation troublesome at a time of tranquility as far as the Federal Reserve is concerned.

So by way of summary I would recommend that we announce at the May 3 hearing a range of 4-1/2 to 7 for M1; a range of 7-1/2 to 10 for M2; and a range of 9 to 12, as it now is, for M3. And I've taken longer than I perhaps should have but this is a highly important subject, not an easy one, and I thought we might save time in the end if I ran through some of the major factors that bear on our decision, just as I see them. Now let's turn to a discussion. Mr. Coldwell.

MR. COLDWELL. Mr. Chairman, I am in agreement with the thrust of your reduction. I find a couple of points which I'd like to raise as to the position of leaving one end or other unchanged. Recognizing that there is some sensitivity to the question of the margin [the range for the growth of the aggregates], I think that, over the past year, we've had more and more questions raised here at the table [as to] the variability of this aggregate data in the short run.

I'm a little bothered about narrowing [the margin] down. You've pulled M1 from [a range of 4-1/2 to 7-1/2 percent to a range of] 4-1/2 to 7, reducing the upper end by 1/2 [percentage point] and narrowing the spread to a 2-1/2 [percentage point] margin, while leaving M3 at a 3 [percentage point] margin.

I find myself wondering if we couldn't just do a 1/2 [percentage point] cut on both ends of the spectrum, to go to 4 to 7 on M1 and 7 to 10 on M2, leaving M3 unchanged. It seems to me that the margin question here perhaps goes against the experience we've had. Also, it seems to me that, with the changes in the savings deposits, we've had severe questions about the ability to control M1. I'm not sure whether that's worked itself out, or will over the coming months, but to narrow this margin at a time when you're raising even further questions about the meaning of the aggregate data seems to me somewhat questionable.

CHAIRMAN BURNS. Thank you, Mr. Coldwell. Let me comment on the range. We've been criticized a bit, and I think really fairly, for making the range 3 percentage points last time, though we had our reasons. We wanted to move gradually, that was the main reason, but the fact is that in the process of moving gradually, the range was widened. I think some of us, at least, recognize that as a cost that we on balance were prepared to face. You see, in determining the range of growth for M1, I think that we have typically, at least in recent months, taken a range of 4 percentage points. Is that correct Mr. Holmes, Mr. Sternlight?

MR. HOLMES. That's true.

CHAIRMAN BURNS. Well, now, if a range of 4 percentage points is proper for a two-month period, then a range of 2-1/2 percentage points is, if anything, on the high side for a full year. I believe that is a reasonable statement. [Unintelligible] empirical tests that our staff has made. Is that correct, Steve?

MR. AXILROD. Yes, that would be right. The transitory component, the random variation so to speak, is considerably less as the time period lengthens.

CHAIRMAN BURNS. Well, I think that's the comment I had. Mr. Eastburn, and then Mr. Wallich.

MR. EASTBURN. Well, I like this proposal, Mr. Chairman. I've come prepared to suggest that [myself], as a matter of fact. I think it moves in a desirable direction for two reasons. One is that it is the direction in which policy should be moving over time as the cycle proceeds. I think if we've made mistakes, it's been in moving too precipitously toward the end of the cycle, and I think this would help to remedy that.

The other reason is that it does move toward a narrower range, and as we gain experience with our long-term targets, I think we should be trying to move toward narrower ranges. As for M3, I've always some difficulty with the idea of having this included in our exercise at all, and I think that maybe one solution to this would be to drop M3 if we could find a convenient way to do that.

CHAIRMAN BURNS. That would mean that we've lost all interest in home building. That would be a sin. Mr. Wallich now, please.

MR. WALLICH. With respect to M1, this would have been my suggestion, too, and I think this is a good way of following up the previous move. We don't move dramatically with a whole range, we just pull down the [upper] end.

Now comes the second shoe: Clearly the upper end is the more crucial one. The lower end only reflects the uncertainties about M1. I think there are many people who might think that, as the expansion progresses and the demand for credit picks up--if not the demand for money--we might be pushed to higher growth rates. I've thought so myself in the past, but the experience seems to show that we may be able to get away with [unintelligible] moving the rate of money growth in one big movement over the cycle from what was too high to closer to a reasonable rate.

I don't think it is unreasonable to expect this. The expansion of nominal GNP in our forecast is on the order of 10 to 11 percent, so we continue to bank on a significant increase in velocity of M1, [although] not as large as we've had in the past. As far as M2 is concerned we need virtually no increase in velocity there at all, and that's roughly in line with past experience. I would think, therefore, we have at least a good chance of making the goal stick, and since they are logical and move in the right direction, I think that's what we try.

CHAIRMAN BURNS. Thank you, Mr. Wallich. Mr. Mayo now, please.

MR. MAYO. Mr. Chairman, I find your reasoning very persuasive. It's completely in line with my own position. I would add one other dimension here that we might want to consider, and that is that some of the confusion with regard to our targets relates to the fact that the base is continually changing and being revised and so forth. We did a few things with the numbers last night in working over the idea that maybe we would be on sound ground if we went to the fourth-quarter base rather than the first-quarter base and in effect did that on a 15-month period.

I would give you the way we look at it as a 4 to 7 percent range for M1. That would be really quite consistent with the way alternative B of 4-1/2 to 7-1/2 is stated in the Bluebook because of the difference in the base. And we would [deflect the criticisms] that I consider somewhat petty [of those] critics who say, "It's too confusing the way you do these changes in goals." Maybe we are on firmer ground if we use a fourth-quarter base, which is indeed a bit firmer than our first- quarter base.

But regardless of that particular point, I would associate myself with Governor Coldwell in a desire to keep the 3-point spread. I think it gives us, again, the flexibility that we need in the pursuance of these goals. And I think the figures that you mentioned, Mr. Chairman, as the results of our first full year of experience, give some weight to the idea of continuing a 3 percent spread, so I would go for 4 to 7, 7 to 10, and 9 to 12.

CHAIRMAN BURNS. Thank you, Mr. Mayo. I just want to comment on your technical point. I think that the best reading of House Concurrent Resolution 133 is that we are to make our projection for a 12-month period. Now, if you're not changing the base in a systematic way--that is, [you are] looking 12 months ahead, and so you have to take as your base where you happen to be--I think that has two advantages. First, I believe it conforms best to the language of the resolution. Second, if we deviate from that rule, then you can be charged with manipulation, and a whole new flood of criticism may come our way. Now, this way, our critics may charge that we are stupid, but at least we're stupid in a consistent way, we're not manipulating.

And in this post-Watergate environment, where one is so eager to jump to accusations of manipulation on anything that even remotely smacks of that nature, I think we must absolutely avoid [anything that] is susceptible to that kind of interpretation. Well, thank you for your suggestion, and now Mr. Kimbrel.

MR. KIMBREL. Mr. Chairman, for a slightly different reason, I think I would prefer to see the downside reduced also. I have not reasoned out this closing of the spread, but I am concerned about the difficult price signals that continue to emanate. And I guess if we really are meaningful in trying to accomplish some price stability, I'd like to see us gradually move in that direction. For that reason, I think I would like to see the 4 to 7 range prevail, with the idea of maybe truly reflecting that, over that period, we are trying to accomplish some more price stability. The other ranges, I think, would be satisfactory to me as you suggested.

CHAIRMAN BURNS. Well, thank you Mr. Kimbrel. Perhaps we might break for coffee now, and then return to this subject--

[Coffee break]

CHAIRMAN BURNS. We’re ready to resume our discussion, and let’s hear now from Mr. Gardner.

MR. GARDNER. I have been impressed and pleased with the span of this discussion. I think to me the key fact is that we have to begin to change. The evidence is not here that the change is critical or essential, but we all know clearly the beginnings of change have [unintelligible]. If we believe in moderate and stable growth, then I think our change should be moderate.

I can easily understand the alternate arguments--unemployment coming down quickly but still very high; bank credit, which we [unintelligible] describe as a financing gap, has not occurred. Earlier in our discussion, we were talking about the financing gap, when what we really are talking about, I guess, is the fact that bank loans haven’t come along at the same rate that the economy has. I think Willis’ comments about the curious dichotomy that exists between small-bank loan demand and large-bank loan demand is very interesting, but I want to suggest, gentlemen, that when the prime rate moves, it’s more likely to be a general and nationwide move when it’s done by large banks and not by small banks. And the large banks don’t have a significant loan demand.

But the point I really am impressed with is that it’s time for the beginning of a change. And in that sense I am impressed with the idea that we narrow the target to some extent--that we knock a small [amount] off the top of the range and that we not continue the full range by lowering both the lower end of the range and the high end of the range. I think that’s useful psychologically and significant and consistent with the position we find ourselves in today.

You know, I have no trouble at all rationalizing leaving M3 with a wider range, and the reason is that we all get somewhat dismayed about the housing industry, which is what the thrift industry equals, having enormous force. But the key fact is that housing is an extremely large and important industry, and its recovery at the price levels that are now going in to the average home is still a very questionable mark in my mind. I think it’s just fine that there is an ample flow of credit for housing, and so I have no trouble rationalizing leaving M3 in the current position that it is in today.

It’s time to begin to take recognition of the factors that we know must change, and I would vote strongly for the very moderate proposal that, in my view, the Chairman has made. Thank you.

CHAIRMAN BURNS. Thank you, Mr. Gardner. Mr. Jackson now, please.

MR. JACKSON. Mr. Chairman, I share most of Governor Gardner's comments in general. However, I do share some comments by Mr. Kimbrel concerning the price situation. I think we'll have to face this. I'm inclined to think that our posture should not only recognize that we would find intolerable a larger range of growth, which the reduction of upper limits would do, but I think that it might be equally appropriate, perhaps, for the public to clearly understand that we would find equally tolerable a slower rate of growth. And for that reason I would be inclined to go ahead and drop the lower limits about 1/2 point as well as drop the upper limits about 1/2 point.

However when it comes to M3, I think the 9 to 12 range is probably reasonable. If you look at the actual rates of growth on that narrow portion of the difference between M2 and M3 [unintelligible]. But I believe the consequences of the broad action would bring those into the 9 to 12 range, which would be a significant reduction from their present posture and probably would be an appropriate action just to leave it right where it is.

CHAIRMAN BURNS. Thank you, Mr. Jackson. Mr. Partee now, please.

MR. PARTEE. Mr. Chairman, I'm prepared to accept your recommendation for the specification of the long-range rates of growth, but I think that I would like to make a couple of observations about it to rather qualify my support. First, I think that the real GNP growth over the next five quarters as projected by the staff is intolerably low. I don't really believe that we could in good conscience lower our growth rate targets for the monetary aggregates if we thought that real GNP was going to increase only at a 5 percent annual rate--that would mean very, very little progress in reducing unemployment over that five quarters, and it would be a rate of growth that would be rather poor by historical comparison. Now, I think it's going to be higher than that. I guess I would expect something like Paul's 6 percent rate of growth. I would be surprised if it was as high as 7-1/2, Bruce, but it could maybe be that high.

CHAIRMAN BURNS. Your figure of 7-1/2 percent was a year-over-year comparison.

MR. MACLAURY. A year-over-year figure rather than the quarterly--

MR. PARTEE. '76 over '75?

MR. MACLAURY. Right.

MR. PARTEE. Well, even so, that's a pretty . . . well, I guess that's probably more like 7 on a quarterly basis.

CHAIRMAN BURNS. Could be lower.

MR. PARTEE. And I don't know that it will be that high, but I want to make it clear that I would support the slight lowering in the growth ranges in the expectation that economic growth would be a good deal better than 5 percent.

I don't know any more what rate of monetary expansion is consistent with that rate of economic growth. I don't think we have really any basis [on which to proceed in specifying] that, and so it seems to me possible that we're specifying a rate of monetary growth that's too low for good continued economic recovery. But I think I would have to see signs that it was too low, in other words, developing problems in the market. Today we don't have those problems. We have very good savings inflows, credit is comfortably available, and interest rates are still, if anything, inching downward, and therefore we certainly don't have signs of monetary constraint on the economy at this time. So that's my first comment.

My second comment is that I think that the Committee has to recognize that there's a very good possibility that it will overshoot the top end of its yearly ranges in the second quarter. That is the very first quarter coming up. Now the staff midpoint projection for the second quarter average is, I believe, about 7 percent on M1, and it's also at the upper end of the range on M2. So there is a good possibility that in this second quarter, on average from the first quarter, we will exceed the upper limits of the long-term growth ranges that we're just now about to specify.

I don't see that as a great problem. We've had two quarters in which we've fallen considerably short of the lower end of those ranges, and I think that we ought to be prepared to support, or at least not move too strongly against, a tendency to overshoot in the coming quarter. I think that's the way that one can justify changing the base [unintelligible] and yet regard the thing with enough looseness that you're prepared to see an undershoot or an overshoot. We may well have an overshoot coming up. But I would not be prepared in the immediate future to move strongly upward in interest rates in order to try to bring the aggregates in the short run down into these growth ranges that we're specifying. So those are the two reservations I wanted to convey. Thank you.

CHAIRMAN BURNS. Thank you, Mr. Partee. Mr. Black now, please.

MR. BLACK. Mr. Chairman, I think the ranges you've suggested are the best possible ones, and I'd just like to point out one little point that I don't think has been developed. We lowered the upper limits to show our concern for inflation, and I share Governor Partee's feeling that the economy is much stronger than has been projected by the staff. I think you can make a case for lowering the lower limits, but in the face of [current levels of] unemployment, I think it would be unwise to do that now. I think we want to continue to show the markets we've got a concern for unemployment, so I'd leave those rates there. But secretly I would hope that we move down toward the lower end of it in our long-run targets.

CHAIRMAN BURNS. Thank you, Mr. Black. Mr. Holland now, please.

MR. HOLLAND. Well, I think that over this past year the Committee and the Chairman have converted these long-range target ranges--which we [resisted] a bit when they first got introduced--into an extraordinarily helpful communications device, certainly to the public and even occasionally to ourselves. And I think this is one of those occasions when they can serve that kind of purpose.

I think it's time to work down the upper end of those ranges a bit. I believe this is a time, monetarily, for a sort of a stitch-in-time action on the part of the FOMC because economic activity is moving up now into new high ground. And we need to begin to try to adjust to a further gradual reduction in unemployment and hopefully gradually further iron out that inflationary bulge. I don't think we ought to aspire to accommodate the usual cyclical expansion. We're still, I believe, afflicted with more fundamental problems that we need to keep working away at, and it seems to me that working down the top end of the ranges for M1 and M2 makes good sense.

I could be talked into working down the top end of the range for M3, but I think there's a good case for leaving it there as well. And I point out to you that we do have also a long-range target, I think, in the credit proxy, and we aren't lowering that either. Now, there's a similarity here that's saying, in effect, that the big difference between a credit proxy and M2 is big CDs at commercial banks. S&Ls don't have any big CDs.

So what, in effect, we're suggesting with the credit proxy staying unchanged, as I think it should, and M3 staying unchanged is that we expect the total liabilities of both the banking system and the nonbank thrift institutions to continue to rise in about the range we've specified before. And I think there's a little harmony in that it has an economic logic all its own. If we start to get some other kind of firming in credit demand that the staff expects, I think that we'll probably see a little bit of life come up in big CD expansion, and that will at the same time make banks a little more acquiescent in a touch softer performance in their other M2 liabilities.

I'd like to see the ranges narrowed. I think we widened them when we were uncertain, but I think on balance it makes sense for them to be a little narrower. This is always a sort of balancing act between making them wide enough so we don't ever get caught off base and making them narrow enough to be reasonable targets. And it seems to me [that making them] a bit narrower than we now have is a good idea.

Finally, I should just as a grace note say I like what I heard Chuck say about the relationship of second-quarter projections to year[-long] projections. I think that's just the right way to look at it. Thank you.

CHAIRMAN BURNS. Thank you, Mr. Holland. I'd like to say a word about the credit proxy. I didn't comment on that at all. I made no recommendation to the Committee because I didn't have enough time to study the matter, and I think it's a difficult question. We've been so wide of the mark in the credit proxy that even the continuance of it is somewhat in doubt, and that opinion has been expressed around this table. The main reason for continuing with the credit proxy is that we want to indicate to the congressional committee and to the general public that we're not only concerned with the money supply but also with the amount of credit that is extended by the banking system.

Now I would suggest that we handle the credit proxy as follows. After we reach our decision about the three Ms, let our staff go to work on that and make its recommendation. And then a subcommittee of this Committee--perhaps consisting of the Chairman, the Vice Chairman of this Committee, and Mr. Gardner--could work with the staff and then accept or modify [the staff recommendation] on behalf of the Committee. We'll discuss this proposal later on. Because you may be right, Mr. Holland, saying we ought to leave it.

MR. HOLLAND. I think I am. In pouring over the numbers, I think that's the right way to come out.

CHAIRMAN BURNS. You've studied it. I haven't studied it, and I would hesitate really to go one way or another without listening to the staff and doing a bit of work myself on the subject. We'll come back to that. I'm glad you have studied it, and if we proceed by the subcommittee device, let's have at least one member of this Committee who has studied the matter, and that means you, Mr. Holland.

MR. HOLLAND. I don't think you'd better, Mr. Chairman. I think I'd better pass. I'll gladly pass on my information to the staff, and you can consume it indirectly.

CHAIRMAN BURNS. Well, you will be in a period of grace over the next two days, I'm sure, and our staff will get that under way. No, I don't want to lose this knowledge that you've accumulated.

MR. BLACK. I think he's got a short-run attitude, Mr. Chairman.

CHAIRMAN BURNS. Mr. Volcker.

VICE CHAIRMAN VOLCKER. Just following up on your suggestion of a subcommittee here. Do you contemplate it would be [within] the jurisdiction of that subcommittee not to have the credit proxy at all or do you think that we're--

CHAIRMAN BURNS. No, I don't think that should be--I think we must all suffer.

VICE CHAIRMAN VOLCKER. That may be indicative of the amount of study that I've given to the credit proxy.

But on the general question [of the ranges for growth of the monetary aggregates], obviously very persuasive reasons have been suggested around the table already, which I share, for lowering these ranges. Indeed, for M1 at least, I came to the meeting prepared to raise the question, but not to press the question, of lowering them by more than 1/2 [percentage point], largely on the grounds that when one looks at this in a perspective over a period of time, as you did, Mr. Chairman, in your introductory remarks, and if you assume that you would like to get down to 1 or 2 percent eventually, and you go at the rate of 1/2 [percentage point] a year, which is what's implied here, it takes a hell of a long time to get there. And it may raise some question of the conviction with which we pursue that prospect. I do indeed think you could make a case for 1 [percentage point] a year quite reasonably, but I will not belabor it because it's an extension of the arguments that you use.

I also came prepared to quite happily support a 1/2 [percentage point] reduction as an appropriate move at this particular point in time. That would even include just 1/2 percent[age point] on the upper ranges, as you suggested, because it seems to me the upper end of the ranges, as a number of people have suggested, is the more significant figure here and the figure that people will look at as to what we're willing to tolerate in some sense. That's of the greatest value, but I would be happier to be placed on the side of those who think on balance it would be better to reduce it both at the upper end of the range and the lower end of the range, both for the substantive reasons that have been suggested and the fact that I'd like to keep the range a little wider than a little narrower.

On M3, it seems to me that you can make a very good technical argument. But consistent with those kinds of decisions, the thing should remain about where it is, and we just track our past performance. It seems to make sense if we're going to meet both targets at the same time, judging from what has happened. My only concern there is I'm a little bit restive about some of your rationale, Mr. Chairman, because it seems to promise conceivably that you would be trapped if interest rates did begin rising at some point and we began failing to meet the range on M3--which one do you look at? Which one do we really think is more significant? And if we're too afraid to reduce the M3 range when it seems appropriate, which I don't argue is necessarily [the case] this time, we could be in trouble.

So I would just put a little footnote on keeping that one unchanged, which does seem to me appropriate for this particular quarter. But maybe it is something we want to look at next quarter in the light of what is then going on and what the interest rate developments have been and what their prospects might be in the coming period. In fact, that one also looks unsustainably high to me over a longer period of time, and we ought to be thinking about when and where it should be reduced. So my acquiescence in that which I think is correct and [unintelligible] but strongly support is perhaps [of only a] limited time duration.

CHAIRMAN BURNS. Well that's all that we're concerned about [unintelligible] waiting. Thank you, Mr. Volcker. Mr. Balles now, please.

MR. BALLES. Mr. Chairman, I'd like to say just a few words about the first of the three reasons that you cited for a modest reduction in the upper limit of the ranges of M1 and M2, namely, the fact that we've got to be alert to the dangers of renewed inflation. This has to do with what happened back in that period of 1971 to '73, when one major industrial country abroad really had an explosion in money supplies, which I think [played] a big part in world inflation and also [unintelligible] very severely, in my opinion, in the United States in terms of the prices of internationally traded commodities.

As I looked at what's going on in 10 major [foreign] countries, I was very surprised to find out that, [although we] tightened up on our rates of monetary growth since '73-'74, six of the 10 leading countries now have rates of [monetary] growth for the '74-'75 period actually bigger than they did back in the '71-'73 period. To me that's a danger signal that we may be setting the stage, or that they may be setting stage, for a renewal of world inflation, which, if it occurs, will certainly make it very difficult for us in the United States to keep our inflation rate as low as 5 percent.

So, for those reasons, I would support a move toward lowering these ranges in modest steps. I would be prepared to accept the particular specifications that you mentioned. If I leaned in any direction, I think I'd lean in the direction of perhaps adding to what you had to say, pulling down the lower end of the two ranges on M1 and M2 by 1/2 point as well. If we don't do that now, I think we can take a look at it in another three months, but I would certainly support at least pulling down the upper end of the range.

CHAIRMAN BURNS. Thank you, Mr. Balles. Mr. MacLaury now, please.

MR. MACLAURY. Thank you, Mr. Chairman. I certainly support your suggestions as to the ranges. I came prepared to argue for a 4 to 7 percent, in other words, a 1/2 [percentage point] down on both sides of M1 and M2--it does really matter. But my conviction that we ought to be working with narrower ranges rather than wider ranges makes me very content to accept a one-sided reduction this time around.

I also agree with Chuck Partee's first reservation, in particular, namely, that we should be doing this in the belief that the Greenbook forecast is too low, and I subscribe to that idea too.

A couple of points on your reasons, which you may or may not have a [unintelligible] of, and you may or may not use with the Congress itself in your testimony. It seems to me we should be leery of accepting the argument you cited on the con side, that we can afford sustained rapid growth now because we have some catching up to do. I'm reluctant to give credence to that kind of an argument, and specifically because I believe that our forecasts, our expectations today, have built into them whatever has happened in the past. And we are looking at a GNP forecast predicated on those factors having been built in, so there's no case therefore for compensating today for what has already transpired.

And the other point, just to strengthen perhaps or add a different angle to one of your pros: It seems to me that the kind of range that we're talking about today is a very different number than the same number that we adduced a year ago because our expectations of--

CHAIRMAN BURNS. I'm sorry, would you mind, I want to follow your argument--

MR. MACLAURY. I didn't say it very well. What I had in mind is that our expectations for inflation in the year ahead are lower than our expectations were when we first announced these targets back in March of 1975; that 6 percent today is not the same 6 percent as it was a year ago; and that we have a very legitimate case for saying that we can finance as much or more real growth today with the kind of numbers that we are talking than we could have last year. I think that's an important rationale for now trying to capture some of that advantage that we've already gotten in the way of reduced inflation.

CHAIRMAN BURNS. All right, I [unintelligible], and he knows why. Thank you very much, Mr. MacLaury. Anyone else like to speak? Yes, Mr. Morris.

MR. MORRIS. I can support the figures that you gave to us, Mr. Chairman, but I'm a little disturbed about the procedure that we're using in establishing our long-term goals. What we're doing is making modest changes in the growth ranges, superimposing those modest changes on a very volatile base number of the base period without really giving any elaborate consideration to the effect of this over a long period of time.

CHAIRMAN BURNS. By a longer period of time you mean what?

MR. MORRIS. A period of say two to three years--how is this adding up over a longer span? In the present instance, we're using as a base a period in which M2 grew very rapidly and M1 grew very slowly. I think, in that sense, you might argue that the ranges we're presenting here are more conservative for M1 than for M2.

The other thing that bothers me is that we're not giving any [unintelligible] consideration to the compatibility of our current one-year projection with those that we had given to the Congress in earlier periods. In other words, how consistent is this set of numbers with a set of numbers which we gave to the Congress three months and six months ago? Are we going to run into instances of serious incompatibility? I think it's possible that, in fact, it could well happen in the future and that therefore it seems to me we need a little more staff input in making--

CHAIRMAN BURNS. You speak of incompatibility, you mean what?

MR. MORRIS. Well, I think in [unintelligible] situation, for example, whereas if we were going to make both the projections--the long-run target we put out six months ago and the long-run target we are publishing today--if we're going to make both of these, we would have to have the kind of policy changes that we wouldn't think would make sense.

CHAIRMAN BURNS. Well, I understand that, that's why I asked you a question. But I honestly think that that would put us on the wrong track because then our objective at this table would be to make some predetermined set of numbers come true, and that must never be our objective. It's not required by the Congress. Our objective is the economy, not some set of numbers that we dream up at this table.

And you talked about our procedures. Well, I think there's some point to your criticism, but we might have gone into a deeper discussion than we have, you see. But I don't think the incompatibility should worry us at all. If we're getting good results in the economy, what else do we need? Suppose, let us say, that our monetary growth figures turn out to be 1 percent for M1 and 5 percent for M2 and 6 percent for M3 but that employment was rising, and production was rising, and the price level is no longer rising as fast as it had been, and interest rates are fairly stable? Well, we ought to be quite content with those monetary growth rates even though they depart, and depart materially, from figures that we had projected.

MR. MORRIS. I'm not arguing that the Committee would necessarily come up with a different judgment on the numbers, but it seems to me that this is input that the Committee ought to have. That we ought to know the relationship between what we're doing today and what we [unintelligible] for earlier periods. That doesn't mean that we'd necessarily come up with a different judgment. It does seem to me that this is a part of the information process that we don't have.

CHAIRMAN BURNS. Well, you've answered your own question. That is to say that you've come out with the judgment, apparently, that was close to that of the Committee, even though you've considered the questions that have not been, in your judgment--and I agree with you--been talked about sufficiently at this table. And I suppose part of the answer to the procedural question might be to have the staff elucidate some of these magnitudes and relations more fully than has been done, but I suspect that what you describe as a defect in procedure may be that only to a limited degree.

If every one of us does his homework--time is limited, so we don't go through the full process of reasoning that leads us to a conclusion because we all speak rather briefly--I'm an exception to that, I talk too much. Thanks very much, Mr. Morris. Mr. Winn please.

MR. WINN. I concur in your recommendations, Mr. Chairman. And I am thankful, at least psychologically as well as economically, that you are required to do this every three months because I think the scenario that we've outlined here on 4(a) and (b) is not likely to be very real in the light of the changes in the underlying assumptions. I think we may have more problems down the road to meet this in terms of rates than we realize at the present time. Psychologically I think it's bright news as well [unintelligible].

CHAIRMAN BURNS. Thank you, Mr. Winn. Anyone else?

MR. BAUGHMAN. Mr. Chairman, I just register concurrence with your recommendation. I think it's quite appropriate in the circumstances. I think the maximum numbers we have here are still adequate to finance quite a substantial inflation, but the fact that we have the maximums doesn't mean that we will necessarily rise to them, as is demonstrated by experience over the past year, so I'm comfortable with the recommendation.

CHAIRMAN BURNS. Thank you, Mr. Baughman. Anyone else?

Well, I think we've had a good discussion, and Mr. Broida has kept a record of the thinking conveyed by members of the Committee with his usual [unintelligible] care. I think I can summarize by saying that the numbers [I presented] originally at the opening of our discussion are favored by a majority of the Committee, and therefore we now ought to go to a formal vote, and we'll be voting on a range of 4-1/2 to 7 for M1, 7-1/2 to 10 for M2, and 9 to 12 for M3.

Ah, Mr. Broida--while trained as an economist--has, by the virtue of the secretarial duties and the legislation passed by the Congress, become an expert attorney as well, and he advised, and I will not give his reasons, that there are strong reasons for not taking a formal vote but merely for determining whether or not what I've stated conveys the consensus of the Committee. Let's have a show of hands on the existence of such a consensus of Committee thinking on the part of members of the Committee rather than a vote on the magnitudes that I have decided.

Now, if you want to know the legal reasons and so on, they will be recited with meticulous care by Mr. Broida, who will be supported by Mr. O'Connell, and I will go to sleep while they talk, and the rest of you can do as you please.

MR. COLDWELL. Just one question Mr. Chairman, if this is a formal action of the Committee to set longer-range targets, then I would think that the vote is desirable. I don't understand why you don't have a vote on a target.

CHAIRMAN BURNS. I don't really understand, either. But since I think it will make no difference whether we proceed one way or the other, and since I'm advised by learned counsel that there are good reasons for proceeding by the consensus route rather than by strict voting, that is my--I just accept that. But if you want to know the reason--Art is eager, look at the way he's sitting. [Unintelligible], just itching to do that, give you a full learned explanation. He can do it in one minute. Go ahead, Art.

MR. BROIDA. Mr. Chairman, thus far the Committee has not chosen to consider the longer-run targets as a formal policy action. This originated in the inclination not to publish the longer run--originally not the longer-run or the short-run targets. If it were a policy action, they would have always been published. For a long time--until December 1973--we didn't publish the short run. Until April '75, we didn't publish the long run.

CHAIRMAN BURNS. But I don't understand, we do publish--

MR. BROIDA. At any time the Committee desires, it can make these a formal policy action, in which case we will publish them as formal votes and show them in the *Federal Register*, which we have not done but which is required for formal policy actions. They publish the directive in the *Federal Register*, so we could agree to publish both the long-run and the short-run targets in the *Federal Register* also.

CHAIRMAN BURNS. Now we better hear from a man who has a law degree and years of training practice. Mr. O'Connell.

MR. O'CONNELL. Mr. Chairman, Art has correctly stated the premise on which we have chosen, on recommendation, not to take a formal vote on longer-term ranges. They have not been considered a matter of Committee position in policy actions. Thus, that is why Art is urging that it be in the form of a consensus rather than a voted action by the Committee.

CHAIRMAN BURNS. Let me ask this question. Suppose we decided to take a vote, a formal vote, which is the route I was going to follow. What terrible consequences might follow, if any?

MR. PARTEE. You could have dissents and reasons for dissents. That's the only thing I can see.

MR. BROIDA. Mr. Chairman, I think the consequences would be only good. In fact, it was felt for a long time that the Committee would be in a much better position if these were formal policy actions.

MR. HOLLAND. Well, may I just interject one more--I agree we ought to get to where we're publishing them, but I believe it wouldn't be a good idea for the Committee to simply vote on them today and put them out in the form [in which they appear] in that specification sheet.

I believe the right vehicle for conveying these in public form is to fold them into the language of the directive, and I assume that most members of the Committee would like to see how they would appear, folded into that directive, before they decided to do it. I make that suggestion for two reasons: One, I believe it's only when you wrap a few words around those numbers that they have some of the protection that--

MR. PARTEE. They're in the Record of Policy Actions, you know.

MR. HOLLAND. Well, Chuck, I'll come to that in a minute. I'm trying to think now about the specification sheet. The specification sheet is not a good vehicle for release in my judgment because it's too bold, it's too bald. They are simply numbers and have none of the qualifications around them that appear in the language that is used in the Record of Policy Actions entry. However, you could pick up the language in the policy record entry that is now used there, marry it right with the directive. The staff has already done experiments in that fashion and produced, I think, an acceptable kind of version.

Now, the reason against voting and then just telling the staff to put them into the policy record entry is, I believe, a reason that looks forward to the kinds of pressure this Committee may be under from courts and from the citizenry in terms of making information available. Formal vote information may indeed be pried out of you at some stage sooner than the reasons. And it is the development of the reasons and the background that make the policy record late--in terms of 30 or 45 days, whatever the Committee decides to do. Therefore, it seems to me, the Committee would be well advised to adopt these numbers in a form where it would not feel embarrassed or open to misinterpretation if indeed they were pried out of us on the very afternoon of the meeting. By folding them into the Record of Policy Actions, the language would be acceptable.

CHAIRMAN BURNS. I'm just not following you. If they were pried out of us on the afternoon of the meeting--this is on the assumption of this court decision?

MR. HOLLAND. Yes.

MR. O'CONNELL. It could be [that] a final order of the court, after appeal, Mr. Chairman, would direct that the portion of the total record containing these figures be made available immediately following the May meeting. The action vote itself would be immediately made available and thus deprived of the so-called wrap-around language that Governor Holland has indicated would be compatible.

MR. COLDWELL. The only part that Bob's talking about that makes it compatible is that I think we've served the Committee well by having you announce these at your hearings within the Congress, and if a formal vote has a chance of [being] pre-released, I would not--

CHAIRMAN BURNS. That would be unfortunate--

MR. COLDWELL. I think it would be, too.

CHAIRMAN BURNS. --because we testify before a congressional committee, and courtesy alone--and also respect for the oversight function of the Congress--almost dictates that the first announcement be made before that committee.

MR. MAYO. I thought that was one of the reasons that we didn't vote in the first place, to give you the announcement effect with the committee and such interpretation as you wish to make between the time of our advising you and the time you appear. Some of these things may be better stated in a little different light when you go up.

MR. PARTEE. But we don't report now, though, Bob, what our directive, what our specs are.

MR. MAYO. No, but I'm thinking again of the point of the possible immediate release.

MR. PARTEE. Yeah, well, there are lots of considerations. If you had to have immediate release, that would mean releasing your [federal] funds rate range and the short-run specs. It's quite a changed ball game if we were to do that. I don't think we were considering doing that when we made this decision back in '73, or whenever it was.

MR. MAYO. No. But, Chuck, all I'm trying to say is that we felt that that the Chairman should have maximum flexibility in the preparation of his own statement and discussion with the committee. There may be some of the elements in our discussion he would want to emphasize a little differently two weeks from now than he does today.

CHAIRMAN BURNS. I would be inclined to be guided by our counsel on this issue, and members of the Committee may or may not share that view. What is your advice, Tom? What is your advice to us as of today, without any prejudgment about what we may do or want to do in the future?

MR. O'CONNELL. Mr. Chairman, in the light of, I think, the wisdom of your concern for [having the] first statement being made in your testimony under [House Concurrent Resolution 133], and the fact that I fail to find a significant deficiency in the difference between the formal vote and seeing the consensus of the Committee [unintelligible] to that committee, I would think, Mr. Chairman, that I would still recommend a consensus statement by this Committee on the ranges rather than a formal vote.

MR. COLDWELL. Could I raise one question with counsel? Is the long-range target a segregable fact?

MR. O'CONNELL. Pardon?

MR. COLDWELL. Is the long-range target a segregable fact?

MR. O'CONNELL. It's my judgment, Governor, that the figure itself [unintelligible] could be arguably a segregable fact.

CHAIRMAN BURNS. I would argue otherwise because I confine facts to the economy. Now the procedure, projections, and so on, expectations--I would not call them facts, but I could see how--now, the plaintiff in this case, you see, has argued with our definition on what a fact is. We [may] have to agree with the plaintiff, and this may acquire the honorific status of fact, what we do here. An expectation or a projection may become a fact from certain points of view--of course it can be described as a fact.

VICE CHAIRMAN VOLCKER. It's more than that. A projection is a policy decision. That was the whole purpose--this was to segregate out from the policy decision what was fact, and this is certainly a policy decision.

CHAIRMAN BURNS. Well, I'll tell you what--let's not extend the ranges of [unintelligible]. We have advice from our counsel, and we may or may not take it. I do think that this is a question that should be gone into more deeply than we're able really to do at this time around this table. Now let's have a show of hands on the recommendation of Mr. O'Connell.

SPEAKER(?). [Unintelligible.]

VICE CHAIRMAN VOLCKER. For this time, right?

CHAIRMAN BURNS. For this time, Mr. O'Connell's recommendation is accepted, and therefore now let's have a show of hands on the existence of a consensus on the numbers that I have recited.

VICE CHAIRMAN VOLCKER. You're asking us to vote as a consensus, whether or not we prefer it?

SPEAKER(?). We agree with your judgment that there is consensus. Whether or not you're part of it--

MR. BROIDA. I think all members have their hands up.

CHAIRMAN BURNS. Now we're ready to turn to the current monetary policy, but before we do that let's have a few words from Mr. Axilrod.

MR. AXILROD. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN BURNS. Thank you, Mr. Axilrod. Mr. Axilrod, the Committee sooner or later will want to know about the Treasury financing plan.

MR. AXILROD. Yes sir. The Treasury, Mr. Chairman, is planning to announce its mid-May refunding on Wednesday, April 28. About $4 billion of publicly held debt is maturing, and I believe the Treasury plans to raise about--well, their plans are obviously indeterminate--it will probably raise about $1-1/2 billion to $2 billion in that financing, so that would be a financing on the order of magnitude of $5 billion to $6 billion. The auctions, if they are auctions, will be held in the first week in May. Perhaps Mr. Holmes has something to add to that.

MR. HOLMES. No, Mr. Chairman, I think that does it.

CHAIRMAN BURNS. All right, thank you very much. Any questions to Mr. Axilrod?

MR. COLDWELL. Did I hear you right, Steve? They hold their auctions the first week of May for a May 28 refunding?

MR. AXILROD. No, mid-May refunding.

MR. COLDWELL. Mid-May.

MR. KIMBREL. Mr. Chairman, what latitude does that leave us, then, for any possible action today that would continue to be slightly tightening?

MR. AXILROD. Well, Mr. Chairman, I would believe that if the Committee were to move in that slightly tightening direction, it might be desirable to have a slight indication of that in the market before the auction is set, that is, before May 3, 4, or 5, in order to be fair to the bidders in the auction and also to be fair to the Treasury in setting the terms of the issues.

CHAIRMAN BURNS. All right, any other questions?

MR. PARTEE. When would they set the terms, Steve?

MR. AXILROD. Well, that would be April 28.

MR. PARTEE. Yeah, that's the point I want to make.

MR. AXILROD. But that's fairly flexible.

MR. HOLMES. Mr. Chairman, may I point out, though, that the yield auction gives a little more time for things to adjust if they should go that route.

MR. PARTEE. Except the coupon.

MR. HOLMES. Just the coupon, then the bid comes later. So there's time, there are a few more days than we used to have under the old system.

CHAIRMAN BURNS. All right, we're ready for our discussion. Who'd like to speak first**?** Well, let me call on Mr. Volcker, then. Would you like to speak or not?

VICE CHAIRMAN VOLCKER. Well, Mr. Chairman we just reached a consensus on the longer term. Since that's so fresh in our minds, I guess we are forced to be consistent, or should be consistent on this immediate decision. And when I looked at what the staff has done here, they set forth some figures that are consistent in their way, but it seems to me not the only way you can be consistent. And the implication of what they have set forth--based upon some projections of uncertain reliability--permit faster growth now, with the prospects of substantially slower growth later on. I'm not convinced that makes maximum sense from a policy standpoint. When I look at some of these figures, I don't know as I would want the aggregates rising so slowly next year, and therefore I feel a little less tolerant of letting them rise more rapidly right now.

I think you can make a case that, if interest rates are going to rise a little bit, now is a reasonable time to permit that. What this means, specifically, as I've thought about this is, given the decision we've just made, we ought to move toward what appears to be the tighter alternatives for the short-range specifications. In fact, I had in mind that we might even retain the M1 range we have now of 4 to 8 percent, in full recognition that, certainly if the Board [staff]'s projections are right, we are most likely to get triggered with some higher interest rates in the near-term future, and that seems to me acceptable.

I wouldn't want that to go too far, so I would put a collar on the federal funds rate. In fact, that range, so far as I'm concerned, could stay where it is. But in assessing the probabilities, I would assume that we would be moved up to 5 percent and maybe as high as 5-1/4, although I would be reluctant--I wouldn't want to go beyond that. I would want some time to pass before we went beyond 5 percent, it seems to me. But what I am suggesting is that we be reasonably tight, on the high side anyway.

In setting the M1 range, 8-1/2 percent is certainly all right for me, as in alternative C, although in a way I would be just as happy with something as low as 8, recognizing that that will probably bring an increase in short-term rates in this period before the next meeting. And I wouldn't want that to go more than 1/4 in the near-term, and certainly not more than 1/2 before the next meeting--and I would set the federal funds rate ranges in that light.

Now, in approaching this, I should also note that the New York Bank's projection of the M1 movements, in the short term, particularly, are significantly lower than the Board [staff]'s. I don't attach much reliability to either of these, but it so happens that the New York estimates are 6 percent, which is exactly in the [middle] of a 4 to 8 percent range. And the M2 estimates are also somewhat lower. While they are not as strikingly much lower as the M1 projections, I think, consistent with what I said, the M2 range should be perhaps 8 to 12 percent or a bit lower.

CHAIRMAN BURNS. Thank you, Mr. Volcker. I've quite independently arrived at much the same opinion as Mr. Volcker has just expressed. For simplicity and to give some definiteness to the discussion so that members of the Committee may either move as I suggest or differ strongly, I would suggest that we take 4-1/2 to 8-1/2 for M1; 8 to 12 for M2; and 4-1/2 to 5-1/4 or possibly 5-1/2, though I doubt that we would want to go as high as 5-1/2 in practice, for the federal funds rate. Who would like to speak now? Yes, Mr. Jackson.

MR. JACKSON. Mr. Chairman, I would agree with that. However, I would think that we would want to then discuss this perennial topic of the zones of indifference. So if we go to the 4-1/2 to 5-1/4, we probably expect the Desk to focus around 4-7/8, which means a range of 4-3/4 to 5, which would suit me fine. I don't see any need to discuss that any more. Those other ranges are certainly all right. I don't expect that we'll see a volatile M2 in which it's quite as widely fluctuating under those circumstances. If anything, we might see it on the weak side, to the extent that you move. Therefore, I would think that, under these circumstances, leaning on the M1 side might be a little more prudent than giving equal balance.

CHAIRMAN BURNS. Thank you, Mr. Jackson. Mr. Partee now, please.

MR. PARTEE. Well, Mr. Chairman, I would be very hesitant about having a discreet tightening move at this point. [I'm] trying to think of this in terms of (A) the condition of the economy, (B) the record of monetary policy as it would be perceived by the public over the last couple of quarters, and (C) the state of the markets, which I think would be very sensitive to an increase.

Now, as far as the state of the economy is concerned, we've had a pretty good quarter, if the Commerce Department figures are right. We had a rather poor quarter, if the staff estimates are right for the first quarter--

CHAIRMAN BURNS. Oh no, I say if the staff is right we haven't had quite so good a quarter--

MR. PARTEE. --5-1/2 percent, which I think a lot of people would regard as a poor quarter at this stage in the recovery, with a 7-1/2 percent unemployment rate. But you know, there's a lot of room to go, and we're just now beginning to get some life in housing, we're just now beginning to see the first indications of some possible increase in plant and equipment expenditures, new orders for durable goods. And I think that a lot of people would [unintelligible] that a discrete move toward tightening would be pretty premature on the part of the Federal Reserve.

They might think so, especially when they looked at the average rates of growth in the money numbers over the recent past and saw what is shown here on appendix table 3--that M1 on a quarterly basis increased 2-1/2 percent in the fourth quarter [of 1975] and 2.9 percent in the first quarter of 1976; and M2 increased 6.1 percent in the fourth quarter and 9.5 percent in the first quarter of 1976. They might, I think with some justification, feel that this was a rather quick move [to tighten], given these substantially lower numbers than presumably the Committee was shooting at [unintelligible].

The third point that I wanted to emphasize was the state of the market. I think that an increase of size in the [federal] funds rate right now would be truly--the market was burned on this a month or so ago when they thought there was a sign of change in the direction, which they regarded as a possible cyclical turn. They would this time, I think, figure this is for real, after there had been some kind of a false signal before; but now [they would figure] there was really a change, and they would now regard this as working into a period of rising interest rates. That could give you quite a market reaction, I think, enough of a market reaction that you would soon jeopardize the growth rates in M2 and M3.

As Steve pointed out, I believe, we've got a lot of savings deposits out there that are going to move, and they're going to move when market rates move appreciably above 5 percent, or 5-1/4 at the highest, which is the savings and loan passbook rate. So I wouldn't resist a little, perhaps, tightening in the funds rate, but I think 5-1/4, which is half a point above where we are now, is quite [a bit of] tightening, and 5-1/2, which you suggested as a possible specification for the funds rate, is a lot of tightening, and so I just could not buy those suggestions.

Now, I also think that we would be best served to leave the expected short-term growth rates in the monetary aggregates centered on where they are in alternative B. Because there's a large increase in M1 for the month of April--it is not fully determined, but it's pretty well in place. And so you would have to bank on the appreciable moderation in the growth rate in M1 in May in order to come down within a restricted target range. So my own preference is for alternative B--I would take the specs both for the funds rate and for the aggregates as written in alternative B.

CHAIRMAN BURNS. Thank you. You're probably right in your recommendation, but I think that in some respects your comments may prove misleading to the Committee. Under alternative B you had 4-1/4 to 5-1/4 for the federal funds rate, and the range that I suggested was 4-1/2 to 5-1/4, though I spoke of 5-1/2.

MR. PARTEE. You mentioned 5-1/2.

CHAIRMAN BURNS. I mentioned that as a possibility. Now, the difference between the two as far as the midpoints are concerned is just 1/8 of 1 percent, and I simply wanted to record that.

MR. PARTEE. Mr. Chairman, if you meant a 4-1/2 to 5-1/4 range for the funds rate, I find that acceptable, but I would rather associate it with the growth ranges [of the monetary aggregates] shown in alternative B.

CHAIRMAN BURNS. Well, that's all right, but you see, there again, you may well be right, but the difference is very, very small. You may be shading in the right direction, there's no question there, but I do want to point out that the difference is very small. Mr. Mayo, please.

MR. MAYO. I would like to associate myself with the 4-1/2 to 5-1/4 range, Mr. Chairman. I think, again, that it's the top figure that's the critical one. I don't think the lower figure has too much practical significance at this point except as a psychological lower end of our range.

To the extent that the midpoint has significance--although maybe it has more significance than some of us would like--I think it is better to have that up just a shade to give sort of substance to the idea of permitting--and I like the phrase "permitting"--the market to adjust maybe 1/8 or so higher in terms of our resistance points rather than doing any outright encouragement in a more direct manner.

I would keep M1 at 5 to 8 even though that seems to be below alternative B. Again, I think the upper end of the range here is the critical figure. I really don't care much whether the lower is 4 or 5, but I think the 8 percent is quite appropriate here. And I'm really not too worried about Chuck's point on what may happen in May in an 8 percent [specification] where April is at 8. I think we can still qualify under that to the extent that we need to. So I would vote for 4-1/2 to 5-1/4 to show some direction, very faint it is true, and I think that's the way it should be, and an M1 that would have an 8 percent rather than a 9 percent top.

CHAIRMAN BURNS. Thank you, Mr. Mayo. Mr. Guffey now, please.

MR. GUFFEY. Yes, I'd like to associate myself with the recommendation [you] made, Mr. Chairman, with the exception as to the federal funds rate. I would prefer to see it set 4-1/2 to 5-1/2, with the thought that we would reach the 5 percent, the mid part of that range, by the time this Committee meets next month. It seems fairly clear to me--from all the projections from the staff, and from the people around this table as they talked about the long-term targets, and I think, indeed, from the market--that the rates are going to get increased sometime in the near term and certainly by the end of 1976. I think the projections are that, by early 1977, we may have a federal funds rate of something between 6 and 7 percent.

I'd like to see us start moving now. I think there would be very little disruption in the market other than on the very short-range basis. And I'd like to see us take those steps gradually from now forward rather than finding ourselves in the fall or at the first of the year having to go up rather rapidly in the federal funds rate. So I would up the federal funds rate to 4-1/2 to 5-1/2 with rather specific directions to the Desk to reach 5 percent by this time by next month.

CHAIRMAN BURNS. Thank you, Mr. Guffey. Mr. Kimbrel, please.

MR. KIMBREL. Mr. Chairman, if our visits with some key businessmen the last couple of weeks in New Orleans and Jacksonville--areas that we have generally regarded as sluggish--[give us] a reasonable reading, than we have some concern that recovery is so much stronger than the numbers would seem to indicate. Sure, these people are talking about the difficulty with apartments, condominiums, office buildings, even shipyards and airplane building, and yes, even cigars, but by and large they are exuding an awful lot of optimism. Apparently, within the confines of their own business, [they] are making decisions on that basis [while] also accepting that unemployment is still a little high. They are not reading this as taking a significant social toll because of the opportunities to provide for that.

Against this, I think we feel that inflation could break out a good deal sooner than would appear [to be the case now]. The recent price increases of steel and copper and gasoline, [even though] supplies are assumed to be reasonable, has heightened the concern for price adjustment. So, for this reasoning, I would like to associate myself with alternative B and the number you suggested. But definitely for 4-1/2 to 5-1/2, maybe for the reasons Mr. Guffey has suggested, and to move to the midpoint of that before our next meeting.

CHAIRMAN BURNS. Thank you, Mr. Kimbrel. Mr. MacLaury now, please.

MR. MACLAURY. Thank you, Mr. Chairman. I'd like to associate myself with something that Paul Volcker said at the outset, namely, that the path laid out for us by the staff on table 4(a) of the aggregates for M1 or M2 under alternative B just seems to me not realistic. To start out the second quarter with a 7 percent annual rate and to expect that, given the strength of the economy as I see it--and I'm much more confident about that than Chuck Partee seems to be--that we're going to have 5 percent annual rates of growth by the fourth and first quarter of next year--I don't think that's likely to transpire.

I think that it's much more likely to be on the higher side. The pressure certainly will be for faster rates of growth than that, at least that's my expectation, and for that reason I, too, like Paul, would like to see us begin to move in the direction of allowing, and I think that's the key word, "allowing," some increase in interest rates.

Therefore, I don't buy his prescription as to how it happens. I think, for political reasons, it's very important that we continue to attach some significance to these aggregates and let interest rates, in effect, move as we try to pursue those aggregates. I recognize that we are in a bit of a box on this because the aggregates have behaved erratically over the past year, but I have not convinced myself that 4 equals 8 yet. I've managed to stretch myself to--

CHAIRMAN BURNS. Four does equal 8 on the basis of the errors involved on the seasonal calculations.

MR. MACLAURY. Well, I recognize that that's the point you have made, but I find that I can't go along with it, at least for a policy decision. I'm as far as saying 4 equals 6 in this kind of a context. So, to be specific, then, I also, growing out of this feeling, have not liked our setting 4 percentage point ranges for your short-term targets and then 2 percentage point zones of indifference.

I would prefer, therefore, the prescription to follow a modified alternative B, but call it 5 to 7 percent for M1, and that would, so far as I'm concerned, be a zone of indifference. I would not move the funds rate within that range--and similar kinds of ranges for M2, 8-1/2 to 10-1/2. And a funds rate range of 4-1/4 to 5-1/4 because I agree with you, I am not interested in seeing a big movement upward in short-term rates. But I am interested in beginning to see a move in short-term rates if that comes about because aggregates are growing faster than this range of 5 to 7 percent that I would like to specify for M1.

VICE CHAIRMAN VOLCKER. If I may just interject one thing here, Mr. Chairman, because there may be some misunderstanding. I certainly have the feeling that in this time we ought to be responding to the aggregates, too. If I said something that didn't--

MR. MACLAURY. You left the range wide and I would prefer that--

VICE CHAIRMAN VOLCKER. We have a difference on the range, but the philosophy that you were expressing I share in this particular instance.

MR. PARTEE. Did you call that alternative B, Bruce?

MR. MACLAURY. I called it a modified alternative B.

MR. PARTEE. But the funds rate B, ah, no--

MR. MACLAURY. Now, on the funds rate range, you see, the lower end is B and you can call it whatever you wish.

MR. PARTEE. All right.

MR. MAYO. Mr. Chairman, may I humbly suggest that if 4 equals 8, then 8 equals 4, and the sum of them is 12 equals 12, so we still have to pay some attention.

CHAIRMAN BURNS. All right. Thank you, Mr. MacLaury. Mr. Black.

MR. BLACK. Mr. Chairman, I come out--

CHAIRMAN BURNS. Do you want to comment on Mr. Winn's--

MR. BLACK. I'm still so puzzled over what is meant there that--

MR. WINN. I got a deafening silence. With that I'll retreat.

MR. BLACK. I almost have forgotten what I wanted to say.

MR. MORRIS. You wish to resign from the FOMC?

MR. BLACK. I haven't had enough mathematics to comment in this group. I think I come out really closer to Governor Partee than anyone else there. There are several reasons you might point out for not making any overt move right now. One would be, of course, the sensitivity of markets, as you pointed out. Another would be that, for the recovery to proceed quite satisfactorily, it still has got a long way to go. Still another would be that this could create some problems for our foreign trading partners. These are reasons that we're going to have when the time does come to move, I think, regardless of when that might be.

The reason that I would prefer not to do it now is basically because I think that a lot of the strength in the aggregates that we have seen just recently does not stem from any strength in loan demand. That's still very weak at the banks, and I think a lot of it comes from tax refunds and the other seasonal factors that Steve was mentioning. So I would hold off for the time being and go with alternative B with the expectation, probably, that by next time the move that most people seem to favor would be appropriate. But I'd like to learn a little bit more about those aggregates. They've never expanded very fast unless we've had strong credit demand, and we simply don't have that yet, so we may be seeing bogeys that really don't exist at the present time.

I would frame the directive in terms of the aggregates, and while I wouldn't want the federal funds average to move up by more, say, than 1/8 or a 1/4 or something of that sort, I would like to see a little more variability introduced. And Alan has made the point many times that when you [unintelligible] the rates, they really don't give you any signal at all because banks assume they'll be able to adjust their reserve positions at a constant federal funds rate, and so we lose the advantage of federal funds as a signal. So I'd like to see a little variability there without the overall average moving up.

CHAIRMAN BURNS. Thank you, Mr. Black. Mr. Coldwell now, please.

MR. COLDWELL. Mr. Chairman, I think the recovery is moving along well, and I'm really not awfully unhappy about what I've been hearing. I think I would buy in on Bruce's comment that if we're going up, I'd like to have the market and the aggregates lead us there rather than have us lead them to a higher level at the present time.

I don't have much confidence in these Ms and the figures that we're projecting here. We might have as high as a 10 or a 12 percent blip show up suddenly, and I would hate very much to have us have to react sharply to bring the federal funds rate upward to 5 percent. I think it's going to be moving there someday, but we've been told repeatedly around this table for months on end that the short-term rates are going to move up. I think I agree that someday we're going to get there, but I don't see any reason to force it if things are moving along well.

So, I guess in part on the basis of the fact that we've just dropped to a 4-1/2 percent lower limit on the long range, it would seem to me that we shouldn't be accepting much less than that in the short range. So I'd put my lower figure at 4-1/2, and the upper figure of 8-1/2 is fine with me. I would not widen that federal funds range to as high as 4-1/2 to 5-1/2. It's the one thing we're able to do in the intermeeting periods here--be very close to whatever the target and the middle point are. I noticed the averages for the weeks where I don't think they varied more than 12 basis points or some such over the past four weeks.

So if we're going to look at letting the market lead us out of this, and they think they're getting strong credit demands, why, I'm willing to let the things tighten up a little bit in a modest and very orderly and slow fashion. But I'm not prepared to jump. So we're talking of a 4-3/4 center point on federal funds now, 4-7/8 to 5 would be fine with me. I certainly would not carry that up without reconsidering it up to the 5-1/4 range. So 4-1/2 to 5-1/4 centered on 4-3/4, I guess it is, or on 4-7/8, that's all right with me.

Your zone of indifference--take that 2 point slice out of the middle, from 4-1/2 to 8-1/2--I guess means 5-1/2 to 7-1/2 as a zone. I might even take that zone a little farther. You say 4 is equal to 8, then 4-1/2 must equal 8-1/2, so in this case I'd almost treat the whole doggone zone as a zone of indifference and stay at 4-7/8. That's all, Mr. Chairman.

CHAIRMAN BURNS. Thank you, Mr. Coldwell. Mr. Balles now.

MR. BALLES. All this talk about 4 equals 8 reminds me, Mr. Chairman, that I hope the staff will in the near future carry through with what I thought was the decision at the last meeting to start providing us with data that show both the levels and the growth rates of the Ms on a moving average basis. That's the way you got away from the 4 equals 8 problem, to use floater data. And the more work my own staff has done on this, the more I'm convinced that that's the way to get away from these erratic random fluctuations month to month, or even week to week.

But having said that with regard to the short-run specifications, one fairly strong feeling that I do have is that whatever these short-run specs are, they ought to be designed in a way that move us systematically within the longer-term ranges that we have debated and carefully discussed this morning. And if they aren't moving systematically toward those ranges, then I think something is wrong. In other words I had a presumption that if we're outside the range, we ought to be moving back toward it within a one- or two-month horizon because we do have a chance to examine these longer-term ranges every three months.

With regard to the specific short-term ranges for the April-May period, I would come out with alternative C specifications for M1 and M2 and the federal funds range of 4-1/2 to 5-1/2, much for the reasons Mr. Guffey and Mr. Kimbrel have already discussed.

CHAIRMAN BURNS. Thank you, Mr. Balles. Who'd like to speak next? Mr. Wallich.

MR. WALLICH. I think the question before us is whether to bring to an end this nice period of stable interest rates. It has done a great deal for the market, it's given everybody a chance to soak up liquidity, put on some fat. Sometimes I wonder whether perhaps too much liquidity and too much stability [unintelligible] resist over time a tightening move, but it has been a very favorable period.

Now the answer, it seems to me, is that it's pretty late in the expansion--one year has gone by and interest rates are still at their low. We now find that the expansion is stronger than we had thought, certainly in the first quarter and quite likely over time, and that leads me to think that probably we'd better bite this bullet. There's also the point of consistency with the long-run targets.

I subscribe to what various members have said, but I'd like to add one point. It's been suggested that the short-run movements of the aggregates should not [unintelligible] within the cone of growth rates that looks so nice on paper but within a band which allows for a wider range in the early stages because that's quite consistent with reaching a narrow range in the longer run. Of course, if that were to be the advice, then these narrow ranges we set for the aggregates on the two-month period are not very meaningful. On the other hand, I think the width of the band that is implied in allowing the ultimate range to have its effect in the immediate two-month period is so wide as to deprive us altogether of all guidance for the aggregates of those two months. So the conclusion at which I've arrived is that it may well be better to have a somewhat wider band in the short-run, two months, but not anywhere near the full freedom given by applying that band over the whole period.

Well, if we need to be consistent with our long-term targets being at a somewhat lower growth rate of the aggregates, I would see nothing wrong with going to 4-1/2 to 8-1/2 and to 8 to 12. I am not enamored of a zone of indifference within this at this time. However, I started talking about interest rates, and while I would like to see us get back to an aggregates target--and that's why I've been setting this out--the funds rate is really the crucial element. And it should be, to accommodate the appropriate changes, even if we have, as I think we should, an aggregates target. So I'd begin with a funds rate then, which, at 4-1/2 to 5-1/2, I would think would be about right, and structure around that in the manner I said.

CHAIRMAN BURNS. Thank you, Mr. Wallich. And who would like to speak? Mr. Gardner.

MR. GARDNER. Just simply to say I would go with alternative C, 4-1/2 to 5-1/4. My feelings have been expressed by other members.

CHAIRMAN BURNS. Thank you, Mr. Gardner.

MR. WINN. I think this would be my thinking too.

CHAIRMAN BURNS. Thank you, Mr. Winn. Who else would like to comment?

MR. BAUGHMAN. Mr. Chairman?

CHAIRMAN BURNS. Yes, Mr. Baughman.

MR. BAUGHMAN. I would be inclined at this point in time, I think rather strongly, in the direction of Partee's and Black's comments, which I construe [to be] in the direction of being prepared to [make] just a very slight firming in the funds rate. And then observe the aggregates for another month before we conclude that we are seeing in them the beginnings of a rather strong surge in monetary and credit expansion.

CHAIRMAN BURNS. Well, thank you, Mr. Baughman. Would anyone else like to say anything?

VICE CHAIRMAN VOLCKER. If I could come back just a second, Mr. Chairman.

CHAIRMAN BURNS. Yeah.

VICE CHAIRMAN VOLCKER. I have recognized what Mr. Black and Mr. Partee are saying. I'm not sure there's all that much difference between myself and their comments except to this extent. I am worried about the inflation thing that a number of people [are worried about]. I think the [unintelligible] figures are unreal, and I'd just as soon make a move right now in the face of what I suspect are going to be much worse inflation figures in the next few months. But I don't want the federal funds rate to go above 5 percent very quickly, and I really don't want it, as

I see it now, to go above 5-1/4 percent--which I think is expressed in your specifications--before the next meeting. At least not without a lot more information than I have now. So in that sense I'm not sure I'm very different from their comments.

I do think we have a technical problem with the Treasury financing, perhaps. I would like to see the market [unintelligible], if we're going to go up, lead us up on the basis of some of the aggregates. But if we're going to move, we probably will have to move pretty quickly to get in front of the Treasury financing, and we may be left with the choice of making a very small step now, let's say 4-7/8, and not doing anything almost regardless of what the aggregates are doing until we get pretty well into May.

CHAIRMAN BURNS. With a midpoint of 4-7/8?

VICE CHAIRMAN VOLCKER. That's right. No, I don't think this is inconsistent with what we're saying, but I'm almost saying you may want to take that step even if the market isn't leading right at the moment.

MR. PARTEE. That is, the [one-]eighth.

VICE CHAIRMAN VOLCKER. The [one-]eighth move, that's right.

CHAIRMAN BURNS. That is, the 4-1/2 to 5-1/4 percent range would mean going up 1/8 but no more than that.

VICE CHAIRMAN VOLCKER. Almost regardless of what happens in the aggregates.

CHAIRMAN BURNS. And it would mean--well you're not going to have much information, you see. All that you'll have is, you'll have new information tomorrow and Thursday on the aggregates.

MR. PARTEE. Mr. Chairman? That's quite acceptable to me. My problem is that I think that the 8 percent growth rate for M1 in April is pretty hard information.

CHAIRMAN BURNS. I don't know, I am puzzled why you say that. I'd say that it's very soft.

MR. PARTEE. Because--

CHAIRMAN BURNS. Why do you say that? The figures aren't in--

MR. PARTEE. Well, all right, let me just say that my hunch is that April is going to be 8 percent, may be a little above 8 percent, and if so, taking a range [for M1] that has the 4-1/2 to 8-1/2 percent range rather biases us toward moving [the federal funds rate] all the way to 5-1/4.

VICE CHAIRMAN VOLCKER. Biases you to moving, but then I want to constrain how far you move.

MR. PARTEE. Well, I mean, that's a different ball game if that's what you want to do.

VICE CHAIRMAN VOLCKER. Well, I want to be pretty reluctant to get to 5-1/4.

CHAIRMAN BURNS. Well now, I still don't know what your problem is, Chuck. The upper limit for your federal funds rate suggestion was--

MR. PARTEE. 5-1/4.

CHAIRMAN BURNS. --5-1/4, and therefore, as of today, why do you breathe heavily when you say that you still say 5-1/4.

MR. PARTEE. --with a 5 to 9 range on M1. I believe that making a 4-1/2 to 8-1/2 [range for M1] biases us toward the likelihood that we're going to feel compelled to go to 5-1/4.

VICE CHAIRMAN VOLCKER. It doesn't in our projections. As a matter of fact, it biases it the other way, but on the Board's projections--

CHAIRMAN BURNS. As I said before, Mr. Partee may be entirely right, but I do think that you are engaging in very fine tuning. The difference that is being quarreled, 4-1/2 to 8-1/2 and 5 to 9--I can toss a coin on that, really, when it comes down to it.

MR. COLDWELL. But I don't think it's fine tuning, Mr. Chairman, when you change the midpoint of the range of the federal funds rate, because that means a very prompt move--

CHAIRMAN BURNS. No, no, no, no, there I--

MR. COLDWELL. Even though it's only an eighth, it's still a move.

CHAIRMAN BURNS. Who else would like to speak? Well, if no one else does, then let me indicate where I think we are. Now, the federal funds rate, to start with that, I think that there is a pretty clear consensus for a 4-1/2 to 5-1/4 [range]. We can test that out, but that's the way I read the summary. Now, we don't have to test the lower limit. Let's test the upper limit. The members of the Committee who would prefer the 5-1/4 percent will raise their hands, please.

MR. BROIDA. Seven, Mr. Chairman.

CHAIRMAN BURNS. All right, [my vote] would make that eight. Now, as for the monetary growth rates, there is a little more dispersion in the thinking of the Committee, but the differences are within a very, very narrow range. There is some sentiment for 4 to 8 for M1, there is some sentiment for 5 to 9, a very thin majority favors 4-1/2 to 8-1/2, but it's a razor thin majority, and let me just put this question to the Committee. Let me have a show of hands. Not what you prefer--those who would find 4-1/2 to 8-1/2 acceptable will kindly raise their hands.

MR. BROIDA. Eight.

CHAIRMAN BURNS. Well, as for M2, our recording secretary, who is always so thorough and so meticulous, hasn't given me enough information, but on the basis of the incomplete reporting on this tally sheet, 8 to 12 seems acceptable. Let us have a show of hands on 8 to 12, those who find it acceptable for M2.

MR. BROIDA. Ten, Mr. Chairman.

CHAIRMAN BURNS. Well, next we have to determine the language of the directive.

MR. JACKSON. Mr. Chairman, before you go into that, would it not be wise to instruct the Desk as to the relative weights of these two measures, because I believe last month we recommended that they be equally weighted, and that may or may not be the procedure this month.

CHAIRMAN BURNS. Well suppose we indicate to the Desk through a show of hands whether equal weighing, approximately equal weighing, would again be the wish of the Committee.

MR. BROIDA. Eight.

CHAIRMAN BURNS. All right, now, let's turn to the language of the directive. Would the language at the top of page 3, alternative B, namely, "to implement this policy while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead." Would this be an acceptable directive? Let us have a show of hands on that.

MR. BROIDA. Ten, Mr. Chairman.

CHAIRMAN BURNS. Well, unless members of the Committee want to raise questions or make further comments, I think we're ready for a formal vote. Now, we'll be voting on the following: the rate of growth of M1 for the two-month period of 4-1/2 to 8-1/2 [percent]; M2 of 8 to 12 percent; a federal funds rate range of 4-1/2 to 5-1/4 [percent]; equal weighting, approximately, of M1 and M2; and the language of alternative B. Any questions as to what it is we'll be voting on?

MR. COLDWELL. Just, well, our zone of indifference in the middle?

CHAIRMAN BURNS. And an understanding of the zone of indifference of 2 percentage points if that is acceptable to the Committee. All right we're ready for a formal vote.

MR. BROIDA. Mr. Chairman, would the Committee also like to instruct the Manager to take account of various reserve measures, since we are no longer specifying RPD [reserves available to support private nonbank deposits]?

CHAIRMAN BURNS. Well, we're not ready for that. We've decided to go through a study period.

MR. BROIDA. During the course of study and experimentation.

CHAIRMAN BURNS. Now during that period, what did we decide about RPD during the study period?

MR. AXILROD. To drop it, I believe, Mr. Chairman.

CHAIRMAN BURNS. All right, we do some things right. Now let's take the vote.

MR. BROIDA:

Chairman Burns	Yes
Vice Chairman Volcker	Yes
President Balles	Yes
President Black	Yes
Governor Coldwell	Yes
Governor Gardner	Yes
Governor Jackson	Yes
President Kimbrel	Yes
Governor Partee	Yes
Governor Wallich	Yes
President Winn	Yes

Eleven to nothing, Mr. Chairman.

CHAIRMAN BURNS. Well, it is time for lunch, and we'll reconvene in executive session.

[Lunch recess]

[Executive session]

CHAIRMAN BURNS. Now gentlemen, we're ready to take up the Memorandum of Discussion. It's still a very troublesome subject. And we wish we didn't have this problem to deal with, but here it is. Now, Mr. O'Connell, I think, ought to advise us as to recent developments in the lawsuit we're engaged in and of any developments that are unhappily not favorable--we've got to deal with the facts as they are. Mr. O'Connell, please.

MR. O'CONNELL. Yes, Mr. Chairman. As a point of reference, I'll direct the Committee's attention to the facts recited at the last meeting; to the filing--pursuant to court order--both with the plaintiff and with the court; and to designated documents flowing from the court's order.

We delivered to the plaintiff's counsel segregable facts drawn from the Memorandum of Discussion of January and of February 1975, accompanied by certain related materials that we felt added sense and added a certain flow of understanding to the facts given. And except for that, we delivered to the court a totally complete package of the Memorandum of Discussion, indicating on the court's copy that which we had given the plaintiff and explaining, in an affidavit executed by Mr. Broida, our reasons for withholding certain portions of that Memorandum of Discussion.

We heard nothing from the plaintiff until April 5, at which time he served on us a memorandum filed that day with the court, in which he took objection to each of the three categories of materials [that were] withheld from him and [that had been] indicated to the court.

At the Committee’s last meeting, we had indicated the three types of materials generally, and they related to, very quickly in summary form, [first,] statements principally descriptive of procedures, which if disclosed would result in disclosure of the deliberative processes of the Committee. Second, the information received from foreign central banks and information relating to negotiations with or among such banks, disclosure of which the Committee claimed, or would, constitute a result highly undesirable, namely, the cessation of flow of such exchange in information. And finally, materials of the nature covered by that portion of the court’s earlier order which the Committee had authorized and as to which an appeal had been taken. And we felt that, when we had refused disclosure in another form, disclosure in the Memorandum of Discussion was not required by the court’s order, and thus we were disinclined to [disclose in such cases].

The plaintiff has filed a memorandum of objection stating in principle that he doesn’t really understand the three bases for withholding and that he doesn’t understand what is meant by procedural matters that could lead to identification of the deliberative process. He objects to the total withholding of the types of materials that we described in memorandum, and he let this be known to the court. He asks no relief in his memorandum. He merely makes known his objection for the reason, I’m certain, that he anticipates that Judge Waddy will issue a further order more narrowly construing against this Committee his earlier mandate for production. And thus the result would be that the court would require the Committee to disclose more of the Memorandum of Discussion than had earlier been ordered.

We have filed nothing in response to this, simply because, at the moment, it’s our judgment that nothing was said by the plaintiff in this paper that couldn’t have been anticipated or that wasn’t obvious on its face. He objects to our withholding what we did. I think he has inscribed any reasons to his objection that weren’t plain and open on their face, Mr. Chairman, and at this time neither the Department of Justice--our counsel in this matter--nor we, have seen fit to file any form of reply. We earlier asked the court that, if the court is disposed to more narrowly mandate [the scope for withholding in] our production to the plaintiff, we would like the opportunity at that time to oppose such or take an appeal from that order. I think that’s all I have to say, Mr. Chairman.

CHAIRMAN BURNS. Thank you, Mr. O’Connell. All right, any questions?

MR. COLDWELL. One question, Tom. Having gone through this process, what’s your judgment about long-run efficacy of an appeal?

MR. O’CONNELL. I have no change of position of the appeal merit with respect to the Record of Policy Actions, as earlier indicated. And what has now been filed doesn’t affect that appeal. The filing I’ve just described, Governor, relates solely to the Memorandum of Discussion.

MR. COLDWELL. That’s what I’m talking about.

MR. O’CONNELL. All right. My position isn’t changed in terms of any basis for appeal at this time, for the reason that the court’s order hasn’t been altered since it was issued. If the court, pursuant to a memorandum of this nature, issues an order mandating further and more broad disclosure of the document--the Memorandum of Discussion--I feel I would then be in better position to urge an appeal on the merits of such and order. At this time, my position remains as earlier stated--that we don't have a viable basis for appeal because our order is only that we produce segregable facts, which is part of the statute, and any appeal would be challenging the statute per se.

MR. WALLICH. Well, when the plaintiff rejected your argument with respect to category two, foreign central bank negotiations and so forth, did he simply say that he didn't understand the argument or that he rejected the point that this would interfere with the flow of information?

MR. O'CONNELL. He avoided--Governor may I very briefly [quote him], his argument is very short. "Nor does plaintiff understand the exemption claimed in the second category"--which is the category to which you refer--"where defendant states that disclosure of certain of these arguably segregable facts 'would impair the deliberative process of the Committee.'"

And that was our conclusion, that if we made disclosure, it would stop the flow of such information, and the result would be that it would impair the deliberative process. He says further, "plaintiff's objection rests on the established legal proposition that exemption 5 of the Freedom of Information Act protects from disclosure only documents reflecting opinions, recommendations, and deliberations comprising part of a process by which governmental decisions and policies are formulated. Exemption 5 does not protect purely factual material contained in deliberative memoranda and segregable from its content."

He then says in conclusion, "it is clear that neither statements descriptive of procedure, nor facts whose release would impair deliberative process is within exemption 5 since neither category would include statements constituting recommendations or opinions."

I think he's wrong in his interpretation, both of the statute and of the case--the Sears case--from which our thesis is drawn, Governor. We'll await the court's determination of the correctness, or not, of his assertion. I think we can sustain what we've done in this regard.

CHAIRMAN BURNS. Any other questions?

MR. EASTBURN. Could I ask a question on the other appeal? The appeal on the Record of Policy Actions, is that under consideration now? Is that where that stands?

MR. O'CONNELL. We have noted our appeal. We have 40 days within which to file our brief. That brief is now under preparation. Plaintiff's counsel will then have 40 days thereafter to file a reply to it. It's in that process now.

MR. EASTBURN. If we were to move to 30 days, it would have no effect on that?

MR. O'CONNELL. Certainly not on that appeal point. As I discussed briefly with others here on the staff, and if I may make the comment, any other action taken, I'd have to give some thought of a judgment of possible impact, but with respect to the point of appeal as to which you now have raised the question, I see no virtual impact on that.

CHAIRMAN BURNS. Any other questions?

MR. COLDWELL. This is just the first court we're talking about?

MR. O'CONNELL. Yes, the District Court for the District of Columbia.

MR. COLDWELL. In terms of the Memorandum of Discussion, the way it's drafted now, you do have an appeals court you can go to?

MR. O'CONNELL. We do.

MR. COLDWELL. And any further beyond that I assume?

MR. O'CONNELL. Depending on the nature and the appeal of the court's decision, yes.

MR. PARTEE. The Court of Appeals is in D.C., Tom?

MR. O'CONNELL. The U.S. Court of Appeals for the District of Columbia.

CHAIRMAN BURNS. Well, gentlemen, I would now like to return to the Memorandum of Discussion. We talked about this at some length at the preceding meeting of the Committee, [the executive session] preceding the regular meeting of the Committee, and Mr. Coldwell at that time made some recommendations on his own behalf and on behalf of several members of [the subcommittee] who served with him. Those recommendations by and large, with one or two amendments, seemed entirely congenial to members of this Committee, including myself. I had a lingering doubt, not articulated clearly in my own mind, then. I felt that the matter was of such importance that it might be best to defer a final decision for a few weeks so that we would have the opportunity to appraise second thoughts, if any occurred to us.

Now, working with the staff on the problem connected with the lawsuit I did develop second thoughts. And I communicated those second thoughts to members of the Committee at a special meeting [on March 29], when I indicated that I would probably be making a recommendation to this Committee that the Memorandum of Discussion be discontinued. I reached this conclusion, and I have not reached it lightly.

I must say that I had a certain attachment, nostalgic perhaps, to the Memorandum of Discussion, which has been a part of our institution for many years. How useful it has been to us or to scholars, I really don't know, but I've been quite willing to assume that it's been very useful. And that's been my judgment, although there's never a judgment based on concrete or definite knowledge. We're living in a new and very different world, and I think the time has come to take a determined step in recognition of the new environment [in which] we find ourselves. It's not an environment of our own choosing, but reality has to be faced.

Now, in the memorandum that I've submitted to you, I indicated that premature disclosure of segregable facts, such as the court in this lawsuit has ordered us to do, could in some cases damage the work of this Committee, particularly if the present court or some later court rules that we acted inappropriately in withholding certain facts about foreign currency operations or certain facts about procedural matters. That could embarrass us and weaken us as a monetary policy committee.

The second point that weighs increasingly on my own mind is that, as long as the Memorandum of Discussion exists, some of us--certainly senior members of our staff and probably some members of this Committee, including myself--will have to spend a large amount of time in the effort to comply with court orders that may come our way to make portions of the Memorandum of Discussion public.

And the third point that has led me to the present conclusion is that the procedures that our staff is now proposing seem better than our existing procedures. From the point of view of the general public, we'd be disclosing a good deal more, and disclosing it with some promptness, rather than five years later. And perhaps it may also be a better procedure, though that is less clear from the viewpoint of the Committee. I think that one thing we can be sure of is that the adoption of this new--what do you call the policy record [the Record of Policy Actions]?

MR. BROIDA. Just that, the policy record.

CHAIRMAN BURNS. This new and more elaborate policy record, the adoption of that--its prompt release--would go a long way toward meeting the charge which keeps on being made that the Federal Reserve operates in an atmosphere of secrecy. Now, in my note to the Committee, I made another suggestion, and I think these two suggestions should be discussed separately. They're related in my own mind because they both bear on the general charge of secrecy, [and they give us] a way, I think, through the suggestions that I'm putting before you, to deal with it effectively.

In my note to the Committee, I also suggested that the 45-day lag for the release of the policy record be shortened to approximately 30 days. Now, not so long ago, we reduced the lag from 90 days to 45 days, and this reduction did not create any market problems, or none of any special significance that I'm aware of. And I believe that further reduction from 45 days to approximately 30 days would also have minimal market effects. Well, that is something that Alan Holmes could judge better than the rest of us, certainly better than I can. Now, the reduction from 45 to approximately 30 days in this lag could place some strain on our staff, particularly if we also decided to expand the policy record, doing that as a substitute for the present Memorandum of Discussion. But Mr. Broida advises me that both proposals are feasible--can be managed by the staff.

Now, some changes will be required in the review process, and, if we decided to go this way, members of the Committee would have to cooperate in expediting the process of clearance. But the proposal, or both proposals, are feasible.

Well, I make the first recommendation sadly, but firmly. The second recommendation, I don't have any feelings about. I think that it's probably harmless from our own standpoint, and from the public standpoint probably a wise move, and I have no sentimental attachment to the 45-day lag. Though I confess to a certain sentimental attachment to the Memorandum of Discussion, I think the time has come to give it up. That's my recommendation to the Committee.

MR. EASTBURN. Could we be informed about the status of the Government in the Sunshine [bill], because it may be that if we give up [preparing] this Memorandum [of Discussion], we may find ourselves giving the equivalent anyhow [under] the Government in the Sunshine Act.

CHAIRMAN BURNS. No, unfortunately, it wouldn't be the equivalent, but Tom O'Connell can answer that best.

MR. O'CONNELL. Well, in terms of status, Dave, a Government in the Sunshine bill has cleared both sub- and parent Government Operations Committees and sub- and parent Judiciary Committees and has been given to the Rules Committee for the issuance of a rule as to date and nature of debate on the floor. In the form that we anticipate the Rules Committee will receive that bill, which I anticipate will be the Government Operations [Committee] version, absent the amendments urged by the Judiciary Committee, we will have a bill that still contains the onerous provisions with respect to the definition of meeting and the transcript requirements to which we raise strong objection.

As to whether the Federal Open Market Committee would be automatically included, at the present time, in the list of agencies that has been filed with the Senate version of that bill, [section] 5.5, [the list] does not include by name the Federal Open Market Committee. It does include the Federal Reserve Board. There is an area of interpretation, as I suggested to the Board, [in which], by combining the definitions of agency and member as contained in the bill from either the Senate or the House side, the Committee might be excluded from the definition of [agency] in the Sunshine bill.

Now, I haven't openly discussed this, and I certainly wisely have not announced abroad that possibility. I think it's a reasonable anticipation--it's personal to me, it is mine--in which other members of the staff concur.

Both bills require that, [to be an] agency, the members, the collegiate members, [must] be appointed to such position by the President. You know, we have the fact that the Committee is a statutory body [that is] not per se appointed by the President. I think committee members in the House and Senate would be very much surprised, perhaps, if this Committee were to announce that [the definition] doesn't cover us.

I think it's a reasonable anticipation, but failing that and failing an exclusion for this Committee, the Committee would be subject to the Sunshine bill as it finally comes out, and I believe it will come out not much different than it presently is--open meetings except for the 10 exempt areas. A good number of this Committee's functions and discussions would be closed and could be closed subject, then, to the requirement of a verbatim transcript, which would have to be reviewed by this Committee, voted on with an explanation given for every deletion and a statutory citation for exemption. And those are only part of the procedural requirements that would be imposed on the Committee.

MR. MAYO. Now what this adds up to, Tom, is that if we get the Government in the Sunshine [Act], we have an even more elaborate procedure, because of the tape requirement, than the Memorandum of Discussion [imposes] now. Is that a fair statement?

MR. O'CONNELL. Well, I'd certainly say, in terms of preparing that transcript, that is, the tape for publication, you are subjecting the Committee to what the Chairman has quite accurately described has been the burden of the staff and the Chairman with respect to the Memorandum of Discussion. The segregable facts operation. The plaintiff's filing of April 5 [required] Art and myself and some of the Chairman's time to go back to these and separate out the three categories of exemption that he charged were fallacious. And that took about three more hours to find citations. I think you're running into exactly that under this bill, and at the present time it requires the vote of the Committee for deletion. So we would have to look to the Committee's action of reviewing the tapes and voting for deletion. Yes?

MR. EASTBURN. Is there any [indication] what the timing of that bill might be? And the timing as it might relate to this Committee?

MR. O'CONNELL. I was told by phone yesterday that, unbeknownst to us, the Rules Committee began consideration of this bill.

CHAIRMAN BURNS. Oh really?

MR. O'CONNELL. Yes.

CHAIRMAN BURNS. When?

MR. O'CONNELL. I didn't get confirmation of this--just before the recess, and they stopped because of the recess with the understanding that the Rules Committee would return to consideration of this immediately following recess.

CHAIRMAN BURNS. When did they start this?

MR. O'CONNELL. I was told it started the day before recess. Now this is from a staff member who said he learned of this yesterday afternoon.

CHAIRMAN BURNS. Well, would you be good enough to check that out?

MR. O'CONNELL. I'm trying to run that down for certain, Mr. Chairman.

CHAIRMAN BURNS. This is--there is some work to be done in the Rules Committee and therefore--

MR. O'CONNELL. Well, we're pushing that too. Assuming the accuracy of the report I received, immediately following recess, the Rules Committee would begin consideration. No estimate of how long it would be before the committee, except that I was told they'd hope to have a two-day session at maximum on this bill before reporting it out to the House. When the floor will get the bill I don't know.

MR. EASTBURN. May I, Mr. Chairman, raise a question as to whether it's feasible for us to delay action with respect to the Memorandum of Discussion until we get clear indication of that? Would the timing be such as to make that a feasible course of action, or do you see it dragging out for so long that it wouldn't be feasible?

MR. O'CONNELL. Really, I think it depends in part on what success we--used in a very [unintelligible] sense--someone has in delaying this bill in the Rules Committee. If it can be shown that there are sufficient conflicts between the House and Senate version, or that provisions of the House bill that I think will be before that committee are seriously deficient in terms of due process of law, conflict with existing law, then it's possible that the Rules Committee will not vote the bill out but will send it back to committee, which I am told will result in a very long delay.

If that isn't successful, then we anticipate [that it will be] on the floor sometime in May. Now, if your question is in terms of that time relationship, could this Committee defer, then I would have to, in turn, defer to the Committee for its judgment in that respect.

I think a similar consideration is--and I would raise this with the Chairman and the Committee at an appropriate time--the consideration to be given to the appeal process on the Memorandum of Discussion and the timing of that. For if the District Court issues a stronger mandate for disclosure; and this Committee directs an appeal to be taken from that order; and the Committee has had dispositive action of its Memorandum of Discussion; so that on appeal, the Court of Appeal [asks, if it is] true that the Committee has totally done away with the Memorandum of Discussion, then is this not a moot appeal? I think the Committee will want to give due consideration to timing subject to those thoughts too.

CHAIRMAN BURNS. As far as the Government in the Sunshine Act states its rules, I would say that no matter how that legislation is handled--suppose it dies tomorrow--but in my own judgment, we would not be affected because the problems that we've been dealing with have not grown out of the Government in the Sunshine legislation, they've grown out of the Freedom of Information Act and [from] this judicial ruling and kinds of judicial ruling that may become law.

MR. EASTBURN. The reason I asked that question was it seemed to me we incur certain costs in cutting out the Memorandum of Discussion--in terms of implications to others on the outside, that we're being more secretive, if you want to put it that way, that this is a devious way to get around the law.

CHAIRMAN BURNS. That depends how we present it. I would want to make a virtue of this, and never mind how we arrived at it. We were not seeking virtue for the sake of virtue, I'm not going to argue that, but if, let us say, we decide to drop the Memorandum of Discussion, all right then, we're doing away with an instrument of secrecy retained in the archives for a period of five years. We have a Record of Policy Actions, and that policy record is now going to be very much fuller than it was, so the public will be informed promptly and much more fully, that's another virtue. And third, if we adopt the second suggestion, you see, cutting the period, that goes further in that direction, and I would present it as a deliberate attempt on the part of the Federal Reserve to rid itself of the perennial charge of secrecy. I think that's the way to present it to the public. Historically, it didn't arise that way, that's true, but I think that is not an unfair interpretation.

MR. EASTBURN. Well, I'll finish with--there may be others who interpret it otherwise, and the reason I was asking the point was that, if we're going to be disclosing through tape what our procedures are, then we needn't incur any cost on [unintelligible].

MR. PARTEE. I was going to say, I think we should ask Art, but there are differences between a tape and a Memorandum of Discussion, fairly significant [ones]. I mean, I don't know that if you were to do the Memorandum of Discussion just as it is done now, and if you were to compare it with the tape, there would be enough differences that it would raise questions in peoples' minds. Isn't that right?

MR. BROIDA. That's right.

MR. EASTBURN. I think the Memorandum is vastly to be preferred if we had a choice of one or the other, there's no question in--

MR. BROIDA. Well, we do, of course, tape--we transcribe these meetings in preparing the Memorandum of Discussion. We try to render the substance of discussion in official form, omitting repetition and compressing the statements. But I think if the Committee was putting a transcript of the meeting in the public domain, it would be unfortunate that we also put the Memorandum of Discussion, however honest the rendition, simply because people could pick at every single sentence in the thing. Every difference in it would be a subject for public comment.

SPEAKER(?). Wouldn't it be a virtual impossibility to prepare both in terms of time, too?

MR. BROIDA. Well, if we had sufficient staff. The transcript we have now is a rough and ready one. We would have to be much more precise and careful in catching every specific word. If we were going to publish it, then we could make it in better form, in other words.

MR. COLDWELL. May I ask a question, Mr. Chairman? Is it possible, Art, to prepare a Memorandum of Discussion without segregable facts?

MR. BROIDA. Not without distorting the discussion, I don't believe. Facts are introduced in passing in a large proportion of the statements that are made. Or what may be considered arguable as facts, the court may find other facts, and I think it would make a hash of the discussion if we had to suppress every fact.

MR. MAYO. Mr. Chairman, question really to Tom. Where do we stand on the Memorandum of Discussion over the past five years? Is there--if the suit, say, is sustained, does that open the door to either another suit or a feeling that we should release all of the Memoranda of Discussion in the last five years?

MR. O'CONNELL. Well, as you know, this suit was directed to two Memoranda. The ruling of the court is a statement of law interpreting the FOIA [the Freedom of Information Act]. It is applicable to existing Memoranda of Discussion if specific demand were made under that court order. Interpreting that order and under the FOIA, we would have to go through the same process with those Memoranda that we've done with these two.

MR. MAYO. So this would consume all of the staff time for a long period--

MR. O'CONNELL. It well could.

MR. MAYO. --from a practical standpoint, to prepare them for documentation.

CHAIRMAN BURNS. It may, that is, as far as the existing Memoranda of Discussion over the past five years are concerned; there's nothing we can do about that. We're at the mercy of court rulings.

MR. COLDWELL. It seems to me, Mr. Chairman, that the real question is whether this proposal of yours that we eliminate the Memorandum is perhaps at the moment premature with regard to the court's position, since we have not obviously taken appeal or gone further in our appeals on the matter. I suspect that the Memorandum could be written slightly differently.

I guess I have a certain amount of feeling for the Memorandum, and I also have a certain amount of resistance to the idea of being forced into cutting out something that we have done which has been helpful, no matter how marginally it has been helpful, as a track record of the Committee. And I give that up with great reluctance, and consequently, I see a question of whether this is something we have to do today or whether the Government in the Sunshine bill and court appeals might provide a different set of circumstances to work on two or three months from now.

CHAIRMAN BURNS. Well, I would answer it by saying, this is something that we don't have to do today. But I would also say that we are taking risks that, in my judgment, we ought not to be taking any longer. And this can become a question of judgment. We live in a very different environment, and we might as well recognize that.

MR. PARTEE. That's what bothers me, Mr. Chairman. I do think that sooner or later we're going to get in trouble with--because there will be a court that will define segregable facts in a very broad way, because there will be petitioners that will go to very current minutes, that is, of meetings within the last month or two, or three, or four. And sooner or later we're going to lose this, and in the meantime, as you say, there will be a great deal of effort put in to sanitizing in response to each court suit the Memorandum from earlier times. So I can certainly see your point of view. So it seems like a situation where the risks are very great relative to the benefits that are gained.

CHAIRMAN BURNS. And I think that maybe we would want to emphasize the point, rid ourselves of this awful charge of secrecy that keeps on being brought against us.

MR. PARTEE. Well, I'm not so sure about that. I think a lot of people are going to say, look you've just done away with the [Memorandum of Discussion], and therefore how could you be more secretive than that.

CHAIRMAN BURNS. Now, look--something that you withhold for five or six years is of very little interest. When you make the [Memorandum of Discussion] available to the Archives after five or six years have elapsed, is that publicized, Joe?

MR. COYNE. Ed Dale took a look at the 1965 [Memorandum of Discussion]. That's the only reporter I know that has ever come in to take a look at that.

MR. HOLLAND. As I recall, we asked the Archives people once how many came in, and you could count on the fingers of one hand the number for one year, and that included college students--

MR. PARTEE. Is that so?

CHAIRMAN BURNS. Here, we'd be putting out a Record of Policy Actions so people learn relatively promptly--after 30 days or 45 days depending on what we do about that rule--a great deal more about what goes on within this Committee. This meets, practically, the charge of secrecy. And keeping a record [the Memorandum of Discussion] hidden for five or six years--you know, demagogues have been making a good deal of noise on that basis.

VICE CHAIRMAN VOLCKER. Isn't the problem, Mr. Chairman, not that you're comparing [the expanded Record of Policy Actions] with [the Memorandum of Discussion] that's only available after five years, but you're comparing [the expanded Record of Policy Actions] with their hope or expectation that it's going to be available almost immediately. And [unintelligible] they may lose on that, but they're not intending to lose, therefore, they may feel that we're being even more secretive.

CHAIRMAN BURNS. Well, all right. 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.

VICE CHAIRMAN VOLCKER. I feel this is the issue here, in a sense. I have no sentimental or nostalgic attachment to the [Memorandum of Discussion], and it seems to me I can live without it very easily. 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.

CHAIRMAN BURNS. Well, I wouldn't mind debating that issue, in which we put out promptly twice as much information about our doings. And anyone who charges us with secrecy would have a tough time defending that position. It doesn't mean that criticism like that won't be made.

MR. COLDWELL. It could be made rather strongly, though, if we follow the staff's recommendations, that the other elements of this be placed in memorandum form, which I assume are going to be held under one of the exemptions under FOIA. In which case, you don't even release that at all, period.

CHAIRMAN BURNS. Well, this is something Mr. Broida can address best.

MR. BROIDA. The decisions of the Committee, the actions of the Committee, would be made public either in the Record of Policy Actions or in the Minutes of Actions, which are available for public inspection downstairs. The kinds of material we're proposing for memoranda to files were informal understandings, agreements, and decisions, such as the--well, to take the most recent example, the Chairman suggested this morning in connection with the Swiss swap debt that a subcommittee work with the Treasury to see if we can get a Treasury takeout. That's an informal understanding, there was no vote, there's no decision. We'd put that in files and I would consider that to be procedural business of the Committee--that has no place in the public record.

MR. COLDWELL. What about the decision on engaging in finance bills by our [Domestic Trading] Desk? Where [unintelligible] is almost in the same [unintelligible] as our decision that they do this.

MR. BROIDA. The understanding was that the Desk would actually taper off the holdings, but there was no formal change in the dollar limit as specified in the authorization. At some point, a subcommittee was appointed to work with the staff on that and report in six months. At that time, the Committee presumably would make a formal decision either to retain or discontinue operations in bankers' acceptances, and that would be reported.

MR. COLDWELL. I was thinking of the finance bills.

MR. BROIDA. Oh, I'm sorry. There, there was no decision. And there was no formal action. There was a proposal to go into finance bills, and the Committee decided not to adopt a proposal.

MR. COLDWELL. Which is a decision of the Committee.

MR. BROIDA. It has been treated consistent with our past practice as not a formal vote of the Committee. They simply declined to accept a staff recommendation.

MR. COLDWELL. I'm merely pointing out that things of that nature will get buried into a memorandum . . . .

CHAIRMAN BURNS. Well, but that is not necessarily the case, you see. If the Committee felt that things of that nature should become a part of a policy record, then that's what we would do.

Now there is apparently a gray area, and therefore, if you travel this route, the suggested route, I don't know whether I put that in the memorandum to the Committee or not, but what I had in mind is to have the Secretary make recommendations and then have a subcommittee of this Committee go over these items on the gray area. And that subcommittee, pursuant to a decision of the entire Committee, might wish to keep this gray area severely down, you see, to put as much as is possible, perhaps even procedural detail, into the policy record.

So that's conceivable to me, but the suggestion about items for file, that suggestion might go by the board. I don't think that decision needs to be made immediately, and I think that decision ought to be tested out.

VICE CHAIRMAN VOLCKER. Where would something get reported, if at all, when it comes to, let's say, rather informal guidance to the Manager about how the federal funds rate might be handled over time within the framework of the formal decision as to what the range is for the aggregates or for the federal funds rate itself?

CHAIRMAN BURNS. I think you ought to answer that question in two parts. First, how is that handled now; and second, how do you visualize it being handled under the proposed new method.

MR. BROIDA. Well, we can put as much or as little of that kind of understanding in the Record of Policy Actions as the Committee desires. In the last six months of '75, for example, there were such understandings at almost every meeting, and we reported them in the Record of Policy Actions. There was some discussion earlier this year about the desirability of excluding that kind of--not reaching that kind of understanding formally, so that there would be no need to report it. But if the Committee chose to report it, it certainly could be done.

VICE CHAIRMAN VOLCKER. If the Committee did not report it in the policy record--is that what it's called?--it would be your thought that this would be one of these things appearing in the other Memoranda.

MR. BROIDA. No, no, I was suggesting that the Committee would not reach formal--would not formally reach an understanding with respect to the interpretation of the funds rate; matters would be left to the Manager's interpretation.

VICE CHAIRMAN VOLCKER. It wouldn't appear in either place.

MR. BROIDA. Yes.

CHAIRMAN BURNS. It wouldn't do what?

VICE CHAIRMAN VOLCKER. It wouldn't appear in either place; either in the Memoranda--if that course was chosen.

CHAIRMAN BURNS. Well, that course could be chosen under the present method with the Memorandum of Discussion.

MR. PARTEE. Does it appear in the Memorandum of Discussion?

MR. BROIDA. If individual members make comments of that sort. The Memorandum of Discussion plays it straight. If the members make such suggestions, it appears. If the Chairman proposes this as part of the vote, then it would so appear.

MR. BALLES. Mr. Chairman, I'd like to speak up in support of your proposal. I'll have to confess, even if it's in heresy, but I don't have this sentimental attachment to the Memorandum of Discussion. And to put it bluntly, I even find it tedious and repetitious. I think that with the expanded documents that the staff has proposed here, the public could be better informed in more of the nature of an executive summary than this raw material of things--it brings an awful lot of [unintelligible] in the workshop into the exhibition gallery. Even if we weren't under pressure to get rid of this, for the reasons that have been cited, I'd be in favor of that anyway.

MR. BAUGHMAN. I'd like to express support of that view. It seems to me that both your recommendations are good recommendations, and I would like to see the Committee adopt them.

CHAIRMAN BURNS. Thanks.

MR. BAUGHMAN. The Memorandum of Discussion is a document of uncertain parentage, in the first place. That is, it is not a transcript, and consequently is not a full record of proceedings. And therefore, at whatever time and in whatever circumstance it's released, it will be a document subject to suspicion as to what's included and what's not included. I think it is a document without any official standing. So it seems to me that, as I said on previous occasions, that it's unfortunate that it's been around as long as it has. Because it seems to me it's bound to be an embarrassing document at some time and in some circumstances. And I happen also to share John's feeling, that it's not particularly useful, especially when its cost is compared to its usefulness.

With respect to the two documents, which are referred to in the staff memo, I concur with the proposal to expand the Record of Policy Actions. I am uneasy, however, with the idea or the proposal that we continue to produce two separate documents which profess to record the actions and deliberations of this body. Most groups feel that one document is adequate to record the actions they take in their meetings. And it seems to me that when we produce two documents which profess to do that, again we're opening ourselves to a question as to just what the relationship between the two may be and what's included and what's not included.

So it seems to me the Memorandum of Discussion should be dispensed with, and I would like to see very serious consideration given to the idea that the Record of Policy Actions be incorporated into the Minutes of Actions of the meeting. And that one document should be the official record of proceedings of the Federal Open Market Committee.

Now the proposal to place certain items in the files, it seems to me, is something which in the current environment, where the minutes of meetings are likely to be public property rather promptly, does fit logically and conveniently into the format as I visualize it. There, it seems to me, we would be obliged to make note in the minutes of the meeting that a certain matter was considered and for various reasons could not be in the public area, and therefore, appropriate record is noted in the Committee's files. That, it seems to me, would put us in a more logical, reasonable, and defensible position, and it would substantially reduce the total amount of expenditure that's involved in providing a record of the actions of this body.

CHAIRMAN BURNS. Would you like to comment on that Mr. Broida?

MR. BROIDA. Mr. Chairman, I think that is one possible arrangement, but I might point out that the Minutes of Actions and the Record of Policy Actions are prepared for two rather different purposes. The Record of Policy Actions is in compliance with a requirement of section 10 of the Federal Reserve Act that the Board include in its annual report a statement of all decisions on open market policy taken by the Committee, the reasons for them, and the votes on them. And it is confined primarily to policy actions, although from time to time we take advantage of it to report actions that are of wide public interest, like changes in the guidelines for operations in agency issues.

The Minutes of Actions are more pro forma--a document which reports all actions of the Committee, including all of the routine actions, such as approval of the minutes, agreement on the next meeting, and so forth, and which for the most part are not [of great] public interest. We do not maintain a distribution list; we make them available on file downstairs for anybody who cares to consult them.

CHAIRMAN BURNS. I don't think you're giving a convincing answer to Mr. Baughman's suggestions.

MR. HOLLAND. Could I try that suggestion another way? It seems to me you could make a case for incorporating the Record of Policy Actions entry by reference into the Minutes of Actions at such time as the policy record entry was ready. The two [the Minutes of Actions and the Record of Policy Actions] have different preparation schedules, and because they have different times of preparation, that means they have different dates of exposure to appeal under the Freedom of Information Act, and even more under the [proposed] Government in the Sunshine Act. Regularly the policy record entry would be ready later than the kind of thing in the Minutes of Actions. But I see no reason why the Minutes of Actions couldn't incorporate as an appendix or by record the policy record entry for that action and thereby become a consistent holdover time. At the same time offering--

CHAIRMAN BURNS. You mean the Minutes of Actions becoming an appendix to the Record of Policy Actions?

MR. HOLLAND. No, the other way around.

CHAIRMAN BURNS. Oh.

MR. HOLLAND. The other way around.

CHAIRMAN BURNS. So you prepare the minutes first, and then sometime later, you prepare the policy record and that which is prepared later becomes an appendix to that which you prepared earlier.

MR. HOLLAND. Yes, so you have one record, and I believe that would conform with the chronology of when the staff would finish it.

CHAIRMAN BURNS. Well, that is not Mr. Baughman's suggestion. Mr. Baughman's suggestion is--

MR. BAUGHMAN. My inclination--I don't know whether you can pull it off or not--would be to use the most time-consuming aspect--that record which takes the greatest time to prepare--as the basis for arguing what the time frame is within which we can make available to the public the actions of this group. And it seems to me that the Record of Policy Actions, which gives the reasons why we reach certain conclusions, should be released concurrent with the action that is taken and that it should be a part of the same document.

MR. HOLLAND. But Ernie, I don't believe that's according to the statute. That is, I think the timing for release, under the Freedom of Information Act, of each decision has to be justified in terms of the content of each decision, so that for the minutes--the approval of the minutes at a meeting or the setting of the date of the next meeting has--once you take that decision at this table, it has its own discipline under the Freedom of Information Act as to when that must be made public.

CHAIRMAN BURNS. Is that right, Tom?

MR. O'CONNELL. That is correct. The appropriate provisional reference is promptly available, and I think Governor Holland speaks in terms of the Committee's ability, through the Secretary, to produce, perhaps on the afternoon of a meeting, the votes of actions, the date of the next meeting, etc. Whereas, with respect to the Record of Policy Actions and the wrap-around language, the time necessary for articulated preparation is necessarily longer. And thus you've got maybe 10 to 15 days at minimum, longer if necessary, for that.

MR. BROIDA. Mr. Chairman, our present practice is that, as soon as we can after the meeting, usually the next day, we place on file downstairs a report of all actions taken by the Committee except the policy actions which are specifically deferred under the rules.

CHAIRMAN BURNS. Let me ask a critical question. Suppose you stop doing that, and waited, let's say, 30 or 45 days, depending on what rule we adopt. Let's say the present rule is 45 days; would you be acting in conformity with the law? That's the critical question.

MR. O'CONNELL. In my judgment, with respect, Mr. Chairman, to the materials now presented in the Public Affairs office downstairs, you would not be acting in conformance with the law.

CHAIRMAN BURNS. All right, therefore Mr. Baughman's suggestion is out of the window, not because it's a bad suggestion but because it doesn't conform to law, period.

MR. BAUGHMAN. Mr. Chairman, I'd just like to offer this one further comment, that it's not inconceivable, it seems to me, that we would discover a lag to produce the Record of Policy Actions within a timeframe which would enable us to make what I would hope would be a cogent argument, that that was the prompt time within the eyes of the law within which to release the actions of this body.

MR. PARTEE. A lot less than 30 days--

MR. BAUGHMAN. Pardon me?

MR. PARTEE. That's got to be a lot less than 30 days.

CHAIRMAN BURNS. And it would be hard, particularly if we were to adopt a significantly expanded Record of Policy Actions, to do that in less than 30 days. As it is, we'll be strained when we put it on the [unintelligible] staff. We have the staff's judgment that this can be done.

MR. HOLLAND. After signing some of the affidavits I've had to sign as to what this Committee does and doesn't do, and listen to some of the trouble that Art and Tom have been through, to me it's very clear that courts are going to be inclined, at least the kind of court we're up against, are going to be inclined on these issues not to regard documents as a whole, but to tell us to reach into them and pick out what can be available on the shorter time schedule. And I think they do that to us in terms of all the product of this Committee.

It seems to me, therefore, that it's very wise to keep the Record of Policy Actions entry separate, albeit attached as an appendix when it's finally produced. Because that is the one thing [that] takes some time to work up. It is something which I think we can plausibly maintain and needs to be reviewed and acted on by the Committee because it's an endeavor to create--not something they've said here word for word at the table, but a synthesis of views. I think it's most likely to be recognized by courts as something that should come back to this Committee at its next meeting to look over and say okay, and not until then does that exist as an official document. Before that, it's staff's surmise, you know. If we keep that document just that way, it seems to me, that kind of delay is likely to be more defensible than if we put anything else in it. And I think we can then afford to put all the rest of the stuff in the separate minutes to which this might later be appendixed.

And if worse comes to worst, the court might force us to release our directive the same afternoon. As it's now constituted, I believe the proposal before us would even admit to that without being a body blow to this Committee. That is, that the directives as they are now worded are qualitative and mellifluous, you know--don't exactly tell where the funds rate's going to go. You know, we can honestly say, that is what the Committee adopted today. The Record of Policy Actions entry comes along 30 days later and provides the background, and I think that's the situation in which the Committee might find itself reasonably well postured before a court. It leaves no role for the Minutes of Actions, which I agree aren't full enough to satisfy Government in the Sunshine but are full enough to be catnip under the Freedom of Information Act. It looks to me like they've outlived their usefulness.

MR. BAUGHMAN. I find it difficult to believe, when a succeeding record is specific on matters which are of interest, that we will be judged to have satisfied the requirements of the law by putting out promptly a generalization which no one can construe in a meaningful way, when people know that the Committee decided what the funds rate would be, what the rates of growth of the aggregates would be, but if that [detail] flows along 30 days later--

MR. HOLLAND. There's a possibility, Ernie, that they might rip that out of us too. If they do, I don't even think that is an impossible final adjustment to make. That means, taking what's now the specification sheet and putting all those numbers with a few qualifying and modifying words around them in the directive, as we were talking about this morning, and letting that go out and then putting all the expanded reasoning and discussion of the economic situation out in the Record of Policy Actions entry later.

You may not want to start with that at the moment, but I think that even if you get driven to that, it is not an impossible world to live in, particularly if the Committee expresses its operating instruments--if you forgive the plug--in terms of reserve objectives with a federal funds range. So the market doesn't get a federal funds target that the Committee is aiming at but rather a range within which open market operations are supposed to live.

CHAIRMAN BURNS. Mr. Jackson now, please.

MR. JACKSON. Just let me be sure I understand what counsel is advising us. If the Committee decided to go to a set of minutes in the normal customary style that most organizations operate, wherein minutes are not final until approved at the succeeding meeting, it's your judgment that the Government in the Sunshine Act or Freedom of Information Act would require disclosure of those minutes prior to the time they were approved at the subsequent meeting.

MR. O'CONNELL. No sir. Nor, I hope, have I said that.

MR. JACKSON. Maybe I missed the point, because it strikes me, Mr. Chairman, that perhaps Mr. Baughman's suggestion has merit: That we adopt one set of minutes for this organization, and it includes all the things we have decided to do, but the actual verbiage of those decisions as they would rest in the permanent Record of Policy Actions of this organization would not be approved until the subsequent meeting, and after that subsequent meeting, they would be disclosed.

MR. O'CONNELL. If prior to the close of today's meeting it was agreed by vote of this Committee that the next meeting of the Committee would be May 18--so voted--Judge Waddy would say, "Was it agreed and did the Committee direct that the next meeting would be May 18? Yes." That fact is to be disclosed on Wednesday [the day after today's meeting]. So we're distinguishing, Governor, the list of actions taken [on one hand] from minutes of actions in which you have a descriptive or a narrative text that has to be read and approved [on the other hand]. The latter [is released] only when it is approved. The other--individual actions taken that can be identified in a list of actions--that's what's promptly made available. Am I correct or not?

MR. BROIDA. Yes.

MR. JACKSON. Then my suggestion won't work.

CHAIRMAN BURNS. While I like Mr. Baughman's suggestion, I would like it [more] if our attorneys indicated that it would be conformative to law. I don't see any significant additional faults in having two documents instead of just one. Am I wrong on that?

MR. BROIDA. No sir, Mr. Chairman. I think there might be some positives--that you would not want to encumber the Record of Policy Actions with a lot of pro forma actions. The cost goes the other way, of combining them--

CHAIRMAN BURNS. In other words, the amount of trouble to which the staff would have to go to would be much the same one way or the other way. And therefore, this can't be a matter of very large importance to us.

VICE CHAIRMAN VOLCKER. Mr. Holland's suggestion seems to me a very neat way of handling the problem, in making the Record of Policy Actions an appendix to the formal minutes.

CHAIRMAN BURNS. Well, that indeed could be done, and all that means is you add one word to the Record of Policy Actions --you write "Appendix" at the top. Any other comment on the Memorandum of Discussion?

MR. MAYO. Mr. Chairman, I'd like to support two of your recommendations despite the fact that I was a member of the subcommittee that came up with the other recommendation earlier that we--

SPEAKER(?). We were divided equally on that, Bob.

MR. MAYO. Well, no, I don't think we were, really, not on the 30 days. I'm talking about the Coldwell subcommittee more recently. I have no question at all about the 30-day thing. I think that should be done in any event. My only question on the other is the acute question of psychology of the timing, whether we appear to be destroying records rather than enhancing public records. And I think this is a real source of criticism, but despite that, my only question in my own mind is whether I would approve this time or wait one more month and then approve it. I think it narrows itself pretty much to that sort of position.

CHAIRMAN BURNS. Mr. MacLaury.

MR. MACLAURY. Thank you, Mr. Chairman. I support your recommendation. Before I came down I had some nostalgia for the Memorandum of Discussion, but I haven't read the memorandum. I think it's a very reasonable kind of suggestion.

CHAIRMAN BURNS. Mr. Willis, please.

MR. WINN. As a random member, nostalgia doesn't enter my mind in this regard, but--

CHAIRMAN BURNS. There's still room for narcissism, looking for the future.

MR. WINN. --but I have in recent years been involved with people who have this obsession for sunshine phenomena of various sorts. And I would think that in this discussion, we seem to be intermingling certain factors that I don't really feel follow each other. If we are doing this with the hope of convincing those people who are forcing us in this direction that we are really complying with their wishes, I don't think that those individuals will ever be convinced unless we invite them to sit around this table and to be with us 24 hours a day. I don't think we would achieve the public relations or the convincing part with these individuals by doing this.

It seems to me also that while the Government in the Sunshine bill is in the works, we don't know how that legislation will come out. We think that it may pass in its present state. We also are not sure, if I understood Tom correctly, that it would apply to this group. That isn't a certain fact as yet. We still have the litigation pending. We still are not certain what the ultimate decision of the court or courts, if we appeal it, will be.

Unless we're doing this for the sake of reducing the expenditure of time and the burden on our staff for the immediate foreseeable future, or unless this has a bearing on the litigation that is presently pending, I think that we're being somewhat premature. I think we might be causing waves, creating with the best of intentions a reaction that is just the opposite from what we would hope for in the minds of the people that are driving toward this total disclosure.

And I think that unless there is an operational [reason], or cost, or politically good reason to move now, I would think that it would be wiser to wait and see what comes out of the

Congress, what comes out of the courts, and not do something that we may have to undo because it's misinterpreted by the very people that we're trying to pacify by this action.

CHAIRMAN BURNS. Well, there is a cost, a heavy cost, a pretty cost to our senior staff, and while I will never ask this Committee to cut down on my own labors--that's something that I should be able to control myself, one way or the other. It's been a pretty sizable burden in my own case recently; more important work had to be set aside. So there is a burden, there is a cost right now.

MR. O'CONNELL. Mr. Chairman, may I be permitted to address one of the issues raised by Mr. Roos? In terms of the litigation, Mr. Chairman, I believe it would be in the Committee's best interest, if your other considerations can tolerate it, if the Chairman were to perhaps position this as being before the Committee as a matter of principle, thus permitting the Committee's counsel, with your direction and permission, to make known to the Department of Justice the adoption of this intended action as a matter of considered principle.

I think in the Committee's interest I should discuss with the Department [of Justice] any objection they might have to an immediate action that does away with the Memorandum [of Discussion], particularly in the light of the appeal, Mr. Chairman. I don't bring this up as a last-minute matter, but further discussion with the Department could have bearing on what the Committee might want to do in terms in timing. If the Chairman and the Committee can tolerate that deferment, I think it would be in the Committee's interest to allow me to do so.

CHAIRMAN BURNS. Well, I have no difficulty with the suggestion that you make. I'm not sure what it involves, but proceeding deliberately is something that I instinctively have a preference for, and therefore, let me modify my original suggestion to the Committee. And that is that we vote today not on abandoning the Memorandum of Discussion, but that we vote today in principle to do that, with the precise timing, etc., and final action to be taken at a later time.

MR. WINN. Mr. Chairman, would that leave leeway to reverse that if, after further deliberation, it was decided to be not in our interest?

CHAIRMAN BURNS. That's right. Voting in principle means that final action has not yet been taken.

MR. ROOS. Mr. Chairman, I would hope, after listening to this discussion, that whatever action may be taken today, it is on the basis of weighing off the Memorandum of Discussion against the Record of Policy Actions as to which of those would best serve the public and the nation. I would hope that we wouldn't make that kind of a decision based upon the lawsuit that is now pending.

The reason I say that is, I understand your statement as to time, but this lawsuit is one in which there will either be an appeal taken very soon by this Committee, I should hope, and a final decision as to what we have to release; or, in the alternative, I don't see that we'll be plagued with having to go through the same process that you have had to go through with the Secretary and General Counsel week after week. Therefore, I'd like to separate the decision. If the Memorandum of Discussion should be done away with and there would be better service by preparing a record, as has been suggested, I'd like the vote be taken on that principle alone.

CHAIRMAN BURNS. Well, as far as an expanded Record of Policy Actions is concerned, one that would set forth the flavor of our debate and the reasons for the decisions that we take, I don't see how there can be any question but that it would serve the public interest better than it does at present. You have the Record of Policy Actions, which is an abbreviated policy record--the kind that we have--plus the Memorandum of Discussion. But the Memorandum of Discussion is not used by the public. It is unknown to the public, unknown to the newspapermen, even. Now, according to Joe Coyne, if I understood him correctly, he could recall only one instance in which a single newspaperman referred to it.

MR. COYNE. That's correct.

CHAIRMAN BURNS. So, on that issue, I don't see that there is any room for debate. The public would be informed currently to a much fuller degree. Now, one could have an expanded Record of Policy Actions and also a Memorandum of Discussion, that's true. But what the point of that may be, I don't know. The Memorandum of Discussion is proving troublesome, and it may prove increasingly troublesome in the course of time in view of the national legislative and judicial trends.

MR. ROOS. Just to express my own view on the issue, as I hope I framed it, I would opt to do away with the Memorandum of Discussion, because it means nothing to me as a new member, I guess. And it would be appropriate to have an expanded Record of Policy Actions, which I think would serve very well. Of course, whether it is released within 30 days or 45 days is another issue.

MR. HOLLAND. I think the Committee should be prepared to hear a complaint from an occasional economic historian. This Committee had a consultant group of economic historians a number of years ago to look into this and they praised the fullness of this Memorandum of Discussion. It is well nigh unique in the annals of government. But they themselves used it only very rarely, and that's kind of a small voice, and I believe what we're facing here is an issue of, in effect, current information against the matter of [unintelligible]. An expanded Record of Policy Actions I believe is sufficient.

CHAIRMAN BURNS. When you come to historians, they'd want us to save all these worksheets.

MR. HOLLAND. Yes, that's right.

CHAIRMAN BURNS. Literally.

MR. HOLLAND. Their report to this Committee was, wait longer and put out more. And I believe that that is literally outdated in terms of the sense of public purpose that's in the country today, and we have to recognize it.

MR. JACKSON. Well, if we eliminate the Memorandum of Discussion, that would give some member of the Committee the opportunity someday to present an oral history at some university that would bring great credit to that individual, whereas the Memorandum of Discussion denies him that opportunity.

CHAIRMAN BURNS. You can think some nasty thoughts.

MR. WALLICH. Well, there is a question whether in lieu of a Memorandum of Discussion one should try to invite visiting scholars to work on the history of the Federal Reserve and [unintelligible].

CHAIRMAN BURNS. Well, you know I have been talking--well you know, I talk, talk, talk, and it's hard to find someone who listens. I've been talking to Allison for some time now, to hire an economic historian and to have one on the staff. An economic historian, one who would keep track not only of our [failures] but also who could advise of historical questions that keep occurring. I don't remember talking to you about that, Bob.

MR. HOLLAND. I think that was after my time when you started raising that question.

CHAIRMAN BURNS. Well, but you have certain administrative authority at the Board, let that be one of your legacies to the Board, to find that historian.

MR. HOLLAND. I shall make provisions for it.

SPEAKER(?). I nominate George Garvey.

CHAIRMAN BURNS. Well, if George had the strength, he'd be an ideal man. George Garvey was an economist in the New York Bank for many years.

Well, gentlemen, would you like to discuss further, or is a vote in order?

VICE CHAIRMAN VOLCKER. I just want to clarify one point. I think it's the whole thrust of this when you talk about 30 days--we mean after the following meeting.

CHAIRMAN BURNS. Well, we take it up separately.

MR. BROIDA. It's in two parts.

CHAIRMAN BURNS. Two parts. First, on the Memorandum of Discussion, the motion would be that we agree in principle to substitute an expanded Record of Policy Actions, as suggested by the staff, for the Memorandum of Discussion. This is to agree in principle that we do that, with the time for final action and time for implementation to be decided later.

MR. O'CONNELL. And may I suggest Mr. Chairman, without explanation, would you care to ask for a show of hands on this?

MR. COLDWELL. I'm not going to agree on that. Well, this is going to be action of the Committee for a vote.

MR. O'CONNELL. All right then, with the understanding that it would be published tomorrow.

CHAIRMAN BURNS. With the understanding that it would be published tomorrow, I--well--

MR. HOLLAND. I recommend the Chairman sample his consensus in whatever way he can for a vote.

CHAIRMAN BURNS. I think I have to be guided by our attorney, and therefore, I'm going to seek a show of hands on a consensus on the--you can't call it a motion--on the statement that I just put before the Committee. Let's have a show of hands in favor. Just the members of the Committee.

MR. BROIDA. Ten, Mr. Chairman.

CHAIRMAN BURNS. Well, now, let's turn to the second question, and would you state now your specific question.

VICE CHAIRMAN VOLCKER. In terms of this talking in general of 30 days, in reading your memorandum, you meant after the following meeting, which typically, or often, is more than 30 days.

CHAIRMAN BURNS. Well, I think we ought to again express a consensus, if there is a consensus, on a point of principle. And I would describe that as cutting the period from approximately 45 days to approximately 30 days. I want to leave that vague because I've been having discussions with the staff, and there are some fine points of detail, you see, as to whether you release on a Friday or on a Thursday, and I don't think those points of detail are going to matter much to the members of the Committee, but they do matter much to our attorneys and to Joe Coyne. And therefore, I don't think we ought to try to go beyond an enunciation of principle.

VICE CHAIRMAN VOLCKER. And at the level of principle, do you find objectionable the principle that it would be released as soon as possible or as soon as feasible following the next meeting?

CHAIRMAN BURNS. Well, I don't know that I necessarily want to tie it to the next meeting. Approximately 30 days--it would work out in that fashion, and I think there are good arguments for doing it after the next meeting. Having a vote at the next meeting and then early release.

VICE CHAIRMAN VOLCKER. Yes, that's what I would think would be natural. But in the substantive--

CHAIRMAN BURNS. I think that's all right. I think that's all right. But I just would prefer not to have that worked out in detail. Now that can come back to the Committee, the detail you see. After it's been thought through by the staff fully and that is not the [unintelligible] times.

VICE CHAIRMAN VOLCKER. Let me just make my substantive point. It seems to me it would be a bit of a confusion to have this record of the past actions coming just before the Committee is meeting again. It kind of gets people excited about what last month's policy was on the eve of the new policy.

MR. COLDWELL. I have the opposite idea. That it would be worse to bring it out after the next meeting.

MR. HOLLAND. I don't think there's any question but what we get some market advantages in terms of working this around one way or another. But it also has to be done for reasons that are plausible to the court, I think, given the kind of stuff we're up against. We haven't been very successful thus far in persuading the court that it should account for market disruption [arising from] information that is a few days earlier or a few days later. They have, however, seemed to be quite willing to accept the argument [that the information should be released] as soon as it was ready. And if Mr. Broida is as artful as usual, it will get ready by the time, I imagine, for the Committee to approve it at the meeting, [get it] assembled, and get it out a day or two after.

CHAIRMAN BURNS. Gentlemen, if all we're going to do today--and I think it would be wise to do that and no more--is to reach a consensus on principle, then it is not necessary to attach a specific interpretation to the phrase approximately 30 days. This will have to come back to the Committee. And when it comes back to the Committee, and when we take final action, at that time we will specify in detail just what we mean by approximately 30 days.

MR. MAYO. Mr. Chairman, I have one problem, though, of interpreting, even as we know it now, approximately 30 days as being 31 to 38 days, which is really what we're talking about.

CHAIRMAN BURNS. Yes, the changes are what we will be talking about.

SPEAKER(?). Yes, and I think we would appear to be stretching it if we put 30 days in our consensus.

CHAIRMAN BURNS. Well, under the 31- to 38-day rule, how often would it be 31 days and how often 38?

MR. BROIDA. I think there are four 5-week intervals in a year and eight 4-week [intervals].

CHAIRMAN BURNS. And therefore it would be 31 days.

MR. BROIDA. Eight times.

CHAIRMAN BURNS. Well, that's not too bad, Bob.

MR. MAYO. Well, it's quibbling, I will admit.

MR. BAUGHMAN. Is there possibly another--maybe trivial--point here as to special meetings? It's conceivable that the Committee may meet one week after its previous [meeting].

CHAIRMAN BURNS. It would work out to 32-1/2 days on the average, and 30 is a good round number for 32-1/2. [Unintelligible] of what I've just been doing.

SPEAKER(?). Are we protected better by less than 40? Does that look better?

CHAIRMAN BURNS. Well, we can decide. Let the vote in principle--vote is not the right word--let the agreement in principle, if we are capable of reaching an agreement at this hour, let it be simply, we've got more work to do, gentlemen. We have to bring this to an end, that we decide to reduce the period by something like 10 to 15 days. And that would cover all the sins that have been mentioned at this table. And if we find that there are additional sins, then we'll be able to take care of those, I'm sure, at the time when we take final action, if and when and as we get to that stage. Is that all right? Or troublesome? If not, let's have a show of hands on agreement on principle as just stated.

MR. BROIDA. Ten. I guess it's unanimous.

CHAIRMAN BURNS. Well, all right now, I think that we have concluded.

MR. COLDWELL. We're having a sidebar--

MR. JACKSON. I was just interested in whether he consented to the consensus or not.

CHAIRMAN BURNS. I think we've concluded our meeting as the FOMC.

END OF MEETING