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Meeting of Federal Open Market Committee

February 15, 1977

MINUTES OF ACTIONS

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, February 15, 1977, at 9:00 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Balles
Mr. Black
Mr. Coldwell
Mr. Gardner
Mr. Jackson
Mr. Kimbrel
Mr. Lilly
Mr. Partee
Mr. Wallich
Mr. Winn

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

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

Mr. Broida, Secretary
Mr. Altmann,1/ Deputy Secretary
Mr. Bernard,1/ Assistant Secretary
Mr. O'Connell¹, General Counsel
Mr. Axilrod, Economist (Domestic Finance)
Messrs. Brandt,1/ Davis,1/ Keran,1/
Kichline,1/ Parthemos,1/ Reynolds,1/
and Zeisel,1/ Associate Economists

1/ Attended part of Tuesday session only.

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Mr. Holmes, Manager System Open Market Account

Mr. Pardee,1/ Deputy Manager for Foreign Operations

Mr. Sternlight,1/ Deputy Manager for Domestic Operations

Messrs. Coyne and Keir,1/ Assistants to the Board of Governors

Mr. Ettin,1/ Associate Director, Division of Research and Statistics, Board of Governors

Mr. Truman,1/ Associate Director, Division of International Finance, Board of Governors

Mrs. Farar,1/ Economist, Open Market Secretariat, Board of Governors

Mrs. Deck,1/ Staff Assistant, Open Market Secretariat, Board of Governors

Mr. Van Nice, First Vice President, Federal Reserve Bank of Minneapolis

Messrs. Balbach,1/ Boehne,1/ Davis,1/ and Scheld,1/ Senior Vice Presidents, Federal Reserve Banks of St. Louis, Philadelphia, Cleveland, and Chicago, respectively

Messrs. Davis,1/ and Green,1/ Vice Presidents, Federal Reserve Banks of Kansas City and Dallas, respectively

Mr. McNees,1/ Assistant Vice President, Federal Reserve Bank of Boston

Mr. Kareken,1/ Economic Adviser, Federal Reserve Bank of Minneapolis

Mr. Hill,1/ Senior Economist, Federal Reserve Bank of New York

By unanimous vote, the Committee approved the following statement of policy regarding the Government in the Sunshine Act:

1/ Attended part of Tuesday session only.

Policy Regarding the
Government in the Sunshine Act

On September 13, 1976, there was enacted into law the Government in the Sunshine Act, Pub. L. No. 94-409, 90 Stat. 1241 ("Sunshine Act"), established for the purpose of providing the public with the "fullest practicable information regarding the decisionmaking processes of the Federal Government... while protecting the rights of individuals and the ability of the Government to carry out its responsibilities."1/ The Sunshine Act applies only to those Federal agencies that are defined in Section 552(e) of Title 5 of the United States Code and "headed by a collegial body composed of two or more individual members, a majority of whom are appointed to such position by the President with the advice and consent of the Senate, and any subdivision thereof authorized to act on behalf of the agency."2/

The Federal Open Market Committee ("FOMC") is a separate and independent statutory body within the Federal Reserve System. In no respect is it an agent or 'subdivision' of the Board. It was originally established by the Banking Act of 1933 and restructured in its present form by the Banking Act of 1935 and subsequent legislation in 1942 (generally see 12 U.S.C. §263(a)). The FOMC's membership is composed of the seven members of the Board of Governors of the Federal Reserve System ("Board of Governors") and five representatives of

1/ Government in the Sunshine Act, Pub. L. No. 94-409, §2, 90 Stat. 1241 (1976).

2/ Government in the Sunshine Act, Pub. L. No. 94-409, §3(a), 90 Stat. 1241 (1976).

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the Federal Reserve Banks who are selected annually in accordance with the procedures set forth in Section 12A of the Federal Reserve Act, 12 U.S.C. §263(a). Members of the Board of Governors serve in an ex officio capacity on the FOMC by reason of their appointment as Members of the Board of Governors, not as a result of an appointment "to such position" (the FOMC) by the President. Representatives of the Reserve Banks serve on the FOMC not as a result of an appointment "to such position" by the President, but rather by virtue of their positions with the Reserve Banks and their selection pursuant to Section 12A of the Federal Reserve Act. It is clear therefore that the FOMC does not fall within the scope of an 'agency' or 'subdivision' as defined in the Sunshine Act and consequently is not subject to the provisions of that Act.

As explained below, the Act would not require the FOMC to hold its meetings in open session even if the FOMC were covered by the Act. However, despite the conclusion reached that the Sunshine Act does not apply to the FOMC, the FOMC has determined that its procedures and timing of public disclosure already are conducted in accordance with the spirit of the Sunshine Act, as that Act would apply to deliberations of the nature engaged in by the FOMC.

In the foregoing regard, the FOMC has noted that while the Act calls generally for open meetings of multi-member Federal agencies, 10 specific exemptions from the open meeting requirement are provided to assure the ability of the Government to carry out its responsibilities. Among the exemptions provided is that which authorizes any agency operating under the Act to conduct closed meetings where the subject of a meeting involves information "the premature disclosure of which would--in the case of an agency which regulates currencies, securities, commodities, or financial institutions,

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be likely to lead to significant financial speculation in currencies, securities, or commodities."^{3/}

As to meetings closed under such exemption, the Act requires the maintenance of either a transcript, electronic recording or minutes and sets forth specified, detailed requirements as to the contents and timing of disclosure of certain portions or all of such minutes. The Act permits the withholding from the public of the minutes where disclosure would be likely to produce adverse consequences of the nature described in the relevant exemptions.

The FOMC has reviewed the agenda of its monthly meetings for the past three years and has determined that all such meetings could have been closed pursuant to the exemption dealing with financial speculation or other exemptions set forth in the Sunshine Act. The FOMC has further determined that virtually all of its substantive deliberations could have been preserved pursuant to the Act's minutes requirements and that such minutes could similarly have been protected against premature disclosure under the provisions of the Act.

The FOMC's deliberations are currently reported by means of a document entitled "Record of Policy Actions" which is released to the public approximately one month after the meeting to which it relates. The Record of Policy Actions complies with the Act's minutes requirements in that it contains a full and accurate report of all matters of policy discussed and views presented, clearly sets forth all policy actions taken by the FOMC and the reasons therefor, and includes the votes by individual members on each policy action. The timing of release of the Record of Policy Actions is fully consistent with the Act's provisions assuring against premature release of any item of discussion in an agency's minutes that contains information of a sensitive financial nature. In fact, by

^{3/} Government in the Sunshine Act, Pub. L. No. 94-409, §3(a), 90 Stat. 1242 (1976).

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releasing the comprehensive Record of Policy Actions to the public approximately a month after each meeting, the FOMC exceeds the publication requirements that would be mandated by the letter of the Sunshine Act.

Recognizing the Congressional purpose underlying enactment of the Sunshine Act, the FOMC has determined to continue its current practice and timing of public disclosures in the conviction that its operations thus conducted are consistent with the intent and spirit of the Sunshine Act.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on January 17-18, 1977, were approved.

By unanimous vote, the Committee amended Section 271.6(a) of its Rules Regarding Availability of Information to read as follows, effective March 12, 1977:

271.6 Information not Disclosed

Except as may be authorized by the Committee, information of the Committee that is not available to the public through other sources will not be published or made available for inspection, examination, or copying by any person if such information

- (a) is specifically exempted from disclosure by statute (other than section 552b of Title 5 United States Code), provided that such statute (A) requires that the matters be withheld from the public in such a manner as to leave no discretion on the issue, or (B) establishes particular criteria for withholding or refers to particular

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types of matters to be withheld; or is specifically authorized under criteria established by an executive order to be kept secret in the interest of national defense or foreign policy and is in fact properly classified pursuant to such executive order.

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By unanimous vote, System open market transactions in foreign currencies during the period January 18, 1977, through February 14, 1977, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period January 18, 1977, through February 14, 1977, were approved, ratified, and confirmed.

By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests underlying strength in economic activity, although industrial production and retail sales were held down in January by the effects of unusually severe weather. Housing starts rose sharply in December, and labor market surveys completed by mid-January indicated a further rise in employment and a decline in the unemployment rate from 7.8 to 7.3 per cent. The wholesale price index for all commodities continued to

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rise, reflecting increases in the average both for farm products and foods and for industrial commodities. The index of average wage rates rose sharply in January as a result of marked increases in the volatile construction and service sectors.

The average value of the dollar against leading foreign currencies has risen somewhat over the past month. In December the U. S. foreign trade deficit increased further; in the fourth quarter as a whole the deficit was a little larger than in the third quarter.

M-1, which had expanded appreciably in December, grew at a moderate pace in January. Growth in M-2 and M-3 also moderated. At banks and thrift institutions, inflows of time and savings deposits other than large-denomination CD's slowed somewhat. Interest rates have changed relatively little on balance since mid-January.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster bank reserve and other financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

At its meeting on January 18, 1977, the Committee agreed that growth of M-1, M-2, and M-3 within ranges of 4-1/2 to 6-1/2 per cent, 7 to 10 per cent, and 8-1/2 to 11-1/2 per cent, respectively, from the fourth quarter of 1976 to the fourth quarter of 1977 appears to be consistent with these objectives. These ranges are subject to reconsideration at any time as conditions warrant.

The Committee seeks to encourage near-term rates of growth in M-1 and M-2 on a path believed to be reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, at present, it

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expects the annual growth rates over the February-March period to be within the ranges of 3 to 7 per cent for M-1 and 6-1/2 to 10-1/2 per cent for M-2. In the judgment of the Committee such growth rates are likely to be associated with a weekly average Federal funds rate of about 4-5/8 to 4-3/4 per cent. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period will deviate significantly from the midpoints of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of 4-1/4 to 5 per cent.

If it appears during the period before the next meeting that the operating constraints specified above are proving to be significantly inconsistent, the Manager is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

By unanimous vote, the Committee revised No. 4 of the Guidelines for the Conduct of System Operations in Federal Agency Issues to read as follows, effective immediately:

4. Purchases will be limited to fully taxable issues, not eligible for purchase by the Federal Financing Bank, for which there is an active secondary market. Purchases will also be limited to issues outstanding in amounts of \$300 million or over in cases where the obligations have a maturity of five years or less at the time of issuance, and to issues outstanding in amounts of \$200 million or over in cases where the securities have a maturity of more than five years at the time of issuance.

It was agreed that the next meeting of the Committee would be held on March 15, 1977, at 9:30 a.m.

The meeting adjourned.

Secretary