



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

January 13, 1978

STRICTLY CONFIDENTIAL (FR)
CLASS I FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida *ALB*

The attached memorandum is being distributed to the Committee at Chairman Burns' suggestion.

It is contemplated that the memorandum will be considered during an executive session of next Tuesday's FOMC meeting, probably immediately after the coffee break.

Attachment

STRICTLY CONFIDENTIAL (FR)
CLASS I FOMC

January 13, 1978

TO: Chairman Burns SUBJECT: Procedure with respect
FROM: Arthur L. Broida *OJB* to longer-run ranges

The purpose of this note is to suggest a procedure the FOMC may wish to follow to protect newly adopted longer-run ranges for the monetary aggregates from the risk of premature disclosure as a consequence of the Merrill suit. The Committee's General Counsel concurs in the underlying analysis.

Background

The Committee's recent practice at quarterly meetings has been first to vote formally on longer-run ranges and then to cite these ranges in the text of the domestic policy directive adopted at the same meeting. For example, the policy record for the meeting held on October 18 includes the following entry:

"The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the third quarter of 1977 to the third quarter of 1978: M-1, 4 to 6-1/2 per cent; M-2, 6-1/2 to 9 per cent; and M-3, 8 to 10-1/2 per cent."

At a later point the record sets forth the text of the directive, including the following paragraph:

"Growth of M-1, M-2, and M-3 within ranges of 4 to 6-1/2 per cent, 6-1/2 to 9 per cent, and 8 to 10-1/2 per cent, respectively, from the third quarter of 1977 to the third quarter of 1978 appears to be consistent with these objectives. These ranges are subject to reconsideration at any time as conditions warrant."^{1/}

^{1/} The ranges also are cited in the directives for the two subsequent meetings, with an introductory clause referring to the date at which they had been adopted. For example, the corresponding paragraph in the directives issued at the November and December meetings began, "At its meeting on October 18, 1977, the Committee agreed that growth of M-1, M-2, and M-3 within ranges of...."

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In its report dated December 14, 1977, the Subcommittee on the Directive noted that there were advantages in having the ranges made public in the context of the broad analysis of economic developments contained in the Chairman's testimony before the Banking Committees. To avoid the possibility that it might be necessary to release the ranges before the Chairman's testimony, the Subcommittee recommended that the Committee delay its final decision on longer-run ranges until just prior to the Chairman's testimony. After some questions were raised about this proposal, the Committee agreed to defer further discussion until the January meeting, when it was next scheduled to review the longer-run ranges.

Suggested procedure

The alternative procedure suggested here would involve (a) adopting new longer-run ranges at the January 17 meeting on the usual schedule, (b) recording these ranges, and the votes on them, in the customary fashion in the policy record made available shortly after the February meeting, and (c) omitting the ranges from the domestic policy directive. In connection with the last point, the paragraph of the directive in which the ranges are usually cited might read as follows:

"At this meeting the Committee has agreed upon ranges of growth of M-1, M-2, and M-3 from the fourth quarter of 1977 to the fourth quarter of 1978 that appear to be consistent with these objectives. These ranges are subject to reconsideration at any time as conditions warrant."

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It should be noted that the reader of the policy record would not be deprived of information by this procedure, since the longer-run ranges would already have been given in the record. If, however, it becomes necessary to release the directive prior to the Chairman's testimony, the new ranges would not be disclosed.

Legality of procedure

The Court's order requires the Committee (a) to publish the domestic policy directive in the Federal Register upon its adoption, and (b) to make "its other policy actions, including statements and interpretations of policy, available for public inspection and copying upon their adoption." The procedure suggested here would be consistent with the Court's order so long as the longer-run ranges are not considered to be policy actions or statements or interpretations of policy. In support of such a view it can be argued that the longer-run ranges have no direct implications for Desk operations, which are governed solely by the short-run specifications contained elsewhere in the directive; and that, as now specified in law, the longer-run ranges need not be achieved if the Committee determines that they cannot or should not be achieved because of changing conditions. On these grounds, the longer-run ranges might be accurately described as reflecting not policy actions but rather the Committee's best judgment at the moment on a matter--the longer-run growth rates--that will in fact be determined by subsequent policy actions.

Even if the longer-run ranges are not considered policy actions, members of the public would be entitled to obtain them

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under a provision of the Freedom of Information Act requiring that each agency "upon any request for records which (A) reasonably describes such records and (B) is made in accordance with published rules... shall make the records promptly available to any person." However, the Act also specifies that the agency, upon receipt of such a request, "shall determine within 10 (working) days whether to comply...." Thus, if the present stay of the Court's decision is terminated and a request is received for the longer-run ranges on, say, the day of the January FOMC meeting, the Committee presumably would have two weeks in which to respond. As it happens, the monetary oversight hearings are scheduled for January 31, which is exactly 2 weeks after the January 17 FOMC meeting.

If the Committee agrees that this procedure would be appropriate, the staff would be prepared to inform any inquirer that the longer-run ranges will be made available on January 31. To avoid any suggestion that the staff is acting arbitrarily or capriciously, we would propose to indicate that this response is being made by order of the Committee.