

# MAINTAINING AND MAKING PUBLIC MINUTES OF FEDERAL RESERVE MEETINGS

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## HEARINGS BEFORE THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

**H.R. 9465**

A BILL TO AMEND THE FEDERAL RESERVE ACT TO REQUIRE  
THAT DETAILED MINUTES OF FEDERAL OPEN MARKET COM-  
MITTEE MEETINGS BE RELEASED TO THE GENERAL PUBLIC  
THREE YEARS AFTER THE DATE OF THE MEETING TO WHICH  
THEY RELATE

**H.R. 9589**

A BILL TO REQUIRE THAT THE FEDERAL RESERVE BANKS  
SHALL KEEP VERBATIM TRANSCRIPTS OF ALL MEETINGS  
OF THEIR BOARDS OF DIRECTORS AND MAKE THEM PUBLIC  
UNDER CERTAIN LIMITATIONS

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OCTOBER 27, 28; NOVEMBER 17, 1977

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## MAINTAINING AND MAKING PUBLIC MINUTES OF FEDERAL RESERVE MEETINGS

THURSDAY, OCTOBER 27, 1977

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, D.C.*

The subcommittee met at 8:35 a.m. in room 2222 of the Rayburn House Office Building; Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

Present: Representatives Mitchell, Barnard, and Hansen.

Chairman MITCHELL. Ladies and gentlemen, the hearing will come to order.

I work under the theory that neither late night sessions nor early morning rain should delay the beginning of a hearing, so we will now commence the hearings of the subcommittee.

This morning the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance and Urban Affairs will hold hearings on H.R. 9465 and H.R. 9589. These bills require maintenance of detailed records of meetings of respectively, the Federal Open Market Committee (FOMC) of the Federal Reserve System and the Boards of Directors of the 12 Federal Reserve Banks.

Specifically, H.R. 9465, which was introduced by our colleague, Hon. Mark W. Hannaford of California, provides for reinstatement of the FOMC's "Memoranda of Discussion" for all FOMC meetings, with its release for public consumption scheduled 3 years after the meeting is held.

H.R. 9589, the Federal Reserve Public Information Act, which was introduced by our colleague, Hon. John J. Cavanaugh of Nebraska, requires maintenance of verbatim transcripts of all meetings of the Boards of Directors of the 12 Federal Reserve Banks, and provides for their submission to the Congress after a lag time period of 1 year.

The legislation before us is controversial. The question of whether to keep and publish minutes of FOMC meetings has been embroiled in controversy since the creation of the FOMC by the Banking Act of 1935. It was only after prolonged and sometimes heated debate that the Open Market Committee finally decided in 1964 to release the discussion memoranda, which are based on the FOMC minutes, for the first time, and then only for 1959 and earlier years. So you can see that these hearings are not breaking new ground. The introduction of H.R. 9465 and H.R. 9589 reflect growing concern that the

public is not now getting all the information it needs to monitor and evaluate the performance of the Nation's money managers: the persons to whom the Congress has delegated its awesome constitutional powers to control the supply of money and regulate its value.

The Federal Reserve is the delegate through which our monetary policy is carried out. Within the Federal Reserve, the Federal Open Market Committee is the body primarily responsible for the formulation and implementation of that policy. Any effort by the public to monitor and assess monetary policy necessarily requires information dealing with the FOMC's decision processes and the underlying reasons for its actions. There are three elements common to H.R. 9465 and H.R. 9589 on which our deliberations will focus. These are: one, the nature of records maintained; two, their availability to the public; and three, if they are made available, the timing of their release.

[The text of H.R. 9465 and H.R. 9589 follow:]

95TH CONGRESS  
1ST SESSION

# H. R. 9465

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 6, 1977

Mr. HANNAFORD (for himself, Mr. CAVANAUGH, Mr. HANLEY, Mr. MATTOX, Mr. MITCHELL of Maryland, Ms. OAKAR, Mr. PATTERSON of California, and Mr. VENTO) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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## A BILL

To amend the Federal Reserve Act to require that detailed minutes of Federal Open Market Committee meetings be released to the general public three years after the date of the meeting to which they relate.

1       *Be it enacted by the Senate and House of Representa-*  
 2       *tives of the United States of America in Congress assembled,*  
 3       That the tenth undesignated paragraph of section 10 of the  
 4       Federal Reserve Act (12 U.S.C. 247a) is amended by  
 5       adding at the end thereof the following: "The Federal Open  
 6       Market Committee shall maintain detailed minutes of its  
 7       meetings closed pursuant to section 552b(c) (8) or (9)  
 8       of title 5, United States Code. Such minutes shall identify  
 9       the views of individual participants at any such meeting.

1 Such minutes shall be maintained for a period of three years  
2 after the date of the meeting to which they relate, after  
3 which they shall be released to the general public. Detailed  
4 minutes of Federal Open Market Committee meetings held  
5 after January 1, 1973, and before the date of enactment of  
6 this sentence and not released to the general public shall  
7 be released to the general public three years after the date  
8 of the meeting to which they relate or upon enactment of  
9 this sentence, whichever occurs sooner. Nothing in this  
10 paragraph shall be deemed to prevent disclosure by the  
11 Federal Open Market Committee of minutes of such meetings  
12 in accordance with section 552b (f) (2) of title 5, United  
13 States Code, before the expiration of the three-year period.”.



95TH CONGRESS  
1ST SESSION

# H. R. 9589

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 17, 1977

Mr. CAVANAUGH (for himself, Mr. MITCHELL of Maryland, Mr. VENTO, and Ms. OAKAR) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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## A BILL

To require that the Federal Reserve banks shall keep verbatim transcripts of all meetings of their Boards of Directors and make them public under certain limitations.

1        *Be it enacted by the Senate and House of Representa-*  
2        *tives of the United States of America in Congress assembled,*  
3        That this Act may be cited as the "Federal Reserve System  
4        Public Information Act of 1977".

5        SEC. 2. Section 4 of the Federal Reserve Act is  
6        amended by adding at the end thereof the following new  
7        paragraph:

8        " The Federal Reserve banks shall keep verbatim tran-  
9        scripts of all meetings of their Boards of Directors. These  
10       transcripts shall be provided to the appropriate committees

1 of the Congress one year after the date of such meeting  
2 without deletion. Transcripts shall also be released, at the  
3 same time, to the general public, except that items pertaining  
4 to:

5 “(1) borrowing or prospective borrowing by indi-  
6 vidually named banks at the discount window;

7 “(2) transactions with foreign central banks;

8 “(3) Federal Reserve Board real estate plans or  
9 negotiations in progress;

10 “(4) individual personnel matters; and

11 “(5) security measures at banks,

12 may be deleted. An appropriate committee of the Congress  
13 shall only make that material deleted from the transcripts  
14 available after a majority vote of the committee.”.

Chairman MITCHELL. My statement then goes on to cover a summary history from 1936 up to the present time.

I will ask unanimous consent that the entire statement be submitted for the record: therefore, I can omit that portion of it.

I guess the bottom line in tracing that history is, summarily stated, that I believe the public has the right to know the input of individual monetary policymakers in the conduct of monetary policy. To assure that the public receives relatively complete information, detailed minutes must be kept and be made publicly available after a reasonable time lag.

We shall have further discussion on what is “a reasonable time lag.”

The questions on which these hearings will focus go beyond the Federal Reserve and its relationships to the Congress and the people of this country. They go to the heart of the problem of public accountability in cases where awesome governmental powers necessarily must be delegated to relatively free or independent agents. Specifically—

(1) Does a policymaking body of an executive agency have the right to determine, on its own, whether the public is entitled to learn of its deliberations?

(2) Does the agency have the right, on its own, to determine the extent to which it will reveal policysetting information to the public and the time lag after which it will be released?

(3) Does a public agency whose deliberations have far-reaching consequences have the right to deprive scholars and historians from studying their decisionmaking process by not maintaining detailed records?

(4) Do the individuals involved in setting policy which is significant to the American people have the right to be protected by not having their names documented along with the specific recommendations which they made?

(5) Does the knowledge that their names will appear beside their stated positions during deliberations encourage policy-setters to be more accountable and responsible, or does it inhibit their decisions and the free flow of ideas?

(6) Finally, is a public agency's autonomy threatened by requiring it to provide a detailed record of its policy-making deliberations to the legislative body which has oversight responsibility for it?

Those are some of the questions we would like to address, and I am convinced there will be others.

[The opening statement of Chairman Mitchell follows:]

OPENING STATEMENT OF HON. PARREN J. MITCHELL, CHAIRMAN, ON  
H.R. 9465 AND H.R. 9589 OCTOBER 27, 1977

This morning the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance and Urban Affairs will hold hearings on H.R. 9465 and H.R. 9589. These bills require maintenance of detailed records of meetings of respectively, the Federal Open Market Committee of the Federal Reserve System and The Boards of Directors of the Twelve Federal Reserve Banks.

Specifically, H.R. 9465, which was introduced by our colleague, Mark Hannaford, provides for reinstatement of the FOMC's "Memoranda of Discussion" for all FOMC meetings, with its release for public consumption scheduled 3 years after the meeting is held.

H.R. 9589, the Federal Reserve Public Information Act, which was introduced by our colleague, John Cavanaugh, requires maintenance of verbatim transcripts of all meetings of the Boards of Directors of the twelve Federal Reserve Banks, and provides for their submission to the Congress after a lag time period of one year.

The legislation before us is controversial. The question of whether to keep and publish minutes of FOMC meetings has been embroiled in controversy since the creation of the FOMC by the Banking Act of 1935. It was only after prolonged and sometimes heated debate that the Open Market Committee finally decided in 1964 to release the discussion memoranda, which are based on the FOMC minutes, for the first time, and then only for 1959 and earlier years. So you can see that these hearings are not breaking new ground. The introduction of H.R. 9465 and H.R. 9589 reflect growing concern that the public is not now getting all the information it needs to monitor and evaluate the performance of the nation's money managers: the persons to whom the Congress has delegated its awesome constitutional powers to control the supply of money and regulate its value.

The Federal Reserve is the delegate through which our monetary policy is carried out. Within the Federal Reserve, the Federal Open Market Committee is the body primarily responsible for the formulation and implementation of that policy. Any effort by the public to monitor and assess monetary policy necessarily requires information dealing with the FOMC's decision processes and the underlying reasons for its actions. There are three elements common to H.R. 9465 and H.R. 9589 on which our deliberations will focus. These are: (1) the nature of records maintained; (2) their availability to the public; and (3) if they are made available, the timing of their release.

From March 1936 to May 1976, the FOMC kept meticulous records, called Memoranda of Discussion of its proceedings, which were released after a time lag of five years.

In addition, the Board of Governors, pursuant to section 10, Federal Reserve Act, annually submits to the Congress a report containing public records commonly known as records of policy actions. These include actions by the FOMC. In fact, currently, the summary records of the FOMC's policy actions are released 30 days after its meetings.

Following discontinuation of the discussion memoranda, the FOMC expanded the "records of policy actions" by way of attempting to make up for the loss of the more detailed discussion memoranda derived from the minutes. But even in the expanded form, the policy records fail to convey the dynamics of interchanges among FOMC members. As a result, it is difficult, if not impossible, to evaluate the contributions of individual FOMC members to the formation of monetary policy. I concur wholeheartedly with John Kenneth Galbraith who, in a letter to the previous Chairman of this Subcommittee, Steve Neal, wrote: "There is not the slightest reason why their positions should not be known, and they should not be held fully responsible for their comments." This applies with equal force to directors of Federal Reserve Banks. They too, are doing the public's business.

In summary, I believe the public has a right to know the input of individual monetary policymakers into the conduct of monetary policy. To assure that the public receives relatively complete information, detailed minutes must be kept by policymaking bodies, and be made publicly available after a reasonable time lag.

I am not wedded to a specific time lag. I want to say only that a 3-year lag is clearly long enough to prevent any possible unwarranted speculation.

The questions on which these hearings will focus go beyond the Federal Reserve and its relationships to the Congress and the people of this country. They go to the heart of the problem of public accountability in cases where awesome governmental powers necessarily must be delegated to relatively free or independent agents. Specifically:

(1) Does a policymaking body of an executive agency have the right to determine, on its own, whether the public is entitled to learn of its deliberations?

(2) Does the agency have the right, on its own, to determine the extent to which it will reveal policysetting information to the public and the time lag after which it will be released?

(3) Does a public agency whose deliberations have far-reaching consequences have the right to deprive scholars and historians from studying their decisionmaking process by not maintaining detailed records?

(4) Do the individuals involved in setting policy which is significant to the American people have the right to be protected by not having their names documented along with the specific recommendations which they made?

(5) Does the knowledge that their names will appear beside their stated positions during deliberations encourage policysetters to be more accountable and responsible, or does it inhibit their decisions and the free flow of ideas?

(6) Finally, is a public agency's autonomy threatened by requiring it to provide a detailed record of its policymaking deliberations to the legislative body which has oversight responsibility for it?

Chairman MITCHELL. Congressman Hannaford, thank you for being first, thank you for being on time and we are delighted to have you before the subcommittee of which you are a very distinguished member.

## STATEMENT OF HON. MARK W. HANNAFORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. HANNAFORD. Thank you, Mr. Chairman, Mr. Barnard.

I arrived despite the rain and 14th Street bridge and without my glasses.

You state the case very well, Mr. Chairman, very completely. I will try to expand on it a little bit. What we are talking about essentially is oversight, and historical reflection and analysis that is being affected because of the Federal Reserve's arbitrary decision.

H.R. 9465 requires the Federal Reserve System's Open Market Committee to reinstate detailed minutes of its regular meetings on monetary policy. As my colleagues will recall, in May 1976 the committee decided to discontinue maintenance of its detailed memoranda of discussion in favor of summaries, though somewhat expanded, which would be released at a 30- to 40-day lag, instead of its previous 90-day lag.

Mr. Chairman, the expanded summaries or records of policy action are useful documents and the board's decision for their more timely release is commendable. However, I do not believe such summaries themselves are sufficient records for future use in monetary policy research and analysis.

In addition, I submit that even an immediate release of these summary documents would be beneficial and would not represent a threat to the stability of our financial markets.

H.R. 9465 also provides that detailed minutes to be maintained by the FOMC identify individual participants and that these minutes be released to the general public 3 years after the meetings to which they relate.

Furthermore, minutes of FOMC meetings held after January 1, 1973, and before the date of enactment of this legislation would also be subject to the 3-year release lag. However, the FOMC would not be prohibited from releasing any portion of these minutes before the expiration of the 3-year period. Thus, the Federal Reserve is amply protected from fears of politicization and from the premature disclosure of detailed confidential discussions.

Prior to the termination of the memoranda of discussion in May 1976, these documents were released 5 years after the meetings occurred. The decision by the FOMC to establish a 5-year lag was an arbitrary one.

In 1964, the FOMC formally decided to release minutes of meetings held prior to and subsequent to 1961 after a 5-year lag. This decision followed a series of requests by Representative Wright Patman as chairman of the Joint Economic Committee in 1961 and later as chairman of the Domestic Finance Subcommittee of the Banking Committee in 1964.

Also, in the early 1960's extensive and critical research on the Fed's conduct of monetary policy by Milton Friedman and Anna Schwartz resulted in a major study which was published in 1963. Professor Friedman's research was based in large part on the personal notes of George Harrison, who served as a Governor and then President of the New York Federal Reserve Bank.

As Dr. Friedman has stated, access to the FOMC's memoranda of discussion would have substantially facilitated his work and contributed to its exactness as well.

It is significant to note that the termination of the memoranda of discussion in May 1976 followed several developments relating to FOMC disclosure including a lawsuit brought against the FOMC

for timely disclosure of records of policy actions and Senate passage of sunshine legislation in November 1975.

Mr. Chairman, it is my belief that sufficient documentation of the monetary policy decisionmaking processes of the FOMC should be maintained for future use. These records will not only be of use to the appropriate congressional oversight committees, academic and business researchers, but to individual members of the FOMC as well.

As a matter of fact, the rationale for documentation was perhaps best stated by the Federal Reserve System itself.

In a report on the projected role of the Federal Reserve System in the year 2000, the Federal Reserve Bank of Cleveland noted with respect to monetary policy that, and now I am quoting:

Some periodic public performance review will be required. The general citizen and the Congress are increasingly more sophisticated in analyzing the national economy and the dependence of individual welfare on national policy decisions.

Additionally, still quoting from the Federal Reserve Bank report:

Some mechanism for review and accountability will be necessary, not only to make sure that monetary policy is conducted in a manner that is both responsible and responsive to the long-term goals established by Congress, but also to keep the Fed from becoming an arbitrary, bureaucratic and unresponsive monolith in the field of bank supervision and regulation, and to provide some safeguard against improprieties and inefficiency in Reserve bank operations.

Mr. Chairman, these are compelling reasons for the reinstatement of the FOMC's memoranda of discussion.

In its fifth report on the conduct of monetary policy pursuant to May 1977 hearings on House Concurrent Resolution 133, the Senate Banking Committee's analysis of the Federal Reserve Board's monetary policy objectives focuses on a significant point. That is, that a considerable shortcoming of congressional oversight over the Fed's monetary policies is evidenced by our receiving views which basically reflect the opinions of the chairman of the board.

Unquestionably, the contributions of each member of the Open Market Committee would be desirable. The legislation which I propose would insure that the views of individual FOMC members be recorded. I am confident that members of the FOMC, who serve in vital public positions of economic decisionmaking, would be pleased to go on record in the manner that I suggest.

As my colleagues may recall, on May 25, Senator Proxmire sent a letter to each member of the FOMC soliciting their comments on the importance of the growth of both money and velocity and their relationship to the growth of the nominal GNP. The responses submitted clearly prove that individual FOMC members were anxious to offer personal observations.

I might add that detailed minutes also include summaries of formal staff presentations.

Mr. Chairman and members of the subcommittee, the case for this legislation is a simple one. Public officials are responsible to the general citizenry and to the Congress. The FOMC is a subdivision of the Federal Reserve System which has been vested with specific governmental authority by act of Congress. Therefore, in order for Congress to perform responsible oversight functions and for the education of the general public, detailed minutes of FOMC deliberations are imperative.

H.R. 9589, introduced by my colleague Congressman John J. Cavanaugh, is a commendable bill encouraging public accountability on the part of the Boards of Directors of regional Federal Reserve banks, and it should be carefully scrutinized by the subcommittee.

My suggestion with respect to this measure, however, would be to require detailed minutes as proposed in my bill rather than stipulating that verbatim minutes be maintained. Verbatim minutes may, in the long run, be detrimental by fostering "hallway decisionmaking" to which Federal Reserve officials and academicians have previously alluded.

I thank you, Mr. Chairman, and Mr. Barnard, for this opportunity to testify and I hope that my comments will be useful to you.

[Congressman Hannaford's prepared statement with an attached copy of a letter to Chairman Proxmire of the Senate Banking Committee regarding H.R. 9465 and Chairman Proxmire's reply follow:]

STATEMENT OF HON. MARK W. HANNAFORD, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF CALIFORNIA

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to testify on H.R. 9465 which I have introduced along with your co-sponsorship, Mr. Mitchell, and that of nine other members of the Banking Committee. This bill requires the Federal Reserve System's Open Market Committee to reinstate detailed minutes of its regular meetings on monetary policy. As my colleagues will recall, in May 1976, the committee decided to discontinue maintenance of its detailed memoranda of discussion in favor of summaries, though somewhat expanded, which would be released at a 30 to 40-day lag instead of its previous 90-day lag.

Mr. Chairman, the expanded summaries, or records of policy action, are useful documents and the board's decision for their more timely release is commendable. However, I do not believe that such summaries themselves are sufficient records for future use in monetary policy research and analysis. In addition, I submit that even an immediate release of these summary documents would be beneficial and would not represent a threat to the stability of our financial markets.

H.R. 9465 also provides that detailed minutes to be maintained by the FOMC identify individual participants and that these minutes be released to the general public 3 years after the meetings to which they relate. Furthermore, minutes of FOMC meetings held after January 1, 1973, and before the date of enactment of this legislation would also be subject to the 3-year release lag. However, the FOMC would not be prohibited from releasing any portion of these minutes before the expiration of the 3-year period. Thus, the Federal Reserve is amply protected from fears of politicization and from the premature disclosure of detailed confidential discussions.

Prior to the termination of the memoranda of discussion in May 1976, these documents were released 5 years after the meetings occurred. The decision by the FOMC to establish a 5-year lag was an arbitrary one.

In 1964, the FOMC formally decided to release minutes of meetings held prior to and subsequent to 1961 after a 5-year lag. This decision followed a series of requests by Representative Wright Patman as chairman of the Joint Economic Committee in 1961 and later as chairman of the domestic finance subcommittee of the Banking Committee in 1964. Also, in the early 1960's extensive and critical research on the FED's conduct of monetary policy by Milton Friedman and Anna Schwartz resulted in a major study which was published in 1963. Professor Friedman's research was based in large part on the personal notes of George Harrison, who served as a governor and then president of the New York Federal Reserve Bank. As Dr. Friedman has stated, access to the FOMC's memoranda of discussion would have substantially facilitated his work and contributed to its exactness as well.

It is significant to note that the termination of the memoranda of discussion in May 1976 followed several developments relating to FOMC disclosure including a lawsuit brought against the FOMC for timely disclosure of records of policy actions and Senate passage of sunshine legislation in November 1975.

Mr. Chairman, it is my contention that sufficient documentation of the monetary policy decisionmaking processes of the FOMC should be maintained for future use. These records will not only be of use to the appropriate congressional Oversight Committees, academic and business researchers, but to individual members of the FOMC as well. As a matter of fact, the rationale for documentation was perhaps best stated by the Federal Reserve System itself. In a report on the projected role of the Federal Reserve System in the year 2000, the Federal Reserve Bank of Cleveland noted with respect to monetary policy that, and now I am quoting:

"Some periodic public performance review will be required. The General citizen and the Congress are increasingly more sophisticated in analyzing the national economy and the dependence of individual welfare on national policy decisions."

Additionally, still quoting from the Federal Reserve Bank report:

"Some mechanism for review and accountability will be necessary, not only to make sure that monetary policy is conducted in a manner that is both responsible and responsive to the long-term goals established by Congress, but also to keep the Fed from becoming an arbitrary, bureaucratic and unresponsive monolith in the field of bank supervision and regulation, and to provide some safeguard against improprieties and inefficiency in reserve bank operations."

Mr. Chairman, these are compelling reasons for the reinstatement of the FOMC's memoranda of discussion.

In its 5th report on the conduct of monetary policy pursuant to May 1977 hearings on House Concurrent Resolution 133, the Senate Banking Committee's analysis of the Federal Reserve Board's monetary policy objectives focusses on a significant point. That is, that a considerable shortcoming of congressional oversight over the Fed's monetary policies is evidenced by our receiving views in colloquy which basically reflect the opinions of the chairman of the board. Unquestionably, the contributions of each member of the Open Market Committee would be desirable. The legislation which I propose would insure that the views of individual FOMC members be recorded. I am confident that members of the FOMC, who serve in vital public positions of economic decisionmaking, would be pleased to go on record in the manner that I suggest. As my colleagues may recall, on May 25, Senator Proxmire sent a letter to each member of the FOMC soliciting their comments on the importance of the growth of both money and velocity and their relationship to the growth of the nominal GNP. The responses submitted clearly prove that individual FOMC members were anxious to offer personal observations.

In this connection, I hasten to add that the "views of individual participants" at FOMC meetings which are to be incorporated in detailed minutes might also include statements of staff members. This would certainly not be unusual as congressional transcripts often include comments of and responses by certain members of committee staffs.

Mr. Chairman and members of the subcommittee, the case for this legislation is a simple one. Public officials are responsible to the general citizenry and to the Congress. The FOMC is a subdivision of the Federal Reserve System which has been vested with specific governmental authority by act of Congress. Therefore, in order for Congress to perform responsible oversight functions and for the education of the general public, detailed minutes of FOMC deliberations are imperative.

H.R. 9589, introduced by my colleague Congressman John Cavanaugh, is a commendable bill encouraging public accountability on the part of the boards of directors of regional Federal Reserve banks; and it should be carefully scrutinized by the subcommittee.

My suggestion with respect to this measure, however, would be to require detailed minutes as proposed in my bill rather than stipulating that verbatim minutes be maintained. Verbatim minutes may, in the long run, be detrimental by fostering "hallway decisionmaking" to which Federal Reserve officials and academicians have previously alluded.

Mr. Chairman, I thank you for the opportunity to testify on H.R. 9465 and hope that my comments will be useful to the subcommittee.



MARK W. HANNAFORD  
34TH DISTRICT, CALIFORNIA

COMMITTEE ON BANKING,  
FINANCE AND URBAN AFFAIRS  
COMMITTEE ON  
VETERANS' AFFAIRS

Congress of the United States  
House of Representatives

Washington, D.C. 20515

October 20, 1977

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Hon. William Proxmire  
Chairman  
Senate Banking Committee  
5300 Dirksen Senate Office Bldg.  
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed is a copy of a bill which I have recently introduced along with ten of my colleagues on the Banking, Finance and Urban Affairs Committee. This legislation requires a reinstatement of the detailed minutes of the Federal Reserve System's Open Market Committee, which were discontinued in May of 1976. As the monetary policymaking unit of the nation's central bank, it is my belief that detailed minutes of the FOMC's proceedings which identify individual participants and which would be available for release to the general public after a three-year lag are necessary in order to grant the proper congressional oversight committees and members of the business and academic communities access to documents which will enable indepth analyses and descriptions of monetary policy decisions.

The Subcommittee on Domestic Monetary Policy intends to hold hearings on this legislation. Furthermore, a soon-to-be released study by the subcommittee indicates that many former Federal Reserve Board Governors, Federal Reserve bank presidents, and members of the academic and business communities feel that the termination of the FOMC's memoranda of discussion was a poor decision.

In view of your interest in the Federal Reserve and its disclosure policies, as well as in the broader areas of the accountability of public officials, their responsiveness to the general public and to the Congress, and in the decision-making processes of the public sector, your views on this legislation would be appreciated.

With best personal regards, I am

Sincerely,



MARK W. HANNAFORD  
Member of Congress

Enclosure

WILLIAM PROXMIRE, WIS., CHAIRMAN  
 JOHN SPARKMAN, ALA. EDWARD W. BRODIE, MASS.  
 HARRISON A. WILLIAMS, JR., N.J. JOHN TOWER, TEX.  
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*United States Senate*  
 COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS  
 WASHINGTON, D.C. 20510

October 21, 1977

Honorable Mark W. Hannaford  
 U.S. House of Representatives  
 315 Cannon House Office Building  
 Washington, D.C. 20515

Dear Mark,

Thank you so much for your letter and the copy of H.R. 9465. Let me congratulate you on taking the initiative to introduce this legislation which I think is needed.

As you may know, I voiced my objections to the dropping of the detailed minutes of the Federal Open Market Committee in the Spring of 1976. The FOMC reconsidered their original vote and still decided to discontinue the minutes. I was disappointed at that time and continue to hold my early view. My view is that the members of the FOMC have a most important responsibility, that of deciding on the appropriate monetary policy, and that they should be more open about their views on the course of the economy and the appropriate monetary policy measures. After all, their decisions affect the entire nation in a fundamental manner and not all of them have been appointed by the President and approved by the Senate.

I support the thrust of your legislation and look forward to your hearings. I am not certain, however, that a three year lag is necessary or appropriate and would like to consider that issue more fully.

With all best wishes,

Sincerely,

  
 William Proxmire

Chairman MITCHELL. Certainly we thank you, Congressman Hannaford. The Chair would like to propose that we take the testimony from Congressman Cavanaugh and then direct questions to you both, if your time permits.

Mr. HANNAFORD. That is fine.

Chairman MITCHELL. Congressman Cavanaugh, we are delighted to have you here. Let me comment again on your valiant effort in the Banking Committee last year to get something done in this area that, somehow or another was thwarted.

Welcome.

**STATEMENT OF HON. JOHN J. CAVANAUGH, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF NEBRASKA**

Mr. CAVANAUGH. Thank you, Mr. Chairman, and thank you for your support and encouragement at the full committee earlier in the year and for this opportunity today.

Mr. Chairman, I am delighted to have this opportunity to testify in support of H.R. 9589, the Federal Reserve System Public Information Act of 1977.

I am pleased that I was joined in the introduction of this legislation by the distinguished chairman of this subcommittee who has always aggressively sought and supported efforts to increase the involvement of the American people in the affairs and decisions of their Government by an opening up of the processes for inspection.

That is precisely what H.R. 9589 seeks to accomplish. I commend the chairman for his strong support and personal commitment to this principle which is evidenced by his bringing us here this morning.

I am also pleased that Congressman Bruce F. Vento and Congresswoman Mary Rose Oakar, who cannot be here this morning, are also cosponsors of H.R. 9589, and I am deeply appreciative of their assistance in developing this legislation.

We are also here this morning to consider H.R. 9465 which was introduced by our colleague, Mr. Hannaford, and which I am pleased to have cosponsored along with the chairman of this subcommittee, Mary Rose Oakar, Bruce Vento, and others.

The purpose of H.R. 9465 is to make statutory a requirement that detailed minutes of the Federal Open Market Committee meetings of the Federal Reserve Board be released to the general public 3 years after the date of the meetings to which they relate.

I was most distressed when I learned that through administrative decision the regular transmittal of such detailed minutes, which had continued uninterrupted since the 1950's, were terminated by the Fed. This is another example of the obsession within the Federal Reserve Board to guard its operations so closely that the Congress and the American people are prohibited from debating and challenging the Fed actions.

I firmly support the requirement that detailed minutes of the Federal Open Market Committee meetings be made public. I also support strongly the reduction in the time lag, which has been 5 years, to 3 years after the date of the meeting to which they relate.

I will confine the remainder of my statement here today to a discussion of H.R. 9589, but I will be happy to respond to any questions relating to H.R. 9465 at the appropriate time.

Allow me to describe for the subcommittee the history of H.R. 9589, the Federal Reserve System Public Information Act of 1977. It will not be totally unfamiliar to any of you as we considered this language, in amendment form, when the full Banking Committee met to mark up H.R. 8094, the Federal Reserve Reform Act of 1977, which passed the House without a dissenting vote.

That legislation was in response to the revelations concerning the Fed's lobbying efforts in both the Congress and State governments, the Fed's role in encouraging private commercial bank loans to real

estate investment trusts and public utilities, conflict of interest of bank board members, loans to Federal Reserve employees at below market interest rates and what some believe to be the bestowing of extravagant retirement gifts for departing Fed employees.

Those are the broad categories of activities that have been regularly pursued within the Federal Reserve System and were still discernable from the minutes of the meetings of the Boards of Directors of the 12 regional banks that Chairman Henry S. Reuss was able to obtain earlier this year.

Heretofore the Congress was not aware of such practices. Had it not been for Chairman Reuss' diligence over a period of almost a year in negotiating with Chairman Burns for the acquisition of these minutes we would never have known what was happening within the Federal Reserve System.

Mr. Chairman, I think it would be appropriate for the hearing record on this legislation to include the full text out of Chairman Reuss' opening statement of July 18, 1977. I would also hope that you would include in this hearing record the very fine statement which Chairman Reuss made on the floor of the House on Tuesday, May 24, entitled "What the Secret Minutes of Federal Reserve Bank Meetings Disclose." (See app. I, p. 69). If I may quote from that statement:

Mr. Speaker, for many years the House Banking Committee has taken seriously its oversight responsibilities toward the Federal Reserve System and its 28,000 employees.

We have tried everything from moral suasion to attempts at complete audits by the General Accounting Office. Our efforts, handicapped immeasurably by the Federal Reserve's all-encompassing claim of "independence," have yielded only sporadic results. We have simply never been able to obtain full and complete information about the various activities of the Federal Reserve System.

Recently, the committee has acquired minutes of the Boards of Directors meetings of the 12 Federal Reserve Banks. These came to the committee after the Federal Reserve Board Chairman Arthur F. Burns challenged some conclusions of the Banking Committee's August 1976 report raising serious questions about the 12 Reserve Banks and the potential for conflict of interest in the Boards of Directors, which were dominated by banking and business interests . . .

In a series of letters, I asked the Fed to produce the minutes from the various meetings of the Boards of the Federal Reserve Banks for three selected years, 1972, 1974, and 1975. As set forth in my letter to Dr. Burns of September 23, 1976, "These records are important to the oversight and legislative responsibilities of the Committee."

The amendment which I offered at the full committee, and which we are considering as legislation here today, seeks to make permanent this transmittal of information so that the Congress will be able to fulfill its oversight responsibilities.

Frankly, I was surprised that in light of the revelations contained in the minutes of the regional bank meetings there was no provision in H.R. 8094 to require the regular transmittal of such minutes to the committee.

Certainly, the minutes have already proved their value in terms of allowing the Congress, and the American people, to better understand the way the Federal Reserve System operates on a day-to-day basis.

My language provides for a 1-year delay between the date of the meeting and the transmittal to the Congress of complete transcripts.

It would also provide for the release to the public, at the same time, keeping in mind the sensitive nature of some of the discussions contained in those minutes.

The transcripts released to the public would be complete except that items pertaining to one, borrowing or prospective borrowing by individually named banks at the discount window, two, transactions with foreign central banks, three, Federal Reserve Board real estate plans or negotiations in progress, four, individual personnel matters and five, security measures at banks could be deleted.

Chairman Burns himself described those as "highly sensitive items" in his letter to Chairman Reuss on November 16, 1976, shortly before the Federal Reserve Board complied with the committee's request for copies of the minutes.

The legislation also recognizes the sensitivity of some of the materials that may be contained in the transcripts by providing for a 1-year delay and that the appropriate committees of the Congress shall only make available that material which was deleted, in compliance with the exception clause, from the transcripts made available to the general public by a majority vote of the committee.

This provision was included to insure that thorough consideration and debate precedes the release by the committee of any of the material contained in the transcripts.

After what can only be considered to have been a technically imprecise and unorthodox procedure the Cavanaugh amendment was defeated in the full committee on a vote of 12 to 19.

I have referred several times thus far to the correspondence pertaining to the negotiations for the acquisition of the Federal Reserve Director's minutes between Chairman Reuss and Chairman Burns.

If you would like to include it in your hearing record, I have a copy with me today.

The minutes which we have already received and reviewed demonstrate that the Congress must continue to receive these minutes on a regular basis; unless we are prepared to rely solely upon media reports to fulfill our oversight responsibilities.

The Congressional Budget Office estimates that the production of 144 verbatim transcripts per year, one each month for each of the 12 regional banks, will cost as follows:

1978	-----	\$35,000
1979	-----	37,000
1980	-----	39,000
1981	-----	41,000
1982	-----	43,000

Certainly this is a small price to pay when so great a benefit can accrue.

Some of the detractors of this legislation may argue that the regional banks are private corporations and as such should not be the subject of the requirements contained in my proposal. I would like to discuss that with the committee in detail.

When the regional banks were originally established their capital stock was subscribed by its member banks. They are bankers' banks. The stock must be owned by member banks—and no one else—and upon termination of membership must be returned to the regional banks.

The argument, therefore, arises that as the Federal Government cannot require the production of minutes of the Board of Director's meetings of a private corporation it has no greater right to require

the production of minutes of the Board of Director's meeting of the regional banks of the Federal Reserve System. In my view, however, there is a fundamental difference between the two institutions.

Certainly, General Motors is a private corporation, and even though its decisions may have a resulting effect on our economy, their actions are intended to make profits for stockholders.

That is not the case in the Federal Reserve System. The dividends that are paid on the stock of regional banks are determined by statute, and any excess earnings by the regional banks go directly into the U.S. Treasury. It should also be noted that the "so-called" stock carries no voting rights.

While the decisions of private corporations are formulated to benefit its shareholders, hopefully the monetary policy decisions, which are a major responsibility of the Reserve banks, should not be formulated to benefit just member banks but should conform with the objectives of the Employment Act of 1946, those being full employment and price stability in our economy.

Another fundamental difference between the private corporations' boards of directors and the regional bank Boards of Directors is that the Government does not appoint members of private corporations' boards.

Three of the nine members of the regional Boards of Directors are appointed by the Federal Reserve Board in Washington. They all vote on the discount rate which directly affects monetary policy.

They also participate in the election of the president of the Reserve bank who sits on the Federal Open Market Committee which determines our money supply through the buying and selling of securities.

The president of each regional bank, whose election is subject to confirmation by the Federal Reserve Board, serves a 5-year term. I would also like to point out that his salary and benefits are set by his regional bank Board of Directors subject to approval of the Board of Governors.

Certainly, the Federal Government does not have approval power over salaries and benefits, and the appointment of the president of private corporations.

In August of last year, the Banking Committee issued a report entitled "Federal Reserve Directors: A Study of Corporate and Banking Influence."

In his letter of transmittal to the Congress, Chairman Reuss said:

I transmit herewith a staff study of the corporate, banking and trade association relationships of the directors of the twelve Federal Reserve Banks.

This committee has observed for many years the influence of private interests over the essentially public responsibilities of the Federal Reserve System.

As the study makes clear, it is difficult to imagine a more narrowly based Board of Directors for a public agency than has been gathered together for the twelve banks of the Federal Reserve System.

The letter goes on to suggest that :

The parochial nature of the Boards affects the public interest across a wide area, ranging from monetary policy to bank regulation.

These are the directors, for example, who initially select presidents of the twelve district banks—officials who serve on the Federal Open Market Committee, determining the Nation's money supply and the level of economic activity.

The letter continues to describe the public nature of many of the activities of the regional bank Boards of Directors.

I would hope that Chairman Reuss' entire letter can be entered into the hearing record. (See app. I.)

I would also like to point out that the Federal Reserve Act in effect says that in time of a national banking emergency, the Fed can lend to any bank, and those decisions would be most likely be made at the regional bank level, in secret, unless this legislation is adopted.

In passing it should be noted that while it took an act of Congress to give billions of dollars to New York City when it was in financial straits, it took a simple act of the Board of Directors of the New York regional bank to loan \$1.75 billion to the Franklin National Bank just before the bank went under. Without the minutes that Chairman Reuss obtained from the committee, that giveaway would have remained secret for some time.

My proposal calls for the transmittal to the Congress of unexpurgated verbatim transcripts to be forwarded to the Congress.

I envision these to be similar in character to the transcripts which are kept at congressional committee meetings. I believe that it is essential that statements and comments made at the Board of Directors meetings be readily identifiable to directors or other participants in those meetings.

Further, the transcripts will contain a listing of how each director voted on all issues on which votes were taken. I do not find that the production of verbatim transcripts of committee meetings has inhibited in any way my full and complete participation in those meetings. And I do not think that any of my colleagues have shied away or felt intimidated because they were speaking on the record.

In conclusion, I would like to urge this subcommittee to approve the Federal Reserve System Public Information Act so that the Congress will not be hamstrung in the fulfillment of its obligation to oversee the activities of the Federal Reserve System.

It is particularly important that we vigorously pursue the oversight of the regional banks because the Board of Governors is continually delegating additional authorities to those banks; for example, the Bank Holding Company Act Enforcement, the Merger Act, and others.

Each time the Board of Governors delegates additional powers, authority, and duties to the regional banks, the Congress' ability to effectively fulfill its oversight responsibilities will be further diluted.

I will be glad to respond to further questions of the subcommittee and again commend the chairman and my good colleague Congressman Barnard for being here this morning and being so patient to listen to this presentation.

Chairman MITCHELL. We thank you very much for a very definitive, detailed presentation.

The Chair would like to take up one or two housekeeping matters first. I assume you would want unanimous consent, Congressman Hannaford and Congressman Cavanaugh, to have your full statements entered into the record.

Mr. CAVANAUGH. Yes.

Mr. HANNAFORD. Yes; and I would also ask unanimous consent to submit Congressman Stephen L. Neal's statement for the record. He planned to be here and fell victim to the weather and traffic.

Chairman MITCHELL. Without objection.  
 [The statement of Congressman Stephen L. Neal follows:]

STATEMENT OF REPRESENTATIVE STEPHEN L. NEAL OF NORTH CAROLINA

Mr. Chairman, I am pleased to have an opportunity to testify today on H.R. 9465, which reinstates the Federal Open Market Committee's practice of taking minutes of their meetings and publishing them in a detailed, edited form as "Memoranda of Discussion" after a three-year lag.

As my colleagues will recall, the FOMC terminated this practice on May 18, 1976, with the justification that "... the benefits derived from (these memoranda) did not justify their relatively high cost, particularly in light of the changes being made in the policy record." Although the monthly "policy record" has been expanded, its expanded form does not fill the void left by the lack of detailed minutes. Specifically, for the past eighteen months, no record has been kept linking individual participants to their contributions to FOMC policy discussions, except for their formal dissents. I have been concerned with this since May 1976 and am pleased that H.R. 9465 addresses itself to correcting that situation.

On September 17, 1976, as the then-chairman of the Domestic Monetary Policy Subcommittee, I solicited the opinions of 122 persons regarding the FOMC's May 18 decision to discontinue the maintenance and publication of their detailed memoranda of discussion. Those solicited included former Governors of the Federal Reserve Board, former Federal Reserve Bank presidents, current Class C directors and prominent business and academic monetary economists. We received 81 responses, of which the vast majority were opposed to the discontinuation of the FOMC's detailed minutes. (The final tabulation was 57 opposed, 15 in favor, 2 undecided and 9 no comment.)

Among the 55 individuals who opposed the FOMC's May 18 decision, were six former top-level officials of the Federal Reserve System: four former Board Governors (Sherman Maisel, 1965-1972; Dewey Daane, 1963-1974; Jeffrey Bucher, 1972-1976; and J. L. Robertson, 1952-1973) and two former presidents of the Federal Reserve Bank of New York (Allan Sproul, 1941-1956; Alfred Hayes, 1956-1975.) Governor Robertson served also as Vice-Chairman of the Federal Reserve Board from 1966 to 1973, and Presidents Sproul and Hayes served as Vice-Chairmen of the FOMC.

Through reading their letters, as well as the thoughtfully considered responses of the other respondents, it became clear to me that we should reinstate the practice of keeping detailed minutes of FOMC meetings, and publish them after a lag of no longer than three years. Now, in the remainder of my time, I want to share with you some of the comments, suggestions and explanations I received from the respondents to my letter. Needless to say, my summary of the responses will not begin to capture their richness, which, incidentally, is the defect of all "summary records." My summary covers the following issues: the pros and cons of attributable and disclosing individual remarks; the importance of detailed records to research; their value within the Federal Reserve itself; their importance to Congressional oversight; whether verbatim minutes are needed or will detailed memoranda serve; the timing of disclosure; and finally, whether the summary record should be made and published in addition to detailed minutes.

ATTRIBUTION AND DISCLOSURE OF INDIVIDUAL REMARKS

One of the major questions which was addressed in the correspondence is whether the individual members of the FOMC should be held accountable for their specific remarks in FOMC discussions. Stated otherwise, does preventing the public from knowing who said what (except for dissents) make FOMC officials unreasonably and improperly immune from public scrutiny and criticism?

The major argument made against disclosure is that the members would be inhibited from openly expressing reservations, questioning a consensus view, or suggesting an unusual alternative during their deliberations if they knew that the record of their conversation would be made public. MIT Economics Professor Robert M. Solow, who was then a member of the Board of Directors of the Boston Federal Reserve Bank, made the point this way: "I see no general reason why members of the FOMC should not be responsible for what they say in those meetings. But I can easily imagine that publication and attribution of their remarks



might lead members of the FOMC to excessive blandness, and indeed to saying what they think will sound good and safe rather than what they really think."

Solow's view was shared by several other respondents including former Council of Economics Adviser Chairman Raymond J. Saulnier, now a Columbia Economics Professor, and Lester V. Chandler, Emeritus Professor of Economics at Princeton.

However, the majority of respondents disagreed. In discussing this question, former Governor Robertson pointed out, qualified men prefer *not* to remain anonymous; and that as competent individuals, the members of the FOMC "... should be willing and anxious to stand on their records and be held responsible for the way in which they play their respective roles."

Beryl Sprinkel, Executive Vice-President of the Harris Bank agreed. He wrote: "... in a position as responsible as that of a member of the FOMC, where debates and voting patterns will strongly influence business conditions, I believe that individuals should go on record with their arguments and beliefs. In this way history can judge the influence and effectiveness of each member's contributions to subsequent economic performance."

Former Governor Sherman Maisel provided another reason for attribution and disclosure. He stated: "From my experience, I believe each member of the FOMC prepares more carefully and makes more considered statements based on his recognition that he and the others are on the record and will be judged in the future on their individual contributions to the debate."

Let me turn now to another argument against attribution of individual remarks. This one was given by Robert H. Strotz, President of Northwestern University, and then also a director of the Chicago Federal Reserve Bank. He wrote: "... deliberations are often calculated to achieve a consensus, frequently through protracted discussion and a general spirit of compromise, until there is unanimous agreement on what ought to be done."

In his opinion, only the consensus is important, not the individual remarks and controversy surrounding the final decision. This view was also expressed by former Federal Reserve Board Chairman William McChesney Martin.

However, the majority of the respondents disagreed, stating as Richard Timberlake did: "... I definitely agree that the opinions of individual members of the FOMC should be publicly preserved—and for the same reasons that the speeches of Members of Congress are printed ... in the Congressional Record."

In the same vein, Elmus Wicker, Chairman of the Economics Department at Indiana University, stressed that: "Analysis of detailed documentation of FOMC meetings is the only reliable way to discern why a particular action was undertaken or delayed; it is the only way to discern the extent and nature of the knowledge underlying a particular policy action, and it is the only way to discern the influence and role of particular decision makers. The intent of decision makers is not a matter solely of interest to historians of monetary policy. We cannot evaluate monetary action independently of the intent of the policy makers."

John Kenneth Galbraith summarized the case for attribution and disclosure as follows: "The participants in the Federal Open Market Committee meetings are highly paid men selected on the basis of their presumed qualifications. There is not the slightest reason why their positions should not be known, and they should not be held fully responsible for their comments. If somebody is undirected and erratic in his conversation, there is no reason why he should be protected; there is every reason why that should be known. There is no good reason why full minutes should not be published and why the obligation should not be fully on the Chairman to see that all discussion is on the record. Such minutes will only be examined by people with a professional interest in the subject, and the discussion will be much improved if it is known that it is subject to such consideration."

#### IMPORTANCE TO RESEARCH

One of Chairman Burns' main excuses for terminating the practice of taking detailed minutes was that they were not used extensively. He stated: "I learned from extensive inquiries that the memorandum of discussion was hardly being used at all. ... From the time we changed our procedure, the only criticism that we had received ... was from Chairman Reuss and Chairman Proxmire. ... So there cannot be great interest in this."

I learned that there is great interest, however. An argument that was frequently cited in support of reinstating detailed minutes was their importance for

research in monetary policy. Many economists and professors wrote to tell me how useful they had found the detailed minutes in the past, and what a loss it would be to their research efforts if they were terminated. Excerpts follow.

Columbia Economics Professor Phillips Cagan: "I am of the opinion that scholarly work dealing with the history of Federal Reserve actions would lose much by not having access to minutes which identify the speaker, as used to be available after a five year's delay. Chairman Burns discontinued such minutes, saying that no one was making use of them. But such useful scholarly work may occur many years later."

New York University History Professor Vincent P. Carosso: "I have found in my own work that summaries of Congressional hearings are no substitute for the hearings themselves, which contain the exact words of the individual called to testify."

Nobel Laureate Milton Friedman: "May I say first that you have touched a very sensitive nerve in my particular case. When Anna Schwartz and I were writing our Monetary History of the United States we were denied access to the minutes of the Open Market Committee by the Federal Reserve System at that time. Fortunately we managed for a considerable part of the period to find a substitute in the form of papers which George Harrison, who for a time was governor and then president of the Federal Reserve Bank of New York, had deposited at Columbia University. But for the period prior to that for which the Harrison Papers contained minutes and subsequent to his term of office, we had to rely on much less satisfactory basic sources. Knowing that this was the case, we sent an early draft of the manuscript of our book to William McChesney Martin at the Federal Reserve Board asking whether he would have the experts at the Board go over our manuscript and give us their assistance in detecting errors of fact or interpretation or in making suggestions for improvement. . . . At no time did the Board offer to supplement the material we had gotten from the Harrison Papers or to correct any of the statements which we had made about other periods."

Carnegie-Mellon Economist Allan H. Meltzer: "I have read some part of each of the volumes released to 1974 as part of my research on monetary policy. The minutes have been extremely useful and have contributed a great deal to my understanding. A book, containing the result of a decade of research, is now nearing completion so I am hopeful that the benefits I received will be more widely shared. It would be regrettable if students of economic policy lose this valuable source of information on policy and the policy process."

"I cannot speak with any authority about the number of users, but the number of users is not a matter of great importance at the moment. Scholarship rarely proceeds as a mass effort. . . ."

MIT Economics Professor Peter Temin: ". . . full disclosure is an aid to the determination or approval of new members of public bodies. It provides information necessary to the analysis of specific policy decisions. And it provides the material for historians who wish to study history in the hope of avoiding repetition of its worst moments."

#### INTERNAL VALUE

The usefulness of detailed minutes for internal operational purposes was also pointed out by several of the respondents. Former Governor Maisel pointed out that: "The specific record is helpful in preparing for future meetings. If you know you will have a record to review before the next meeting, you can listen more completely to the debate and need not take complete notes on others' points of view. A review of others' opinions is most helpful in preparation for future meetings. Frequently I have found good points in the minutes I had missed in the debate."

He also discussed the usefulness of detailed minutes in giving the Open Market manager a better sense of the FOMC's real wishes: "The minutes can serve a very useful purpose in checking to see that the manager of the open market account is properly carrying out the instructions of the Committee. The current manager has been extremely assiduous in following instructions, and the minutes must be useful to him in enabling him to check his own observations. Past (and perhaps future) managers have been thought to have made policy because their instructions were not clear enough. Good minutes make interpretations more exact."

Elmus Wicker described how in the 1950's Chairman Martin, "frequently attempted to identify a consensus, but the consensus was a flexible mandate which permitted fairly wide discretion to the Account Manager. The FOMC expected him to be guided by the complete record of the policy discussion and not simply the policy directive in determining the range of variation of the 'target' objectives."

Former Governor Dewey Daane stated: "Often in my long career within the Federal Reserve System, engaging in research projects at the Federal Reserve Bank of Richmond, when I was Monetary Economist and later Director of Research there, or in collaborating with my Federal Reserve System colleagues on System-wide research projects, there was often occasion to refer back to the Memoranda of Discussion for a particular period or periods."

Finally, Richard Selden, Chairman of the Economics Department of the University of Virginia, pointed out that detailed minutes were valuable both for preparing and "... assuring the integrity of the annual report of the Board of Governors."

#### CONGRESSIONAL OVERSIGHT

Another issue that was addressed in the correspondence related to Congress' oversight responsibility for the Federal Reserve System. It was pointed out that the reduction of information provided by the Fed hampered Congress from doing its job as effectively as it could if provided with detailed minutes. For example, Donald Hodgman, Professor of Economics at the University of Illinois, wrote: "As a general rule, the public should be in a position to review the decisions of important public bodies such as the FOMC, the Congress, and its Committees, federal and state agencies and the like. Such review is a curb on the arbitrary use of power and a check on the information, expertise and judgment of those who exercise it."

Donald Hester, Economics Professor at the University of Wisconsin put it strongly: "I believe that no convincing case exists for preventing the public from having full access to the deliberations of the FOMC. This is especially so because that Committee is not subject to the discipline of the ballot box and because a number of its members are not appointed by any elected official or subject to Senate approval. The welfare of the public can be strongly affected by the FOMC's decisions; the public and its representatives must be informed about the basis for the Committee's actions and about what the group is within it that is advocating specific positions."

Former Governor Robertson agreed: "If minutes of the meeting are not kept and eventually made available, there would be no possible way for the Congress or members of the public to appraise the contribution of any member of the Committee to the formulation of monetary policy. Such appraisals are essential to any study of how to improve the system...."

#### EDITED "DISCUSSION MEMORANDA" OR VERBATIM MINUTES

In my September 17 letter, I asked, not only if respondents felt detailed records should be kept, but which form they thought was preferable: A reinstatement of the detailed, edited memoranda of discussion, or verbatim transcripts. Overwhelmingly, they favored reinstating the Memoranda of Discussion (38 for memoranda, 9 for verbatim minutes, 8 ambivalent between the two). Those preferring verbatim transcripts said that they would be more objective and free of "selecting and summarizing." However, the vast majority did not agree.

For example, George Bach from Stanford wrote: "The (memoranda of discussion) permits each member to speak freely on highly technical and controversial matters in FOMC discussions, knowing that the summary statement released can be edited to eliminate confidential and sensitive materials, or even misstatements, while maintaining the substance of the member's comments. And the 5-year delay in release surely eliminates most of the danger of having FOMC members talk 'for the record.'"

Donald Kemmerer from the University of Illinois concurred: "I prefer the (method) formerly used by the FOMC. The verbatim system is murderous for most people. Few of us speak as well as we write, certainly not as well as we rewrite a sentence. The verbatim systems of keeping the minutes could stifle discussion while all but the most articulate reflected on how to phrase their thought of the moment so it would read well and be impressive. But the most articulate individuals are not necessarily those with the most good sense."

Perhaps the most significant were the comments by two former Governors of the Federal Reserve System. Sherman Maisel wrote: "While maintaining detailed memoranda of discussions is difficult and requires a high level of skill in the staff, I do not believe the expenditures for this purpose are wasted. The memoranda do somewhat homogenize the final discussion. In contrast, verbatim records may give incorrect feelings as to what actually occurred because statements can be correct but carry incorrect information because they do not reflect tones of voice and interruptions, and may have incorrect words which are correctly ignored by those in the meeting. I prefer the memoranda on the assumption the Committee checks them to make certain they are accurate expression of views."

Dewey Daane added that: "As I recall, we did try some sort of verbatim reporting for a limited period and found that it was having an adverse effect on discussion."

#### TIMING OF PUBLICATION

Another issue on which I asked the respondents to comment was the appropriate time lag after which the minutes should be released. Of those who commented on this question, 19 preferred 5 years or more, 5 preferred 3 to 5 years, 2 preferred 2 to 3 years, 4 preferred 2 years, 2 preferred 1 to 2 years, and 12 preferred 1 year or less. The basic argument to shortening the lag was to increase the accountability of the FOMC members and enable the public to evaluate their policy more closely. Alternatively, the arguments for keeping a longer lag were that this would prevent the FOMC members from feeling inhibited in their policy discussions or from feeling political pressure or embarrassment for their role in the process.

Generally, the answers were in agreement with Donald Hester from the University of Wisconsin, who commented that "the timing of disclosure is a more subtle problem." Of the 45 who responded, however, 38 agreed that the lag should fall between 1 and 5 years. A typical response was Paul Meyer's from the University of Maryland: "It is difficult to make a strong case for any specific lag. Nevertheless, I would suggest a three-year lag."

#### ADDITIONAL VALUE OF THE SUMMARY RECORD

Until May 1976, the FOMC made and released relatively quickly a summary record of its policy actions as well as keeping minutes and publishing detailed discussion memoranda based on the minutes. In May 1976, the practice of keeping minutes was discontinued. I raised the question of whether a record of policy action should be made and released, if minutes were kept and released. The vast majority of respondents agreed that a summary record of policy action should be kept; that it was extremely useful, but served a different function than the memoranda of discussion and therefore should not be viewed as a substitute. This view was well summarized by J. L. Robertson, formerly Vice-Chairman of the Federal Reserve Board, who wrote: "The expansion of the 'record of policy actions of the FOMC' to include summaries of views expressed during the meetings represents an improvement, in that it enables interested members of the public to get an idea, at least, of the points of view, taken into consideration in formulating the Committee's decisions. But this is not an acceptable substitute for detailed reports of the meetings, including the exact words used by each member of the Committee in expressing his point of view (except to the extent they may be edited by the individual member for the sake of clarity and precision)."

James Pierce, from University of California, Berkeley, agreed. "The decisions made by the FOMC at its May 18 meeting concerning documentation were two sided. On the one hand, the FOMC decided to expand somewhat the content of its 'record of policy action' and to speed up release of the 'record.' This decision was desirable. On the other hand, the FOMC decided to discontinue its 'memorandum of discussion' which contains full account of each FOMC meeting. . . . This second decision was most unfortunate and more than offset the positive effects of the decisions concerning the record of policy actions. The policy record does not contain sufficient information to allow it to substitute for the memoranda of discussion."

#### SUMMARY

Perhaps the best summary I can give my colleagues today is to quote former Governor Jeffrey Bucher's letter to me. He wrote: "Although I was not privy to the deliberations which led to the FOMC's decision to discontinue the memo-

randa of discussion, I must say that I share your concern that this change in documentation may not have been a wise decision.

The decisions of the FOMC have a major impact on the American people. Each member of the Committee, as any person in a position of public trust, should be held accountable for his actions. . . .

"In conclusion, had I been a member of the FOMC at its May 18, 1976, meeting, I would have joined with Governor Coldwell in dissenting from the Committee's action to change the documentation of its meetings. I would have agreed with him that 'the benefits of the memorandum of discussion justified its retention.'"

Thank you for permitting me to share the results of my correspondence with you this morning. I believe that a strong consensus can be drawn from respondents' views in support of the provisions contained in H.R. 9465. I for one am persuaded and intend to vote for the Hannaford bill.

Chairman MITCHELL. Does Congresswoman Oakar have a written statement?

Mr. CAVANAUGH. Yes, Mr. Chairman, and I would ask unanimous consent to enter the statement of Congresswoman Mary Rose Oakar into the record.

[The statement of Congresswoman Oakar follows:]

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, I am pleased to testify in support of H.R. 9589, the Federal Reserve System Public Information Act of 1977. I firmly believe that the regional banks of the Federal Reserve System have for too long escaped vigorous congressional scrutiny and that, in fact, contributed to the atmosphere which resulted in what I consider to be questionable activities by the Boards of Directors. Without the efforts of Chairman Reuss, who successfully obtained copies of the regional bank Board of Director's minutes for 1972, 1974 and 1975, we might never have known the extent of these conflicts of interest, improper lobbying, and loans to Federal Reserve employees at below market interest rates. Certainly, it is now incumbent upon us to take the steps necessary to ensure that such activities do not continue. That is why I firmly supported the Cavanaugh amendment when the full Banking Committee met to approve the Federal Reserve Reform Act. I was disappointed that the amendment was defeated. The Chairman's cosponsorship of this bill has rekindled my hope that this language will become law.

In House Report 95-559 which accompanied the Federal Reserve Reform Act to the floor, Congressmen Cavanaugh, Vento, and I submitted supplemental views which specifically address the substance of the legislation before this subcommittee. Quoting from those views:

"The Minutes which Chairman Reuss has obtained for the Committee, although suffering from 904 deletions, clearly point out case after case where the Fed has communicated its lobbying objectives to its member banks in an effort to add substantially to their own lobbying efforts. Chairman Reuss, in his opening statement on July 18th when the full committee first met to consider this bill, said: 'The Federal Reserve System has been using bankers—who are deeply beholden to the Fed because of the Fed's ability to give or withhold the discount window loan, or to give or withhold such privileges as approval for a merger, holding company acquisition, or an edge act office—to lobby on the Fed's behalf with legislators and other government officials.'"

I support this legislation because it is essential as a response to the revelations to which I have alluded. We need a procedure that insures the availability of verbatim transcripts of the minutes of the meetings of the Boards of Directors of the twelve regional banks. Again, quoting from our supplemental views:

"Although the copies of the minutes that were provided by the Federal Reserve Board were whittled with deletions, without the transcripts we never would have known about the possibility of and the potential for conflict of interest among Board Directors, questionable use of regulated institutions to accomplish specific lobbying goals on legislation with which the Federal Reserve Board was concerned, etc. Therefore, it is only prudent that the Congress should seek to

create a procedure which will allow it to monitor the activities of the various Boards of Directors on a continuing basis."

Mr. Chairman, I would like to submit for your hearing record on this legislation a complete text of the supplemental views.

The Federal Reserve Board, which has already accomplished a substantial exemption from sunshine legislation may now be seeking additional exemptions. In the Monday, October 17, 1977, issue of the American Banker an article appeared entitled, "Burns Asks Easing of Sunshine Law." The lead paragraph reads as follows:

"Federal Reserve Board Chairman Arthur Burns, declaring some of the requirements of the government in the Sunshine Act have inhibited discussion among Board members, urged Congress to exempt discussion of legislative matters from open meetings."

This should be taken by the Congress as a signal that the Board has not been educated to the substantial benefits from openness in our system. Attempts such as this to draw the wagons in a circle and protect decisions of the Board from congressional oversight and public scrutiny must be met with renewed congressional commitment to the fulfillment of its substantial responsibilities. I would like to submit for your record the complete text of the article which appeared in the American Banker. (The article may be found at the end of the statement.)

In conclusion, I wholeheartedly support this legislation. The cost estimates which we have received from the Congressional Budget Office verify that the cost of compliance with this legislation is minimal when compared to the overall benefits which will be realized. I think that the legislation provides substantial safeguards against the disclosure of those sensitive areas that Chairman Burns indicated in his letter to Chairman Reuss by providing that the majority vote in the appropriate committee of the Congress will be required. I hope that this subcommittee will report this bill and I look forward to supporting it in the full committee and on the floor of the House.

I wish to thank the members of the subcommittee and the chairman for giving me this opportunity to testify on this important legislation.

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SUPPLEMENTAL VIEWS TO H.R. 8094, FEDERAL RESERVE REFORM ACT BY REPRESENTATIVES JOHN J. CAVANAUGH, MARY ROSE OAKAR, AND BRUCE F. VENTO

The version of H.R. 8094, the Federal Reserve Reform Act, which has been reported to the full House for consideration bears little relationship to the original bill that was introduced by the Chairman of our Committee last June. The drafting and introduction of that bill which carries as its title, "To promote the accountability of the Federal Reserve System," was in response to the revelations concerning the Fed's lobbying efforts in both the Congress and State governments, the Fed's role in encouraging private commercial bank loans to real estate investment trusts and public utilities, conflict of interest of Bank Board members, loans to Federal Reserve employees at below market interest rates and what some believe to be the bestowing of extravagant retirement gifts on departing Fed employees. Those are the broad categories of activities that have been regularly pursued within the Federal Reserve System and were still discernible from the minutes of the meetings of the Boards of Directors of the twelve Regional Banks that Chairman Reuss was able to obtain earlier this year. Heretofore the Congress was not aware of such practices. Had it not been for Chairman Reuss' diligence over a period of almost a year in negotiating with Chairman Burns for the acquisition of these minutes we would never have known what was happening within the Federal Reserve System.

We have two basic concerns about the legislation finally approved by the House Banking, Finance and Urban Affairs Committee. The first is that the bill no longer contains its once Section 4 which sought to prevent the Federal Reserve System from using the banks of this nation as an integral part of its lobbying activities not only to the Congress but to State legislatures as well. The minutes which Chairman Reuss has obtained for the Committee, although suffering from 904 deletions, clearly point out case after case where the Fed has communicated its lobbying objectives to its member banks in an effort to add substantially to their own lobbying efforts. Chairman Reuss, in his opening statement on July 18 when the full Committee first met to consider this bill, said, "The Federal Reserve System has been using bankers—who are deeply beholden to the Fed because

of the Fed's ability to give or withhold a discount window loan, or to give or withhold such privileges as approval for a merger, holding company acquisition, or an Edge Act office—to lobby on the Fed's behalf with legislators and other government officials." The provisions of the original Section 4 add the following language to Section 10 of the Federal Reserve Act, "No member of the Board of Governors, director, officer, or employee of the Federal Reserve System may communicate with any director, officer, or employee of any institution subject to the regulatory authority of the Federal Reserve System to influence legislative actions affecting the Federal Reserve System." That is precisely the kind of language that is necessary to put an end to such abuses of independence. The amendment to delete Section 4 of the bill was narrowly agreed to by the Committee on a vote of 19 to 17.

The second objection to the legislation is that it does not contain any mechanism or procedure for continuing to make available to the Congress and the general public copies of verbatim transcripts of the minutes of the meetings of the Boards of Directors of the twelve Regional Banks. Although the copies of the minutes that were provided by the Federal Reserve Board were riddled with deletions, without the transcripts we never would have known about the possibility of and the potential for conflict of interest among board directors, questionable use of regulated institutions to accomplish specific lobbying goals on legislation with which the Federal Reserve Board was concerned, etc. Therefore, it is only prudent that the Congress should seek to create a procedure which will allow it to monitor the activities of the various Boards of Directors on a continuing basis. Within the correspondence between Chairman Reuss and Arthur Burns that preceded the transmittal of the minutes Mr. Reuss stated, "As I have stated to you previously, these records are important to the oversight and legislative responsibilities of the Committee and it is my intention to pursue every proper and necessary means to obtain them."

During the full Committee mark-up we supported an amendment offered by Mr. Cavanaugh that would have provided the Committee with an opportunity to have unexpurgated copies of the transcripts of the Boards of Directors meetings. The amendment would have provided for a one year delay between the date of the meeting and the transmittal to the Congress of complete transcripts. It would also have provided for release to the public, at the same time, keeping in mind the sensitive nature of some of the discussions contained in those minutes. The amendment provided that the transcripts to be released to the public would be complete except that items pertaining to (1) borrowing or perspective borrowing by individually named banks at the discount window, (2) transactions with foreign central banks, (3) Federal Reserve Board real estate plans or negotiations in progress, (4) individual personnel matters and (5) security measures at banks could be deleted. Arthur Burns himself described those areas as "highly sensitive items" in his letter to Chairman Reuss on November 16, 1976, shortly before the Federal Reserve Board complied with our request for copies of the minutes.

In further recognizing Chairman Burns' difficulty over the sensitivity of some of the material that may be contained in the transcripts, the amendment further provided that the appropriate committees of the Congress shall only make available that material which was deleted, in compliance with the exception clause, from the transcripts made available to the general public by a majority vote of the committee. This was included to insure that thorough consideration and debate preceded the release by the Committee of any of the material contained in the transcripts which it received but was deleted from the transcripts made available generally. After what can only be considered to have been a technically imprecise and unorthodox procedure the Cavanaugh amendment was defeated in the Committee on a vote of 12 to 19.

Without these amendments the legislation will not correct the abuses that our Committee has uncovered. As presently drafted this legislation will not significantly promote the accountability of the Federal Reserve System, insure that the kinds of improper lobbying activities that have transpired will not continue, preclude Board Directors who have a conflict of interest in a given situation from voting on that situation nor will it provide the Congress with a continuing monitoring procedure. This is not reform. This bill does not accomplish the worthy aim of accountability of public officials. It does not further sunshine in government. In fact, it is little more than a shell with a glorified title.

[From the American Banker, October 17, 1977]

# BURNS ASKS EASING OF SUNSHINE LAW

WASHINGTON.—Federal Reserve Board chairman Arthur F. Burns, declaring some of the requirements of the government in the Sunshine Act have inhibited discussion among Board members, urged Congress to exempt discussion of legislative matters from open meetings.

"The candor and spontaneous exchange that was previously present in Board discussions has been diminished under the constraints of the Sunshine Act, he said in a letter to Sen. Lawton Chiles, D., Fla. Mr. Chiles, chairman of the Federal spending practices and open government subcommittee of the Senate Governmental Affairs Committee is planning oversight hearings on the act within the next few weeks.

The act, which went into effect in March, requires most government agencies run by boards or similar bodies to open their meetings to the public, a primary exception being discussion of financial matters.

The Fed chairman especially critical of the requirement that legislative matters, such as preparation of testimony, discussion of legislation and review of the positions of other bank regulatory agencies, be discussed during public meetings.

"I am at times troubled by my own reluctance to voice in a wholly candid matter some thoughts that I believe my colleagues are entitled to hear and that the final action of the Board should reflect," Mr. Burns wrote.

He urged the committee to exempt such matters from the open meeting requirements or permit the subjects to be discussed in closed session, subject only to maintenance of minutes.

Under provisions of the act, which prohibit four or more Board members to meet other than in accordance with its rules, the Board loses "virtually all opportunity for informal, unrecorded exchange of views on highly sensitive issues, such as those of a legislative nature," he said.

A report issued last month by Common Cause cited the Federal Reserve as one of the worst agencies in its misuse of the 10 exceptions under which meetings can be closed. Common Cause said that 30 of 37 meetings held by the Fed between March 12 and June 12 were closed to the public.

Before passage of the legislation Mr. Burns had been one of its most outspoken critics and had sought to have the Board exempted.

Chairman MITCHELL. You referred to correspondence between Chairman Reuss and the Federal Reserve with reference to the negotiations that went on for a protracted period of time, and other correspondence. I think it would be beneficial to have those in the record, and I would ask unanimous consent that they be submitted for the record.

[The correspondence referred to may be found in app. I.]

Mr. BARNARD. Mr. Chairman, would you yield for a question?

Chairman MITCHELL. Certainly.

Mr. BARNARD. Will the Fed testify regarding these bills?

Chairman MITCHELL. That was the next happy announcement that I had to make. Tentatively we have scheduled Chairman Arthur F. Burns to testify on both of these bills on Thursday, November 17. Though Congress has not yet determined whether or not it will be in session at that time, it was difficult to arrange for any other time, and that date is tentative. If we can do it at a more propitious time, we will try to, but that is the tentative date for hearing from the Federal Reserve Board.

To both of the witnesses, insofar as H.R. 9589 is concerned, I think, Congressman Cavanaugh, you're asking for verbatim records.

Mr. CAVANAUGH. Yes, Mr. Chairman.

Chairman MITCHELL. And Mr. Hannaford has suggested detailed records. I suspect there is a difference between the two terms; am I



right? I would like to know why you would object to a verbatim record being kept.

Mr. HANNAFORD. It's been my experience and observation, Mr. Chairman, that if you have so much sunlight that it strikes fear into the hearts of the participants, you may have decisions being made in private before the decision is made officially. I think if you have that happening, it is really going to be an obstruction of the communication that takes place. This legislation attempts to reinstate the FOMC's earlier minutes which were detailed documents of that body's proceedings. So edited but detailed minutes is what we suggest.

Chairman MITCHELL. How then do you respond to Congressman Cavanaugh's position that we here in the Congress operate in the full glare of sunlight and of spotlights? I share his opinion that there has been no inhibition on the part of any of my colleagues to state their positions clearly and effectively, knowing that they are speaking for the record.

Mr. HANNAFORD. I agree with Mr. Cavanaugh that we in the Congress have not been inhibited by speaking for the record. We are also permitted to edit our remarks. Recommending detailed minutes of FOMC meetings has stemmed from the desire to reinstate the former memoranda of discussion. In addition, as Congressman Neal's statement cites, the merits of detailed and edited minutes of FOMC meetings have been discussed by former Federal Reserve officials and by several notable academicians.

Chairman MITCHELL. If the Chair may observe, it seems to me that under the rules of the House, the editing of any remarks can only be done in terms of syntax, grammar, and so forth. The rules prevent and substantive changes in what a Member has said, isn't that correct? While we might make sure we have a semicolon in place or that we put the "ed" to make the past tense on a verb. I don't think we actually change the substance of anything that we have had to say.

Mr. HANNAFORD. What we have called for is what was previously in the memoranda of discussion. I would say that the nature of the Fed's deliberations is not necessarily analogous to the nature of congressional discussion, however.

But if you have the glaring lights focused on you, there is an inclination to have a "meeting before the meeting." And that is a hazard that we have to face. The significance of this discussion, of course, is that we should ultimately be provided a precise report of what was decided and who decides it. You used the word "substantive" and I think it should be a substantive report certainly of what transpires.

Chairman MITCHELL. All right.

Mr. CAVANAUGH. Mr. Chairman, if I just might offer some thoughts on that, I think the fundamental argument against verbatim transcripts is that it does result in a lack of candor. I would just submit, and I think that this is probably a personal judgment upon all of us who make this judgment between substantive and detailed minutes and verbatim minutes, that in my entire personal history in connection with public affairs, in various bodies, there have been verbatim records. When I first went to the Nebraska Legislature, where I served for 4 years, it was experiencing its first year of recording, that is, by actual mechanical device—tape recordings—the entire session, both committee meetings and floor debate.

There was a great controversy as to whether or not to do that because then you had not only a verbatim record, but an audio verbatim record retaining the reflections in negotiations and passions and whatever, and it was felt that would greatly inhibit free debate and exercise.

The first year it did indeed have some restraining effect upon the members of that body. Thereafter, once they became accustomed and used to it, I think that the free and open discussion that had previously existed returned, and now exists in full bloom.

We have in Douglas County, my primary county, the meetings of that county board of supervisors which are kept verbatim and with great benefit to—and after great controversy again, because it was felt that since they review individual tax matters—they have the authority to raise and lower the assessment on individual homes—would be greatly inhibited and that they would be restrained in those delicate matters.

And it simply has not happened.

I think probably the greatest testimony, though, that verbatim transcripts do not inhibit candor is the recent experience with the President of the United States and his maintaining detailed and verbatim transcripts of all of his transactions within the White House. Clearly, the revelation of those transcripts has indicated that the maintenance of that system in no way inhibited free and open discussion of the public issues that were dealt with at the highest level of the executive branch of this Government; and so in none of my experience from the county board to the State legislature to the Presidency of the United States have I found that detailed records of transactions and the fulfillment of the public responsibility have been inhibited by the maintenance of those systems.

Chairman MITCHELL. Thank you. The Chair does not want to push the analogy between the Congress and the bodies with which we deal in this legislation, but it is the Chair's opinion that given the fierce spirit of independence and reform on the part of most of the Members of the House, I don't think many get-togethers before meetings could take place without incurring the wrath of a goodly number of us.

Also, I would feel that if, indeed, that situation should exist, Congressman Hannaford, where you have a meeting before the meeting of the FOMC, it would be the responsibility of this subcommittee to dig vigorously into that practice.

Mr. HANNAFORD. Yes, Mr. Chairman, it would be. I referred in my testimony to "hallway decisionmaking" which may influence what is later said.

I think my colleague, Congressman Cavanaugh, made a very good point—that the glaring sunlight, once you become accustomed to it, becomes much more acceptable. I think that is very likely true in this instance.

However, I wouldn't want to see either one of these important pieces of legislation hung up on this point.

Mr. CAVANAUGH. I would just concur with my colleague, that I don't think that the issue of verbatim versus detailed should be the turning point upon which this legislation progresses or fails.

Certainly, I would feel that verbatim is not the essential aspect of this legislation, but that we have an accurate record of what has transpired.

Mr. HANNAFORD. I would say, Mr. Chairman, that H.R. 9465 is not designed to erode the independence of the Fed.

Certainly, H.R. 9465 is a modest bill. If it is not appropriate, after a 3-year lag, for purposes of historic reflection, this subcommittee may as well go out of business.

Chairman MITCHELL. The Chair would just make one other comment in this area and then I will go to another question. I focused in on the semantics problems here, primarily because of my concern over the Fed's continuing violation of the monetary policy guidelines that it offered to the Congress, and which we accepted.

The Fed has violated its own policy insofar as  $M_1$  and  $M_2$  is concerned.

Could we really get at the root of those determinations by means of an accurate recording, as opposed to a verbatim recording.

Mr. HANNAFORD. Mr. Chairman, I again call to your attention that Congressman Neal's testimony contains a discussion of verbatim versus detailed edited minutes at pages 9 and 10.

Chairman MITCHELL. Thank you. One last question from me for now. I am about to tread on very dangerous ground by predicting what the testimony of the Chairman of the Federal Reserve Board will be when he appears before us on November 17 with respect to the release time lag in both bills. The 3 years and the 1 year. My suspicion is that the Chairman would say, "Oh, if we release it in less than 5 years with reference to your bill, all kinds of speculations will develop. One year is totally inadequate in Mr. Cavanaugh's bill. It is inadequate because of the tremendous implications for all of these decisions that are made, and we will open up the door to speculators."

I think you, in part, Mr. Hannaford, have indicated your response to the real necessity of a 3-year period, that nothing is violated.

Mr. Cavanaugh, on the 1 year—

Mr. CAVANAUGH. Well, Mr. Chairman, I think fundamental response to that argument is that we are talking about the 12 regional banks. What we are primarily talking about is administrative procedure. We are not talking about monetary policy, and we are not talking about the establishment of policies that directly impact the operation of either the monetary system or the economic system in this country.

We are talking about how the administrative responsibilities of the Federal Reserve System are being carried out, and are they being carried out in a manner that does not involve inside deals, conflicts of interest.

Those are the types of improprieties that the establishment of, or the system, would potentially lend itself to and, therefore, that the Congress should have some opportunity, and the American people should have some opportunity to observe in oversight.

Well, in that context of supervising or observing the implementation, the administrative exercise of the Fed's responsibilities or of the regional banks' responsibilities, we are not unraveling information that has any prospective effect upon monetary policy or economic policy in this country.

And the legislation provides for in those instances when you might have that potentiality, that sensitive matters not be released until some future time.

So you have a protection beyond the 1 year for those instances in which, indeed, there may be unusually sensitive matters that may arise in the minutes. But the great bulk of these minutes, as we have seen from the minutes that have been released, deal with historical administrative procedures. How a particular regional bank dealt with a past situation in an administrative capacity.

Chairman MITCHELL. Thank you. Congressman Barnard?

Mr. BARNARD. Thank you, Mr. Chairman.

I have been considering a number of questions for the witnesses.

Congressman Hannaford, what do you think the Congress would do differently if we had the minutes, as you propose at this time?

Mr. HANNAFORD. Well, I have no way of specifically answering that. However, I would assume that our oversight functions would be aided by complete records so that we could better assess the bases of FOMC decisions.

We may also be better able to detect certain biases on the committee.

Mr. BARNARD. Do we have any reasons to think that Congress would make any changes now because of Fed decisions that were made 3 or 4 years ago?

Mr. HANNAFORD. I am not sure that we do, but we do have to have accountability. And we have to be able to know from a historic perspective what happened before we can reach a judgment.

Chairman MITCHELL. Would the gentleman yield?

Mr. BARNARD. Yes.

Mr. HANNAFORD. You know I believe in a good measure of independence in the Fed, but I don't believe in their beautification.

If you have a 3-year lag in time to pass a judgment historically, it is awfully difficult to say from the perspective from which it stands what might or might not be done.

But we, as the responsible body to legislate in this field, would certainly say that decisions might well be made that would lead to legislative action. Such documentation may also prevent past mistakes from recurring.

Chairman MITCHELL. Given the cyclical nature of our economy over the long run would it be beneficial to know on what basis monetary policy decisions were made 3 or even 5 years ago, so that if the economy got into a similar economic situation years later we could be well informed of how it was handled in the past and perhaps be in a position to give some suggestions to the Fed with regard to the recurring nature of the problem?

Mr. BARNARD. Mr. Chairman, don't you think the Fed already takes these points into consideration?

Chairman MITCHELL. Perhaps they do.

Mr. BARNARD. This is, after all, their responsibility.

Mr. HANNAFORD. Mr. Chairman, if I could respond to that.

Chairman MITCHELL. Yes.

Mr. HANNAFORD. We think they do. We hope they do. We would like to see 3 years later what kind of reflection was made in response to those matters. We are not talking about this purely from a point of congressional oversight, either.

We are talking about it with respect to academic analysis and public accountability.

MR. BARNARD. Do you think it would correct problems that definitely in the cases when conditions change?

I ask this question because I have had some experience as a member of financial committees which have made such judgments. And when economic conditions change, some of the judgments are wrong.

I don't think the Fed believes it is exempt from making mistakes. But the point is, what is going to develop from this legislation?

Chairman MITCHELL. Would the gentleman yield again?

MR. BARNARD. Yes.

Chairman MITCHELL. Let me take another stab at it.

What is now transpiring with regard to monetary policy—the exceeding of the targets particularly for  $M_1$  and  $M_2$ —is comparable to a condition that happened in 1972. It is clear that the decisions made at that time were directly related to the fact that we later slid into an inflation-recession cycle in this country; not solely and exclusively responsible for it, but certainly those decisions contributed to it.

Now, if we are aware of the actual inputs which were then said—the details of the discussions—would then be in a better position to deal with the Fed at the present juncture by saying, “Look, here are the thoughts of your members in 1972. They predicted that if this monetary policy would be pursued, this would happen.”

While it is true we will not be able to direct the Fed to pursue a given policy, I think there is a great advantage in having the history of a situation comparable to a present one.

Do I make my point?

MR. HANNAFORD. Mr. Chairman, I have made reference to this in my previous comments before the subcommittee. And that is that the inquiry that was made to former Fed members by this subcommittee in which former FOMC members responded, indicates that such documentation would be helpful to them. If it would be helpful to them, it quite surely would be helpful to us in evaluating what happened. I don't see why anyone would object to such a reporting of what happened, and I think someone trying to be productive and trying to improve the process would always want to be able to reflect upon history—including the members of the Fed.

I don't think really, as far as this legislation is concerned, that predictions about Chairman Burns having very much opposition should materialize. I don't see any basis for objection, as long as we are looking into the crystal ball, Mr. Chairman. I can't figure out why he would object.

MR. CAVANAUGH. Mr. Chairman.

MR. HANNAFORD. Unless he would like to have them sealed in a time capsule to have them opened next century.

Chairman MITCHELL. If you would hold for just a moment, Mr. Barnard has the floor and he wanted to pursue another question.

MR. BARNARD. Mr. Cavanaugh, why have you not requested the minutes of the Directors' meetings of the Federal home loan bank?

MR. CAVANAUGH. Well——

MR. BARNARD. You know they make decisions, too, having to do with the savings and loan associations throughout this country.

MR. CAVANAUGH. That's true.

Mr. BARNARD. Why would they be exempt to inside deals and the like?

Mr. CAVANAUGH. I must frankly admit, Mr. Barnard, I am not as familiar, with the operations of the Federal home loan bank and their structure and operations, as I am with the Federal Reserve. I suppose as a philosophical matter, I would have no objection to their inclusion. I simply have not directed my efforts toward pursuing it.

Mr. BARNARD. The Federal Reserve banks, the regional banks, make many decisions dealing with the daily operations of their respective banks. Why would Congress want to audit their decisions to buy computers, construct buildings, or things of that kind?

Mr. CAVANAUGH. I think the question is, why should not a record of those important decisions exist in order that they might be reviewed?

Mr. BARNARD. Well, I think they do exist, but what interest are they to Congress? Would you read them?

Mr. CAVANAUGH. Well, I think that the point should be that there should be a reliable historical record of the administration of an entity as important as the 12 regional banks and their boards of directors and the basis upon which they make decisions. I suppose that is true whether anyone reads them or not. I suppose as a fundamental matter of sound policy, there is no reason for this record not to exist, in my mind. Even if Congress did not fulfill its proper responsibility, which I would say should include a timely review of those activities.

Mr. BARNARD. Do you feel this way because you think that this is an executive agency of government?

Mr. CAVANAUGH. Well, it is difficult to categorize the Fed.

Mr. BARNARD. Not really.

Mr. CAVANAUGH. I don't know if it is appropriate to categorize them as an executive agency. I would categorize them as an agency of the Federal Government, yes.

Mr. BARNARD. But because of its structure wouldn't you separate it from a regular agency of the Federal Government? It wasn't structured as an agency of the executive branch.

Mr. CAVANAUGH. I am not categorizing it in the Executive; you did.

Mr. BARNARD. The revisions sought in the bills under consideration today call for nearly a reorganization of the Federal Reserve System.

Mr. CAVANAUGH. I don't understand that.

Mr. BARNARD. As I understand it, each Federal Reserve bank is an incorporated institution with its own Board of Directors. None of whom are appointed by the Federal Government. These directors, elected by their respective bank, are principally responsible for overseeing all the activities of their bank.

Mr. CAVANAUGH. Now, the point of congressional oversight, Mr. Barnard, is not to interfere in the appropriate functions of any agency that is being reviewed. That would be true of the Fed also. The point of oversight is to observe whether or not the particular agency or entity is fulfilling the function for which it was created, in an appropriate fashion.

What we are saying in this instance is, it is extremely difficult for the Congress, in the pursuit of its oversight obligations and responsibilities, to determine whether or not the 12 regional banks are indeed

functioning as they were intended to and as they were created to, the purposes they were created to serve. So we are not attempting to, or the Congress should not attempt to interfere in the proper functionings of the 12 Federal Reserve banks and that is not the end result or goal of this legislation.

But it is to determine whether or not there are instances in which it acts outside its responsibilities or in conflict with its responsibilities. In order to do that, you must have a record of how it has conducted its affairs. And certainly, again to analogize its Board of Directors with a private board of directors, without that detailed record which is kept by private boards of directors, there is no opportunity for the stockholders, or, in this instance, the Congress who is analogous to the stockholders, to review the activities of its Directors. And that's all we are saying here.

Mr. BARNARD. The 12 Federal Reserve bank's Directors, which like the 12 Federal Home Loan Bank Board Directors supervise and regulate their respective financial institution. Thus it seems to me that your legislation has singled out the Federal Reserve System. I do not understand why your bill does not include the Federal Home Loan Bank system.

Mr. CAVANAUGH. I have no intention of singling out the Fed. I just feel that a case has been made in this instance that the existing ability to review is not adequate and that the record clearly demonstrates that. Whether it is similarly deficient in regards to other agencies, you may have a valid point. I simply say that I have not reviewed the adequacy personally of those other agencies and certainly I would be willing to work with you in that pursuit if you were willing to go in that direction.

Mr. BARNARD. I have no further questions.

Mr. WEINTRAUB [staff director]. Chairman Mitchell had to leave for a few moments but will be back. He was called to the telephone by President Carter. He has asked me to carry on at least for a little while. He asked me also to raise a question pursuant to the discussion on the possible value to the Congress of detailed minutes of the FOMC's meetings.

The question he asked me to raise concerns the confirmation process. As we all know, Federal Reserve Board Governors are appointed for 14 years. Often a member, however, is appointed initially to fill an unexpired term. Then, when that term expires, he is reappointed to his own 14-year term. Do you think the Senate confirmation process would benefit by having available the full minutes of FOMC meetings, which would include attribution and disclosure of individual Board members' remarks as they serve on the Open Market Committee—in cases where they come up for reappointment?

Mr. HANNAFORD. I would say that isn't a paramount benefit in my mind, but it certainly would be a benefit. You really don't know the benefit of something until you have seen it and this is in some response to my friend Mr. Barnard, until it is there you don't know how helpful it may be.

I draw your attention to my reference to Dr. Friedman's study of monetary policy and his need for thorough documentation. But certainly as far as reappointing someone is concerned and for as long a period of time as we are talking about, it should be quite beneficial.

Mr. WEINTRAUB. Mr. Cavanaugh, would you care to address the question?

Mr. CAVANAUGH. I think that relates back to Mr. Barnard's previous inquiry as to the whole value of historical review of FOMC decisions and the processes of those decisions. I think that the axiom, he who would ignore the mistakes of history is condemned to repeat them, is particularly apt here because we may not even know the mistakes of history unless we have some record existent by which we can review it. Certainly, the qualifications of an individual to serve on the Board of Governors or on the FOMC Committee should in some respects relate to his demonstrated abilities. If his demonstrated abilities through historical record of his performance are that his judgments have been consistently faulty and deficient, certainly that is relevant to whether or not he should be advanced or perpetuated.

I think that the whole point of Mr. Hannaford's legislation is that we at least have some opportunity and historical perspective to know what has transpired and the reasons for what has transpired and who is responsible.

And it seems to me that the only argument against this legislation is one that I would characterize as arising almost from a view that the FOMC is the personal prerogative of the members of that committee. And Mr. Barnard, you raise the question, almost—we know that these people are capable of making mistakes. The only purpose of requiring them to maintain a record is that we can go back and pinpoint those mistakes.

Well, there is nothing wrong with that. Certainly they are entitled to make those mistakes, they are required to, they are expected to. But it shouldn't be characterized in those personal terms that this legislation is then directed to expose them for those errors in judgment.

Certainly, they have the responsibility to be accountable for them. If they assume the responsibility of making the judgment, they should also assume the responsibility of accounting for the judgments and the bases upon which they made those judgments.

The only reason not to pass Mr. Hannaford's legislation is to say that those individuals should not have that accountability and responsibility and I simply don't understand that.

Mr. WEINTRAUB. Mr. Hannaford.

Mr. HANNAFORD. I would again call to Mr. Barnard's attention, Mr. Neal's statement which is rather rich in comment on the subject that you have raised.

Mr. BARNARD. I think that access to the detailed verbatim minutes of each of the 12 Federal Reserve bank meetings will provide little if any insight into monetary policy, although minutes of the Federal Open Market Committee meetings might be helpful. I am keeping an open mind on these bills, but I think they may be going to the extreme. I think that the legislation being discussed today might have been conceived as a result of the unfortunate revelations in the New York Fed's minutes.

If that was the case, I think it is unfortunate because I believe that the New York Federal Reserve bank practices are not indicative of all Federal Reserve Bank operations. The human tendency to over-react is understandable but hopefully one Congress can resist.



Mr. CAVANAUGH. I commend my colleague for the distinction and I think the distinction should be articulated for the record here today, that there is a very clear difference in the judgment and justifications for Mr. Hannaford's legislation and my own, and that I do not view as resting upon a similar foundation.

Clearly, Mr. Hannaford's, I would have to concede, is the predominant legislation. A clear and concise historical record of the formulation of monetary policy is of overpowering significance and importance to a maintenance of a record of basically the administrative decisions of the 12 regional banks.

But I have attempted to make my case on my own, but on a completely separate basis and I have no disagreement with my colleague that there is a very large distinction between Mr. Hannaford's legislation and my own.

Mr. WEINTRAUB. I notice Mr. Hansen has arrived. Would you care to say anything, Mr. Hansen?

Mr. HANSEN. Let me just say, Mr. Hannaford, that as you know we have a markup in another subcommittee going on right downstairs and several other conflicting things and I apologize for not being here to engage in colloquy and hear your testimony. I will read it and hopefully be thoroughly conversant at the time we take up the bill in subcommittee.

So I just wanted you gentlemen to understand that it wasn't from lack of interest but from conflict of schedule that I was not here. I have no questions, I won't interfere with your meeting or schedules.

Mr. HANNAFORD. Thank you very much.

Mr. WEINTRAUB. Thank you. Chairman Mitchell has returned.

Chairman MITCHELL. Ladies and gentlemen. I don't want to hold you, but I wanted to raise one other question. With reference to I think Congressman Hannaford's statement, should the comments of staff also be included in these records? I have some concern about that. I don't think that is generally the policy in the House or in our committee meetings; is it? Do we ever take comments from staff and make them a part of the record?

Mr. HANNAFORD. Mr. Chairman, it is simply a suggestion that formal staff presentations be summarized to provide an accurate record.

Mr. HANSEN. Mr. Chairman, I think generally staff is heard through various members as those members accept the suggestions and assistance of the staff. I agree with you, I don't think such a proposal is a proper part of the procedure. I would think it would be more in order that any staff comments be confined to the normal channels.

Chairman MITCHELL. It may well be that staff comments in these transcripts could cause problems. I would be hesitant to include those.

Mr. HANSEN. I have heard of fatherly love being that which encourages occasional spanking, too, Mr. Chairman.

Chairman MITCHELL. Thank you very much, gentlemen. Again, my apologies for holding you here.

[Whereupon, at 9:55 a.m., the hearing was adjourned to reconvene at 8:30 a.m., Friday, Oct. 28, 1977.]



## MAINTAINING AND MAKING PUBLIC MINUTES OF FEDERAL RESERVE MEETINGS

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FRIDAY, OCTOBER 28, 1977

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, D.C.*

The subcommittee met at 8:50 a.m. in room 2222 of the Rayburn House Office Building; Hon. Parren J. Mitchell (chairman of the subcommittee), presiding.

Present: Chairman Mitchell.

Chairman MITCHELL. Good morning. I apologize for being late. I think the other members who planned to be here are probably in the same predicament. If you have been listening to the radio, you know there are monumental traffic jams all around Washington, and that is my sorry excuse, which I hope you will accept. My apologies to my colleague, Congressman Bruce F. Vento. I hope you can understand the situation. We do welcome you here this morning.

This morning the Subcommittee on Domestic Monetary Policy continues its hearings, which we started yesterday, on H.R. 9465 and H.R. 9589, which provide for the maintenance of detailed minutes of the meetings of, respectively, the Federal Open Market Committee of the Federal Reserve System, and the boards of directors of the 12 Federal Reserve Banks.

Our witness this morning is the Honorable Bruce F. Vento from Minnesota, one of our distinguished colleagues on the full House Committee on Banking, Finance and Urban Affairs, and one who aggressively has sought to put some controls on the Federal Reserve System.

Mr. Vento, we welcome your appearance this morning, and we will be delighted to hear from you.

### STATEMENT OF HON. BRUCE F. VENTO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. VENTO. Thank you very much. Mr. Chairman, and I appreciate very much your persistence in continuing the discussion and focus on this particular problem, and it has been an issue and will continue to be an issue, I feel, because of the nature of the subject matter and the necessity to resolve it.

I am pleased to be here in support of the two proposals, H.R. 9465 and H.R. 9589, of which I am a coauthor, which, when enacted, will

do much to provide public access, albeit belatedly, to highly important financial and monetary information generated in the Federal Reserve System by the Boards of Directors of the Federal Reserve Banks and the Federal Open Market Committee.

To paraphrase Georges Clemenceau's famous remark about war being too serious a matter to be entrusted to the generals, I submit that the monetary policy of this country is much too crucial a matter to be allowed to be the secret, private preserve of groups of obscure bankers. Public exposure and disclosure will result in accountability and is the ultimate solution which provides adequate safeguards.

No one, I am sure, will argue the importance to the American economy, and indeed, the world economy, of the decisions now being made anonymously in the quite board rooms of the Fed. The orders to manipulate billions of dollars in the expansion and contraction of the money supply and interest rates are quite literally matters of life and death to many industries and of jobs or unemployment to countless working people and their families.

My colleagues, Congressman Cavanaugh and Congresswoman Oakar, have already reviewed for you the impact of the Federal Reserve System operations, so I will not burden you with a reiteration.

Also, the full committee in oversight has reviewed and attempted to assess these actions and their merits, pro and con.

The bills under consideration are really moderate—I would say almost timid—in their approach to requiring the Federal Open Market Committee and the Bank directors to keep “detailed minutes” and “verbatim transcripts” of their meetings which shall be made public, variously, after 3 years or after 1 year.

If monetary policy is to serve as a useful economic tool, the people in key Government, private, and academic positions should have access to information of these Federal Reserve units' decisions as quickly as possible, without interfering with those decisions or being able unjustly to enrich themselves as the result of having the information.

I have stressed the importance of making full data available in a timely fashion for monetary policy and economic considerations because I believe these are of primary importance.

But the public disclosure of minutes can have a salutary effect. The members of this subcommittee need only recall the consequences of Chairman Reuss's persistence in obtaining minutes of the Federal Reserve Bank's Board of Directors. We learned, many of us for the first time, of the Fed's lobbying activities in Congress and the State governments, of its encouragement of commercial bank loans to real estate investment trusts and public utilities, the conflict of interest of bank board members, payments for club memberships, loans to Federal Reserve employees at unusually low interest rates, and extravagant gifts to retiring officers and workers.

Some of those, I think, admittedly would be appropriate functions. I have no quarrel with low interest rates for employees, for instance, as an example, if they are made public, if they are subject to public view. If it is an employee benefit, then let it be stated and be made public, not something that is done in a quiet manner which is shielded from public view and jealously guarded.

So, I think all of these, if made public, the consequences would be less onerous.

I want particularly to address myself to the revelation in the Reuss exposé that the Fed, in its role as regulatory authority in the banking industry, has been orchestrating issues and applying pressures with the aim of affecting political behavior at State and national levels.

I do not find anywhere in the enabling legislation authority for the Federal Reserve System to act as a trade association or to impose its political viewpoints on fiduciary institutions which it regulates.

Federal statutes, in fact, prohibit the use of appropriated funds for lobbying purposes, but because of the unique status of the Federal Reserve System, some have deemed that the law does not apply to the Fed.

At this time. I would like to commend to your attention my recently introduced bill, H.R. 9649, which would require the Chairman of the Board of Governors quarterly to provide to the House and Senate Banking Committees written reports on each instance when the Board of Governors, the Federal Reserve Bank Directors, or the officers and employees of regulated institutions to influence legislative actions affecting the Federal Reserve System.

Our country must be made aware of the political activity and positions of the 12 Federal Reserve Boards of Directors as well as the Board of Governors.

The problem of legislating a complete lobbying ban is difficult. It would be my first choice, frankly, as it was with the main committee in an amendment that lost. But the reporting procedure would assure public exposure and accountability that doesn't exist today.

I think Congress must make it possible for the Fed to provide a complete record of its lobbying role which would facilitate even better understanding of its political policies.

Ideally, I would like to see the subcommittee write a clean bill melding H.R. 9465 and H.R. 9589 and including language from my bill, H.R. 9649, which amends section 10 of the Federal Reserve Act, the section under consideration in these hearings.

The task we face in the subcommittee is a difficult one. I am aware, as are the members of the subcommittee, of the important role that the Federal Reserve System serves, created by Congress to provide a stable monetary policy.

The measures we have before us today embrace the initial goals envisioned by Congress when it created the Fed. These proposals recognize the need to modify and clarify our intent to be certain that the Federal Reserve System will remain free of special interests and subject to the same code of conduct that governs similar executive agencies.

Certainly, the subcommittee has an ambitious task in resolving the issues raised, and I look forward to working with you as we move on these proposals.

I thank you for inviting me to appear before you.

Chairman MITCHELL. I thank you for being here, and I thank you again for waiting for me. Let me ask, do we have copies of the testimony to be made available to all of the other members of the subcommittee?

Mr. VENTO. I have presented adequate copies to your staff.

Chairman MITCHELL. We will make sure that they get them. This is exceedingly difficult for me, because you and I are tuned in on the same wavelength, and as you know, I am fully supportive of your position.

Let me raise one or two issues. In conversation with Dr. Burns, he indicated that the records show no gifts being made to retiring members of the System, that there was a proposal to offer to one of the retirees \$800, which was a result of his accumulated travel and something else—I don't recall exactly what it was—that he had not drawn down. The Board felt it would be wise to turn that money over to him as a gift. I don't recall—do you recall, beyond the \$800, any other indications of gifts?

Mr. VENTO. Well, Mr. Chairman, unfortunately, you raise the very problem that is created by the lack of information which we function with today. I don't feel that the meetings that we have are any substitute for the Federal Open Market Committee transcripts or meetings, nor of the Federal Reserve Board's transcripts.

In other words, when we meet with Dr. Burns every 6 months on the House side, I find it exceedingly difficult to accomplish very much.

After I sit, as a freshman member of this subcommittee, for 4 or 5 hours waiting for my opportunity to question the Chairman of the Board of Governors, it hardly is appropriate at that time within that context to deal with questions such as this.

So, there very well may be misunderstandings that develop. All I can do is rely upon the staff work and review the minutes in pointing out that there were honorariums and other gifts that were given to retiring members. Some of those may be very appropriate. Maybe someone that is an employee ought to receive a gold watch after working for 50 years. I don't contest that.

However, those gifts, those honorariums that are given at that point, ought to be disclosed to the public. There is no conceivable reason, in terms of an impact on monetary policy, that it can have.

You know, no one would contest, I don't believe, the independence of the Fed and the necessity to maintain that. I don't contest that issue.

The question is, what type of exposure or protection, if any, do they need in order to maintain that independence? And I don't think it is necessarily the employee-employer relations which they have. They have management responsibilities that are necessarily needed to be protected.

What the argument breaks down to—and there may be just a misunderstanding in that particular respect, with regards to gifts—I think the same thing with regard to the loans—that they are providing loans at interest rates, as I indicated.

I don't have anything against an employee benefit, just provided that it is aboveboard and we all have an opportunity to understand and relate to it.

Then, if the appropriate pressure is there, then the public outcry will come, and the justification can be propounded and an appropriate format exists.

The concerns we have are that these things be made public. I believe the Fed, which is created by Congress, should not be operating

as a trade association to affect State legislative proposals, for instance, I don't think that is appropriate.

This part is especially, of course, of importance to me.

Chairman MITCHELL. Thank you. Just one or two other quick questions.

A number of members of the Banking Committee have discussed informally with me that they have been the target—the specific target—of lobbying by the Federal Reserve. Have you ever been directly lobbied? If you don't care to discuss it, that is fine.

Mr. VENTO. Not to my knowledge. I never have been the subject of any type of pressure from them or from member banks that they regulate, to my knowledge. I expect that those who are affected by legislation that comes before a committee of Congress have a right to communicate with us to share with us their expertise.

The concern that we have is that a regulatory agency not initiate lobbying activity. The banks and those that are interested in that legislation have adequate means through their associations and others; I don't think the Fed has to enact or encourage the information flow through them as a regulatory agency. I strongly object to that particular type of activity.

I do recognize the problem in terms of freedom of speech and opinion, but the problem I am concerned about is that they, and the accusations that they formally act in concert with the banks that they regulate, attempt to be a force in terms of influencing State legislation as well as Federal—and while the instances of that may not be widespread, obviously we ought to try and clamp down on it and make it public. And the legislation I propose would simply say that they report on a 3-month basis. And in that way, I think, we would be able to move very positively. We would not be interfering with any freedom of speech and with some of the other rights and privileges in that vein. The legislation I have proposed doesn't have a penalty in it, for instance. We might want to think about that.

Second, it does not have any promulgation of rules and regulations power, and if it would be appropriate and it would help, we could even give that power to the Federal Reserve System and let them do this.

They have done it, for instance, with the code of ethics that exists.

And, incidentally, in the code of ethics that they have propounded in 1968—I have a copy of that here; the staff provided us with those at one point. But it's very interesting to note the prohibition: It says the employee shall, in this, pay close attention to the fact that there are certain statutory provisions—let me just read it for you, Mr. Chairman, because I think it is worth the record's attention:

Each employee shall acquaint himself with each statute that relates to the ethical and other conduct, while an employee of the Board. Particularly the following statutes should be noted.

And it goes through a series of these. And the third one is the prohibition against lobbying with appropriated funds. This is in their employee responsibilities for conduct and ethics, and this is in 1968.

And, of course, what we really need to do is say, look, if it isn't appropriated funds, if it is funds that are generated by the Federal

Reserve System, these are just as inappropriate as to use appropriated funds.

So I think that those things need to be added, and I think if your committee seriously would like to work on establishing a report from the Fed with regards to lobbying activities, then the penalties should be considered; the rules and regulations power, which I think they are capable of doing. This code of ethics where we put a responsibility on them is generally pretty fair.

Now, whether or not it is followed, that is a problem of oversight and so forth.

But let us set down the policy. Let them set in motion rules and regs which would take a lot of the fear out of this type of proposal for them, and then we will get to reporting on that basis every 3 months.

I guess the worse thing that could happen, if none of it is going on, then the report would be very easy to compile, and there would be no problem. If, indeed, they are specifying it, we can look and determine whether or not they are meeting the policy's intent. That would be an acceptable way, at least a good first step. I would like to see a complete ban on it, but that might be more appropriate in light of concerns that have been raised by the release of minutes. The minutes, the transcripts, also, of course, would serve this same purpose, but I think this is a special problem and one that should be highlighted in terms of their role.

Therefore, the introduction of my bill is not completely dependent upon the transcript or the minutes legislation that you have before you today.

Chairman MITCHELL. Thank you very much.

You really have cleared up a problem that I have with reference to, I believe, Mr. Hannaford's bill. Our colleague, Congressman Barnard, raised the issue of, if Congress gets this information, what would we do with it? How would it really benefit the Congress? But you make reference to that with your bill. If we can promulgate or draw up rules and regulations and penalties, that answers his question, in addition to the other ideas that were advanced yesterday as to how we could make oversight more effective.

I thank you very much. I think we have got to put on our thinking caps and come up with some system of penalties, rules, and regulations perhaps being implemented by the Fed itself.

Mr. VENTO. Mr. Chairman, if I could interject—it would be useful to put the responsibility on them rather than trying to take it all ourselves. We see the quirk in the law regarding appropriated versus nonappropriated funds. The Fed, generally, in terms of some of the legislation, is considered apart from the executive agencies and absent from some of the oversight that has been provided. We have to come back from time to time and try to reframe things as they fit appropriately. If you look at what happened back in 1913—some of the conduct, some of the activities were acceptable activities then. But times have changed. The Fed has been excluded time and again to maintain their independence in terms of monetary policy, and that is important.

But in terms of oversight, feedback can be a lot better and we can do better if we set down some policy for them to follow in terms of this



particular issue that is more in line with public policy affecting the executive agencies in the 1970's.

Chairman MITCHELL. Thank you.

Also, the Chair will certainly consider the possibility of melding all three bills together. I think that is a good approach. And we will be calling upon you for assistance in that.

I thank you very much for being here.

Our next scheduled hearing is November 17, at 9 o'clock, at which time Dr. Arthur F. Burns is to be the witness on the legislation before us.

Mr. VENTO. Thank you, Mr. Chairman.

Chairman MITCHELL. Thank you so much for being here and for being patient with me and with my tardiness this morning.

The subcommittee stands adjourned.

[Whereupon, at 9:15 a.m., the subcommittee adjourned to reconvene at 9 a.m., on Thursday, November 17, 1977.]



## MAINTAINING AND MAKING PUBLIC MINUTES OF FEDERAL RESERVE MEETINGS

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THURSDAY, NOVEMBER 17, 1977

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, D.C.*

The subcommittee met at 9:05 a.m. in room 2128 of the Rayburn House Office Building; Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

Present: Representatives Mitchell, Barnard, and Vento.

Chairman MITCHELL. The subcommittee hearing will come to order. This morning the Subcommittee on Domestic Monetary Policy resumes its hearings on H.R. 9465 and H.R. 9589. These bills require the Federal Open Market Committee and the Directors of the Federal Reserve banks to maintain detailed minutes of all of their meetings; they also provide for public release of these minutes after lags of 3 years and 1 year, respectively. Specifically, H.R. 9465 provides for reinstatement of the FOMC's memoranda of discussion based on minutes of its meetings, to be released for public use 3 years after the meeting is held. H.R. 9589, the Federal Reserve Public Information Act, requires the maintenance of verbatim transcripts of all meetings of the Boards of Directors of the 12 Federal banks, to be submitted to the Congress after a 1-year lag.

These proposals are admittedly controversial. For years, the FOMC kept minutes of its meetings but did not release them to the public. Minutes of the meetings of Boards of Directors of Reserve banks have never been published, although they have always been maintained. The initial release of the FOMC's discussion memoranda, in 1964, for years prior to 1960, was made only after much pressure on the Federal Reserve and much internal soul-searching. I am sure that the 1976 decision to terminate the keeping of minutes by the FOMC was equally difficult. Several significant events relating to the FOMC's disclosure of its records occurred during the year preceding the decision to terminate keeping detailed records. These events, I feel, set the stage for the introduction of the proposed legislation we are exploring today.

First, in May 1975, a lawsuit was filed against the Federal Reserve in order to obtain more timely release of the FOMC's records of policy actions. Next, both the House and Senate versions of the Government in the Sunshine Act were introduced. Mounting concern over the public's right to know, and the scope of the Freedom of Information Act as it applies to executive agencies led, in total, to the introduction

of 26 separate bills during the 94th Congress, providing for increased openness and public disclosure of the policymaking sessions of executive agencies.

In the wake of these spirited public and congressional actions, the FOMC decided to broaden the scope of its summary records of policy actions. But simultaneously, the committee decided to eliminate keeping minutes of its meetings and later releasing memoranda of discussion based on these minutes, as had been its practice from 1964 until then, May 1976. The justification given by the Federal Reserve for this sudden action was based on the committee's judgment:

That the benefits derived from (the memoranda of discussion) did not justify their relatively high cost . . . (and) from extensive inquiries, that the memorandum of discussion was hardly being used at all.

However, there are many of us who feel that the benefits are clear, unquestionable, widespread, and enduring. In particular, I want to stress that the importance of the memoranda cannot be measured by the number of persons who make direct use of them. Research usually builds, like an inverted pyramid, upon the seminal work of a few scholars.

The statement of former Federal Reserve Board Governor and Vice Chairman J. L. Robertson, made in his letter to the subcommittee, reflects what I consider to be the heart of the argument for the resumption of keeping and making public detailed FOMC minutes. He said in part:

In my view, the formulation of monetary policy by the Open Market Committee is one of the most important factors influencing the economy. Hence it should be mandatory that there be kept a detailed record (to be made available to the Congress and the public after a lapse of appropriate time) . . .

Mr. Robertson continued:

If minutes of the meetings are not kept and eventually made available, there would be no possible way for the Congress or members of the public to appraise the contribution of any member of the Committee to the formulation of monetary policy. Such appraisals are essential to any study of how to improve the system . . .

Furthermore, Mr. Robertson claimed that:

Men competent to serve in these positions should be willing and anxious to stand on their records and be held responsible for the way in which they play their respective roles.

This statement embodies the essence and spirit of the Government in the Sunshine Act, as well as the public's right and need to know the rationale behind policy actions taken.

Whenever we address questions concerning Federal Reserve System autonomy, we have to recognize that our proposals may be interpreted in some quarters as attempts to politicize the Federal Reserve. This could not be more untrue. On the contrary, our proposed changes are directed toward making the System more responsive and accountable to the Congress and the public while leaving it free to perform those tasks which Congress has delegated it authority and responsibility to perform. Specifically, recommending reinstatement of detailed minutes of FOMC deliberations is directed toward maintaining a channel to review monetary policy decisions, not toward interfering in monetary policy. Similarly, recommending that minutes be kept of meetings

of the Boards of Directors of Reserve banks, and released to the public after an appropriate time lag, is intended only to help us oversee administrative decisions and procedures relating to the Federal Reserve System's handling of the public's business for which it has been assigned responsibility; for example, the redemption of food stamps, clearing checks, and the destruction of older currency. It is not intended that Congress in any way manage or direct these activities.

Before we hear from Chairman Arthur F. Burns of the Federal Reserve Board, I want to make note of a study entitled "Public Access to Records of Federal Open Market Committee Deliberations: Evolution of Policies Preceding the Decision to Terminate Maintenance of Detailed Records" which has been prepared for the subcommittee by Dr. Roger S. White of the Library of Congress Congressional Research Service. If there is no objection, this study will be appended to our hearing record. [See appendix II.]

In addition, we have with us today Prof. Walter Williams of Temple University who will not testify but will submit a statement for the record.

[The statement of Professor Williams follows:]

STATEMENT OF PROF. WALTER WILLIAMS, TEMPLE UNIVERSITY

Mr. Chairman and members of the Subcommittee, I am pleased to have been asked to comment on H.R. 9465. This bill would reinstate the Federal Open Market Committee's practice of keeping minutes, called "Memoranda of Discussion," of each of its meetings and releasing them to the public after an appropriate time lag.

Such detailed records may be used only rarely, nonetheless they are an invaluable research tool for economists, historians and others. Usually only one or two scholars do the seminal research on a topic or question. Others build on their efforts and work. The FOMC's May 1976 decision to discontinue the "Memoranda of Discussion" will greatly constrain seminal research on the decision making process in the conduct of monetary policy for the post May 1976 period. We will have to try to piece together what actually happened from personal memoirs and the like. There is no need for such constraint. With an appropriate time lag and other safeguards concerning possible sensitive material, the benefits of reinstating the "Memoranda of Discussion" would far outweigh the financial costs.

Finally, let me add that I agree with former Federal Reserve Board Governor and Vice-Chairman J. L. Robertson in his remark that the members of the Open Market Committee "... should be willing and anxious to stand on their records and be held responsible for the way in which they plan their respective roles."

Chairman MITCHELL. Chairman Burns, we welcome you again this morning. I want to express publicly my appreciation for your accessibility to me. Since I have assumed the chairmanship of the subcommittee, I can't recall a single time when I called you asking for some advice or for some additional information, say, on monetary policy, when you have not graciously complied with that request. I do publicly thank you. As always, it is a pleasure to have you before us.

STATEMENT OF HON. ARTHUR F. BURNS, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dr. BURNS. I want to thank you, Mr. Chairman, for your very kind introduction. I am pleased to be here this morning to present the views of the Federal Reserve System on H.R. 9465 and H.R. 9589. The first of these bills would require the Federal Open Market Committee to

maintain detailed minutes of its meetings and to release those minutes to the public 3 years after each meeting. The second bill would require that verbatim transcripts be kept of all meetings of the boards of directors of the 12 Federal Reserve banks. It provides further that the transcripts are to be submitted to the "appropriate committees of the Congress" without deletion, and to the general public with certain permitted deletions, 1 year after the date of each such meeting.

Before presenting our specific views on these two proposals, I want to comment on the ongoing trend toward public disclosure. Nowadays, there appears to be great currency to the notion that public confidence in our Government will be enhanced, and the quality of decisionmaking may itself be improved, by exposing to public scrutiny nearly every detail of the governmental decisionmaking process. We do not share this view.

There is, of course, some value in allowing the public to witness agency proceedings at firsthand. To the extent that the public's unfamiliarity with the workings of the Government fosters distrust, certainly we should all make an effort to help educate the public and to dispel the fear that actions taken in informal or executive sessions may somehow be tainted. But in our zeal to achieve this result through sweeping disclosure, we run a grave risk of sacrificing other important values. Insufficient attention is being paid to the legitimate needs of Government officials to deliberate on complex and sensitive matters of public importance without the constraints and inhibitions caused by subjecting every phase of the deliberative process to public observation. As a result, we are in danger of losing one of the most prized values of a collegial body—namely, the opportunity to discuss and debate, to exchange views, to explore ideas, to persuade and argue and cajole and chide, without having to weigh the impact of every spoken word on the Congress or the general public.

H.R. 9589 would require verbatim transcription of all meetings of Reserve bank boards of directors. In so doing, it would impose disabilities on bodies that at present are able to deliberate and discuss their important duties without inhibition.

Indeed, this bill would require far more extensive disclosure by the Reserve banks than present law requires of the Board of Governors or, as far as I know, of any Federal agency or instrumentality.

No demonstration has been made that either the Congress or the public has any need for legislation of such sweeping scope. Neither I nor my colleagues can find benefits to the public in such a measure that would even remotely offset its destructive effects on full and frank discussion.

Our objections to this proposal were set forth in detail in a letter that came before your parent committee in July of this year, when the same proposal was offered as an amendment to H.R. 8094, the Federal Reserve Reform Act. I respectfully request, Mr. Chairman, that the entire text of that letter be inserted in the record.

Chairman MITCHELL. Without objection, it will be inserted in the record at this point.

[The letter referred to follows:]



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

July 27, 1977

The Honorable Les AuCoin  
House of Representatives  
Washington, D. C.

Dear Les:

I understand that at this morning's meeting of the Committee on Banking, Finance and Urban Affairs, you expressed interest in having the views of the Federal Reserve on the Amendment offered by Mr. Cavanaugh to H.R. 8094. As you can appreciate, there has been very little opportunity for our staff to analyze the Cavanaugh Amendment, and the Committee's schedule does not afford time to have this matter considered by the entire Board of Governors. Perhaps more important, there has been no opportunity at all for the boards of directors of the Federal Reserve Banks to consider the Cavanaugh Amendment or to provide the Committee with their views on a matter that so directly affects their role in the Federal Reserve System. I hope it will be useful to you, however, to have my own personal views with respect to the proposed Amendment.

As I understand Mr. Cavanaugh's proposal, it would require all of the Reserve Banks to keep verbatim transcripts of all of their board meetings. These transcripts would have to be provided to "the appropriate Committees of the Congress" one year after each such meeting, without any deletions. The transcripts would be required to be released simultaneously to the public, but items pertaining to five specific subject matters could be deleted. However, a Committee could make the deleted material available to the public upon a majority vote of its members.

The Honorable Les AuCoin - Page 2.

First, I must say that I know of no precedent for such a sweeping law. There is to my knowledge no agency or instrumentality of the United States Government that is required to submit verbatim transcripts of its proceedings on a routine basis to the Congress. Not even the Government in the Sunshine Act, which the Congress enacted after two years of extensive deliberation, requires such broad disclosure.

Second, there has been no demonstration of a legislative need either for the keeping of verbatim transcripts or for the regular submission of such information to the Congress. Mr. Cavanaugh has not suggested that such detailed disclosure is necessary to enable the Congress to carry out any particular legislative objectives. In the absence of a showing that such information has a relationship to specific legislative concerns, the Amendment is open to the charge that it is intended only to facilitate "fishing expeditions" into Reserve Bank affairs.

Third, the Cavanaugh Amendment would impose a staggering administrative burden on both the Congress and the Federal Reserve. There are 12 Federal Reserve Banks, which have a total of 25 branches, and the directors of each bank and branch meet monthly or more frequently. Thus, at a minimum, some 444 meetings would have to be transcribed during a year. If committees of the boards, such as the executive and audit committees, were also included within the requirements of the Amendment, hundreds of additional meetings would have to be transcribed. The job of simply reading these transcripts, not to mention correcting them and reviewing them to determine which portions have to be released, would be both expensive and time consuming.

Fourth, the Amendment would create a serious risk of unwarranted public disclosure of highly sensitive information. Even though some sensitive matters could in the first instance be withheld from public release, a Congressional Committee, by majority vote, could decide to release such matters. Thus, the Amendment seems to contemplate the regular distribution of unexpurgated transcripts to dozens of members of Congress



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and their staffs, followed by deliberation and voting upon the public release of previously withheld portions. Under such circumstances there is tremendous opportunity for unauthorized disclosures.

Fifth, the list of subject matters that may initially be withheld from public disclosure is entirely too narrow. For example, the Amendment makes no provision for exclusion of discussions relating to problem banks, to litigation or lawyer-client communications, to trade secrets or privileged or confidential commercial or financial information furnished by private individuals or firms, to discount rate actions and other monetary policy matters, to bank and bank holding company examination reports, to matters involving possible criminal charges against individuals, or to other discussions the disclosure of which would constitute a clearly unwarranted invasion of personal privacy. In this regard, I should point out that not even the Government in the Sunshine Act requires federal administrative agencies to keep verbatim transcripts of discussions of such matters as bank examination reports, or of discussions the disclosure of which could lead to market speculation or could endanger the stability of a financial institution, or of discussions of pending litigation. In all such cases the agency is permitted to use detailed minutes in lieu of a verbatim transcript.

Sixth, by compelling the Reserve Banks to create verbatim records of their deliberations, the Amendment could seriously impair the ability of a Reserve Bank to defend itself in litigation, since such transcripts might have to be produced in civil actions against the Reserve Banks. The magnitude of this danger should not be underestimated. In the case of the failure of Franklin National Bank, for example, the directors of the New York Federal Reserve Bank had a great many meetings to discuss the condition of Franklin, the proposals that were being made for rescuing Franklin, and the prospects for continued lending to Franklin by the Federal Reserve. Obviously, given the serious consequences of a failure of such a large bank, it was essential that these matters be discussed by the directors freely and without any inhibitions.

The Honorable Les AuCoin - Page 4.

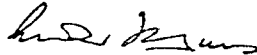
At the present time, all of the Federal banking agencies are deeply involved in massive civil litigation arising out of the Franklin matter. We are being required to turn over voluminous documents to our adversaries in these cases. Had it been necessary for the Reserve Bank to keep a verbatim transcript of its deliberations, with the possibility that such transcripts might later have to be produced in litigation, I can assure you that the ability of the Reserve Bank to deal with the questions it faced would have been seriously impaired.

Seventh, quite apart from the possibility that transcripts may be used in litigation, the mere fact that a transcript is made would inevitably inhibit frank discussion. Could it reasonably be expected, for example, that a Reserve Bank director would feel free to speak critically of a member bank, or of the Reserve Bank's own officers, or of a supplier of equipment or services to the Reserve Bank, or, for that matter, of the Board of Governors, if he knew that his words would be preserved forever and possibly released to the public?

In summary, I urge that the Committee not adopt the Cavanaugh Amendment at this time, and that it defer action on this subject not only until it has had a chance to hear from all interested parties, but also until it has had an opportunity to consider whether its legitimate objectives might not be satisfied in some more constructive fashion.

In response to his request, I am providing a copy of this letter to Bill Stanton.

Sincerely yours,



Arthur F. Burns

Dr. BURNS. Let me now summarize the principal points made in the July letter:

First, H.R. 9589 contemplates the regular distribution of the entire transcript of Reserve bank board meetings to dozens of Members of Congress and their staffs. This would be followed by deliberation and voting on the public release of previously withheld portions of the transcripts. Under such procedures, there clearly would be a serious risk of unauthorized disclosure of highly sensitive information involving banks, their customers, and security markets.

Second, even in the absence of unauthorized disclosures, the bill fails to provide for the withholding of discussion of problem banks, litigation or lawyer-client communication, trade and financial data furnished to the Reserve bank in confidence by private firms, discount-rate changes or other concerns of monetary policy, possible criminal charges or other enforcement action against individuals or financial institutions, or other matters the disclosure of which could adversely affect markets or constitute an invasion of personal privacy.

Third, by requiring the creation of a verbatim record of deliberations the bill could impair the ability of a Reserve bank to take effective action where civil litigation against the bank could be anticipated. Since such transcripts might have to be produced in litigation, directors would be seriously inhibited in discussing the strengths and weaknesses of various actions open to them.

Fourth, the administrative burden on both the Congress and the Federal Reserve banks would be staggering. Well over 400 board meetings would have to be recorded each year; transcripts would have to be made, reviewed, corrected, and duplicated by the banks; and then the members and staffs of various committees of the Congress would have to screen the transcripts again in order to determine whether additional material should be released.

Finally, and most important of all, a transcript requirement would have a stifling effect upon deliberations among Reserve bank directors and upon the flow of information within the Federal Reserve System. Our directors are frequently a valuable source of important information about current economic and financial conditions in their own businesses and communities. Furthermore, many of them are skilled and experienced managers, and their frank assessments of Reserve bank procedures and personnel, as well as their recommendations for improvement, have made a great contribution to the Federal Reserve System. To require these men and women to speak for a public record when acting as Reserve bank directors—a burden they do not have in their own board rooms and businesses—will tend to discourage free discussion and in the long run will impair the Federal Reserve's ability to attract outstanding individuals to serve as directors. As a consequence, the efficiency of Reserve banks and the quality of their services to commercial banks and the general public would probably deteriorate.

As members of this subcommittee know, the Federal Reserve has tried to be constructively responsive to recent requests for information about Board meetings of the Federal Reserve banks. This information was originally sought to determine whether the Federal Reserve is controlled by corporate and banking groups through their representation

on Federal Reserve bank directorates. To deal with this question, we turned over to your parent committee last December a tremendous volume of Reserve bank Board minutes. Significantly, no evidence whatsoever was brought forth from examination of the minutes to support the claim originally advanced as the reason for a need to examine the minutes. Instead, various unrelated charges were made against the Federal Reserve System—based upon information selectively culled from the minutes we had forwarded.

We have carefully reviewed the excerpts cited as support for these new claims, and I want to state categorically that the minutes do not justify any of the assertions of impropriety that have been made. The minutes do not establish unlawful or improper "lobbying"; they do not disclose Federal Reserve encouragement of credit allocation; they do not support the cruel attack made on the integrity of one of our most distinguished Reserve bank Directors; and they do not reveal misuses of Reserve bank funds for gifts or loans.

Over the years, the Federal Reserve has furnished the Congress with a vast amount of information about the operations of the Federal Reserve System, and we will continue to do so in the future. We feel sure, however, that the legitimate needs of the Congress for information to perform its oversight responsibilities can be met in a far more constructive manner than that proposed by this bill, and we urge you not to approve this proposal.

Let me now turn to H.R. 9465, which would require the Federal Open Market Committee to maintain detailed minutes and to release them to the public after 3 years. This bill is clearly motivated by a concern for the interests of scholars and others who may have occasion to do historical research in the area of monetary policy. This is a concern with which many of us, certainly I, have great sympathy. Even though there is substantial expense involved in maintaining such minutes, and the potential audience appears very small, a detailed record of proceedings could on balance be useful, provided important needs of the FOMC were accommodated. Some background is necessary to put this proposal in perspective.

For many years the FOMC kept very lengthy minutes—referred to as "Memoranda of Discussion"—of each of its meetings. These memoranda, which often ran as much as 100 pages in length, set forth in detail the views expressed by each member of the FOMC at each meeting, attributing those views to the member by name. The Memoranda of Discussion of the FOMC meetings held in any one year were released to the general public 5 years after the end of that year. In the FOMC's judgment, this policy of delayed release gave strong assurance that the disclosure of the memorandum would not affect security markets and that it would not impair the willingness of its members to speak freely about sensitive matters of current concern.

Last year the FOMC reexamined the practice of keeping these very detailed minutes of its meetings, and at the same time reviewed its practice of releasing 45 days after each monthly meeting the much shorter record of policy actions—a record that reflects the committee's discussion of the economic outlook and its deliberations on open market policy. After much thought, the committee decided to reduce from 45 days to about 30 days the time for release of the record of policy actions and to include in that record an expanded and more systematic

account of the views expressed by its members. The new policy record does not attribute individual opinions to committee members by name; but the record always reports the votes of the members by name and their accountability is thus preserved. In connection with this new practice, the committee decided to discontinue the detailed Memoranda of Discussion, recognizing the much more limited audience for this document.

While the FOMC's new procedure affords the public much more information on a current basis about policy actions than under prior practice, it admittedly does not preserve a historical record as detailed as that contained in the earlier Memoranda of Discussion. H.R. 9465 would propose to remedy this by requiring, in effect, a return to the earlier practice. In addition, it would require that the minutes be made public 3 years after each meeting.

As I have indicated, we are sympathetic to the concerns that underlie this proposal, and we are reluctant to oppose it. However, we believe there are three shortcomings in the bill as it is presently drafted. First, no provision is made for exclusion of material that may be embarrassing to foreign governments or institutions. Second, 3 years is not a sufficiently long period to avoid the inhibiting effects that may derive from the anticipated release of the views expressed at FOMC meetings. If this proposal were to be adopted, we would strongly prefer a return to the prior practice of releasing the memorandums with a 5-year lag. Third, and most important, the bill does not address the possibility that the FOMC might be compelled under the Freedom of Information Act to make public all or significant portions of the memorandum more promptly than the specified period, whether it be 3 or 5 years. In the absence of express statutory protection against premature disclosure of the memorandum, we would feel compelled to object to a proposal for returning to the practice of keeping extensively detailed minutes of FOMC meetings.

In closing, let me again assure the subcommittee that we will cooperate fully with any reasonable requests for information necessary to enable this or any other committee of the Congress to perform its responsibilities. However, since our day-to-day work, and that of the 12 Federal Reserve banks, involves us in matters of the greatest sensitivity, we urge this subcommittee not to approve any additional proposal for public disclosure in the absence of a strong showing of public benefit.

Thank you, Mr. Chairman.

Chairman MITCHELL. Thank you very much, Chairman Burns, for your very detailed and definitive statement.

We are delighted to have Congressman Vento with us this morning.

Dr. Burns, in your testimony, you pointed out that the scrutiny of the minutes turned over to the subcommittee did not reveal "any unlawful and/or improper 'lobbying'." Did those minutes reveal any lobbying effort at all? I think the issue becomes, Dr. Burns, whether an instrumentality as powerful as the Reserve System should be engaged in any kind of lobbying activity. Now, to the best of your recollection, did those minutes reveal lobbying activities?

Dr. BURNS. You know, the term "lobbying" can be defined in many different ways. Let me speak about my own activity. I have made it

a practice in connection with legislation to discuss my views and those of the Federal Reserve Board very freely with Members of the Congress. My experience is that they have found that congenial as a rule, and I think, also helpful.

The minutes do disclose—and let me remind you that a mountain of material covering some 500 Board meetings was turned over to the committee—that at two or three meetings a comment was made by an officer of a Federal Reserve bank expressing the hopes that the Directors of that bank might interest themselves in this or that legislation.

I think that is an entirely legitimate—even desirable to activity for those who are involved in the Federal Reserve System, and who know its responsibilities. If you call that lobbying, then there is evidence in the minutes of two or three such instances of it in the course of several hundred actual Board meetings.

Chairman MITCHELL. Thank you for your answer. It gets to be a very ticklish question, the matter of lobbying. Certainly, I think it is entirely proper and right for you, as the Chairman, to share your views with Members of Congress in an attempt to persuade or dissuade them from certain kinds of actions, precisely what you are doing this morning. On the other hand, it becomes another question when the various officers in the Federal Reserve System use the power of their position to exert pressures on Members of Congress or on anyone else in an attempt to persuade or dissuade them from certain kinds of legislative action.

I am not at all sure that I know the answer, and as you pointed out, there were only two instances of this type of lobbying. But because the Federal Reserve System is a very powerful instrumentality in our economic system, I think we must set up some rules with reference to lobbying or to specific types of lobbying at the level where it takes place below your position.

Dr. BURNS. I am not aware of any instance where an officer of the Federal Reserve has attempted to apply pressure on a Member of the Congress. That is unthinkable to me; it would be presumptuous and stupid and certainly improper.

On the other hand, when a president or a director of one of our Federal Reserve banks—men who devote a great part of their energy to the Federal Reserve System because of their concern about this country and about our economy—when men with such responsibilities deem it proper to speak to their Congressmen, I for one can't see anything improper. On the contrary, my impression is that the Members of Congress want to hear from their constituents, particularly from men with great responsibilities and great knowledge. So, any charge of impropriety is something that I simply do not understand.

Chairman MITCHELL. Perhaps we can get back to this.

I would like to put two other questions before turning to the other members. I understand from your testimony that apparently you would support the Hannaford bill, H.R. 9465, if certain changes are made; is that correct?

Dr. BURNS. That is correct. Before this meeting I had a telephone conversation with Congressman Hannaford, and I believe that he and I and the subcommittee can work these matters out satisfactorily.

Chairman MITCHELL. That was specifically my request. Would you have your staff link up with our staff to see what we can do in terms of perfecting this particular piece of legislation?

Dr. BURNS. Yes, I would be very glad to do so, and I'm sure that we will be able to work out a harmonious result.

Chairman MITCHELL. My last question. The Congress of the United States, for the most part, has open hearings in committee and in subcommittee. Even our conferences now are open. I think those changes have come about in the last 4 or 5 years primarily because most of the Members of Congress realize that it is good to keep the public totally informed.

You are arguing that the minutes of the FOMC should not be released under certain conditions, no matter what the feeling of the Congress is. Recently an appeals court at least that has acted on this matter. The U.S. Court of Appeals for the District of Columbia Circuit, in the *Merrill* case (No. 76-1379) concluded that the minutes of the FOMC were not exempted from immediate public view by any statute of law.

Why should the Congress reverse this court decision? Is it that the court rendered that decision on bad law, or on unsubstantiated fact? What I am saying, Dr. Burns, is we have a precedent, really two: one, the actions of the Congress itself and second, the decision in the *Merrill* case. In the event that we should follow the advice given in your testimony, we would not only reverse our own decision, but also the court's decision.

Dr. BURNS. Mr. Chairman, I did not comment on the *Merrill* decision in my testimony, but I would be very glad to discuss that decision with you to the extent that I am able to do so. There are legal questions here that I am not qualified to discuss. You made some observations about the Congress. As far as I know, caucuses are not open to the public, nor are those deliberations recorded.

Chairman MITCHELL. Yes, they are. Our Democratic caucus is now open. We vote immediately when we go into caucus to open it, and each time we have voted to open the doors, and the galleries are filled.

Dr. BURNS. Thank you for advising me.

I did not realize that the *Merrill* decision would come up at this hearing, but I will be very glad to discuss it with you to the best of my ability.

The *Merrill* decision, as I understand it, requires that the decisions reached by the Federal Open Market Committee at monthly meetings be announced promptly to the general public. That is the decision.

Whether or not it is a good decision of law is something on which I am not qualified to comment. Our attorneys, however, do plan to take whatever steps are necessary to have this decision reviewed. Whether or not they will succeed is, again something upon which I have no opinion, and I wouldn't want to speculate on that issue.

Chairman MITCHELL. I am sorry. Could you clarify that for me? Your attorneys are planning an appeal of the *Merrill* decision; is that correct?

Dr. BURNS. That is correct, yes.

I would welcome legislative relief of the sort that the Court of Appeals suggested to us. If you would like to have me discuss that, I should be glad to do so.

Chairman MITCHELL. No. My reason for citing the case was that obviously in your testimony you are saying that the minutes of the FOMC should not be released for public viewing.

Dr. BURNS. No, I am not.

Chairman MITCHELL. Except under certain circumstances, which you stipulate.

Dr. BURNS. No. We may be getting a little confused here. There are two documents that I discussed in my formal testimony. One is the Memoranda of Discussion, the subject of Mr. Hannaford's bill. As you and I discussed the matter just a minute ago, there is no basic disagreement on the principle underlying that bill, although there are certain clarifying, corrective amendments that we would propose and that I think we can work out with Mr. Hannaford and with you, Mr. Chairman. There is a second document, which is not the subject of this hearing, namely, the policy record, which is now released approximately 30 days after the FOMC has reached its decision with regard to monetary policy for the month ahead. I commented on that in my formal statement merely to set the Memoranda of Discussion in perspective.

Chairman MITCHELL. I understand exactly what you did. Perhaps I did not make myself clear. What I was suggesting was that both the courts and the Congress have set precedents which should give some guidance as to how certain items under the Federal Reserve System jurisdiction should be handled.

I have more questions on this subject. However, let me yield to Mr. Barnard for now. I was a junior member and I know what it means to sit and not be able to raise a question after traveling to come to a hearing.

Congressman Barnard?

Mr. BARNARD. Thank you, Mr. Chairman.

Dr. Burns, I, along with my colleagues, want to welcome you this morning. Thank you for your cooperation on this controversial, although not new, legislation.

Dr. Burns, I would like to approach this legislation from the standpoint of whether or not the Federal Reserve System is not a different status than other agencies in regard to Government in the sunshine.

Do you think the Fed has a different structure that dictates a different posture?

Dr. BURNS. As you know, the Federal Reserve System consists, on the one hand, of the Federal Reserve Board and, on the other, of the 12 Federal Reserve banks with their branches and regional check-processing centers across the country. With respect to structure, the Federal Reserve Board is, I think, similar to other boards and agencies and commissions of the Federal Government. On the other hand the Federal Reserve banks are quasi-private institutions; that is an important structural difference.

Mr. BARNARD. I am sorry, I did not hear that last statement.

Dr. BURNS. I said that the fact that our Federal Reserve banks are quasi-private institutions is an important structural difference.



Mr. BARNARD. Do you think that because of that status, the imposition of some of this legislation is not applicable?

Dr. BURNS. I think that the case could be argued that way.

I have put the accent, in my own thinking, on the fact that the matters dealt with by the Federal Reserve System are so sensitive that special care needs to be taken. I have also tried to indicate that this piece of legislation, proposed to broaden disclosure for Federal Reserve banks which are quasi-private institutions, would not apply to any other Government agency. It is an extraordinary piece of legislation, to my mind. If this is an attempt to broaden disclosure, why start with our Federal Reserve banks?

Mr. BARNARD. In line with that, Dr. Burns, if this bill were enacted, what other agencies do you think should be put into this same category?

Dr. BURNS. I think the list would be very long. But I see no purpose in naming agencies and suggesting that they be faced with requirements of the very sort I am trying to argue should not be imposed upon the Federal Reserve.

Mr. BARNARD. Since it appears to me that Congress just starting with the Fed with this legislation. We might as well we should anticipate where we are going in the long run. As you have just indicated, there is a long list of other agencies that will undoubtedly be brought under the same umbrella. I am interested, Dr. Burns, in a little more definitive treatment of the destructive effects of this bill, especially as it adversely affects the marketplace.

Would you please briefly elaborate?

Dr. BURNS. Take, for example, a Board meeting of one of our Federal Reserve banks. A problem with this or that member bank may come up. It may be a managerial problem; it may be a financial problem. Anyone who knows anything about the world of banking knows how terribly sensitive is any information—or any rumor—about the competency of management or the financial condition of a bank. Disclosure of information or of a conversation about a matter of that sort could injure not only the bank; it could injure a whole community. And, in the case of a large bank, it may have national or even international repercussions.

The directors of the Federal Reserve bank's have to discharge their duties; they have to say what they think, and what they say in the course of deliberation may be accurate or inaccurate. You know, some members of the Board will be better informed than others; if an inaccurate statement is made, the facts will be sifted and some approximation to the truth will gradually emerge. But to have every word in the course of such a discussion spread on the record could have very serious, even disastrous, effects on banks or entire communities.

Mr. BARNARD. How would disclosure apply to the Federal Open Market Committee?

Dr. BURNS. The Cavanaugh bill is restricted to the Reserve bank boards.

Mr. BARNARD. I was speaking of the Hannaford bill.

Dr. BURNS. The Hannaford bill, I think, carries an element of protection, in that disclosure would be made only after several years had elapsed. I hope to be able to persuade Mr. Hannaford and the members of this committee that the lag should be 5 years rather than 3 years.

I should add that the Federal Open Market Committee deals with monetary policy; that is its principal purpose and function. It does not deal with individual banks, so the kind of problem I mentioned does not arise in connection with discussions of the Federal Open Market Committee.

Mr. BARNARD. I am interested in the discussion that the chairman developed regarding the case of *Merrill v. Federal Open Market Committee*.

It appears from the decisions made by the courts up to this point, that they are not in keeping with the present law affecting the Federal Open Market Committee; is that right?

Dr. BURNS. The decisions are not in keeping with the present practice of the Federal Open Market Committee. According to the Court of Appeals, the decision is in keeping with the provisions of the Freedom of Information Act.

Mr. BARNARD. And my last question, Dr. Burns, is in reference to the Hannaford bill. If we incorporated the provisions that you indicated on page 10 of your testimony, including the exemption of the Federal Open Market Committee from the Freedom of Information Act, do you think the Federal Reserve would accept this?

Dr. BURNS. The answer is clearly in the affirmative.

Mr. BARNARD. I have no further questions, Mr. Chairman.

Chairman MITCHELL. Congressman Vento.

Mr. VENTO. Thank you, Mr. Chairman.

Dr. Burns, welcome to the subcommittee.

I have read your testimony very carefully, and I felt, strongly, as do many of the members, about the openness issue and how it affects the Federal Reserve. You make a great deal—on page 6—about the fact that you did turn over certain minutes over a period of 3 years. But you don't say anything about the more than 900 sections that were deleted from the minutes.

And, of course, I understood—when I coauthored, or sponsored Representative Cavanaugh's bill, on the verbatim transcripts, that it was an idea, I think, that needed more work. We hoped that this subcommittee would be able to do that, to work it out, and to get at some of the concerns we had obviously, without destroying, the independence of the Fed. And I don't think anyone argues against the fact that independence is necessary. But what about the 904 deletions that occurred in the minutes that were submitted?

You suggest that you made a complete open statement and then that the committee was supposed to look at corporate interests. How can you make an accurate judgment if you have 904 deletions from the meetings? How do I know that you did not delete the very points that the staff people and the committee were seeking to learn?

Dr. BURNS. Let me answer your question.

I reached an understanding with Chairman Reuss of the parent committee that certain items under several different categories would be put in separate folders; the rest would be submitted to the chairman. We agreed that the chairman and I would go over the items that were put in separate folders. So the chairman of your parent committee had the opportunity to examine these items, and he took advantage of that opportunity. He felt after his examination, that some 28 items

were improperly classified. In going over the evidence, I agreed with him in some instances and in others I did not; that is where the matter rests.

Mr. VENTO. Well, I have a good deal of confidence in our chairman, Dr. Burns, but nevertheless, I believe that as a protection, that this information should be open to Members of Congress; consequently, the authorship of this bill and the continued support for it.

You know, in one instance you argue that other agencies aren't treated the same as the Fed. Do you think you are like other agencies?

Dr. BURNS. I would like to think that in some respects we are better.

Mr. VENTO. I would like to think that, too, but the way the Fed was created, it makes it significantly unique.

Dr. BURNS. It is unique precisely because it deals with such highly sensitive matters. Members of the Congress ought to recognize that fact, and I am sure you do—

Mr. VENTO. I do recognize the fact. I also recognize that we have a responsibility as Members of Congress, even though a new Member—that I have a responsibility for oversight of this important agency which in essence you have argued, and others have argued, is independent from the administration and independent from the executive branch and, therefore, the Congress that you are accountable to. And so we ask—and we talk about the minutes. Why do you maintain minutes? Why are they maintained?

Dr. BURNS. Minutes are maintained because some questions may arise at one meeting as to what happened, what was said, or what was done at an earlier meeting. There should be a record for the agency to clear up any such questions that may be asked. That is one basic reason for maintaining minutes in any organization.

Mr. VENTO. Do you think that Members of Congress should have an opportunity in their oversight responsibility to look at those records anytime?

Dr. BURNS. I think it would be very unwise for Members of the Congress to undertake any such responsibility.

Mr. VENTO. Well, how are we supposed to exercise our responsibility in terms of oversight, to understand the process, the policies, the evolution of policies that the Fed develops, if not by looking at all of the details? How can I make a rational decision without looking at those factors?

Do you think your appearance before these committees every 6 months or every 3 months between the Senate and the House does that job?

Dr. BURNS. Mr. Vento, it would be impossible for you or any Member to examine each and every detail of our operations—physically impossible and intellectually impossible. I think that government is based fundamentally—just as all life is—on trust.

You and your colleagues carry on certain conversations in the corridor. The public doesn't know about those conversations.

Mr. VENTO. Are we asking you to report on conversations in the corridor?

Dr. BURNS. I think if the kind of legislation you are discussing were enacted, there would be a temptation to do business outside of boardrooms.

I would do everything in my power to prevent that. I don't circumvent the law; I don't play games. You know my attitude toward certain parts of the sunshine law and how hard I fought to achieve certain amendments; I was partly successful. But I don't think there is another agency in this town that observes the sunshine law with greater precision, with greater fidelity to the letter as well as the spirit of the law, than does the Federal Reserve.

You can't get away from the matter of trust. Our whole Government is based on trust. Our whole economy is based on trust.

Mr. VENTO. Dr. Burns, we are trying and I am trying to interject that element back into it. I think there is a basic mistrust of Government. To some extent, I think I see in your remarks a mistrust of Congress. All we are asking for is some trust in terms of the role.

We have created the Fed. You are accountable to us. And we would like you to have some confidence in our ability to be objective in terms of looking at various issues that might be present in the Federal Reserve Board minutes that we are talking about here today.

Dr. BURNS. Mr. Vento, I pointed out the consequences of keeping a verbatim transcript. I pointed those out truthfully, in detail, and with conviction. If you feel I am wrong, it is your business to legislate.

Mr. VENTO. Well, one of the things you also pointed out is on page 7 of your statement. You came back and said, there is a more constructive manner to attain that particular end. What is the more constructive manner?

Maybe we don't need a verbatim transcript. I don't know if the minutes that were kept and shared with this subcommittee were a verbatim transcript. I doubt that they were.

Dr. BURNS. No; they were not.

Mr. VENTO. And what is the more constructive manner that you are proposing by which we meet that end; by having you up here every 3 months and questioning you?

Dr. BURNS. You could have me here every 3 days if you wanted to. I have never turned down an invitation. Sometimes there are delays—your chairman knows about that—but either I or another member of the Board will be here to answer questions. And I am available outside of formal boardrooms; I think you know that.

Mr. VENTO. I appreciate that.

Dr. BURNS. I was very sorry I could not join you at luncheon yesterday.

Mr. VENTO. Yes; I am sorry that you couldn't. We could have begun this conversation. But I am very sincere about what we are trying to do.

Dr. BURNS. I know you are.

Mr. VENTO. I don't appreciate, for instance, comments that were initially made during full committee meeting saying that we were up to some sort of mischief with regard to the ideas that we had pursued. I intend to see this legislation carried through and brought to some conclusion.

One of the things, Dr. Burns, that you commented on was that you have in fact followed very closely the Sunshine Act. And one of the studies recently done by Common Cause on that issue, which, of course, as you know, is a public interest group, says that many of the Fed's meetings are closed.

[The following excerpt from the Common Cause study was submitted for the record by Congressman Vento:]

[Excerpts from "Shadows Over the Sunshine Act," a Common Cause study of Federal agency compliance with the Government in the Sunshine Act of 1976. (September 1977.)]

Most agencies have not gone beyond the minimum requirements in order to carry out the spirit of the legislation. Many agencies seem to be adapting to the act but only grudgingly. They view the act as a procedural burden to be circumvented when possible. They continue to conduct business as usual behind closed doors.

The Federal Reserve Board is a prime example. Chairman Arthur Burns fought vigorously in Congress to exempt the Board from the law. Although the Board is covered by the act, the broad language of the exemptions dealing with financial matters mean that as a practical matter few of the Board's meetings will be open to the public. In fact, of the 37 meetings held by the Fed, 30 were entirely closed. The disproportionately large number of closed meetings are justified by the Fed on the grounds that matters of a sensitive financial nature were being considered by the Board as permitted by the act. But the fact that the Board elected to close one of its meetings in order to consider a proposed office furniture design as well as the Board's building renovation project raises serious questions about the Fed's willingness to comply with the spirit and meaning of the Sunshine Law (see 42 F.R. 21899).

Dr. BURNS. Yes, they are, under law. And they should be.

Mr. VENTO. So that, in essence, you can follow it, but in following it you exclude the sharing or making some of that information public.

Dr. BURNS. I should say we do. And what would you have us do when we have a problem bank to discuss? Discuss it in public so there would be a run on the bank and the stock exchange would be rocked?

Mr. VENTO. One of the provisions of the legislation that you have criticized is that the minutes come in 1 year after the fact and that all of the information be made available to Members of Congress 1 year after the meeting.

That certainly would not be an instantaneous run on the bank. Obviously, it would provide us with the opportunity to see how you dealt with a financial crisis that had occurred with regard to a bank.

Don't you think that is important? What is a reasonable delay? And then beyond that, in terms of the exposure to the public, offer certain exceptions. You have made, in your statement as I can tell, you did not take into consideration specific exceptions or offer other exceptions. I have asked you about constructive changes that are to be made in the bill, and I have not heard any suggestions to this point, and I hope in the future that you will utilize the opportunity to make constructive changes in this legislation.

Dr. BURNS. Do you really want me to answer your questions?

Mr. VENTO. Yes, I want you to answer my questions.

Dr. BURNS. OK, let me take a little time, if the chairman will permit me.

First, as for the lag of 1 year: You must understand that in the case of some problem banks, their difficulties may not be worked out for several years. One year is an arbitrary period. Moreover, even if a problem has been worked out in the course of a year, the fact that the bank had a serious problem may cast doubt on its reputation and on its viability in the future. I think you have got to keep that in mind.

As for constructive suggestions, let me remind you that I have suggested oversight hearings of a kind that have not yet been held by the

House Banking Committee. I have suggested an oversight hearing on the condition of the banking system. The Senate, I am glad to say, took up the suggestion; the House did not.

I suggested a hearing on Federal Reserve System operations and expenditures. You know, our Reserve Bank boards deal primarily with technical operations, such as the clearing of checks. I have suggested hearings on their operations. The Senate took me up on it and will be holding another hearing early in the year; the House Banking Committee did not take up my suggestion.

I have made a third suggestion for oversight hearings, with regard to regulatory activities. Neither branch of the Congress has as yet taken up the suggestion.

So I think I have put forward some helpful ideas, some of which have been adopted, others of which will be considered and perhaps adopted in the future. And I will continue to work with you; I want to most sincerely, and so do my colleagues.

Chairman MITCHELL. Will the Chairman permit me to interrupt for a point of clarification? I think it should be made clear that the matters you have suggested and recommended for oversight hearings do not fall within the province of this subcommittee. However, if the other subcommittees are reluctant or unwilling, or would transfer jurisdiction to us in this instance, I would be delighted to undertake those hearings.

Dr. BURNS. Mr. Chairman, you are most understanding and accommodative. It is always a pleasure to come before your subcommittee because you are so precise and so correct and so helpful. Thank you.

Mr. VENTO. Mr. Chairman, just one other comment on the lobbying question. This becomes a contentious point. The issue also was before the full committee.

As the chairman and other members know, we have another idea floating around in the form of a bill that would require the Fed to report on lobbying activities that are undertaken, that is covert ones. I am not talking about the Chairman's appearance before this subcommittee. Obviously we are aware of that and I think it is proper. And I'm not talking about the contacts with individual Congressmen. We are aware of that. But we are talking about the report that, in some instances member units did, in fact, utilize their position as a means of communicating their views to the banks or financial institutions that they regulate. My concern is that the Federal Reserve System and member banks do not act as trade associations for the advocacy of issues, and that, in the event that they do, that that would be reported, that the lobbying activities in this vein would be reported. If it makes it easier, I think we could temper that by having it implemented in the Federal Reserve System rules and regulations.

So, I was interested in trying to resolve that issue. I think a good deal of the uneasiness that exists with regard to the closed meetings—and I think we recognize the necessity of having those closed for a period of time—really gets back to that particular issue.

I don't know if the Chairman is aware of that proposal and that idea, but I was interested at this point to get his reaction to it.

Dr. BURNS. Let me say, Mr. Vento, that I am aware—I think quite fully aware—of the legislation that you have proposed. Your bill, if

you would permit me to say so, is based on a fundamental misconception of how the Federal Reserve works.

We operate under rules which I think are just as strict as those of the Supreme Court. No member of the Federal Reserve Board will talk to any banker about any application that he has before the Board, or any application that he plans to have before the Board, or any application that he is dreaming about putting before the Board.

We will talk to bankers about the economy. We will talk to bankers about certain general principles of legislation, but never about individual banking applications. What bankers do in the way of communicating with the Congress is their business. It is something that we neither encourage nor discourage in any way.

As far as our Directors are concerned, that is something else again. They are members of the Federal Reserve family who have responsibilities and deep concerns for the institutions which they serve; I have already addressed that.

So, I think your bill is based on a misconception. If asked about the details of your bill, I would be very glad to address those details at any time that you or the chairman of this subcommittee would like to have me do so.

Chairman MITCHELL. The Chair wants to raise one more question and make one or two observations. For the first time in the many years that you have appeared before the committee and that I have been honored to be here to hear your testimony, I am a little upset by your remarks. In your colloquy with Congressman Vento, you suggested that the Members of Congress were perhaps not intellectually prepared to cope with the sophisticated details of those minutes. Perhaps we are not. I, for one, do not feel any intellectual impairment, Dr. Burns. I don't think that would be a reason to preclude me from seeing the minutes. Do you want to comment on that?

Dr. BURNS. Thank you for giving me the opportunity. What I meant was that it is difficult for me—and I think I am a fairly typical specimen of mankind in this respect—to absorb a mountain of detail intellectually, even if I devote all of my energies to that and that alone.

Members of the Congress have to devote so much time to the problems of their constituents, so much time to numerous pieces of legislation passing through the Halls of Congress. With all their other duties, it would be impossible to grasp intellectually—for me, at least, and therefore I think also for most Members of the Congress—the maze of detail that is represented in these minutes. I think the minutes we submitted came to something like 5,000 pages.

That is all that I meant. I was talking simply about human frailty and human fallibility.

Chairman MITCHELL. I thank you for your observation. At least this Member would like to test his intellectual ability to try to grasp the significance, and therefore I would be pressing for that.

The other observation that I wanted to make, Chairman Burns, was that America has changed significantly over the last 10 years. It has changed in terms of openness; congressional reforms that have taken place. It has changed, certainly, in terms of moving toward the concept of the public's right to know. I assume you would not generally

oppose those changes. I think they are healthy for democracy. What we are going to face is this: If there is not legislation to deal with the issues discussed in these two bills this morning, there is no question but that citizens' groups and individual citizens are going to start going to the courts, time and time again, to secure information that they think they have the right to have. Isn't it a far more logical approach to try to do this through some legislation, with safeguards added on, than to see this happen in a kind of piecemeal fashion by action through the courts, time and time again? That is going to happen, and you and I might as well face it.

Dr. BURNS. We are facing it.

The Board submitted minutes covering 3 years of bank Board meetings. Apart from a number of misrepresentations, nothing has come out of your committee concerning these minutes. No member of the committee has come forward with any evidence whatever that this would help the Congress do its job. A few misrepresentations have been made on the basis of those minutes; that is all the good or all the evil that has come out of this exercise. Therefore my thought is, suppose we did what you ask; what would you gain from it?

If you write legislation, you ought to demonstrate a need for it. There are so many problems in this country; I just sit here and wonder why so much fine talent, so much fine energy, should be expended on a piece of legislation such as this, when this country faces major economic problems that you and I ought to be struggling with and devoting our best energies to.

That is my thinking. You may like it or not, but I have expressed myself; you have given me the opportunity to do so.

Chairman MITCHELL. I don't particularly like it, but you and I still remain friends. I don't like it primarily because while we are wrestling with the great problems of a sluggish economy, the problems of some difficulties with monetary policy, the problems of energy, we ought to bear in mind that every one of those problems ought to be kept in perspective. Ultimately what the Congress is going to have to do is achieve a tandem relationship between fiscal and monetary policy. I think that access to what appears to be minute to some at this stage is necessary for the development of that kind of policy somewhere down the line. you may or may not agree, and I won't ask you to comment. I will just close by thanking you for being here, and again, I appreciate your cooperation, which has always been excellent.

Thank you very much.

Dr. BURNS. You are very kind. Thank you, Mr. Chairman.

Chairman MITCHELL. The subcommittee now stands adjourned.

[Whereupon, at 10:15 a.m., the subcommittee was adjourned, subject to the call of the Chair.]



## APPENDIX I

### MAKING THE FEDERAL RESERVE SYSTEM MORE ACCOUNTABLE

Opening statement by Henry S. Reuss, Chairman of the House Committee on Banking, Finance and Urban Affairs, for hearings on H. R. 8094, a bill to promote the accountability of the Federal Reserve System, 10:00 a.m., Monday, July 18, 1977.

Congress, under Article I, Section 8 of the Constitution, has the power "to coin Money, regulate the Value thereof".

After much experience with panic and depression, Congress under the Federal Reserve Act of 1913 delegated to the Federal Reserve System the day-to-day operations of its monetary power, with particular reference to the need for a "flexible currency".

When we speak of the independence of the Federal Reserve, we speak of its independence from the Executive Branch and not from the Congress. Congress could have delegated its monetary power to the Executive. It chose instead to delegate it to the Federal Reserve, whose Board members' 14-year terms effectively insulate them from Executive manipulation. Though the Executive gained the ascendancy over the Federal Reserve during World War II and for half a decade thereafter, the 1951 Accord between the Treasury and the Fed, negotiated by the Congress, reaffirmed and reinforced the independence of the Federal Reserve from the Executive.

For the first half century or so of its existence, the Federal Reserve can hardly be said to have been successful in its monetary policy. Until the late 1920s, there was no monetary policy worthy of the name. Thereafter, it was mostly wrong-headed. Excessively restrictive monetary policy helped bring on the depression of 1929 and snuff out the beginnings of recovery in 1937.

During the war years, and right up until the accord of 1951, Federal Reserve monetary policy was excessively dominated by the Executive, and excessively loose. During most of the 1950s, monetary policy was too restrictive, and contributed to the slow growth of the decade.

In the last 15 years, monetary policy has been too frequently characterized by stops and starts. Too much new money was created in the Vietnam years of 1967 and 1968, helping to cause inflation. Then policy reversed and became too restrictive. Overease revived again in 1972 and 1973, to be followed by the excessive restrictiveness of late 1974 and early 1975.

Then, in March, 1975, Congress enacted H. Con. Res. 133. This resolution set up quarterly dialogues between the Federal Reserve and the House and Senate Banking Committees, and resulted in the Federal Reserve's stating its targets for the following twelve months for the money supply, principally  $M_1$  (the public's holdings of cash and checking accounts). By and large, this policy has worked very well in the ensuing two years.

There have been at least two exceptions, due to unfortunate relapses into stop-start policies. In June, 1975, unnecessarily upset by the increase in the money supply caused by the Federal income tax rebate, the Fed put on the monetary brakes, and contributed to the slow-down in recovery in the summer of 1975. Again, in April, 1977, the Fed created an exorbitant amount of new money, at an annual rate of almost 20 percent. Then, on some two-wrongs-can-make-a-right basis, it lowered the creation of new money to zero in May, 1977, causing a wholly unnecessary increase in the bank prime rate.

But I hope these were monetary aberrations from a sensible new trend. I hope the Federal Reserve will be able to resist the temptation to join what Business Week calls "the new Metternichs" -- the European central bankers -- some of whom want to go back to the discredited operation of fighting inflation by so squeezing the money supply as to cause increased unemployment.

So far I have been discussing the major activity of the Federal Reserve System -- monetary policy. But the Fed has two other very important functions -- as principal regulatory agency for state member banks of the Federal Reserve System, and as servicer of the banking system through check clearing operations and coin and currency transfers.

As I have suggested, the Federal Reserve is a more serviceable agency today than at any time in its history. Its Chairman, Dr. Arthur Burns, is an able and respected leader.

All the more reason, then, that the accountability to the public of the Fed needs to be sharpened. The five major provisions of H.R. 8094, now before us, would attempt to sharpen that accountability.

There follow the five provisions of H.R. 8094, and the reasons for them:

1. Make permanent the Congressional-Federal Reserve Dialogue on Monetary Policy. H.Con.Res. 133, which authorizes the quarterly dialogue, expired by its own terms at the end of 1976. Chairman Burns continues to appear quarterly before the House and Senate Banking Committees. But these appearances should be regularized and made businesslike by statute. A successor chairman, for example, could refuse to engage in the dialogue, and Congress could point to no law which was being flouted.

In the course of making the dialogue an ongoing procedure, two improvements are needed. That Federal Reserve monetary policy is meant to serve the nation's goals contained in the Employment Act of 1946 -- for maximum employment, production, and price stability -- needs to be explicitly stated.

Secondly, the Federal Reserve should be required to testify not only concerning its proposed monetary aggregates for the ensuing year, as H. Con. Res. 133 requires, but on three related matters -- anticipated velocity, estimated interest rates, and portfolio composition.

First, the velocity with which money changes hands has a profound effect on the amount of new money that will be needed. The bill, therefore, includes "anticipated monetary velocity," as a subject on which the Fed should testify.

Second, as part of the overall annual economic program of both the Administration and the Federal Reserve, it is necessary at least to make an estimate of the levels of interest rates -- particularly on business loans and on long-term mortgages. It is not suggested that a target for interest rates be stated, but merely an estimate of expected rates.

Coordination of fiscal and monetary policy would be greatly enhanced if government economists outside the Fed understood what the Fed's interest rate anticipations were. As the people's representatives, the Congress is also entitled to know the Fed's view of the course of interest rates for the ensuing year.

What about the fear that public revelation of anticipated interest rates would cause disruption in financial markets? This is hard to see. Making such information available to all simply removes the advantage that insiders in financial markets now enjoy, and reduces speculation based on rumors and misinformation that do cause instability in the markets. It is worth noting that the Fed's often-stated view that prompt disclosure of Federal Open Market Committee directives would cause disruption in the market has not proved true. The reduction from 90 to 30 days in the time FOMC decisions are kept secret has had no destabilizing effect, and in fact appears to have been beneficial.

Finally, the Federal Reserve can affect the structure of interest rates by the composition of its portfolio of securities, currently valued at close to \$100 billion, equal to one-fourth of the privately-held national debt. For example, by increasing its holdings of longer-term securities, the Fed can modestly bring down long-term interest rates relative to short-term interest rates. Proposed portfolio policy is, therefore, an important part of the Federal Reserve's quarterly presentation.

These broadened guidelines would avoid the present total concentration on the monetary aggregates alone.

2. Broaden the economic interest of Federal Reserve Bank directors. Under present law, the nine directors of each of the 12 Federal Reserve banks have unduly narrow backgrounds. Commercial banks elect six of the nine -- three class A directors, always bankers, as their direct "representatives," and three class B directors from "commerce, agriculture, or some other industrial pursuit". The three class C directors are chosen by the Federal Reserve Board of Governors, with nothing said as to who they may be.

As the Banking Committee staff study -- "Federal Reserve Directors: A Study of Corporate and Banking Influence", August 1976 -- disclosed, this has produced a representation grossly banker-oriented at the expense of other groups. Furthermore, it has resulted in the virtual exclusion of women, blacks, and representatives of labor unions and consumer interest organizations.

H.R. 8094 would remedy the situation with respect to discrimination by requiring that all directors -- A, B, and C -- be chosen "without discrimination on the basis of race, creed, color, sex, or national origin".

As to economic representation, the three class A directors would be left as they are now -- bankers.

Class B directors would be specifically designated "public" and broadened from the present "commerce, agriculture, or some other industrial pursuit" to "with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers". While class B directors are elected by the member banks, they should be chosen from a broader category than the ambiguous existing "commerce, agriculture, or some other industrial pursuit". It is archaic to concentrate, for example, on "industrial pursuit", when service industries are steadily becoming more prominent than the purely industrial pursuits which were in everyone's minds in 1913 when the Federal Reserve Act was written. "Services, labor, and consumers" are groups of our citizenry whose economic interests entitle them to consideration for seats on the Federal Reserve Bank Boards.

Class C directors would be chosen, as now, by the Federal Reserve Board of Governors. But instead of no language as to qualification, they would have the same qualifications as class B directors: they must represent the public, and "with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers".



These first two provisions of H.R. 8094 -- the permanent Congressional Federal Reserve dialogue, and the broadening of the Federal Reserve Bank directors -- are substantially similar to H.R. 12934, which passed the House by a vote of 279-85 on May 10, 1976. Because of the adjournment of the Senate in September, 1976, the bill did not reach action there.

3. Require Senate confirmation of the Chairman of the Board of Governors. Under existing law, members of the Federal Reserve Board of Governors, who serve 14-year terms, are subject to Senate confirmation at the time of their appointment; one of the Board members is designated by the President to serve as Chairman for a 4-year term, but without Senate confirmation. Thus, the President can designate as Chairman someone who was confirmed by the Senate some 13 years previously, yet the Senate be powerless to confirm the appointee to what was recently called the Nation's "No. 2 position". The bill would make the President's choice of Chairman subject to the advice and consent of the Senate. The Federal Reserve recently told this Committee that it has no objection to this provision.

4. Prevent the Fed's Using Banks as its Lobbyists. The Federal Reserve System has been using bankers -- who are deeply beholden to the Fed because of the Fed's ability to give or withhold a discount window loan, or to give or withhold such privileges as approval for a merger, holding company acquisition, or an Edge Act office -- to lobby on the Fed's behalf with legislators and other government officials.

For example, as revealed by the minutes of the Board of Directors of the Federal Reserve Bank of Chicago for May 23, 1974, Vice Chairman George W. Mitchell of the Federal Reserve Board of Governors commented on the lobbying efforts of the Fed to kill the bill requiring a GAO audit:

Governor Mitchell also noted that the GAO audit bill should come up for vote next week on the floor of the House. Reserve bank directors have been helpful in contacting Congressmen and hopefully the bill can be at least amended to restrict the type of audit if chances for outright elimination lessen.

Chicago Federal Reserve Bank President Robert P. Mayo at the same meeting called for continuing lobbying efforts:

Mr. Mayo commented further on the GAO audit bill, noting that it is House Bill numbered 10265 and should be up for consideration on May 29. He then requested each director to make whatever calls seem natural to him in order to encourage support for the Federal Reserve position.

The Philadelphia Federal Reserve Bank, in its minutes for May 4 and May 18, 1972, described its use of private commercial banks and the New Jersey Bankers Association against a New Jersey bill which might have attracted independent banks away from the Fed:

President Eastburn said there was a Bill in the New Jersey Assembly to permit nonmembers to keep up to 50 percent of their reserves in government securities. He indicated that this Bank had been in touch with New Jersey bankers, the New Jersey Bankers Association and key legislators to express the feeling that the Bill would be divisive, inequitable, and disruptive, and would have an adverse effect on membership. He reported that the Bill had recently been sent back to Committee.

Again, the Richmond Federal Reserve Bank has also been adept at using bankers as official unregistered lobbyists for the Fed. In October, 1975, Richmond Federal Reserve Bank Chairman Robert W. Lawson, in a speech to the American Bankers Association at Hot Springs, Virginia, congratulated the bankers for their great lobbying assist to the Fed. Chairman Lawson's remarks were the subject of a colloquy between myself and Chairman Arthur Burns of the Federal Reserve Board of Governors at a hearing before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Currency and Housing on January 21, 1976:

Chairman Reuss. Let me now get into the area of politics, which you brought up several times this morning in connection with the audit bill for the Fed. On October 1, 1975, the American Banker carried an interesting story on your Reserve Bank chairman in Richmond, Robert L. Lawson.

The headline was, "Federal Reserve Board Official Hails Bank Role in Killing GAO Audit of the Fed." And then it went on to describe his speech to a bankers group, in which he said:

"Banks played a key role in blocking a Congressional audit of the Federal Reserve Board. The bankers in our district and elsewhere did a tremendous job in helping to defeat the GAO bill. It shows what can be done when the bankers of the country get together."

My question is: If you get the support of the banks on an issue which is of great concern to you, whether Congress has the right to audit your books or not, are they not likely to expect in return kind treatment from you as a regulator? They would not get it, of course, but are they not likely to expect it?

Dr. Burns. As for Mr. Lawson's statement, let me merely remind you that, as I indicated in my testimony, we have in the System 269 directors, and neither I nor the Board can be responsible for what individual directors may or may not say.

Chairman Reuss. Did not the Federal Reserve people, to your knowledge, communicate with the banks about bank lobbying against the audit bill?

Dr. Burns. I played no part in this activity at all, not because I would consider it wrong, but because I did not have the time.

Chairman Reuss. My question was, with respect to people at the Fed, was there not a little communication there?

Dr. Burns. Yes. That is to say, there was some communication between our various directors, not with bankers as such, but with bankers, journalists, business people. I do not know whom they contacted. And that, I think, is an entirely legitimate activity. After all, do not Members of Congress want to hear from their constituents?

It is just as improper for the Federal Reserve System to use a regulated industry as its lobbyist as it would be for, say, the Federal Power Commission to enlist executives of the oil and gas companies it regulates to lobby Congress on matters of concern to the FPC. Such activities by the Federal Power Commission, would, of course, be clearly illegal under the overall act forbidding lobbying by administrative agencies with money appropriated by the Congress (18 U.S. Code, 1913). The Fed is technically exempt from this statute because its funds are not appropriated by Congress.

Such use of the banks for lobbying purposes should cease. Accordingly, Section 4 of H.R. 8094 forbids directors or officers of the Federal Reserve from getting banks or other institutions regulated by the Fed to lobby for legislation at the Fed's behest.

5. Prohibit Federal Reserve officers, employees, and directors from acting where they have a conflict of interest.

Under existing law, employees and officers of the U. S. Government may not participate in any matter before the Government in which they or a member of their family or business have an interest, unless there is first a full disclosure of this interest and an official written determination by an official that this interest is not substantial. The Fed is not covered. H. R. 8094 extends this prohibition to Federal Reserve Bank officers, employees, and directors. The minutes of Federal Reserve Bank meetings previously referred to contain instances of Federal Reserve officials proceeding to exercise their authority despite a clear conflict of interest.

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The proposal for an audit of the Federal Reserve System contained in an earlier version of the Federal Reserve Reform Act of 1977 has been dropped because the House Government Operations Committee on June 28 reported a bill providing for such an audit, H.R. 2176. That bill provides for an audit not only of the Fed but of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Taken altogether, this legislation will make the Federal Reserve System more accountable. As Dean Jonathan Swift said: "Providence never intended to make the management of public affairs a mystery, to be comprehended only by a few persons of sublime genius."

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FOR RELEASE: 5:30 P.M.  
TUESDAY, May 24, 1977

WHAT THE SECRET MINUTES OF FEDERAL RESERVE  
BANKS MEETINGS DISCLOSE

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Statement by Henry S. Reuss, Chairman of the House Committee on  
Banking, Finance and Urban Affairs

MR. REUSS. Mr. Speaker, for many years the House Banking Committee has taken seriously its oversight responsibilities toward the Federal Reserve System and its 28,000 employees.

We have tried everything from moral suasion to attempts at complete audits by the General Accounting Office. Our efforts, handicapped immeasurably by the Federal Reserve's all-encompassing claim of "independence", have yielded only sporadic results. We have simply never been able to obtain full and complete information about the various activities of the Federal Reserve System.

Recently, the Committee has acquired minutes of the boards of directors meetings of the 12 Federal Reserve Banks. These came to the Committee after Federal Reserve Board Chairman Arthur Burns challenged some conclusions of the Banking Committee's August, 1976 report raising serious questions about the 12 Reserve Banks and the potential for conflicts of interest in the boards of directors, which are dominated by banking and business interests. This was the report entitled, "Federal Reserve Directors: A Study of Corporate and Banking Influence."

In a series of letters, I asked the Fed to produce the minutes from the various meetings of the boards of the Federal Reserve Banks for three selected years, 1972, 1974 and 1975. As set forth in

my letter to Dr. Burns of September 23, 1976, "These records are important to the oversight and legislative responsibilities of the Committee."

What these minutes reveal about the operations and attitudes of the Federal Reserve -- by its regional boards of directors and the governing board in Washington -- is disturbing.

Even with 904 deletions made by the Fed, presumably dealing with "sensitive" matters such as personnel discussions, delicate transactions of foreign central banks, or items dealing with Bank security, these minutes raise the most serious questions about the use of power and money by a public agency.

The minutes show that:

-- When legislation that would have subjected the Federal Reserve System to closer scrutiny by the Congress was under consideration, the Fed used the boards of directors of its Reserve Banks, with their business and financial constituency, in lobbying campaigns against the legislation -- a practice forbidden other government agencies. The Fed has extended its lobbying to state legislatures as well.

-- The Fed has engaged in clandestine attempts to encourage commercial banks to make loans to particular recipients, namely real estate investment trusts and utilities, while denying to the Congress that it was doing so.

-- It has permitted a director whose law firm represented an interested party to vote on a matter involving the failure of Franklin National Bank.

- It has made subsidized loans to its own employees.
- It has permitted directors of the Reserve Banks to vote themselves \$600 retirement gifts.

Any one of these activities by itself would be cause for concern. Taken together, they form a pattern of disdain for public accountability. They show a history of behind-the-scenes manipulations to ward off legitimate investigations by the Congress.

The Federal Reserve has been granted a large measure of independence from both the executive and legislative branches. This independence is intended to shield the Fed from passing political winds in the conduct of monetary policy. It is not intended to relieve the Fed of accountability to the public. It is not intended to authorize activities in which other government agencies would not dare engage. It is not intended to cloak official monkeyshines in a veil of secrecy.

#### Lobbying Efforts in the United States Congress

In 1974 and 1975 the Congress was the subject of a barrage of lobbying by the commercial banks against two bills affecting the Federal Reserve -- both bills that have been badly needed in the public interest.

One bill, approved by the House Banking Committee on July 10, 1975, would have authorized an audit of the Federal Reserve System by the General Accounting Office. The bill specifically exempted from the audit both monetary policy and foreign transactions.



There is no good reason why the Fed should be exempt from the kind of audit that is routinely made of virtually every other agency and department of the federal government. The Fed handles transactions which total at least \$30 trillion a year. Its portfolio is valued at about \$96 billion, equal to 24 percent of the privately-held national debt. The Federal Reserve System is free to spend the nearly \$6 billion it receives in interest on these securities in virtually any way it chooses without being accountable to anyone. The Fed also is entrusted with major regulatory responsibility for the commercial banking system. For Congress to exercise its responsibility to oversee the Federal Reserve System, such an audit is clearly needed.

The second bill, the so-called "Government in the Sunshine" Act, required generally that meetings in which the public interest is decided be open to public scrutiny. The bill passed, but with substantial exemptions for the Federal Reserve.

A reading of the minutes of the Reserve Bank boards of directors meetings demonstrates that the Fed has gone well beyond the bounds of propriety to generate lobbying against these bills. With the Federal Reserve Board in Washington serving as the command center, a well-orchestrated lobbying campaign was mounted, using the members of the boards of directors as the point men. They would indeed be valuable operators in any lobbying campaign. The bankers and businessmen who make up the majority of these boards of directors are men with powerful ties into the board rooms of banks and corporations all over the country. They also enjoy strong ties into the

most powerful trade associations. It is no wonder, from what we see in these minutes, that such organizations as the Business Roundtable and the American Bankers Association geared up for an all-out defense of the Federal Reserve.

Let us look at some of the lobbying efforts against these two pieces of legislation, as revealed by the directors meetings.

On February 19, 1974, President Frank E. Morris of the Boston Federal Reserve Bank called on his board of directors to contact the Members of Congress to promote the Federal Reserve's position on the GAO audit bill.

The official minutes of this meeting state (P. 95 of Federal Reserve Bank of Boston Directors' minutes 1972, 1974, 1975, as delivered to the House Banking Committee):

"Mr. Morris also called attention to the fact that H. R. 10265, which would provide for a G.A.O. audit of the Federal Reserve System had not died in the House Rules Committee but was expected to reach the floor of the House of Representatives on or about March 5. He indicated that the System's position was to support an amendment, to be proposed by Rep. Ashley of Ohio, which would limit the scope of the audit so as to exclude monetary policy actions, but to continue to oppose the Bill, even if amended, on the final vote. The directors were encouraged to let Members of the House know their views on the bill." (Emphasis added).

On May 23, 1974, Governor George W. Mitchell, then vice chairman of the Federal Reserve Board of Governors, appeared at the directors meeting of the Chicago Federal Reserve Bank. A description of his remarks is presented in the minutes of that meeting as follows:

"REMARKS BY GOVERNOR MITCHELL, (P.157, Federal Reserve Bank of Chicago Minutes of the Board of Directors for 1974, as delivered to the House Banking Committee):

Governor Mitchell also noted that the GAO audit bill should come up for vote next week on the floor of the House. Reserve bank directors have been helpful in contacting Congressmen and hopefully the bill can be at least amended to restrict the type of audit if chances for outright elimination lessen."

Mr. Robert P. Mayo, President of the Chicago Federal Reserve Bank, then called on the directors, who are primarily private bankers and businessmen, to conduct a lobbying campaign against the GAO audit bill (ibid):

"Mr. Mayo commented further on the GAO audit bill, noting that it is House Bill number 10265 and should be up for consideration on May 29. He then requested each director to make whatever calls seem natural to him in order to encourage support for the Federal Reserve position. Although basically the System would prefer to see the entire bill defeated because of its monetary policy review aspects, if that is not possible then the Ashley amendment, restricting the GAO to a financial audit is favored." (Emphasis added).

Mr. Mayo followed through on his campaign in the June 27 meeting by thanking the directors who contacted Members of Congress to secure support for the Federal Reserve position.

The minutes of this meeting reveal the following (ibid, P.169):

"The GAO audit bill recently passed the House of Representatives, but was limited to a financial audit. There is no prospect of Senate action this session, however, Mr. Mayo thanked those directors who were able to contact members of Congress to secure support for the Federal Reserve position."

On December 18, 1975, Governor Mitchell returned to the Chicago Fed and complimented them on their lobbying performance. "The System remains strong and viable and support from Reserve Bank directors in dealing with Congress has been very helpful," he said.

The Banking Committee's August, 1976 study shows who the directors are. Seventy-three of the 108 directors of the Federal Reserve Banks, almost 70 percent, are shown to have been either then or in the past officers, directors or employees of financial institutions. In many cases, not only are the directors connected with commercial banks, they are also top officials in bank lobbies -- the American Bankers Association and various state banking associations.

The Fed was proud of its success in enlisting the bankers as unofficial, unregistered lobbyists for the Fed. The Richmond Fed's chairman, Robert W. Lawson, bragged about it publicly. In a speech to the American Bankers Association in Hot Springs, Virginia on October 5, 1975, Lawson congratulated the bankers for their great lobbying assist to the Fed. "The bankers in our district and elsewhere did a tremendous job in helping to defeat the General Accounting Office bill," he said. "It shows what can be done when the bankers of the country get together."

We heard about that remark in Congress at the time, of course. What we have not been able to document, until these minutes were made available, was that the campaign was heavily orchestrated by the Fed itself.



The pattern of organized Fed lobbying is also seen in connection with attempts to get the Fed totally exempted from the "Government in the Sunshine" bill. On December 11, 1975, the Chicago Fed's President Mayo reported to his directors on this legislation. After noting the alleged consequences of opening directors meetings to the public, he then described the organization of the lobbying effort, indicating that Ward J. Larson (Senior Vice President, General Counsel and Secretary to the Board of the Chicago Fed) would follow up with each director on his lobbying activities (Pp. 318-319, Federal Reserve Bank of Chicago, Minutes of the Board of Directors for 1975, as delivered to the House Banking Committee):

"Mr. Mayo reported that a 'Government in Sunshine' bill has already passed the Senate, requiring all federal agencies headed by a body of two or more members appointed by the President to conduct business at meetings open to the public. Even in those instances where a majority of the members vote to close the meeting a verbatim transcript must be made and retained for at least two years.

"While this bill does not appear to apply to the individual reserve banks, it does apply to the Board of Governors and possibly to the FOMC, (Federal Open Market Committee) and this application concerns us directly as a System.

"A similar bill, H. R. 11007, will be voted upon soon by the Government Operations Committee of the House. We would hope that the Federal Reserve System could be totally excluded from the bill -- or at least that it be exempt from the requirement that a verbatim transcript be made of all closed meetings.

"Keeping a verbatim transcript would clearly inhibit discussion and could cause members to speak only for the record. While such a transcript would be subject to court

subpoena, even more critical to the system would be the scrutiny of the Congress. As you can see this legislation is particularly sensitive with regard to Board discussions on monetary policy and bank regulatory matters. (Emphasis added).

"Mr. Mayo then read a list of Committee members from this district. He asked each director to think about possible contacts to explain Federal Reserve concern and indicated that Mr. Larson would be in touch with each director tomorrow as a follow-up." (Emphasis added).

The compelling evidence of extensive lobbying on the part of the Fed raises very serious questions. Attempts by regulatory agencies to orchestrate lobbying campaigns against bills affecting their agencies are illegal when money appropriated by the Congress is used. Section 1913 of Title 18 of the United States Code provides as follows:

"No part of the money appropriated by any enactment of Congress shall, in the absence of express authorization by Congress, be used directly or indirectly to pay for any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device, intended or designed to influence in any manner a Member of Congress, to favor or oppose, by vote or otherwise, any legislation or appropriation by Congress, whether before or after the introduction of any bill or resolution proposing such legislation or appropriation; but this shall not prevent officers or agencies from communicating to Members of Congress on the request of any Member or to Congress, through the proper official channels, requests for legislation or appropriations which they deem necessary for the efficient conduct of the public business.

"Whoever, being an officer or employee of the United States or of any department or agency thereof, violates or attempts to violate this section, shall be fined not more than \$500 or imprisoned not more than one year, or both; and after notice and hearing by the superior officer vested with the power of removing him, shall be removed from office or employment."

The Fed is technically exempt from this statute because its funds are not appropriated by Congress. But the spirit which prompted the ban on organizing lobbying by officials of other agencies should certainly be observed in practice by the Federal Reserve as well. The Federal Reserve, after all, is a regulatory agency. It holds great power over financial institutions. It has extensive regulatory powers over bank holding companies and member banks. It approves or disapproves loans to banks from the discount window. It approves the establishment of Edge Act corporations, which are international banking and holding companies through which the banks hold interest in over 2,000 foreign financial institutions.

Despite this, the prestigious Federal Reserve Board in Washington puts its members on the road, visiting the Reserve Banks to encourage bankers and businessmen sitting on the Bank boards to become involved in a massive lobbying campaign.

I am distressed that Chairman Burns apparently believes that it is "an entirely legitimate activity" for Federal Reserve Bank directors to communicate with "bankers, journalists, and public people" about legislation which the Fed doesn't like. Bankers are regulated by the Federal Reserve; any communication from the Fed about legislative lobbying has implicit in it the suggestion that the regulators can give or withhold favors in return for support. The following colloquy of January 21, 1975 is instructive. (Hearings before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth

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Congress, First and Second Sessions, P. 2006):

"CHAIRMAN REUSS. Let me now get into the area of politics, which you brought up several times this morning in connection with the audit bill for the Fed. On October 1, 1975, the American Banker carried an interesting story on your Reserve Bank chairman in Richmond, Robert W. Lawson.

The headline was, 'Federal Reserve Board Official Hails Bank Role in Killing GAO Audit of the Fed.' And then it went on to describe his speech to a bankers group, in which he said:

'Banks played a key role in blocking a Congressional audit of the Federal Reserve Board. The bankers in our district and elsewhere did a tremendous job in helping to defeat the GAO bill. It shows what can be done when the bankers of the country get together.'

My question is: If you get the support of the banks on an issue which is of great concern to you, whether Congress has the right to audit your books or not, are they not likely to expect in return kind treatment from you as a regulator? They would not get it, of course, but are they not likely to expect it?

DR. BURNS. As for Mr. Lawson's statement, let me merely remind you that, as I indicated in my testimony, we have in the System 269 directors, and neither I nor the Board can be responsible for what individual directors may or may not say.

CHAIRMAN REUSS. Did not the Federal Reserve people, to your knowledge, communicate with the banks about bank lobbying against the audit bill?

DR. BURNS. I played no part in this activity at all, not because I would consider it wrong, but because I did not have the time.



CHAIRMAN REUSS. My question was, With respect to people at the Fed, was there not a little communication there?

DR. BURNS. Yes. That is to say, there was some communication ~~between our various directors, not with bankers as such, but with bankers, journalists, business people.~~ I do not know whom they contacted. ~~And that, I think, is an entirely legitimate activity.~~ After all, do not Members of the Congress want to hear from their constituents?

Think what would happen if the Federal Power Commission enlisted the executives of the oil and gas companies it regulates to lobby Congress on legislation of concern to the FPC. Congress would be outraged. And it would be clearly illegal.

It is a fine line to draw between the intent of this section of the criminal code which prohibits the use of appropriated funds for lobbying, and the Fed's use of funds which would otherwise be paid into the Federal Treasury. It is all, in reality, the taxpayers' money. In fact, in other instances the Fed itself has argued that Federal Reserve System funds are in reality government funds. The Office of Management and Budget recently issued "Guidelines for Reducing Public Reporting to Federal Agencies" which said, "Federal agencies are not to engage in any data collection activities which are not financed wholly by Federal funds." In a letter to Senator Lee Metcalf, chairman of the Governmental Affairs Subcommittee on Reports, Accounting and Management, Dr. Burns stated: "We believe that System funds may be viewed as 'federal funds', as distinguished from private funds, within the limited context of the provision of the OMB guideline in question."

In other words, when it suits its purpose, the Fed claims that it is no different from other government agencies simply because its funds are not appropriated.

Congress, therefore, should remove this distinction between the Fed and other agencies by applying to the Fed the same restrictions on lobbying that govern other agencies.

#### I. Lobbying Efforts in State Governments

Lobbying efforts by the Fed System are not confined to the U. S. Congress. The Fed also organizes lobbying against bills it opposes in state legislatures. The minutes of the Philadelphia Fed for May 4 and May 18, 1972, describe a lobbying effort in New Jersey which involved enlisting private commercial banks and the New Jersey Bankers Association against a bill which might have attracted independent banks away from the Fed (Pp. 57-58, Federal Reserve Bank of Philadelphia Board minutes -- 1972, 1974 and 1975, as delivered to the House Banking Committee):

"President Eastburn said there was a Bill in the New Jersey Assembly to permit nonmembers to keep up to 50 percent of their reserves in government securities. He indicated that this Bank had been in touch with New Jersey bankers, the New Jersey Bankers Association and key legislators to express the feeling that the Bill would be divisive, inequitable, and disruptive, and would have an adverse effect on membership. He reported that the Bill had recently been sent back to Committee. \_\_\_\_\_ (name omitted) said he would meet with the Governor to discuss the Bill."

And then two weeks later, the Philadelphia minutes contain a follow-up report (ibid, P. 62):

"\_\_\_\_\_ (name omitted) reported that the proposed New Jersey Legislation, which would permit banks to invest part of their reserves, had been sent back to Committee. He said he had talked with the Governor who will look into the situation."

The pattern of lobbying with the U. S. Congress against the GAO audit bill and the Sunshine Act appears to be carried through by the regional banks for state legislation. The Bank, as the Philadelphia minutes show, mobilizes the state bankers association and local bankers in its legislative campaigns.

The skiminess of the minutes and the omission of the name of the contact to the governor compels the conclusion that this was not a formal, above-board effort to state the Fed position through proper official channels.

This secrecy, especially for an agency involved in bank regulation, is not in keeping with the spirit of accountability of government agencies. After all, the Fed has a half-Nelson on the banks it regulates, and should not be in a position of intimidating them into supporting the Fed position on legislation.

II. Federal Reserve Role in Encouraging Private Commercial Bank Loans to Real Estate Investment Trusts and Public Utilities

Whatever the propriety of the Federal Reserve attempting to encourage commercial bank loans to particular recipients, if it does so the Congress is certainly entitled to know about it.

During hearings of the Subcommittee on Domestic Monetary Policy of the House Banking Committee on February 6, 1975, there was an allegation by Andrew Brimmer, former Governor of the Federal Reserve System, that the Fed was engaging in efforts to encourage loans to real estate investment trusts (REITs).

The following day we questioned Dr. Arthur Burns about these allegations. He acknowledged that Fed officials had talked with banks and real estate investment trusts "to find out what they could about the nature of the difficulty." But he added that "The Board did not involve itself in any thing that could remotely be described as credit allocation." The matter was then pursued by Congressman Neal (Pp. 276-277, Hearings before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Currency and Housing, House of Representatives, February 4, 5, and 6, 1975):

"MR. NEAL. You are familiar with the testimony of Andrew Brimmer?

DR. BURNS. Well, I am learning about it.

MR. NEAL. Let me just read you a couple of sentences. (Of Brimmer's testimony).

'As this committee knows, while the Federal Reserve Board has been strongly opposed to any formal system of credit allocation by commercial banks, the Board in fact has been doing just that. Last year the Board, primarily through the

Reserve Banks, took an explicit and active role in counseling commercial banks with respect to loans to real estate investment trusts, and so on.'

DR. BURNS. That is a strange interpretation of what the Federal Reserve did, and I am sorry to say that it is inaccurate.

MR. NEAL. Well, I think the broader question is -- the concept mentioned is that credit is in fact being allocated, and it is either being allocated by the Federal Reserve Board or by banks or it is going to be allocated by the U. S. Congress, and I think what we are trying to talk about is who should allocate credit.

And unless you are saying that in fact credit is not allocated, and only a free market determines where credit goes. Is that what you are saying?

DR. BURNS. I am saying that the Federal Reserve System has not played and should not play any role in the direct allocation of credit. My position is that the Federal Reserve System should continue to concern itself with the general condition of the financial system. It should not seek to direct credit into one channel or into another. This has never been its responsibility, and in my judgment it would be a mistake to assign that responsibility to the Board."

It now appears from the minutes of several Federal Reserve Banks that on the same day Chairman Burns appeared before our Committee, and denied that the Federal Reserve System was encouraging commercial banks to loan money to particular recipients, the boards of directors of the San Francisco Federal Reserve Bank and the New York Federal Reserve Bank were discussing actions they had taken to encourage loans to real estate investment trusts and public utilities.

From the San Francisco Federal Reserve Board, board of directors meeting, February 6, 1975 (Pp. 226-227, Minutes of Directors' Meetings, Federal Reserve Bank of San Francisco, 1975, as delivered to the House Banking Committee):

"It was noted that the next topic -- discussion of two articles that appeared in the February 1, 1975 issue of Forbes relating to the Federal Reserve and to the real estate investment trust industry -- had been placed on the agenda at the suggestion of Mr. Dahl. (The Forbes article charged that extensive credit allocation efforts were being conducted by the Federal Reserve.) Mr. Balles (President of the Bank) then summarized the low-key contacts that had been made at the request of the Board of Governors to a few of the larger banks in the Twelfth District last fall to encourage credit availability to real estate investment trusts and public utilities within the limits of prudent credit judgment, and he noted the propriety of the role of the Federal Reserve in the provision of liquidity to major segments of the economy. He had been unaware of the matter prior to reading the articles, Mr. Dahl stated, which raised a question as to the scope of communications to the directors concerning Federal Reserve activities. Mr. Balles indicated that in connection with the subject activity, it has been decided that the System approach would be handled on a low-profile, need-to-know basis, in view of the sensitivity of the financial markets at the time and the damaging effect thereon of rumors that might arise relative to actions taken by the Federal Reserve. During discussion of the allegations contained in the Forbes article, Chairman Wilson indicated that he shared Mr. Dahl's viewpoint and President Balles stated that he would convey the concern of the directors in this regard to the Board of Governors." (Emphasis added).

From the New York Federal Reserve Bank board of directors meeting, February 6, 1975 (P. 550, Minutes of Meetings of the Board of Directors of the Federal Reserve Bank of New York, 1975, Pp. 513-752, as delivered to the House Banking Committee):

"Mr. Debs (First Vice President )reported on a meeting he attended at the offices of the Board of Governors on February 4, 1975, to review the general situation in the Real Estate Investment Trust industry with emphasis on the role that the Federal Reserve Banks have played with respect to facilitating communications between individual real estate investment trusts and individual banks that are members of syndicates providing credit to such institutions. He said that over the past several months, the officers of this Bank had, from time to time, contacted one or more individual commercial banks in an effort to open channels of communication between such banks in respect to the status of various matters relating to credit arrangements for certain real estate investment trusts. He reviewed the circumstances under which such contacts were made, and he said that in all such cases involving this Bank, the objective of such contacts was to insure that adequate communication existed between the parties concerned, recognizing that ultimate credit judgment with respect to individual Trusts rested with the management of the banks contacted. He commented on the current situation in the Real Estate Investment trust industry, and he summarized the views of the Board of Governors of the Federal Reserve System in respect to this matter as expressed during a meeting on February 4. A discussion followed." (Emphasis added).

Apparently, all the Reserve Banks were playing this game. Why was the Congress misled about the Fed's efforts at credit allocation?

Whatever one's view of the efforts by the central bank to influence the placement of commercial loans to particular recipients, certainly it is poor public policy for this practice to be conducted as a private matter between the Fed and the banks over which it has control. If such activities are going on, and it is obvious they are, the Congress is entitled to know about it.

These are particularly relevant questions in view of the massive built-in conflict of interest that exists at the regional banks, where individuals with close ties to the banking industry dominate the boards of directors.

IV. Mr. Gilpatric and Franklin National Bank

Potential conflicts of interest are abundant in the boards of directors of the Reserve Banks. Three of the directors by law are bankers, and the other six often have close ties to financial institutions. These potential conflicts of interest are apparently not guarded against very carefully, as is brought out dramatically by the following episode.

In 1974, the board of directors of the New York Reserve Bank held lengthy, secret deliberations on how to handle the crisis caused by the impending bankruptcy of the Franklin National Bank.

On October 7, 1974, the directors of the New York Fed were discussing the Franklin case. The minutes show (P. 453, Minutes of Meetings of the Board of Directors of the Federal Reserve Bank of New York, 1974, Pp. 254-512, as delivered to the House Banking Committee):

"Mr. Debs (First Vice President) then reviewed and commented on the overall plan whereby, in the event of such insolvency, the Federal Deposit Insurance Corporation would be appointed Receiver, and would accept bids from certain banks for the assumption of certain liabilities and assets of Franklin National Bank. He said that, as was reported to the directors earlier, the Federal Deposit Insurance Corporation plan also contemplated an agreement between this Bank and the Federal Deposit Insurance Corporation whereby the Federal Deposit Insurance Corporation would assume Franklin National Bank's indebtedness to this Bank, and a substantial part of Franklin's assets would remain with the Federal Deposit Insurance Corporation, which would liquidate such assets and use the proceeds of such liquidation to repay the assumed indebtedness to this Bank over a three-year period. In this regard, he referred to and commented on the proposed "Agreement of assumption of Indebtedness" (#10261) between this Bank and the Federal Deposit Insurance Corporation.



"Mr. Debs then presented the officers' recommendation that they be authorized to enter into the proposed "Agreement of Assumption of Indebtedness" (#10261) between this Bank and the Federal Deposit Insurance Corporation and he requested the directors' concurrence in the proposed draft letter to the Comptroller (#10258).

"An extended discussion followed, during which the directors expressed their concurrence in the text of the draft letter to Mr. Smith (Comptroller of the Currency), it being understood that such letter would be transmitted to Mr. Smith immediately following the meeting.

"During the course of the discussion, Mr. Gilpatric noted that the law firm of Cravath, Swaine and Moore, of which he is a partner, is counsel to the Chemical Bank, one of the prospective bidding banks under the Federal Deposit Insurance Corporation's plan described by Mr. Debs. Mr. Gilpatric said that he personally had not participated in the rendering by the firm of any legal services to Chemical Bank and that, after consideration, he had concluded that under the circumstances the relationship between the firm of Cravath, Swaine and Moore and the Chemical Bank was not grounds whereby he should disqualify himself from voting as a director of this Bank on the matters before the directors today. The other directors present said that they had also considered whether or not there were any grounds on which they should disqualify themselves from voting on these matters and they indicated that they were satisfied that no such grounds existed. Whereupon, it was duly and unanimously VOTED...."

The October 17, 1974 minutes (ibid, P 458) then report that the Comptroller had declared Franklin National insolvent on October 8, 1974 and that "such declaration was in part based on this Bank's letter to the Comptroller" in which the directors of the New York Fed had concurred.

Thus, Mr. Gilpatric voted on a resolution in which a client of his law firm was an interested party. It is not reassuring that Mr. Gilpatric and the board of directors, after reflecting on his apparent conflict of interest as revealed in the minutes, decided that there was not sufficient grounds for disqualification from voting on the termination of the Franklin National Bank loan.

Loans to Federal Reserve Employees at Below-Market Interest Rates

According to the minutes of the Federal Reserve Bank of New York directors' meeting of July 17, 1975, page 646, and December 18, 1975, page 740, and internal operating bulletin number 4 of June 4, 1976, the New York Federal Reserve Bank has a fund for making small loans to employees. For the period 1935-1975, the employees at the New York Bank were charged a 3 percent interest rate, while ordinary citizens were paying perhaps 12 or even 18 percent for short-term loans. In 1975, with permission of the Board of Governors, the interest rate on these loans was raised to the discount rate, recently under 6 percent, which is below the market rate of interest -- 12 to 18 percent -- for personal loans. Officers of the New York Bank served on the Committee on Confidential Loans to Employees, which is in charge of deciding who gets the money. In Cleveland, in 1974, loans were made at the prime rate (8 to 11 percent then), except for "tuition" loans which were interest-free.

The Fed has never informed Congress of the funds at all. Why should the Banks be making low-interest loans to their employees out of funds that would otherwise be returned to the Treasury? This is just one of the areas of the Fed's budget which calls for formal Congressional oversight.

# VI. Largesse for Retiring Directors

The Board of Directors of the St. Louis Federal Reserve Bank decided at their April 11, 1974 meeting to increase from \$20 to \$30 the amount to be spent for employee mementos as part of the Bank's employee recognition and appreciation program. The Christmas spirit took over, however, when the board of directors considered retirement mementos for themselves. The directors, who serve only three-year terms, voted on June 6, 1974, to raise the limit on their own retirement mementos for themselves from \$350 to \$600, "recognizing that inflation precludes any lesser amount from being feasible" (P. 111, Federal Reserve Bank of St. Louis, Minutes as delivered to the House Banking Committee) - an ironic bit of monetary escalation in an agency which bills itself as the nation's chief inflation-fighter.

No justification exists for Federal Reserve directors to vote themselves any gifts at all out of the public's funds.

II. Deletions and Failure to Provide Important Details in the Directors' Minutes

Most of the minutes of the directors' meetings are little more than an annotated agenda where important topics are merely recorded as having been discussed.

Several examples illustrate the lack of details in the minutes.

After a murder and three related shootings inside the Richmond Federal Reserve Bank, there must have been quite a discussion at the next board of directors' meeting. However, the minutes of March 9, 1972 at Richmond report simply (P. 19, Federal Reserve Bank of Richmond, Board of Directors, 1972, 1974, and 1975 Minutes as delivered to the House Banking Committee.):

"Mr. Heflin reported on the incident last Tuesday, when one of the Bank's guards shot and wounded four other members of our Security force, one fatally. He said that the other three had been released by the hospital."

After a visit by Governor Philip E. Coldwell to the Richmond Board meeting on April 10, 1975, the minutes reveal only the subjects of his comments (ibid, P. 298.):

"After being introduced by Chairman Lawson, Governor Coldwell commented on three matters of importance to the Federal Reserve System: (1) response of the Federal Reserve System to the Congressional Resolution on the conduct of monetary policy, (2) supervision and regulation of banks by the Federal Reserve System, and (3) the Board of Governors' newly formed Membership Committee. A brief discussion followed Governor Coldwell's remarks." "The meeting recessed at 11:00 a.m. and reconvened at 11:15 a.m."

The "minutes" are hardly complete without a report of what Governor Coldwell said about these subjects. This omission is acute, but not as extreme as the report on what Governor Coldwell said at the Kansas City board of directors seven days later (P.253, Federal Reserve Board of Kansas City, Minutes 1972, 1974, and 1975, as delivered to the House Banking Committee.):

"Chairman Person presented Governor Coldwell, who spoke on problems currently being faced by the Board of Governors and the Federal Reserve System. The meeting, on proper motion, adjourned at 12 o'clock noon."

Such deficient reports help to insure that no record of matters of substance will ever be available, and that members of these boards will be insulated from public accountability.

In addition to the lack of detail in most of the minutes, the copies of the minutes we received contained 904 deletions. The minutes look like a Swiss cheese, with deletions dotting the critical pages. It was as if the Committee had received the most-secret files of the CIA, rather than the records of a public agency dealing with economic policy.

Fuller disclosure by the Fed should be required. This should include a more detailed record of meetings; the budgets of the Federal Reserve Banks, including salaries of the employees and gifts the directors give themselves; and such matters as complete details of contracts for remodeling and real estate purchases.

There is no good reason, for instance, why only the Bank presidents' salaries are made public and other salaries over \$20,000 are not. Chairman Burns said in a June 25, 1974, letter

to the late Chairman Wright Patman, that public knowledge of these salaries would subject these employees to the possibility of robbery and kidnapping. There is no reason to keep the salaries of Federal Reserve employees and officers secret when the salaries of all branches of the federal government are put in the public record. If the Federal Reserve seeks to justify the salaries it pays to its bank presidents, such as \$95,000 to the President of the New York Federal Reserve Bank, why must it not also be called upon to justify the salaries paid to other officers of the Bank?

\*\*\*\*\*

The Federal Reserve System has engaged in activities well beyond what is allowed any government agency, and which have been kept secret from the Congress and the American public.

The revelations from even these censored minutes give clear evidence of the need for a thorough look at the operations of the Federal Reserve System, from the Board of Governors to the boards of directors of the Reserve Banks.

The House Committee on Banking, Finance and Urban Affairs will endeavor to obtain a full explanation of these activities from Fed officials.

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U.S. HOUSE OF REPRESENTATIVES  
 COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-FIFTH CONGRESS  
 2129 RAYBURN HOUSE OFFICE BUILDING  
 WASHINGTON, D.C. 20515

May 19, 1977

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 GARRY BROWN, MICH.  
 CHALMERS R. WYLLIE, OHIO  
 JOHN H. ROUSSELOT, CALIF.  
 STEWART B. MCKINNEY, CONN.  
 GEORGE HANSEN, IOWA  
 HENRY J. HYDE, ILL.  
 RICHARD KELLY, FLA.  
 CHARLES E. GRASSLEY, IOWA  
 MILLENT FENWICK, N.J.  
 JAMES A. S. LEACH, IOWA  
 NEWTON L. STEARNS, JR., MD.  
 THOMAS B. EVANS, JR., DEL.  
 BRUCE F. CAPUTO, N.Y.  
 HAROLD C. HOLLENBECK, N.J.

225-6147

MEMORANDUM

TO: All Members, House Committee on Banking, Finance  
 and Urban Affairs

FROM: Henry S. Reuss, Chairman

SUBJECT: Federal Reserve Directors' Minutes

On May 18, 1977, you received a copy of my May 17, 1977, letter to Chairman Burns. I enclose here all the correspondence pertaining to our negotiations for the receipt of the Federal Reserve Directors' Minutes:

1. August 30, 1976, from Reuss to Burns
2. September 15, 1976, from Burns to Reuss
3. September 23, 1977, from Reuss to Burns
4. September 28, 1976, from Burns to Reuss
5. November 12, 1976, from Reuss to Burns
6. November 16, 1976, from Burns to Reuss
7. November 17, 1976, from Reuss to Burns
8. December 20, 1976, from Burns to Reuss
9. December 21, 1976, from Reuss to Burns
10. May 17, 1977, from Reuss to Burns
11. May 19, 1977, from Burns to Reuss
12. May 19, 1977, from Reuss to Burns

As is evident, our oversight responsibility contained in Rule X of the House Rules requires that we inform ourselves about what the Federal Reserve Banks have been doing at their official meetings.

WILLY E. DAVIS, WIS. STEPHEN M. FARR, ILL.  
 FREDERICK F. FARR, ILL.  
 THOMAS L. ASHLEY, OHIO  
 PHILIP S. MUDWHEAD, PA.  
 ROBERT G. STEPHENS, JR., GA.  
 EDWARD J. STEINWAIN, N.J.  
 EDWIN B. GONZALEZ, TEX.  
 SIGMUND G. HOFFMAN, N.J.  
 RICHARD J. HANCOCK, ILL.  
 DONALD M. REES, CALIF.  
 JAMES H. KIMBLEY, N.Y.  
 ARTHUR J. MITCHELL, MD.  
 VALTER F. FAUWHOTY, D.C.  
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 ARTHUR HUBBARD, JR., KY.  
 JOHN J. LUTALIC, N.Y.  
 LLOYD MOON SPELLMAN, MD.  
 LEAH GORDON, OREG.  
 ARL E. TSONGAS, MASS.  
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 JEFFORD ALLEN, TEX.  
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U.S. HOUSE OF REPRESENTATIVES  
 COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS  
 2129 RAYBURN HOUSE OFFICE BUILDING  
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August 30, 1976

ALBERT W. JOHNSON, PA.  
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 JOHN H. ROUSSELOT, CALIF.  
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 RON PAUL, TEX.

725-4147

Honorable Arthur F. Burns  
 Chairman, Board of Governors  
 Federal Reserve System  
 Washington, D. C. 20551

Dear Mr. Chairman:

Thank you very much for your analysis of our recent report on Federal Reserve directors.

I must once again disagree with your contention that the talents needed for these boards of directors can come only from banking and big business. I am convinced that there are many able people in consumer organizations, labor groups, small farming operations and small business enterprises who could give competent leadership and certainly broader perspective to the Federal Reserve System. I cannot accept the idea that there have been no women capable of meeting your criteria for service on the boards of directors of these Federal Reserve banks.

I know that you are a very capable, imaginative, and innovative Chairman of the Federal Reserve Board and I am confident that on reflection you will see the value of including a broad segment of the American public in the Federal Reserve System and I trust and hope that you will use your good office to start moving in this direction when the new directors are selected this Fall.



Honorable Arthur F. Burns

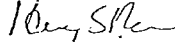
Page Two

August 30, 1976

In the concluding paragraph of your letter, you imply that whatever the make-up of the Federal Reserve Bank boards of directors, it is the Board of Governors in Washington which controls the entire system. In light of the Federal Reserve Act and the various regulations promulgated by the Federal Reserve Board through the years, this contention is indeed interesting.

I do think it is important that we pin down this question and I would assume that many of the documents and records in these Federal Reserve banks, particularly the minutes of board meetings, would indicate the degree of influence and power exercised by each bank's board of directors. Therefore, I am taking this opportunity to ask that you assemble from each of the 12 Federal Reserve banks the minutes of board meetings for the past five years. Since these questions are under active consideration in the Congress, I hope that you will do everything possible to speed the transmission of these minutes to the Committee.

Sincerely,



Henry S. Reuss  
Chairman



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

SEP 21 1976

September 15, 1976

BANKING, CURRENCY & HOUSING COMMITTEE

The Honorable Henry S. Reuss  
Chairman, Committee on Banking,  
Currency and Housing  
House of Representatives  
Washington, D.C. 21515

Dear Chairman Reuss:

I am responding to your August 30 letter in which you requested minutes of Boards of Directors meetings at each Federal Reserve Bank over the last five years.

Judging from your letter, you are still of the belief that corporate and banking groups exercise more influence over monetary policy than I know to be the case. However, the method that you propose for seeking confirmation of your views--inspection of the minutes of Boards of Directors meetings--will not attain the objective that you seek.

Your objective and my objective are exactly the same, namely, to expand the representation on the Boards of Directors at Federal Reserve Banks and branches. Any debate over the degree of power exercised by the existing Boards can only divert us from the main issue. You believe representation should be broadened. I, too, believe that representation should be broadened. You want broader representation because of what you believe to be undue influence of the Federal Reserve by corporate and banking interests. We want broader representation because of misunderstandings that have arisen and because we believe broader representation is a good thing in and of itself. Legislation passed by the House to increase the number of Class C directors from three to six will provide an excellent opportunity to do this.

Neither of us will reach our common goal, however, by examining pages and pages of minutes of Boards of Directors meetings.

As I have mentioned to you on previous occasions, the only real power that the Boards of Directors exercise in the field of monetary policy is in the changes that they recommend in the discount

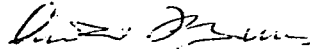
The Honorable Henry S. Reuss

rate, a procedure that is spelled out in the Federal Reserve Act. These recommendations and their fate are already a matter of public record. Although the Board values the judgment expressed by directors in their discount rate recommendations, the independent thinking exercised by the Board of Governors is abundantly evident from the fact that recommendations for changes have frequently been turned down. These instances are spelled out in the annual reports of the Board of Governors. During 1975, for example, while the Board approved 4 recommended changes by Reserve Bank directors, we turned down their requests on 22 occasions.

I hope that these comments will be helpful to you in keeping the role of Federal Reserve Directors in perspective. In any event, your and our objectives are the same--broader public representation on these Boards, and we must not let debate cloud our thinking on this issue.

With kind regards,

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'Arthur F. Burns', written in a cursive style.

Arthur F. Burns

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# U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS

2128 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

September 23, 1976

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 RON PAUL, TEX.  
 215-4247

Honorable Arthur F. Burns  
 Chairman  
 Board of Governors  
 Federal Reserve System  
 Washington, D.C. 20551

Dear Mr. Chairman:

On August 30 I requested that you produce the minutes of the meetings of the boards of directors of the twelve Federal Reserve Banks for the past five years. I have not received these documents and your letter of September 15, which I have just received, indicates clearly that you are resisting my efforts to inspect the minutes.

As I have stated to you previously, these records are important to the oversight and legislative responsibilities of the Committee, and it is my intention to pursue every proper and necessary means to obtain them.

So there will be no misunderstanding, I request that your office assemble the minutes of the board of directors of the twelve Federal Reserve Banks for the past five years, and deliver these documents to the Clerk of the Banking, Currency and Housing Committee of the House of Representatives, Room 2128 Rayburn House Office Building, by 5 p.m. on October 15.

Sincerely,

*Henry S. Reuss*  
 Henry S. Reuss  
 Chairman



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

September 28, 1976

The Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Currency  
and Housing  
House of Representatives  
Washington, D.C. 20515

Dear Henry:

I want to acknowledge your letter of September 23, 1976 asking that the minutes of all meetings of the Boards of Directors of the 12 Federal Reserve Banks throughout the last five years be made available to your staff. I know you would want me to give careful consideration to this request, and I intend to do so since there are many important questions to be weighed -- among them the role of Reserve Banks and their directorates, the confidentiality of relationships with foreign and international bodies, and the privacy of regulated institutions.

Nevertheless, I have asked the Board's staff and the Reserve Banks to examine all aspects of the proposed release of this material. The work will begin immediately. It may be that after the staff review you and I should discuss appropriate ways to achieve your objectives that are consistent with the Federal Reserve System's regulatory and statutory responsibilities.

Unfortunately, I am leaving tomorrow for the International Monetary Fund annual meeting in Manila. If you are planning to attend we may have an opportunity to talk informally during the trip, although I will not have the benefit of the staff's research and my colleagues' views until I return just after the middle of October. In view of my absence from the country I cannot promise to meet your request by the fifteenth of October, but I have done everything necessary to arrange a resolution of the questions shortly thereafter.

Sincerely yours,

Arthur F. Burns

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## U.S. HOUSE OF REPRESENTATIVES

### COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS

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WASHINGTON, D.C. 20515

November 12, 1976

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 215-4247

Honorable Arthur F. Burns  
 Chairman, Board of Governors  
 Federal Reserve System  
 Washington, D.C. 20551

Dear Mr. Chairman:

I wrote you last August requesting the minutes of board meetings of the twelve Federal Reserve Banks and, as you know, we have not received these documents. I am hopeful that our meeting this morning will serve to clear any roadblocks to the production of the minutes.

As you indicated, there are areas of "sensitivity" in some of the minutes of the various Federal Reserve Banks, including delicate transactions with foreign central banks, personnel actions, the disclosure of which would unnecessarily embarrass innocent people, and matters affecting the physical security against burglary and robbery of the Reserve Banks.

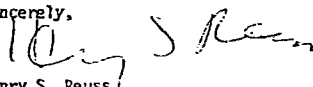
In submitting these minutes to me, I am sure that you will designate those areas which you feel are sensitive and the release of which would serve no useful public purpose. I will review carefully and give utmost consideration to your suggestions for such deletions. In the event that there are instances where I do not agree with your request for deletions, I will discuss these areas with you further prior to making any of the minutes generally available.

Your suggestion that we lighten the workload of copying five years of minutes is well taken. In keeping with your suggestion on this point, I am willing to agree to reduce my immediate request to the years 1972, 1974 and 1975. Any additional years which we may need can be discussed with you later.

Honorable Arthur F. Burns  
Page 2  
November 12, 1976

Since this request has been pending since August and since you indicated in your letter of September 28 that your staff was making arrangements for the production of the minutes, I trust that there will be no inordinate delay in furnishing the minutes for these three years.

Sincerely,

A handwritten signature in dark ink, appearing to read "Henry S. Reuss", written in a cursive style.

Henry S. Reuss  
Chairman



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

November 16, 1976

The Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Currency and Housing  
House of Representatives  
Washington, D. C.

Dear Henry:

In accordance with our conversation last Friday, I shall advise the Reserve Bank Boards to send you the minutes of their meetings.

As you and I agreed at our meeting, the following highly sensitive items will be omitted -- those pertaining to borrowing or prospective borrowing by individually-named banks at the discount window, those pertaining to transactions with foreign central banks, and those pertaining to real estate plans or negotiations in process. Also, items pertaining to individual personnel matters or to safety measures at the banks will be put in a separate file, and you and I alone will sit down and go over them.

Let me say once again, that I am pleased that this matter has been resolved and that I shall do what I can to expedite the delivery of the minutes for 1972, 1974, and 1975.

Sincerely yours,

Arthur F. Burns

*P.S. Your press release after our talk was very helpful. I appreciate it.*

*A.*



HENRY S. REUSS, WIS., CHAIRMAN  
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## U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING  
 WASHINGTON, D.C. 20515

November 17, 1976

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 GEORGE V. RANZEN, ISLAND  
 RICHARD V. DONALD, PA.  
 WILLIS D. GRADISON, JR., OHIO  
 HENRY J. NYDE, ILL.  
 RICHARD KELLY, FLA.  
 CHARLES E. GRASSLEY, IOWA  
 MILICENT FENWICK, N.J.  
 FOR PAUL, TEX.

215-4147

Honorable Arthur F. Burns  
 Chairman  
 Board of Governors  
 Federal Reserve System  
 Washington, D.C. 20551

Dear Mr. Chairman:

Perhaps my letter to you dated November 12, 1976 was received after you had dictated your letter of November 16, 1976. It is my understanding and intent, as indicated in the third paragraph of my November 12 letter, to receive all of the minutes of the 12 Federal Reserve district banks, unexpurgated; and you will indicate in each and every instance, those items which you consider to be of a sensitive nature. To repeat, I will review and give careful consideration to your suggestions for deletions; and in the event there are instances where I do not agree with your request to delete, I will discuss these matters with you prior to making any of the minutes generally available.

I appreciate your cooperation in this matter, and I am pleased that you will expedite delivery of the minutes for the 12 regional banks for 1972, 1974, and 1975.

Sincerely,

*H. S. Reuss*  
 Henry S. Reuss  
 Chairman



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

December 20, 1976

The Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Currency  
and Housing  
House of Representatives  
Washington, D. C. 20515

Dear Henry:

Pursuant to my understanding of our agreed position derived from our meeting on November 12 and set forth in my letter to you of November 16, I requested the 12 Federal Reserve Banks to prepare copies of the minutes of their Board of Directors' meetings for the years that you selected. I must advise that in requesting the Banks' preparation of the copies of minutes, which are being transmitted herewith, I have gone further towards meeting your request than many members of the Federal Reserve System thought proper.

Please note the following:

1. There have been deleted from the enclosed minutes entries relating to borrowing or prospective borrowing at the discount window by individually named banks, transactions with foreign central banks, and real estate plans or negotiations in process. For reasons that you and I carefully reviewed, matters such as these could damage financial institutions or otherwise cause injury to local interests or to our national interest.
2. References to sensitive personnel matters -- in most instances involving only removal of the names or salaries -- and references to highly confidential matters relating to the security of the Reserve Banks have also been deleted. However, these deleted materials have been placed in respective separate files, so that you and I can sit down and go over these materials whenever you wish to do so; these files are now in my office.

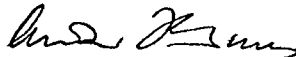
The Honorable Henry S. Reuss

3. In addition, there has been removed and placed in a separate file a group of minute entries which we have not previously discussed and which do not fall precisely within the categories of items that we agreed would be deleted. However, I believe that such entries would best be accorded treatment as described in the preceding paragraph. These entries, relatively few in total number, are in part judgmental expressions reflecting adversely on the performance or abilities of parties outside the Reserve Banks, disclosure of which could cause irreparable professional damage or personal injury. Other entries concern completed real estate purchase information, disclosure of which could jeopardize the negotiating position of the Reserve Banks in future real estate transactions.
4. In transmitting the minutes, I do so on the essential assumption that they will be examined and treated by you and your staff on a completely confidential basis. They reflect, as would the minutes of any corporate board meetings, the directors' bona fide efforts to fulfill their fiduciary obligations through the candid exchange of views and through review of significant corporate issues. You can appreciate that the public disclosure of such matters may offer the potential for misunderstanding and conjecture, and could significantly compromise a given board's relations with the Board of Governors or its own officers and employees, as well as injure the Reserve Bank's relations with the financial institutions it regulates and with sundry business and personal interests within its district.

I most earnestly hope that you will accept my assurance that I have done all that I properly could in present circumstances.

With kind regards,

Sincerely yours,



Arthur F. Burns

Enclosures

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 215-4347

December 21, 1976

Honorable Arthur F. Burns  
 Chairman  
 Board of Governors  
 Federal Reserve System  
 Washington, D.C. 20551

Dear Arthur:

Thank you for your letter of December 20 conveying to me certain portions of the minutes of the 12 Federal Reserve Banks for the years 1972, 1974, and 1975.


As I have indicated, the matter deleted, and referred to in items 1 through 3, will be the subject of further discussion.

As to item 4 of your letter of December 20, "In transmitting the minutes, I do so on the essential assumption that they will be examined and treated by you and your staff on a completely confidential basis.", this comes as news to me. We have asked for the minutes of the Federal Reserve Banks, you will recall, because of your assertion that whatever the make-up of the Federal Reserve boards of directors, it is the Board of Governors in Washington which controls the entire system. The suggestion that you are giving us this material "...on a completely confidential basis" is not contained in your letter to me of September 15, 1976, nor that of September 28, 1976, nor that of November 16, 1976. Here, in short, is a fine "how de do", and we must have a stimulating chat on the subject.

After my staff and I have analyzed the material submitted to us, we will be in touch with you.

Best wishes to you, Helen and family for a fruitful new year.

Sincerely,

  
 Henry S. Reuss  
 Chairman

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May 17, 1977

Honorable Arthur F. Burns  
 Chairman  
 Board of Governors  
 Federal Reserve System  
 Washington, D.C. 20551

Dear Chairman Burns:

I have now completed a review of the voluminous minutes of the boards of directors of the regional Reserve Banks for the years 1972, 1974, and 1975, as supplied by you on December 20, 1976, pursuant to our exchange of correspondence which began August 26, 1976.

The contents of these minutes raise serious public policy questions.

(1) They show, for instance, an extensive pattern of lobbying on the part of the Federal Reserve System against two bills; one which would have required a General Accounting Office audit of the Federal Reserve, another the "Government in the Sunshine" Act. The kind of lobbying activities evidenced in the minutes would be a criminal violation if conducted by an agency which receives appropriated funds. The fact that the Fed's funds do not come via Congressional appropriations does not excuse the Fed from the spirit of the Act which governs other agencies. In reality, unused Federal Reserve funds are returned to the Treasury; therefore, lobbying activities which involve use of Federal Reserve funds are in effect carried out at the taxpayers' expense. Apart from the law, there is a serious question of propriety when the Federal Reserve enlists commercial bankers, over whom it has considerable regulatory power, to lobby against legislation the Fed does not like.

(2) The minutes show that the Fed's lobbying activities affected even a bill before the New Jersey state legislature.

(3) It is also seen from the minutes that Congress was misled by testimony from the Federal Reserve as to whether the Fed was encouraging banks to extend credit in 1974 and 1975 to real estate investment trusts and public utilities.

(4) Other questions raised by the minutes involve a possible conflict of interest on the part of a director of the New York Federal Reserve Bank in connection with the failure of the Franklin National Bank; taxpayer subsidized loans by the Federal Reserve Banks to their own employees; and generous retirement payments the boards of directors voted for themselves.

Even though the minutes are very sketchy and contain 90+ deletions, the activities disclosed by them are deeply disturbing. Therefore, I find it necessary that information disclosed by these minutes be made public in pursuance of this Committee's legislative responsibility.

In reviewing the correspondence under which these minutes were made available to the Committee, I note your assertion in your letter of December 20, 1976, that you are making the minutes available "on the essential assumption that they will be treated by you and your staff on a completely confidential basis." However, there had been nothing in the correspondence that preceded delivery of these minutes to the Committee that justified such an assumption.

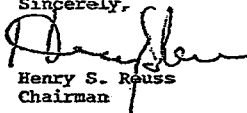
In my letter to you of September 23, following earlier correspondence in August, I noted that you were resisting efforts to inspect the minutes, and asked that these records, "important to the oversight and legislative responsibilities of the Committee", be delivered to the Committee by 5:00 p.m. on October 15. We later agreed to a review of the minutes for only three selected years, 1972, 1974, and 1975. In our personal meeting on November 12, 1976, we also reached agreement that certain kinds of information could be deleted. I summarized this agreement in my letter to you of the same day as follows: "As you indicated, there are areas of 'sensitivity' in some of the minutes of the various Federal Reserve Banks including transactions which would unnecessarily embarrass innocent people, and matters affecting the security against burglary and robbery of the Federal Reserve Banks. In submitting these minutes to me, I am sure that you will indicate those areas which you feel are sensitive and the release of which would serve no useful purpose. I will review carefully and give utmost consideration to your suggestions for such deletions."

The letter continued: "In the event that there are instances where I do not agree with your request for deletions, I will discuss these areas with you further prior to making any of the minutes generally available."

There was no agreement to keep the information in the minutes confidential, and I plan to make the information public. If you wish to come before the Committee within the next week and explain why the material in the minutes relating to these questionable activities should not be made public, I would be happy to call a Committee meeting, preferably in public, but in secret if you prefer.

In addition, I believe the matters referred to above require additional inquiry by the Congress. For that purpose, please supply the Committee promptly the material which has been deleted from the minutes, except that pertaining strictly to safety measures, private personnel matters excluding salaries, confidential transactions with foreign central banks, or bank borrowing at the discount window in cases where disclosure would jeopardize the position of the bank. In addition, please send to the Committee copies of the minutes of the directors' meetings for all twelve Regional Banks for the years 1971, 1973, and 1976, as well as minutes of the Board of Governors' meetings for 1971 through 1976.

Sincerely,



Henry S. Reuss  
Chairman



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

May 19, 1977

The Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Finance  
and Urban Affairs  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I am deeply concerned about the statement in your letter of May 17, 1977, that you plan to make public the copies of the minutes of the 12 Federal Reserve Banks that I transmitted to the House Committee on Banking, Finance and Urban Affairs on December 20, 1976. My transmittal letter made quite clear that the Board was furnishing this material on the assumption that it would be treated on a completely confidential basis. Whether or not you believe that assumption to be justified, it was a critically important element of our consent to provide access to these documents. Your letter of December 21 suggested that we have a "stimulating chat" on that subject, but you neither rejected our assumption nor refused to accept the documents on the basis on which they were tendered.

The minutes that we transmitted were, of course, furnished to the Committee, as you requested. I expect therefore that any final decision with respect to public release of these documents will be made by the Committee on Banking, Finance and Urban Affairs. In reaching such a decision, I am confident that the Committee will weigh carefully the long-range effects of its action. As I pointed out in my letter to you of December 20, public disclosure of these matters could significantly compromise relationships between the Board of Governors and the Reserve Banks as well as relations between the Reserve Banks and the institutions they regulate.

Finally, I must express my profound disappointment that you have seen fit to issue a press release that unfairly casts doubt upon the integrity of the Federal Reserve System. The charges of impropriety you have made are without substance.

With warm regards,

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Arthur F. Burns", is written over the typed name.

Arthur F. Burns



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May 19, 1977

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215-047

Honorable Arthur F. Burns  
 Chairman  
 Board of Governors  
 Federal Reserve System  
 Washington, D. C. 20551

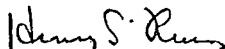
Dear Dr. Burns:

Thank you for your letter of May 19, 1977.

As my letter to you of December 21, 1976 makes clear, the minutes of the board of directors meetings were never accepted on the basis that they would be kept confidential. As transmitted to me, the minutes already contained 904 deletions of material considered "sensitive."

Therefore, I intend to proceed as indicated in my letter to you of May 17, 1977. You are again invited, as stated in the May 17 letter, to come before the Committee if you wish and explain why you believe the material (not including material set forth in items 1, 2, and 3 of your December 20, 1976 letter to me) should not be made public. If you desire such an opportunity, we will be happy to have you before us in Room 2128 Rayburn House Office Building at 9:00 a.m. on Tuesday, May 24, 1977. Because of our Committee's rule requiring timely notice, I would appreciate being advised by the close of business Friday of your wishes so that we may meet the requirements of our rule.

Sincerely,

  
 Henry S. Reuss  
 Chairman

[COMMITTEE PRINT]

FEDERAL RESERVE DIRECTORS: A STUDY OF  
CORPORATE AND BANKING INFLUENCE

STAFF REPORT FOR THE  
COMMITTEE ON BANKING, CURRENCY AND HOUSING  
HOUSE OF REPRESENTATIVES  
94th Congress, Second Session:



AUGUST 1976

**The report has not been officially adopted by the Committee on Banking, Currency and Housing  
and may not therefore necessarily reflect the views of its members**

**Printed for the use of the Committee on Banking, Currency and Housing**

## FOREWORD

---

AUGUST 6, 1976.

I transmit herewith a staff study of the corporate, banking and trade association relationships of the directors of the 12 Federal Reserve Banks.

This Committee has observed for many years the influence of private interests over the essentially public responsibilities of the Federal Reserve System.

As the study makes clear, it is difficult to imagine a more narrowly-based board of directors for a public agency than has been gathered together for the twelve banks of the Federal Reserve System.

Only two segments of American society—banking and big business—have any substantial representation on the boards, and often even these become merged through interlocking directorates.

The lack of diversity on the boards raises serious questions about the quality of economic intelligence and opinion which the district banks presumably feed into the Federal Reserve System and its monetary policy machinery. And the heavy links to the banking community raise doubts about the ability of the district boards to view bank and bank holding company regulatory issues with objectivity.

The Commission on Money and Credit raised some significant questions on these points in its 1961 report:

The agency-clientele relationship, between a Government agency and the business concerns it both serves and regulates, is almost always, almost inevitably, close; and the more so after it has matured for decades. There are public advantages in this: regulation can be knowledgeable, its inconveniences can be minimized, personal working relationships can be easy. But the hazards of too close a relationship are also well known; conflicts of interest tempt individuals on either side of the public-private line to consult private advantage too far; organized interests among the regulated may first infiltrate and then paralyze their public regulators; even legitimate transactions and contacts risk misconstruction; *parties on both sides come to take too parochial a view of the national interest.* (Pp. 91-92, emphasis added.)

The potential for conflict of interest has markedly increased since 1961, with the delegation of additional authority to the district Reserve Banks. The 1970 amendments to the Bank Holding Company Act, the Consumer Credit Protection Act, the Equal Credit Opportunity Act and similar consumer statutes, have given important new duties to the Federal Reserve System—responsibilities which serve to highlight the shortcomings of the make-up of the bank boards.

Despite these broadening roles, consumer and labor organizations have no apparent representation anywhere in the system. In fact, many directors of the Federal Reserve district banks are members of the United States Chamber of Commerce, the National Association of Manufacturers, and local “employers associations”—groups with long histories of opposition to organized labor.

Small farmers are absent. Small business is barely visible. No women appear on the district boards and only six among the branches. Systemwide—including district and branch boards—only thirteen members from minority groups appear.

The study raises a substantial question about the Federal Reserve's oft-repeated claim of "independence". One might ask, independent from what? Surely not banking or big business, if we are to judge from the massive interlocks revealed by this analysis of the district boards.

The big business and banking dominance of the Federal Reserve System cited in this report can be traced, in part, to the original Federal Reserve Act, which gave member commercial banks the right to select two-thirds of the directors of each district bank. But the Board of Governors in Washington must share the responsibility for this imbalance. They appoint the so-called "public" members of the boards of each district bank, appointments which have largely reflected the same narrow interests of the bank-elected members.

The parochial nature of the boards affects the public interest across a wide area, ranging from monetary policy to bank regulation. These are the directors, for example, who initially select the presidents of the 12 district banks—officials who serve on the Federal Open Market Committee, determining the nation's money supply and the level of economic activity. The selection of these public officials, with such broad and essential policymaking powers, should not be in the hands of boards of directors selected and dominated by private banking and corporate interests.

The nation would be better served by making the Federal Reserve System truly independent of big business and banking, freed of its built-in conflicts of interest, and more open in its activities. For example:

- Voting membership on the Federal Open Market Committee should be restricted to officers appointed by the President of the United States.
- The three Class A directors, who by law must be bankers, should be prohibited from participating in decisions bearing directly or indirectly on bank or bank holding company regulatory matters.
- The business/agriculture representation on the board, which the Federal Reserve Act assigns to the three Class B directors of each bank, should be broadened to include more small businessmen and family farmers, minority businesses, cooperative enterprises, and community development entities.
- As this Committee proposed in the Federal Reserve Reform Act, which passed the House in May, 1976, the "public" category (Class C) should be expanded from three to six members and women, minorities, agriculture, conservation, labor, education and consumers should be given specific consideration thus preventing the present over-emphasis on representation by big business and banking.
- The process for nomination and election of the board members should be reformed to lessen domination by trade associations and other narrowly-based groups. Consideration should be given to limiting the role of the commercial banks to the nomination and election of Class A directors, with all other board members selected by the Presidentially-appointed Board of Governors.
- More information should be made available to the Congress and the public about the day-to-day activities and decision-making of the district banks, including the economic intelligence input to the Board of Governors and the Federal Open Market Committee.

Until we have basic reforms, the Federal Reserve System will be handicapped in carrying out its public responsibilities as an economic stabilization and bank regulatory agency. The System's mandate is too essential to the nation's welfare to leave so much of the machinery under the control of narrow private interests. Concentration of economic and financial power in the United States has gone too far. We should celebrate our Bicentennial by reversing the trend away from Thomas Jefferson.

Henry S. Reuss

HENRY S. REUSS, *Chairman,*  
*Banking, Currency and Housing Committee*  
*of the U.S. House of Representatives.*



APPENDIX II



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WASHINGTON, D.C. 20540

PUBLIC ACCESS TO RECORDS OF FEDERAL OPEN MARKET COMMITTEE DELIBERATIONS:  
EVOLUTION OF POLICIES PRECEDING THE DECISION TO  
TERMINATE MAINTENANCE OF DETAILED RECORDS

Prepared for the Subcommittee on Domestic Monetary Policy,  
Committee on Banking, Finance and Urban Affairs,  
United States House of Representatives

by

Roger S. White  
Analyst in Money and Banking  
Economics Division

May 16, 1977

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Summary .

Appendix: Selected FOMC deliberations about releasing the minutes

Excerpt from Minutes of the Federal Open Market Committee:  
meeting held April 17, 1962 .....Excerpt from Minutes of the Federal Open Market Committee:  
meeting held December 3, 1963 .....



PUBLIC ACCESS TO RECORDS OF FEDERAL OPEN MARKET COMMITTEE DELIBERATIONS:  
EVOLUTION OF POLICIES PRECEDING THE DECISION TO  
TERMINATE MAINTENANCE OF DETAILED RECORDS

Introduction

The principal means by which the Federal Reserve System conducts monetary policy is through its purchases and sales of open market securities. The Federal Open Market Committee (FOMC) is the organizational body within the Federal Reserve System having responsibilities for formulating policies and issuing directives on open market transactions. In large measure, therefore, information about the activities of the FOMC is critical for describing and analyzing monetary policy and the manner in which policy is formulated.

This paper traces historical developments relating to FOMC policies regarding public access to minutes of its proceedings. Such public disclosures has always been at the discretion of the FOMC which has had a range of options available to it. Specifically, the elements which comprise FOMC disclosure practices through release of its minutes are the nature of minutes maintained, their availability to the public and, if they are made available, the timing of their release.

Detailed minutes or memoranda of discussion had been prepared in conjunction with each FOMC meeting from 1936 through March 1976. Most of

these records were released in 1965 when a newly adopted FOMC policy provided for the release of minutes for meetings held through 1960 and for the release of minutes for subsequent meetings with a five-year lag after the calendar year in which minutes were taken. The first section of this paper outlines the informational role of publicly accessible FOMC minutes. The remaining sections report developments regarding disclosure of FOMC deliberations which preceded the decision in May 1976 to discontinue taking detailed FOMC minutes.

#### Informational role of FOMC minutes.

Some perspective on the informational role of the public release of FOMC minutes is gained by comparative references to reports on its meetings which the FOMC makes publicly available in compliance with provisions of the Federal Reserve Act and by reference to FOMC practices relating to such reports. Section 10 of the Federal Reserve Act requires the Board of Governors of the Federal Reserve System to submit an annual report to Congress containing a complete record of actions taken relating to open market operations, the voting records on open market policies and the reasons underlying each action. These public records on open market meetings are commonly referred to as "records of policy actions".

Beginning with the record of policy actions for the meeting of May 18, 1976, the FOMC indicated that "the policy records would be expanded to include more information concerning members' views on longer-run and current policy."<sup>1/</sup> In their expanded form, these reports differ from FOMC minutes in terms of the completeness of information conveyed. The records of policy actions, as currently prepared, present general summaries of discussions whereas the more detailed minutes have reported the views of individual discussants and also the identity of these discussants.

FOMC practices regarding the timing of public release of documents is the basis for another distinguishing characteristic of its minutes as an information source. Since 1967, the FOMC has issued records of policy actions more promptly than required by law. Under current practice, they are released about thirty days after each meeting and are published in the Federal Reserve Bulletin. FOMC minutes were not released to the public until 1965 at which time all minutes through 1960 were made available and a policy was instituted for the release of subsequent minutes with a five-year lag. The last minutes which the FOMC recorded, those taken for the meeting of March 1976, are scheduled to be released in January 1982. After that date, no additional minutes will be available for release unless the maintenance of detailed minutes is resumed.

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<sup>1/</sup> Record of Policy Actions of the Federal Open Market Committee: meeting held on May 18, 1976. Federal Reserve Bulletin, July 1976: 590-591.

### I. Initial disclosure policies.

Formal procedures for directing open market operations were first adopted in 1922, through actions taken within the Federal Reserve System itself, with the creation of the Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities. The name of this policy-making body and its membership composition changed several times before statutory provisions for an open market committee were introduced with the passage of the Banking Act of 1935. The various open market committees which preceded the FOMC maintained abbreviated minutes which were available for internal use only. Beginning with its first meeting on March 18, 1936, the FOMC maintained detailed, but not verbatim, records of its deliberations which, for a number of years, were considered confidential documents.

The initial policies of the FOMC regarding detailed records of its proceedings were established at early meetings of this group and remained essentially unchanged for about thirty years. The Banking Act of 1935, which established the FOMC with its current membership arrangement, influenced directly and indirectly the maintenance and disclosure of information on FOMC deliberations and policy actions. The Act stipulated the following requirements for maintaining records and filing reports to Congress:

cnc

The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board ...shall include in its annual report to the Congress...a copy of the records required to be kept under the provisions of this paragraph. 1/

At its first meeting, in 1936, the FOMC adopted by-laws containing a provision which specified the nature of information to be recorded in the minutes of its meetings:

It shall be [the secretary's] duty to keep minutes of all meetings of the Committee and a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and [he] shall record the votes taken in connection with the determination of open-market policies and the underlying reasons assigned therefore. 2/

This provision incorporated language which appeared in the reporting requirements section of the Banking Act of 1935 and contributed to the maintenance of more detailed minutes than had been recorded for previous open market committees, particularly with respect to elaborations on "underlying reasons" for policy actions taken. Another by-law provision on disclosure of information limited the public release of information beyond what was required by the Banking Act of 1935:

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1/ 12 U.S.C. 247a

2/ Minutes of the Federal Open Market Committee: meeting of March 18, 1936. [Washington, U.S. Board of Governors of the Federal Reserve System] p. 4.

The proceedings, deliberations, discussions and actions of the Committee, except as required by law and except as authorized by the Committee, shall be strictly confidential, and no information shall be released except as authorized by the Committee and in the annual report required to be made to Congress by section 10 of the Federal Reserve Act as amended. Except as herein provided, no reports on the meetings of the Committee shall be made to any person or persons whatsoever. 1/

- V. FOMC concerns about records of deliberations under initial disclosure policies, 1936-1960.

Following the adoption of its original by-laws, the FOMC gave explicit attention to policies relating to its minutes on only a few occasions before 1961. In 1937, the FOMC considered the degree to which details were to be recorded in minutes. This action was taken in response to the following suggestion which was advanced at the FOMC meeting of May 4, 1937:

...that whenever an agreement is reached or a position taken by the Committee the agreement or action be expressed as a formal motion or resolution and voted upon, so that it may be so recorded in the minutes, and that individual statements of opinion or position be omitted from the record, unless the person making the statements requests that it be incorporated in the minutes in which case the authorship should be shown. 2/

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1/ Ibid., p. 3. The last sentence of this provision was later stricken, it being considered "somewhat redundant" and "unnecessarily restrictive." The elimination was not viewed as removing "the confidential nature of the matters considered and acted on by the Committee." Minutes of the FOMC. September 9, 1938, p. 5.

2/ Minutes of the FOMC. May 4, 1937, pp. 1-2.

A special committee within the FOMC was appointed during this meeting to consider the following alternatives for recording minutes:

(1) whether the present form of minutes should be continued, (2) whether the changes referred to above should be made in the present form, (3) whether the minutes should be prepared in a brief form which would state only the actions taken with the votes thereon followed by the reasons and any explanatory discussion that might be necessary, and (4) whether a full stenographic report should be made of the Committee's proceedings. 1/

The third option, calling for the recording of the least amount of information, was consistent with statutory requirements for recording and ultimately releasing information about FOMC proceedings. At the meeting of June 9, 1937, the special committee recommended a continuation of existing practices for recording minutes. No further action was taken. In the absence of any evidence that members of the FOMC were concerned about ultimate public release of the minutes, it would appear that the decision to maintain detailed records of its proceedings was based on judgments concerning the value of such documents for uses within the Federal Reserve System.

On several occasions the FOMC addressed questions about which Federal Reserve System personnel should be granted access to its minutes. Arrangements agreed upon for automatic access or for access on a need-to-know

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1/ Ibid.

basis resulted in selective dissemination of the minutes within the Federal Reserve System.<sup>1/</sup> Reports on FOMC discussions about internal access to minutes reveal several points of information regarding the minutes. The minutes were considered important as internal briefing documents for those with on-going responsibilities in the area of open market policy and for those who, upon being charged with such responsibilities, needed background on developments which had preceded their appointments. The function of the minutes as internal briefing documents was most clearly demonstrated in the meeting of March 6, 1939 which went into recess with the understanding that newly-appointed members of the FOMC "would read the minutes [of specified meetings] during the evening and that the Committee would reconvene tomorrow morning for further consideration of the open market policy to be adopted by the Committee."<sup>2/</sup>

It appears also that the minutes were subject to review by participants at the meetings before they were made available to others within the Federal Reserve System. On March 20, 1939, a motion approved by the FOMC concerning internal access to the minutes included "the understanding that the minutes would first be sent to the regular members of the Federal

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<sup>1/</sup> Minutes of the FOMC. March 6, 1939, p. 8; March 20, 1939, pp and March 2, 1955, pp. 37-39.

<sup>2/</sup> Minutes of the FOMC. March 6, 1939, pp. 8-9



Open Market Committee for review before being sent to [Federal Reserve Bank presidents not currently serving on the FOMC]."<sup>1/</sup>

In 1951, an incident arose which served as the basis for confirmation by the FOMC of its concern about the confidentiality of its deliberations. On February 7, 1951, the Wall Street Journal published an article containing references to a discussion held at the FOMC meeting held the previous day.<sup>2/</sup> FOMC reaction was in the form of an adopted motion that information leaks by a member would be sufficient cause for removal of the member from the FOMC.<sup>3/</sup>

Reaching the decision to release the minutes, 1961-1964.

During a three-year period from June 1961 through May 1964, the FOMC engaged in intermittent discussions about instituting procedures for publishing its minutes. In May 1964, the FOMC adopted a proposal for the public release of minutes for all meetings held prior to 1961 and for the release of minutes for subsequent meetings with a five-year lag.

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1/ Minutes of the FOMC. March 20, 1939, p. 2.

2/ FRB members, bank presidents discuss interest rate feud. Wall Street Journal, February 7, 1951: 2.

3/ Minutes of the FOMC. February 6-8, 1951, pp. 31-33.

The chronology of events surrounding FOMC discussions about publication of its minutes suggest that two external developments were influential in bringing this matter to the FOMC's attention and sustaining its interest in it. These were a series of congressional requests for FOMC minutes and the publication of a scholarly treatise on U.S. monetary history which was critical of Federal Reserve System monetary policy.

At hearings before the Joint Economic Committee in June 1961, Representative Wright Patman, Chairman of the committee, requested a copy of the FOMC minutes for 1960 from William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System.<sup>1/</sup> These minutes were sent as requested following discussions at a series of FOMC meetings in June and July of that year.<sup>2/</sup> During these discussions, Chairman Martin raised the idea of regularly publishing FOMC minutes in conjunction with the release of the annual report of the Board of Governors.<sup>3/</sup> At the

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<sup>1/</sup> U.S. Congress. Joint Economic Committee. Review of Annual Report of the Federal Reserve System for the Year 1960. Hearings 87th Congress, 1st session. June 1-2, 1961. Washington, U.S. Govt. Print. Off., 1961. pp. 106-109.

<sup>2/</sup> The 1960 minutes were sent to the Joint Economic Committee "on the understanding that they will be treated as confidential." The rationale for requesting confidentiality was set forth in a transmittal letter which appears in the Minutes for the meeting of July 11, 1961 on pages 68-71.

<sup>3/</sup> Minutes of the FOMC. June 6, 1961, p. 3<sup>a</sup>

conclusion of more extensive deliberations over the publication issue during the FOMC meeting of April 1962, the matter was tabled with the understanding that all members would continue to study ways to present "to the public the nature of the Federal Reserve System and the way this group operated."<sup>1/</sup> Discussions about publication were revived briefly in August and September 1962 when the FOMC received and reviewed galley proofs of a proposed Joint Economic Committee publication based on the FOMC minutes for 1960 which had been made available to Representative Patman.<sup>2/</sup>

The next round of discussions took place over a year later, at the close of 1963, and included consideration of providing assistance in the writing of a history of the Federal Reserve System.<sup>3/</sup> Immediately preceding these discussions, in November 1963, a major study of U.S. monetary

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<sup>1/</sup> Minutes of the FOMC. April 17, 1962, p. 98.

<sup>2/</sup> Minutes of the FOMC. August 21, 1962, pp. 46-51; and September 11 1962, pp. 62-73.

<sup>3/</sup> Minutes of the FOMC. December 3, 1963, pp. 54-76.

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history was published. This study, by Milton Friedman and Anna Schwartz, contained sharp criticism of Federal Reserve System monetary policy.<sup>1/</sup>

In January 1964, the FOMC received another request for its minutes from Representative Patman in his capacity as Chairman of the Subcommittee on Domestic Finance of the House Committee on Banking and Currency.<sup>2/</sup>

This request was discussed at each meeting of the FOMC through April 1964 at which time the request was denied. The letter from the FOMC conveying this message to the Congressman included the following indication that publication of historical minutes was imminent:

To provide a broad historical perspective, the Federal Open Market Committee and the Board of Governors have instructed their staffs to explore means for making their records relating to monetary policy decisions through the year 1960 available for the use of scholars and other interested persons. It is expected that procedures for accomplishing this end will be decided upon shortly.<sup>3/</sup>

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<sup>1/</sup> Friedman, Milton., and Anna Schwartz. A monetary history of the United States, 1867-1960. Princeton, N.J., Princeton University Press, 1963. 860 p. The Federal Reserve System gained first hand information about the nature of the Friedman and Schwartz book in 1962 when the authors sent an early draft of their manuscript to Chairman Martin with a request for assistance in detecting errors of fact or interpretation. The only communication the authors received from the Federal Reserve was an acknowledgement of receipt of the manuscript. Letter from Milton Friedman, Professor of Economics, University of Chicago to the Honorable Stephen L. Neal, Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking, Currency and Housing, October 2, 1976.

<sup>2/</sup> U.S. Congress House. Committee on Banking and Currency. Subcommittee on Domestic Finance. The Federal Reserve System after Fifty Years. Hearings. 88th Congress, 2d session. Volume 1. Washington, U.S. Govt. Print. Off., 1964. pp. 54-59.

<sup>3/</sup> Minutes of the FOMC. April 14, 1964, p. 68

Procedures for public release of FOMC minutes were adopted without discussion at the FOMC meeting of May 5, 1964 by unanimous vote.<sup>1/</sup>

In the FOMC deliberations which preceded the decision to publish, a variety of opinions were voiced. It appears that Chairman Martin was a principal proponent of publication throughout these deliberations. His interest in public disclosure was reflected in his view that the broad problem "involved clearly the matter of the Committee's responsibility in the public interest and the best way to discharge that responsibility."<sup>2/</sup> He also cited the absence of an objective body of literature in the public domain on the operations of the Federal Reserve System and misunderstandings of the public about the manner in which policy decisions were reached.<sup>3/</sup>

In general, members of the FOMC endorsed Chairman Martin's view that increased public disclosure was desirable. Assistance in securing an objective history of the Federal Reserve System and publication of quarterly reviews of open market policies were suggested as alternatives to or supplements to publication of the minutes. A full range of views

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<sup>1/</sup> Minutes of the FOMC. May 5, 1964, pp. 56-57.

<sup>2/</sup> Minutes of the FOMC. June 20, 1961, p. 39.

<sup>3/</sup> Minutes of the FOMC. April 17, 1962, p. 96; September 11, 1962, p. and December 3, 1963, pp. 54-55.

expressed on this issue is presented in the excerpts from minutes of two FOMC meetings which appear in the appendix to this paper.

Several concerns addressed at FOMC meetings by both critics and supporters of publication were reflected in disclosure policies ultimately adopted by the FOMC. A major concern among members of the FOMC was the timing of release and the perceived impact that such timing would have on freedom of expression during meetings. A summary of Governor George Mitchell's views illustrates this concern:

The kind of record that would grow out of minutes where there was a knowledge that they would be made public after a lag might well look shallow at a later period. This certainly would be the case if publication was to be with a very short lag such as one year, and less so as the lag became longer. 1/

Another concern was the treatment to be given to sensitive discussions about foreign exchange operations. 2/ Expressed interest in these matters helps to explain the nature of the final arrangements for release of the

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1/ Minutes of the FOMC. April 17, 1962, p. 94.

2/ Minutes of the FOMC April 17, 1962, pp. 87, 90 and 92. This topic was discussed by the FOMC on another occasion in connection with questions regarding the degree of detail to be recorded and the internal distribution of preliminary drafts of minutes for meetings in which foreign exchange operations were discussed. Minutes of the FOMC, March 27, 1962, pp. 54-55. In its request for FOMC minutes in 1964, the House Subcommittee on Domestic Finance also acknowledged the sensitivity of discussions relating to foreign exchange operations. The Federal Reserve System after Fifty Years, pp. 57-58.

minutes which provided for a five-year lag and exclusion of portions of the minutes, principally relating to foreign exchange operations, judged to be sensitive.

#### Summary

Beyond certain basic reporting requirements stipulated in the Federal Reserve Act, as amended in 1935, the FOMC exercises its own discretion with respect to the nature of information recorded about its activities and conditions under which public access to such information, if any, is granted. This paper presents historical developments relating to FOMC policies and practices regarding a rather substantive form of public disclosure, release of detailed minutes of its meetings.

FOMC staff prepared minutes or memoranda of discussions for each FOMC meeting from 1936 until this practice was discontinued in May 1976. These records include detailed documentation of discussions, identifying participants in these discussions with the specific views they advanced. The initial public disclosure policies of the FOMC restricted disclosure to information the FOMC was required to release by law. Under these policies, which were reaffirmed on several occasions during their existence, detailed minutes of FOMC meetings were maintained as confidential documents. Procedures for granting public access to the minutes were adopted in 1964 after three years of periodic discussions in which consideration

of congressional requests for minutes and the needs of scholarly researchers received considerable attention. Records of some of the more extensive FOMC discussions on the issue of public release of its minutes are reproduced in the appendix to this paper. The 1964 FOMC provisions included a five-year lag for release of the minutes. With the termination of the maintenance of detailed minutes of FOMC meetings in May 1976, access to the final set of minutes available for public release will be granted in 1982.



## APPENDIX

Excerpt from Minutes of the Federal Open Market Committee: meeting held April 17, 1962. pages 85-99.

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Chairman Martin referred to discussions from time to time in the past regarding the publication of minutes of meetings of the Federal Open Market Committee, noting that the question had been brought up again by reason of the fact that the minutes covering all meetings held in calendar year 1960 had been furnished to Congressman Patman as Chairman of the Joint Economic Committee, that he understood they had been seen by a number of persons, and that in the course of time there would be published an analysis of those minutes prepared by members of Mr. Patman's staff. The suggestion

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had been made that it would be desirable if the Committee's minutes were to be published so as to permit all interested persons to review freely the record of policy discussions and decisions. He then called upon Mr. Balderston for comment.

Mr. Balderston stated that he believed it desirable to make the minutes of the Federal Open Market Committee available to scholars for the decade of the 1950s. Specifically, he would propose that they be published for the period 1951 through 1960 in the form approved by the Committee and without additional interpretative comments. He would include in the published record the minutes of the meetings of the executive committee for the period 1951 to June 1955 in which month that committee was abolished. Mr. Balderston stated that he believed the Committee and the Federal Reserve System were at a disadvantage in getting interested members of the public to understand the goals of the Federal Reserve and how the System sought to achieve them. Some of the System's critics now had access to information not available to scholars generally. His view was that scholars, whether favorable or unfavorable to the System, should have access to the minutes so that they could make an objective analysis on the basis of the record. In response to a question from Mr. Deming as to whether this called for publication of the minutes, or whether they could be made available in some other manner, Mr. Balderston said that he was thinking of publication so that they would be available not only at the Federal Reserve Banks and at the Board's offices, but also in college libraries. In this way, teachers or students of finance or others

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would have ready access to them. He also stated, in response to Mr. Deming's question as to whether he was proposing regular publication from here on out, that he did have such publication in mind. Mr. Balderston went on to say that this raised one of the critical points: how much lag there should be between the meeting covered by a given set of minutes and their publication. He had thought earlier in terms of a lag of three to five years, but the fact that the minutes for 1960 were now available to a limited group outside the Committee complicated the use of such a lag period.

Mr. Deming said that he was not especially disturbed about making available minutes for a past period but that he was disturbed about a procedure that would commit release of future minutes. He was thinking of this particularly in terms of the foreign currency operations in which the Committee had recently engaged.

Mr. Hayes stated that he granted the weight of some of the considerations that Mr. Balderston had brought up, particularly that making the minutes available would provide a record that would permit a defense against use of minutes out of context by those who already had access to them for the year 1960. Conceivably this could provide information that the public should have and that might be useful in a number of ways. On the other hand, Mr. Hayes said that there were counter arguments, some of which related to a lag of time before release of the minutes and some of which applied more or less permanently. If published, there should be sufficient lag to avoid the danger of anyone reading into the picture a position taken by the Committee currently or possibly one that

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would be taken in the near future. Also, if it were known that future minutes would be released, there was some risk of hurting the atmosphere of discussion at Committee meetings through inhibiting frank expressions of view. Everyone at a meeting should be free to take as frank a position as he desired, Mr. Hayes said, and he should not be held to account too strongly for views tentatively expressed. While he could not see much advantage to making the minutes available, he did not believe that much would be lost by doing so for the years 1959 and 1960.

On the matter of giving adequate information on System operations, Mr. Hayes said that he was quite concerned about the sense of inadequacy felt by many persons in the System on this point. He wondered whether the Committee should not tackle a more frequent publication of the policy record, perhaps quarterly, and whether it should not contemplate an article in the Federal Reserve Bulletin at quarterly intervals similar to the articles now published on a quarterly basis by the Bank of England. Mr. Hayes concluded his remarks with a statement that he was not enthusiastic over publication of the Committee's minutes but, if the majority wished to go ahead, he did not feel violently opposed to doing so.

Mr. Ellis stated that he was enthusiastically against making the minutes of the Committee available to the public. He questioned whether they were of primary interest to monetary analysts. These persons already know a good deal about the policy actions. From the record of policy actions published annually they know the Committee's position and the reasons for that position. The minutes would add

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information on the performance of individuals, and he doubted that this would be of interest to the monetary economists. His conclusion was that the minutes would not be of substantial advantage to the true monetary economist and he did not think the urge for access to the minutes came from that source. Those persons would much prefer more timely analytical reports of actions of the Committee. Also, as Mr. Hayes had mentioned, there was the undesirable effect on Committee discussions that could be anticipated in the event of a decision to publish the minutes. There would be a tendency for those at the meetings to elaborate the statistical presentations and to compress discussion of controversial matters, Mr. Ellis thought, which in many cases would tend to distort the basic purposes of Committee discussions. Once the Committee started publishing the minutes, it would be extremely difficult to reverse the process. There would also be a tendency to yield to requests for making the minutes available on a more nearly current basis. If there were logic in publication of the Committee's minutes, then the same logic would lead to publishing minutes of other actions on monetary policy such as on discount rates, reserve requirements, margin requirements, and so on. Mr. Ellis questioned that publication of the minutes would offset the potential danger that he thought would result--perhaps had already resulted--from access of certain persons to the 1960 minutes. He suggested that the best defense for the System against misuse of materials made available was either to make a direct response to any reports requiring comment, or to ignore the

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attacks. On the question of more information, Mr. Ellis said that he thought the Committee could move in that direction perhaps through quarterly publication of the policy record, preparation of Bulletin articles such as Mr. Hayes had mentioned, and provision of other information. This procedure, in his opinion, would be more likely to provide effectively for better public information.

Mr. Irons said that the comments by Mr. Ellis were quite convincing. On the other hand, while those objections might be valid, it still seemed to him that if members of the Congress sought the minutes, the Committee was likely to make them available. The discussions of foreign currency operations raised an additional problem, and he would look upon those discussions as somewhat different from the minutes of the regular Committee discussions. If the minutes were to be made available at all, he would lean toward their publication for interested persons generally. He would be happier if they were not made available, but if the decision was to release them, his preference would be to make them available for a period of perhaps the past ten years without resolving now the question of what would be done in the future.

Mr. Swan expressed the view that a much better job of explaining the System's position could be done through preparation of periodic analytical material, perhaps on a quarterly basis, than by publishing the Committee's minutes. Such an article would necessarily be based on policy record entries but would be in a different form. He believed that such periodic articles should be prepared regardless of what decision

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is reached about publishing the Committee's minutes. As to publication, he felt that the fact the Committee had made one year's minutes available to a Congressman on a confidential basis did not necessarily call for publishing the minutes over a ten-year period. He did not think that the Committee should be in a position of trying to hide anything, but what was needed was perspective. For that reason, he would lean toward Mr. Balderson's thought of a lag of three years or perhaps five years between the time of a meeting and any publication of the minutes for the meeting.

Mr. Deming expressed views similar to those of Mr. Ellis. While he did not feel strongly, he was concerned that any action taken might create problems for the future if it implied publication with a short lag interval. He thoroughly agreed with the desirability of preparing articles, perhaps at quarterly intervals, explaining the role of monetary policy but, on balance, he would prefer not to publish the Committee's minutes.

Mr. Scanlon stated that he, too, agreed with the views expressed by Mr. Ellis and would prefer not to have a procedure adopted whereby the minutes would be published regularly.

Mr. Clay's statement indicated agreement with the views expressed by Mr. Ellis. For one thing, a procedure for publishing the minutes would bring about perhaps unconsciously a change in the nature of the Open Market Committee's meetings. Inevitably members would be conscious of the record, and this would tend to inhibit expressions of views and testing of views with the freedom now practiced. Mr. Clay felt that a

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much better job of explaining monetary policy could be done by preparation of appropriate periodic articles than by publishing the minutes.

Mr. Heflin felt strongly that the Committee should not adopt a policy of publishing the minutes as such. Little would be accomplished by such a procedure and if publication were undertaken it probably would lead only to further demands for additional materials.

Mr. Mills stated that he would favor publication of the minutes up through the year 1960 and, after discovering the reception accorded those minutes, would deal with the question of future publication. His feeling was that responsible scholars who had the minutes at their disposal would, in their own minds, be able to recreate the background atmosphere in which policy decisions were reached. He did not have much sympathy with the idea of quarterly disseminations because they inevitably would be slanted and biased to justify decisions recently reached by the Committee.

Mr. Robertson stated that the views expressed by Mr. Mills were essentially the same as his. He thought that the Committee would be forced to issue something whether it wished to do so or not. The Congress would insist on disclosure regarding Committee discussions. In his judgment, the Committee would be in much better position if it took the lead. His preference would be to make the minutes available here in Washington, perhaps at the National Archives, and at each Reserve Bank rather than to publish and distribute them generally. There should, of course, be an appropriate lag. It would be preferable to have a longer



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lag than one year, but just how much was needed was a question. The minutes for 1960 having been made available, he could see no reason for not making them available for all prior years, since, for example, 1951.

Mr. Shepardson was inclined toward the issuance of a current summary report of open market operations such as had been suggested by several persons at this meeting. On the question of publication of the minutes, he felt that it would have been desirable if they could have been withheld. However, those for 1960 had already been made available to a degree, and other interested persons ought to have an equal opportunity to study the same minutes. This might assist in promoting objective discussion of monetary policy, although that, of course, was a matter that could not be answered at this time. He definitely would favor a time lag with respect to publication of any other minutes, and he would leave until a later time any decision as to what time lag might be applied in the future. Despite what he had just said, Mr. Shepardson expressed the hope that the Committee could handle the difficult problem of presenting the discussions of monetary policy through some means other than publication of the minutes.

Mr. King said that he believed a decision to publish the minutes at this stage would be jumping the gun. He would wait to see what kind of a report might be issued by the Congressional committee that had available the minutes for 1960 before deciding whether to publish or not. If forced to a decision at this time, Mr. King would release the minutes for 1960, but his preference would be not to release even those minutes at present.

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Mr. Mitchell said that the fundamental problem went back to the kind of record wanted for the Committee's deliberations, and the question whether publication of the minutes would result in a different record than had been had in the past or than the Committee desired. He felt that the discussions in the minutes of the Committee would not be as free as they are at present if it were known that the minutes would be published. The kind of record that would grow out of minutes where there was a knowledge that they would be made public after a lag might well look shallow at a later period. This certainly would be the case if publication was to be with a very short lag such as one year, and less so as the lag became longer. While he would prefer not to publish the minutes, he would be inclined to make available at the Reserve Banks and some place such as the Board's offices or elsewhere in Washington a file of the minutes that serious scholars could know were available for study and reference. His inclination was not to deny students access if they had an honest interest in the subject matter, but he did not think that this called for reproducing and distributing widely sets of the Committee's minutes.

Mr. Fulton expressed views favorable to periodic (quarterly) reports of Committee discussions. He did not believe that publication of the minutes would serve any useful purpose.

Mr. Bopp said that as far as inhibitions on future discussions were concerned the Committee should remember that it could not now make a final determination as to what would be published in the future. If it were decided not to publish at this time, the same question might still

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come up a year hence. Thus, one could reason that the Committee would be inhibited whether there was a decision today to publish or not to publish. He had a great personal sympathy with publication of the minutes back to the origin of the Committee. In general, he felt that a time lag of five year prior to publication would be desirable.

Mr. Bryan said that publication of the minutes should have a minimum time lag of five years and anything shorter would be dangerous as inhibiting discussions of the Committee. This would be particularly true in view of the foreign currency operations recently engaged in. It was out of the question to talk about having two sets of minutes, one that could be made public and the other that would not be available. He did not believe that the fact that the minutes for 1960 had been made available to the Congress called for publication by the Committee. If the Congress determined to make those minutes available, that was one thing, but this need not be determinative for the Committee's action. In the one case, the Congress would take the responsibility and in the other the Committee would take the responsibility. The fact that those minutes might be released by the Congress should not frighten the Committee into something that it might regret. To take that course would be abdicating responsibility. Mr. Bryan said that he would favor making the minutes available with a considerable lag of time, but not otherwise.

Mr. Francis stated that the views expressed by Mr. Ellis represented the position that he would take on this question.

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Chairman Martin said that until there was a more unanimous point of view than had been indicated at this meeting it would be a mistake to press the question of publication of the minutes to a vote. Both sides of the question had been presented reasonably well today, and as he had indicated earlier the views expressed by Mr. Ellis were persuasive.

Chairman Martin went on to emphasize that from his standpoint there were important considerations involved in this question. Everything that Mr. Ellis had said was well taken but, having spent a good deal of time in various libraries recently, he was convinced that there was a great shortage of good material on the operations of the Federal Reserve System. Information on what the System had actually done was woefully lacking. Various individuals formerly connected with the System had written things from their particular points of view, but this did not meet the need for full information to enable students and others to know what the Federal Reserve was doing in order that they might write objective analyses.

Chairman Martin said that he, personally, would be opposed to a quarterly analysis of Committee decisions on monetary policy of the sort he understood several had suggested around the table. Such a review prepared within the System for publication shortly after decisions were reached and while they still were being put into effect could not avoid being an apology for the Committee's actions. One result would be to make the position of the Chairman much more difficult than it now was.

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Any such analysis of monetary policy could hardly be expected to be objective or to reach the problem that the System had to deal with. He regretted that the institutional life of the System, which he believed to be in danger, could not be put in a light that the public would be able to visualize, so as to see that intelligent and conscientious persons were sitting around the table at frequent intervals analyzing the situation and expressing different points of view as to what would be the most suitable procedure to follow in carrying out the purposes of the Federal Reserve System. He believed that the minute record of these discussions, even with some defects, was impressive as indicating both an attitude and a procedure whereby the System was attempting to render the decisions for which it was responsible. He did not believe that the System could put out a quarterly report that would do what was needed. Also, he had come to the conclusion that quarterly publication of the record of policy actions would not meet the need, and he felt that he had convinced a former Chairman of the Senate Banking and Currency Committee that an earlier proposal that the Committee publish its record of policy actions at quarterly intervals would not be appropriate. This was not a one-man operation, nor a one-bank operation, but it was a group of individuals attempting to develop dispassionately a policy in the interest of the whole economy. It was this institutional problem that the System faced. Even in the Congress relatively few members had an understanding of the System or the way it worked.

After further comments, Chairman Martin suggested that the Committee continue to study the problem that had been discussed and

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that at a future time it explore further the means that might be taken for dealing with this problem. In his judgment it would be a mistake, even if it were possible to arrive at a favorable vote for publication, to take such action at this time. The points made against publication of the minutes seemed almost unanswerable, but there should be some way of presenting to the public the nature of the Federal Reserve System and the way this group operated, the way its meetings were conducted. This was a problem that all members of the Committee should continue to study.

Mr. Ellis commented that, in suggesting a quarterly article on monetary policy or quarterly publication of the policy record, he had in mind that this could be a vehicle for presenting to scholars and others a current statement of actions taken by the Committee and that this would be more useful to them than publication of the minutes.

Chairman Martin responded that the idea of a quarterly article on monetary policy or quarterly publication of the policy record did not now seem to him to be desirable. It would be possible to give out some kind of a statement every three months. However, he did not think that individual members of the Committee should be placed in the position of having their votes on policy positions currently or very recently under discussion made public. He was against trying to conduct policy in a way that would make spot news, and yet this was what would be sought with frequent publication of the policy record.

In concluding this portion of the meeting, Chairman Martin stated that in the absence of objection the question of publication of the minutes of the Federal Open Market Committee would be tabled. No objection to this procedure was indicated.

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Excerpt from Minutes of the Federal Open Market Committee: meeting held December 3, 1963. pages 54-76.

Chairman Martin then suggested that the Committee discuss possible publication of its minutes for some past period. He noted that a memorandum on this subject from Messrs. Young and Sherman, dated September 28, 1963, had been distributed to the Committee. He recognized there were a great many conflicting points of view on this matter. He would simply say at the outset that his own judgment had not changed; he felt that if the Committee could find some suitable means of releasing the minutes for 1951-1960 it would be a worthwhile way of making public information on how the Committee operated. He realized that releasing these minutes could make some problems for the Committee. But the more he lived with this subject the more convinced he became that a great many people misunderstood the nature and the conduct of the Committee's meetings. Publication of the minutes would not completely dispel such misunderstanding, but it would give a better basis for understanding than was now available in published materials. He doubted that the minutes could get much public attention--the general public probably would not be greatly interested. But he felt it was important to clarify the decision-making process of the Committee. He thought it should be made clear that consideration was given to many

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factors affecting monetary policy, and that this was not a one-man operation, but that differing views were expressed and the decisions taken were general decisions. Making the minutes available seemed to him the best way of giving insight into the conduct of the meetings and into the detailed nature of the views expressed.

The Chairman commented that the particular dates for which minutes were released did not seem to be a vital matter. The 1951-1960 period he had mentioned was important in the Committee's history and embraced the Treasury-Federal Reserve Accord. The year 1960 seemed a good terminal point; the minutes for that year had already been made available to the Joint Economic Committee.

Mr. Hayes said that he was reluctant to differ because he thought the Chairman had a better feel than he for the reality of the demand for this kind of information. But the more he had thought about the subject the more he had tended to feel that the Committee would do well not to give the minutes out. He was not quite sure why this was the time at which the Committee should do so; nothing had happened to suggest the desirability of now changing past policy on the matter. The Committee had given the 1960 minutes to a Congressional Committee, but it also had objected to the publication of excerpts from these minutes. The point had been made that the public deserved more understanding of Federal Reserve operations. He recognized the truth of this statement, but he was not sure that publication of the minutes



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would be the most effective way of giving the desired understanding. There were other mechanisms; more frequent statements of the nature of policy, to his mind, would be more enlightening than making the minutes public. He did not think the minutes would add a great deal to what was already publicly known.

If the minutes were published, Mr. Hayes continued, he thought it should be only with a considerable time lag. He was concerned that if publication was once started there would be agitation for reducing the lag and a tendency to do so. He thought there always would be advocates for the Committee's releasing everything, including statements of actions on the day they were taken. But in his judgment a central bank could not operate that way. It seemed to Mr. Hayes that the principles still held that Chairman Martin had outlined in his letter to Mr. Patman of last year, in which the Chairman had explained why the Committee's internal deliberations were not matters of public concern.

There were dangers of embarrassment, Mr. Hayes said, in connection with the Committee's discussions of dealings with central banks abroad. And there was the further question of whether the possibility of publication of the minutes might inhibit discussion at meetings, although he was not too concerned on this score because he had confidence in the integrity of the people around the table. On

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balance, unless the Committee felt there was overwhelming political pressure to make the minutes available, he leaned toward not publishing them.

Chairman Martin said that he would like to emphasize that there had been no pressure on this subject. The question of whether this was an appropriate time to publish the minutes was within the Committee's discretion; no commitments had been made.

Mr. Ellis said that he agreed the Committee should give more rather than less information to scholars. He was enthusiastically in favor of making available more complete descriptions of policy, because he thought there was a legitimate need for such descriptions by scholars and others. At the same time, he felt that scholars should be provided with a complete rationale of the use of all policy instruments, including discount rate and reserve requirement changes as well as open market operations. Because he had this objective in mind, he thought the Committee would do itself a disservice if it released Open Market Committee minutes. A true scholar would be frustrated by omissions from these minutes of much of the complete policy record. Also, publication of some past minutes would place the Federal Reserve on the defensive with respect to such questions as why not publish the minutes on a current basis, and why not publish the minutes of the Board of Governors concerning other aspects of monetary policy.

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Prospect of publication might also raise questions within the Committee with respect to the amount of detail that should be included in the minutes.

Mr. Ellis thought the Committee might be deceiving itself if it felt it could win supporters for the System by this means. The record would still be incomplete; potential defenders of the System were apt to sit back, and attackers would find more ammunition to use against the System.

In the long run, Mr. Ellis said, almost any written material might appropriately become public information. If the Committee decided to publish the minutes he would urge a longer lag than 3 years. He did not mean to be wholly negative on the issue; his intent was to suggest that the Committee direct its efforts to the goal of providing a more complete rationale of System policy actions.

Mr. Krons said that he had swung back and forth in his thinking on this subject. He believed the Committee had to distinguish between the submission of minutes to Congress and their general publication. He suspected the Committee would have to submit its minutes to Congress if the demand was pressed. He thought there was a gradual erosion in process with respect to supplying materials to critics. Whatever they were given would leave them unhappy; if they were supplied with minutes after a 10-year lag they would want them with a 5-year lag, and so forth. This gradual erosion of the central bank's

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position was going on in a lot of other areas and this should be kept in mind.

If the Committee did publish the minutes, Mr. Irons continued, they would not be a best seller. The public generally was not interested in this sort of reading material, and the minutes would have only limited use. If both Congress and the general public were excluded from consideration there would not be too many readers left, except the group of academicians who like to pore through such material. The question then was whether satisfaction of this group warranted publication. Even to a scholar the minutes would become pretty dull after he had read them for a year or so. Mr. Irons said he was not being critical of the minutes, but those for successive meetings inevitably involved a great deal of repetition. Another problem was that the minutes by no means reflected fully the work, thought, and general preparation that lay behind them. This raised the question of whether supporting memoranda and other Committee materials should be made publicly available to give a complete picture. Publication of the minutes was a first step that could lead to requests for other policy records, such as the minutes of the meetings of the Federal Reserve Bank directors regarding discount rate actions, those of the Board of Governors regarding approval of such actions, and so forth.

Mr. Irons said that he realized that he was being pretty negative in his comments, and he wondered if there were alternatives

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to the release of Committee minutes. For example, would it be possible to employ some capable person whose intellectual honesty was unquestioned to author a set of volumes on the history of the Federal Reserve System, giving him access to the minutes and other materials? Choice of such a person would always be open to criticism, but the possibility was worth giving some thought to.

If the Committee decided to release the minutes in some form or other, Mr. Irons said, he would suggest doing so on a limited basis. Perhaps a copy or two could be put on the shelves of each Federal Reserve Bank library for use of scholars. For such a purpose the 1951-1960 period would be excellent. It represented a 10-year period from the date of the Accord, and the gap from 1960 to date was good. He did not think that this would solve the problem, however. The Committee undoubtedly would be criticized for not making minutes for the last two years available.

Mr. Swan said that he was in substantial agreement with the opinions already expressed. He thought that reasonably current explanations of policy and descriptions of the Committee's processes and procedures were desirable goals, and he noted that some progress towards them had already been made. However, he doubted that publication of the minutes would help to accomplish those ends. It would put the Committee on the defensive because the minutes would be used

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primarily by System critics. There would be pressure for more and more current release. In Mr. Swan's judgment 3-5 years was too short a lag.

On the other hand, Mr. Swan said, there was a legitimate question of whether such information was ever to be made available. The System might want to face this question in terms of the possibility of releasing Open Market Committee and perhaps Board minutes on suitable occasions with a very long time lag. Surely, Mr. Swan said, after a period as long as 20 to 25 years such records were strictly historical documents. It could thus be recognized that in due course these materials would be made available to people with a legitimate interest. To go beyond such a procedure would create many more problems than it would solve. However, the Committee should be considering doing something in terms of articles on a continuing basis.

Mr. Deming said that he had been thinking on the same lines as Mr. Irons. He felt that for a variety of reasons it would be well to attempt to get some assistance in writing a System history. It should be possible to work out a procedure that would provide an objective set of histories and under which the System would be protected against charges of self-interest. Perhaps the professional societies might be asked to select scholars for the work and foundations asked to provide funds. The System could then make records available to such scholars as were selected, up almost to a current

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date. This would be a monumental and time-consuming task, Mr. Deming said, but it might be broken down into separate economic, political, and social histories of the System.

With respect to the minutes of the Open Market Committee and other policy-making bodies of the System, Mr. Deming continued, rather than publication he would favor their deposit in various places after a time lag of a decade or more; at the present time he would suggest a cut-off at 1950. He saw no reason for the System to make its records generally available all over the United States, but their deposit in Federal Reserve libraries would be appropriate. On the other hand, he would give scholars designated to write a history access to all materials almost up to the present. He thought it was valid to say that the great mass of people--including academicians--do not understand how the System functions but he also thought they would be helped more by a series of histories than by such raw materials as the minutes. He had in mind very detailed histories, not works of 100 pages or so.

With respect to the distinction between making materials available to the general public and to the Congress, Mr. Deming said, he did not know whether the System was required to supply detailed minutes of the Open Market Committee or the Board or other System groups to Congress, but he hoped it was not, at least not without a specific legislative change. He thought the answer to this question

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was not clear, and the Committee should resist such submission as long as it possibly could on all the grounds that had already been mentioned. He felt it was not a negative approach for the System to keep its current minutes reasonably confidential but to throw open its records to scholars competent to write System history.

Mr. Scanlon said he fully agreed that a better understanding was needed of the Committee's operations and problems. He also shared Mr. Irons' view that the questions of responding to Congressional requests for the minutes and of making them publicly available were separate. Unlike Mr. Deming, he thought the Committee had no choice with respect to meeting Congressional requests; it would have to make the records available by some means if asked. As to supplying information to the public, Mr. Scanlon said, he doubted that the minutes as now prepared were a good vehicle for the purpose. They were incomplete in that they did not include the memoranda, the daily wires, and all of the other materials that the Committee considered in preparing to make its decisions. They also would appear highly redundant to readers. He would hope for a better vehicle for getting information to the public. A history of the System might be useful, or perhaps some kind of an annual report with a time lag of about 5 years. He would be willing to give a little on the time lag. If a decision were made to release the minutes to the public, he would favor limiting the distribution of copies to Federal Reserve Bank



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libraries and National Archives. He did not think it would be desirable to spend a lot of money to make wide public distribution.

Mr. Clay expressed the view that publication of the minutes as soon as 3 years after the meetings might well result in an unconscious speaking for the record by participants and would change the nature of the meetings in an undesirable way. He did not consider the minutes a very good public relations document; it would be difficult to get useful information from them regarding the nature of System operations. He thought that the Chairman's letter of last year to Mr. Patman gave very good reasons for withholding the minutes. This letter, in fact, was a better public relations document than the minutes, because it portrayed an organization capable of withstanding pressure. Such an organization was desired by everyone, whatever their policy views.

The longer the time lag before publication, Mr. Clay continued, the less effect there would be on the nature of the meetings; but also the greater would be the reduction in the public relations value of the minutes. If the Committee decided to publish the minutes, Mr. Clay favored a limited edition with a lag of at least 5 years. He thought publication would best be at a time when there was no outside pressure for it. The present was a good time, since there was no pressure on the Committee now.

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Mr. Wayne said that the Committee was a public body charged with public responsibility, and accordingly, he thought that the official records of its deliberations were properly viewed as public documents. He was not considering the matter in terms of public relations at all; as historical documents the minutes should be made available to competent historians. He was prepared to concede the desirability of a time lag in publication, and recognized that there would be pressure to reduce the lag. Some might even argue that the Committee should release its minutes on a current basis. But he did not believe this was the sort of thing the Committee was dealing with. The question before the Committee was whether or not it could work out some method of making documents of historical value available to competent historians with an appropriate time lag. He thought the Committee could rationalize the 10-year time period. It seemed to him that the minutes should be made available at the National Archives, the repository for national historical documents. He added that he found much merit in the suggestion that the Committee attempt to find a competent historian to prepare a System history.

Mr. Wayne continued by remarking that he had recently reviewed back minutes of the Committee and had not found them entirely dull from the standpoint of economic history. Nor had he found anything of which the Committee need be ashamed; the minutes spoke of careful, competent deliberations. He believed they should be made available to competent

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scholars. Microfilming was not expensive; microfilm copies might be placed in the National Archives and in the libraries of the Board, the Federal Reserve Banks, and the greater universities.

As to the time lag, Mr. Wayne said, he thought it would take very close to a 5-year lag if members were to avoid any tendency to speak for the record. He also considered this lag appropriate in light of the fact that the Administration changed every 4 years. A lag of 3 years seemed to him the minimum, and he would prefer 5 years.

Mr. Mills said that he agreed in every respect with the position Chairman Martin had taken. He thought the Committee should publish the minutes for the period 1951-60. For those who were fearful of criticism but at the same time would be willing to produce the minutes at the request of Congress, he would point out that the only occasions that Congress had to request the minutes stemmed from criticisms of System policy, so the Committee was just fostering the criticism. Publication of the full minutes would, in his view, serve as an antidote to criticism and would win adherents to offset the critics.

Mr. Robertson said he found himself in accord with Mr. Wayne. The Federal Reserve System was a Governmental institution and a servant of the public. As such, its records should be made available for public inspection. He would prefer not to publish the minutes in book form, but to make them available on a limited basis in Federal Reserve libraries and at National Archives and in microfilm form at some universities. He also would make available the minutes of Board actions but

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only with a substantial time lag, because Board minutes often dealt with specific institutions. For minutes of the Open Market Committee, a 5-10 year lag would be appropriate, and a 5 year lag probably was adequate.

Mr. Robertson said he had no objection to an extension of the "article" approach, but he considered it unwise for the Federal Reserve to attempt to select a historian to write a history from the System's point of view. It was difficult to learn enough about any individual to know whether his ideas coincided with the System's viewpoints, and in any event historians should be objective and write history as they see it--rather than as we would direct or desire. As to the span of the history, it would be desirable to start from the beginning of the System and come up to whatever lag period the Committee decided was appropriate.

Mr. Shepardson said that as a public body the Committee's actions were appropriate for the public record after such time lapse as might be considered necessary. But there was a question in his mind as to whether the "records" necessarily included all the internal documents used in arriving at a conclusion. The idea of a quarterly report had some merit, but he was doubtful whether public records should necessarily include all of the internal discussion reflected in the minutes. For that reason, Mr. Shepardson said, he had not been particularly enthusiastic about publication of the minutes. On the

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other hand, the point had been made that the Committee had been called upon to submit the minutes to Congress. Whether or not Congress could appropriately demand the minutes might be a consideration. He doubted that it lacked the authority to do so, and if this view was correct it provided an argument for making the minutes available to other people by placing them in a repository open to anyone interested.

Mr. Shepardson said that he was cynical enough to expect that the greatest use of the minutes would be made by those who were trying to pick out something for their own particular purposes. People on both sides--defenders and attackers--might do that. At least there would be an opportunity for those interested in defending the System to do so, although he doubted that it would work out that way. He agreed with the suggestion that the System should try to get, through arms-length selection, someone who would write an objective history--hopefully one that would be more readable and more useful than the minutes themselves.

Altogether, Mr. Shepardson said, while he did not generally like the idea of putting out the Committee minutes as a public document--and he thought the minutes of the Board had to be considered along with those of the Committee--perhaps it could not be avoided. It might be best done by making the minutes available at appropriate reference centers. As to the time lag, 5 years might be a good principle. A 3-year lag was implied in the suggestion that the minutes be published

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for the 1951-60 period. However, if the Committee should now decide to publish the minutes for this period, another year probably would pass before they were ready for release. In a final comment, Mr. Sheparadson said he agreed with Mr. Clay that if the Committee was going to publish its minutes it would be better to do so when it was not under pressure rather than act in response to pressure.

Mr. Mitchell said that if the matter came to a vote he would not vote against making the minutes available. Nevertheless, he questioned whether this was the best course of action. He thought it a mistake to believe that the minutes could be confined to the hands of objective, competent scholars, and he did not shrink particularly from putting the minutes in the hands of hostile critics.

While he was prepared to release the minutes on any basis agreeable to others, Mr. Mitchell continued, he thought publication of past minutes would not meet the real issue. He had thought quite a bit about the matter and had come to the conclusion that it would be desirable to make available a digest of the minutes every 3 months. Such a digest was the real solution to the problem of telling people what the Committee was doing. If it were well and responsibly prepared it would conceal nothing of relevance; it would reflect the different points of view expressed and the personalities of the various participants. It also would be a much more polished document than were the minutes.

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Mr. Hickman said he would go along with those who favored publishing the minutes as a whole rather than attempting to have them digested by an unbiased scholar. Such a person would be difficult to find; everyone had certain predilections and feelings in these matters. He recently had reviewed the record and thought it a good document which spoke for itself. In his judgment putting out the minutes for 1951-60 would not be a disservice to the System, and would be preferable to having the so-called unbiased work done. If the document was deposited in public libraries in microfilm form, it would give the unbiased student some idea of how policy was formulated in the System. It would give him a feeling of democracy at work with all points of view represented; and would demonstrate that the Committee was not a group of people representing the moneyed interests.

Publication of minutes, Mr. Hickman continued, also would help students focus on some of the real problems of monetary policy, such as the problem of appropriate target variables. Students would tend to do research on positive problems, and the Committee might get some constructive help. With respect to the time period to be covered, Mr. Hickman favored publishing the minutes through the year 1960.

Mr. Bopp said that as one who had spent some 10 years doing research on the System before entering its service he had great sympathy with the proposal to publish the minutes. At the same time, he agreed with an observation contained in a memorandum that had been

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prepared for Mr. Deming, to the effect that bad books can be turned out more quickly than good ones. This led him to feel that it would be desirable for the System to get foundation money to finance a System history. He recalled that the Rockefeller Foundation had once provided funds for such a study, but the only product had been Professor Chandler's book on Benjamin Strong.

Mr. Bopp thought it would be desirable to have a competent scholar--perhaps one selected by a committee of the American Economic Association--write a System history. If this could be done, he said, he would make the minutes available subsequent to publication of the history. As to the time lag, it seemed to him that it should be on the order of a decade, although he realized that the whole character of the Federal Open Market Committee was now changed and that policy was no longer formulated as it was years ago. In addition, it seemed to him that the Committee had made significant progress in providing information in such forms as the Bulletin articles by Mr. Coombs describing the System's foreign currency operations and by Mr. Stone reviewing open market operations in 1962. These were excellent works and it would be desirable in the future to have similar reports on a semiannual basis. Possibly the Committee could have a quarterly review of policy published in the Bulletin with a 3-month lag. He was generally in favor of publishing the minutes but he did have some concern about the hazards of making them available to anyone; the initial reactions were apt to be critical.



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Mr. Patterson reported his belief that Mr. Bryan still subscribed to his statement of April 1962 in favor of publishing the minutes with a time lag of 5 years.

Mr. Shuford said that he concurred in the view that records should be made publicly available insofar as practicable, because the Committee was a public institution. But it seemed to him that there were limitations. For one, the effect of publication on the nature of the meetings and on the nature of the record had to be taken into consideration. There also was a question of how current publication would be. Thirdly, there were statutory provisions that the Committee should consider with respect to the release of its records. Although the Committee was a public body, Mr. Shuford said, he considered the Chairman's letter to Mr. Patman a good statement on why its minutes should not be released. He doubted that publication of the minutes would accomplish the intended purpose or that it would satisfy all those interested in the Committee's work. As far as the general public was concerned he thought there would be little interest in, or public relations value to, the minutes. As far as others were concerned, the Committee would be faced with a problem of the lag; it would be argued that if the records should be made available because the Committee was a public body, they should be made available as soon as possible.

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Mr. Shuford commented that he was not disturbed by the contents of the minutes, which in his judgment reflected supportable views. But if they were published with any lag the Committee would always be subjected to criticism by some who would want something more--more recent minutes, more materials on matters discussed in executive session, perhaps verbatim transcripts. Taking this step would not answer all questions.

Reverting to the question of statutes, Mr. Shuford noted that the Committee had made much material available that was not required by statute, and it could do the same with its minutes. However, the statute did specify the means for the Committee to supply information on its operations to the Congress and the public: through the Annual Report of the Board of Governors. It seemed preferable to him to move through such channels rather than to take some other voluntary action. He liked Mr. Deming's suggestion for having System histories prepared, and did not think the ends that would be served by such histories would be accomplished by making the minutes available. In his judgment there was a considerable amount of similarity between the Committee and other groups, such as the courts, that met in executive session. He noted that the courts published only their decisions and regarded their deliberations as intramural.

Mr. Balderston said that, as he had observed in earlier discussions of this matter, he thought it was unfortunate that when the

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Committee turned over its 1960 minutes to a Committee of Congress, the latter Committee then hired a pair of scholars of its own choosing to prepare a digest. He was happy that so far the Congressional Committee had not published that digest. He favored publishing the minutes as suggested initially by the Chairman, for the reasons given by Messrs. Wayne, Mills, and Robertson. But he had been impressed with the argument of Messrs. Deming and Ecpp that if the Committee was to publish the minutes it should give a running start to a scholar who, if not of the Committee's selection, would at least be selected from a list that the Committee had approved. On this plan, an instructive document would be available to the public at about the time the minutes were placed on the shelves of Federal Reserve Bank and other selected libraries. He suggested that the Committee act today, first to authorize the Secretary to proceed with the reproduction of a moderate number of copies of minutes for 1951-1960, inclusive, and secondly to implement Mr. Deming's suggestion. He was not sure that it was necessary for the funds to come from a foundation but he agreed that the selection of the scholar should not be made by the Federal Reserve alone.

Mr. Balderston continued by observing that he was sensitive to the fact that since 1960 the Committee had moved into new areas. Specifically, Mr. Coombs' reports often referred to other nation's problems. While it was proper that this information should be revealed

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to the Committee, he would hope that if at some future time the minutes for last year and this year were made public all references to other nations would be excluded.

Chairman Martin said that in his opinion the Committee had had a useful discussion on the matter of publishing the minutes. However, he did not think that putting the question to a vote at this time would solve the problem. He thought everyone ought to continue to study the question; much depended on the particular methods of releasing information that individuals had in mind. He proposed that the Committee request Messrs. Sherman and Young to make a summary of today's discussion on the basis of the minutes, and that the Committee take up the matter again early in the new year.

Mr. Swan noted that most of the discussion had centered around the minutes for 1951-1960. If the Committee released these minutes on any basis, he said, it immediately would be faced with legitimate requests for records going back to 1914. Chairman Martin said that this was true, but he doubted that anyone would feel strongly that information for the earlier years of the System should be withheld.

Mr. Shepardson suggested that the Committee ask the Secretary to explore the possibility of obtaining the services of a writer to prepare a System history.

Mr. Hayes commented that this suggestion seemed to prejudice the issue. He did not feel there had been any agreement at this meeting on a course of procedure.

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Chairman Martin expressed the view that the Committee should continue to explore the matter. He noted that for years there had been discussions of the possibility of having a System history prepared. Also, the Committee previously had considered publication of the minutes, and from time to time had been under pressure to release materials. He considered the position taken in his letter to Mr. Patman to be valid, and he thought that the Committee could hold to that position if it so chose. But in one way or another the Committee had to come to grips with the fact that its decision-making process--which in his opinion was a good one--was not sufficiently understood. This was the basic problem. He did not think this sort of problem should be resolved unless the Committee was virtually unanimous. Accordingly, he would propose that the matter be held over for further consideration.

Mr. Shepardson said that he had suggested some investigation of the possibility of having a history written not with the idea of action but in order that a report could be presented for discussion before a decision was taken on release of the minutes.

The Chairman concurred in the proposal that this question be explored. Mr. Young said that he could discuss the matter with the Presidents of the two main foundations and with the President of the American Economic Association.



APPENDIX III.—COMPILATION OF OPINIONS RECEIVED FROM PROMINENT  
BUSINESS LEADERS AND ECONOMIC PROFESSORS ON H.R. 9465 AND  
H.R. 9589

APPENDIX 1.—REINSTATEMENT OF MEMORANDA OF DISCUSSION

STANFORD UNIVERSITY  
STANFORD, CALIFORNIA 94305

CENTER FOR RESEARCH IN ECONOMIC GROWTH  
Encinas Hall—4th Floor

September 22, 1976

Mr. Stephen N. Neal  
U. S. House of Representatives  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency  
and Housing  
Washington, D. C. 20515

Dear Mr. Neal:

In reply to your inquiry dated September 17, 1976, I would say that I am in favor of more complete reporting of FOMC proceedings. I believe it would be valuable to record the substance of the discussion within FOMC and the arguments of particular participants should be clearly identified. The pre-1976 system of reporting would appear to satisfy this need.

The main value of such reporting is historical and analytical. For this purpose, publication even after a long delay, as five years, is adequate. On the other hand, current or virtually current publication would be unfortunate. It would subject individual FOMC members to political pressure which would prejudice the objectivity of their actions and their discussion of desirable policy. A system which protects FOMC members from such pressures is clearly in the public interest.

Sincerely yours,



Moses Abramovitz  
Coe Professor of American  
Economic History

# Omaha World-Herald

The Newspaper of the Midlands

HAROLD W. ANDERSEN  
President

October 11, 1976

World-Herald Square  
Omaha, Nebraska 68102  
(402) 444-1000

The Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Representative Neal:

In response to your letter of September 17, asking my views concerning documentation for meetings of the Federal Open Market Committee (FOMC) of the Federal Reserve System:

I see little purpose to be served by the practice of keeping printed minutes or memoranda of members' comments together with the identity of the individual speakers.

Most important, it seems to me, is the announcement of the results of the discussions, supplemented by an accurate summary of the discussions and the reasoning that led to the committee's decisions.

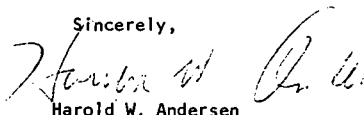
I understand that such an accurate summary is now being issued in about 30 days after the committee meets.

Let me add that if there were statutory assurance that a "memorandum of discussion," with specific statements attributed to specific committee members, would be released only after five years, my views would be influenced by that fact.

I would still question whether very many people would find this five-year-old information interesting or useful, but I would see no reason not to keep and release a "memorandum of discussion" under these circumstances.

Thank you for asking for my views. I appreciate the chance to share them with you.

Sincerely,



Harold W. Andersen

HWA:DK



GRADUATE SCHOOL OF BUSINESS  
STANFORD UNIVERSITY, STANFORD, CALIFORNIA 94305

GEORGE L. BACH  
FRANK E. BUCK PROFESSOR  
OF ECONOMICS AND  
PUBLIC POLICY

September 28, 1976

The Honorable Stephen L. Neal  
Committee on Banking, Currency, and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Representative Neal:

I am happy to respond to your letter of September 17, about the issue of documentation for meetings of the Federal Open Market Committee of the Federal Reserve System. In summary, I think that continuation of the past practice of releasing minutes showing the substance of individual member's comments after an extended period (five years or so) is worth continuing, but I do not think the case for doing so is an overwhelming one.

Presumably the FOMC's new policy, adopted on May 18, 1976, reflects two concerns. First, I presume that the members are concerned that detailed documentation of the statements of each member could easily inhibit free exchange of views among the members or lead to talking "for the record." I think both of these are proper concerns, and they would seem to me overwhelming arguments against release of verbatim conversations (on tapes or by other mechanical means) if they were to be released shortly after each meeting. Moreover, I would oppose the verbatim release even after a long time lag. The existing system permits each member to speak freely on highly technical and controversial matters in FOMC discussions, knowing that the summary statement released can be edited to eliminate confidential and sensitive materials, or even misstatements, while maintaining the substance of the member's comments. And the 5 year delay in release surely eliminates most of the danger of having FOMC members talk "for the record."

Second, I presume the FOMC's new system is intended to expand substantially the "records of policy actions" which are now released 30 days after each meeting. As they now stand, they are so brief as to be not very helpful, and filling them out to include the main arguments considered and the substance of the viewpoints expressed

will go some substantial distance toward achieving the goals that the "extended minutes" are now intended to achieve. At the same time it will release this information promptly. Thus, I think the FOMC's new procedure is a very reasonable one and the one that achieves much of the objective sought through the release of extended minutes after five years.

My own inclination would be to commend the FOMC for moving toward an expanded statement on the monthly release of its deliberations, and also to maintain the five year release of statements showing individual positions.

It is clear that the FOMC is, and should be, accountable to the American people through the Congress and its committees. The substantial movement in the last couple of years toward more complete Reserve reporting seems to me to be working well, but it does not seem to me an important objective that the "individual members of the FOMC be held publicly accountable for their participation in FOMC deliberations." The Board members are not eligible for reelection after a 14 year term, and the notion of "checking up" on any individual member through the minutes on the discussions of the FOMC does not seem to me an appropriate one. If verbatim minutes were to be used in anything like this way, the cost in terms of inhibiting free discussion would far exceed the advantages of having the verbatim minutes released soon after the Committee's meeting.

On the specific issue of the time delay that seems appropriate for reports of FOMC meetings, I think the one-month delay for summary information is now about right as it is operating, and the usefulness of these reports will be substantially increased under the FOMC's new expanded release. I think the five year delay on individually identified positions is about right, but I would see no real objection to making it a couple of years shorter.

Respectfully,



G. L. Bach

GLB:mb

## LILLICK MCHOSE &amp; CHARLES

IRA S. LILLICK (1875-1967)  
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November 30, 1976

Stephen L. Neal, Chairman  
 U.S. House of Representatives  
 Subcommittee on Domestic  
 Monetary Policy of the  
 Committee on Banking, Currency  
 and Housing  
 Ninety-Fourth Congress  
 Washington, D.C. 20515

Dear Chairman Neal:

Thank you for your letter of September 17, 1976 soliciting my views concerning documentation for meetings of the FOMC. Although my return to the private sector early this year has required that I turn my attention to matters unrelated to monetary policy, I have maintained a continuing interest in the area.

Although I was not privy to the deliberations which led to the FOMC's decision to discontinue the memoranda of discussion, I must say that I share your concern that this change in documentation may not have been a wise decision. My knowledge of the high quality of the FOMC staff would lead me to be less concerned about the integrity of annual reports and records of policy action as a result of this change. However, I would be inclined to share your views respecting the loss of a public record by which Committee members can be held accountable and the loss of a valuable research tool by the economics profession.

As a non-economist, I will leave the discussion of the research benefits of the memoranda of discussion to others who are more knowledgeable. On the other hand, I will offer some of my own thoughts regarding the public accountability aspect of the documentation change.

Speaking for the record can, of course, impede free and candid discussion during the deliberations of a body such as the FOMC. However, it was my observation that the

time delay in releasing the memoranda of discussion to the public apparently removed that restraint on discussions which took place during the FOMC meetings I attended from 1972 through 1975. Furthermore, during the time I participated in these meetings I was aware that I, like the other Committee members, would be given the opportunity to review and correct a draft of each memorandum of discussion before it was recorded in final form.

The knowledge that my views would be recorded for future examination, and possible critical comment, gave me added incentive to participate in deliberations and vote in such a way that there could be no question on the part of either my fellow Committee members or those who might review the record in the future, as to my position. Frankly, I, for one, feel I was less inhibited because I believed that the record should be clear as to my views so that not only my colleagues, but FOMC historians as well, would understand my true beliefs and the reasons which supported my actions as a Committee member.

With regard to the two proposed measures to restore full documentation of the FOMC deliberations, I would strongly favor the second over the first. Notwithstanding my earlier comments, I firmly believe that taping FOMC meetings and releasing verbatim records to the public would be detrimental to open and candid deliberations by the Committee members. Knowing that every word uttered would be recorded for posterity could well dampen what are at times highly deliberative and often emotionally charged meetings.

On the other hand, reinstatement of the former practice of maintaining memoranda of discussion for all meetings for release after a fixed period of time would, in my view, be a positive action. The decisions of the FOMC have a major impact on the American people. Each member of the Committee, as any person in a position of public trust, should be held accountable for his actions. A record of his comments during deliberations and his stand during debates leading to Committee votes is, in my opinion, necessary to provide the public with a reasonable basis to judge the manner in which each member is fulfilling his responsibilities.

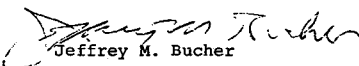
As for the period of delay before release of a reinstated memorandum of discussion, I would suggest one year. This would allow sufficient time for circumstances to change so

that the possibility of unsettling effects of statements would be reduced to a minimum. As in the past, deliberations involving particularly sensitive matters could be deleted from the memorandum prior to its being made available to the public.

In conclusion, had I been a member of the FOMC at its May 18, 1976 meeting, I would have joined with Governor Coldwell in dissenting from the Committee's action to change the documentation of its meetings. I would have agreed with him that "the benefits of the memorandum of discussion justified its retention."

I hope that my thoughts will be helpful to your Committee in its deliberations in connection with this matter. If I can be of any further assistance, please do not hesitate to call upon me.

Sincerely,

  
Jeffrey M. Bucher

Columbia University in the City of New York | New York, N.Y. 10027

DEPARTMENT OF ECONOMICS

International Affairs Building

September 27, 1976

Mr. Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
U.S. House of Representatives  
Washington D.C. 20515

Dear Mr. Neal:

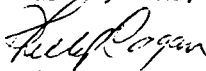
In reply to your letter of September 17th, it is my opinion that it would be a mistake to expect the Federal Reserve Open Market Committee to engage in frank and useful discussions and yet have the minutes of such discussions, with each person speaking identified, made public after a short period. Knowledge that the minutes were to be made public would restrain and change the nature of the discussion, and in my view for the worse.

I do not believe that it can be shown that any immediate public benefit would be gained by requiring that detailed minutes be published soon after each meeting.

However, I am of the opinion that scholarly work dealing with the history of Federal Reserve actions would lose much by not having access to minutes which identify the speaker, as used to be available after a five year's delay. Chairman Burns discontinued such minutes, saying that no one was making use of them. But such useful scholarly work may occur many years later. I hope that you would encourage the Chairman to reinstate those minutes, available to scholars five years later, whether they appear to be used at the moment or not.

I believe that five years is a fair and desirable waiting period. I do not believe, and indeed believe it would be most unwise, to require the Federal Reserve Open Market Committee to go beyond that and make its detailed minutes public sooner than that. The Committee may, as a matter of policy, decide to inform the public about the directions of monetary policy sooner, perhaps after each meeting. But that is a matter for the Open Market Committee itself to decide. In the case of the Federal Reserve, the so-called "Sunshine Act" can cause much mischief.

Sincerely Yours,



Phillip Cagan  
Professor of  
Economics



New York University

Graduate School of Arts and Science  
Department of History  
19 University Place, Room 400  
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September 27, 1976

Hon. Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Neal:

Your letter of September 17, 1976, arrived while I was out of the city on a research trip, hence the delay in my reply.

As a student of the history of American finance, I believe that it is in the best interests of scholarship and of the public to have available as much evidence as possible to judge the bases upon which decisions were made. This applies as much to government agencies as it does to private companies. Though I have not used in my own work the minutes of the Federal Open Market Committee (FOMC), it would seem that this is essential documentation for any careful, objective analysis of the FOMC's deliberations and the reasons upon which decisions were reached. Summaries of views expressed at FOMC, though useful, do not compensate for the absence in the record of the exact words of the participants. I have found in my own work that summaries of congressional hearings are no substitute for the hearings themselves, which contain the exact words of the individuals called to testify. Unless there are compelling reasons for discontinuing publication of the FOMC's printed minutes or memoranda, my view would be to continue the practice as it has been followed in the past. Like you, I believe it would be a mistake to remove the only primary source containing the views expressed by the various members of the FOMC on issues under discussion. Without this evidence not only would scholars find it difficult, if not impossible, to study and analyze the way in which monetary policy was decided in the past, but the absence of such a record would also deny contemporaries of the evidence necessary to learn the views of the FOMC's current members.

My first choice of the method to be used in restoring full documentation of FOMC deliberations would be to arrange to keep a full, verbatim record. This method not only provides the most complete record, but it also assures that everyone's views will be reported exactly as expressed. Should it be argued, as is sometimes done, that mechanical recording of discussions at meetings inhibits free expression, then I would opt for the old practice maintaining detailed memoranda of the discussions. I need not tell you, Congressman, that detailed memoranda prepared by a third party, no matter how qualified, never make up for the absence of the verbatim record.

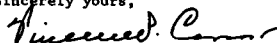
Hon. Stephen L. Neal, Chairman  
September 27, 1976

Page 2

As to the time lag between meetings and release of the record, I am hesitant to make a recommendation because I do not have all the facts in this case upon which to make a judgment. Since I lean on the side that believes the government should make available as much of the record as early as is possible and consistent with the public interest, I think that the present five-year limitation for the release of FOMC minutes should be the maximum period allowed before publication of these records.

I hope my views have been of some help to you.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Vincent P. Carosso", with a stylized flourish at the end.

Vincent P. Carosso  
Kenan Professor of History



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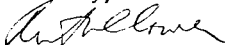
DEPARTMENT OF ECONOMICS  
LOS ANGELES, CALIFORNIA 90024

December 9, 1976

Dear Mr. Neal:

I do not have strong views on the question of FOMC reporting requirements. I don't think memoranda are likely to be of great use to researchers; taped or transcribed verbatim reports would seem to be preferable. As reports of this kind would be very expensive and of dubious historical value (if members knew they were on tape they would be unlikely to say anything that might cause them trouble later), however, I am inclined to the view that the researchers of the future should be left to their own devices in this area. At best they should have access to minutes of the usual kind, i.e., secretarial reports that indicate topics of discussion but leave up in the air just who said what and so forth. So I guess I favor the second of the alternatives mentioned in your letter--that the FOMC reinstate its former practice--though I am personally unconvinced that these serve any purpose other than to provide a platform for writers of editorials on monetary and fiscal policy. The memoranda that I have read in the past indicated nothing to me except that the U.S. economy might well operate more effectively if the FOMC were abolished. Indeed, that would be my strong recommendation--and were this done, the problem of reporting would become moot.

Sincerely,

  
Robert W. Clower  
Prof. of Economics

**Commerce  
Union Bank**

J. Dewey Daane  
Vice Chairman of the Board

December 13, 1976

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency & Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Chairman Neal:

In response to your letter of December 1, I regret that your earlier letter apparently had not been forwarded to me so that this is the first chance I have had to reply. I appreciate very much the opportunity to comment because I think the issues are exceedingly important.

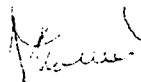
Over the years, I have used the Memoranda of Discussion as research material and found them to be invaluable in this connection. Often in my long career within the Federal Reserve System, engaging in research projects at the Federal Reserve Bank of Richmond, when I was Monetary Economist and later Director of Research there, or in collaborating with my Federal Reserve System colleagues on System-wide research projects, there was often occasion to refer back to the Memoranda of Discussion for a particular period or periods. More recently I have found the Memoranda of Discussion a useful teaching tool as well in my graduate course at Vanderbilt University in Monetary Problems and Policies. I would very much hope that the Memoranda of Discussion could be reinstated.

As a former Member of the Board of Governors of the Federal Reserve System, however, I do not think mechanically reported verbatim records would be desirable. I am afraid that they would tend to inhibit and formalize what are very frank and direct discussions and could serve to impede the sort of meaningful exchange of views that leads to an appropriate consensus. As I recall, we did try some sort of verbatim reporting for a limited period and found that it was having an adverse effect on discussion.

Finally, you have asked for my views on the time lag between the meetings and release of records. I personally feel that the time lag is already too short and has been a factor contributing to market gyrations, and consequently interest rate gyrations, to the detriment of the economy with the only possible benefit being to sophisticated investors.

Again, I am sorry that I did not see any earlier correspondence, and I want to thank you for this chance to record my views.

Sincerely,



JDD:pgm

# JOURNAL OF MONEY, CREDIT, AND BANKING

WILLIAM G. DEWALD  
Editor  
Department of Economics  
Ohio State University

October 13, 1976

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
Washington, DC 20515

Dear Congressman Neal:

Thank you for asking me to comment on your proposals to restore full documentation of Federal Open Market Committee Meetings. You're definitely on the right track. You might be interested in a conversation I had on this subject 15 years ago.

In 1962 I had occasion to talk with Federal Reserve Governor C. Canby Balderston between sessions of a conference at the Federal Reserve Bar of Chicago. Governor Balderston was about to retire from the Board of Governors. From the years I'd been privileged to read the Minutes of Federal Open Market Committee, while in the employ of the Federal Reserve Bank of Minneapolis, I thought very highly of the Governor's judgment. In any event, I tried to make a case in talking with him for the Federal Reserve releasing all of the underlying monetary policy documentation precisely so that scholars could evaluate the process and interpret individual contributions. I argued that it was unreasonable for the historical record of monetary policy to be so empty and faceless in comparison with the rich detail of individual contributions that were available regarding the Supreme Court and the rest of the government. It seemed to me that Federal Reserve Governors exercised such enormous judgmental powers that the deliberative record would appropriately be made public, presumably not immediately, but after five or ten years or longer much like the release of sensitive state papers in the United Kingdom.

Others may well have been making similar suggestions to Federal Reserve officials inasmuch as in 1964 they began releasing Minutes of Open Market Committee meetings after a delay of 3 months. The Minutes have been very well received in the financial press; and have been used frequently by scholars in appraising the monetary policy process. It would definitely be a step back to bury the record of banking and monetary policy making behind the walls of the Federal Reserve Banks and the Board of Governors building in Washington. Hence, I strongly endorse your efforts to require the Federal Reserve to reinstate its former practice.

1775 College Road

Columbus, Ohio 43210

614-422-7834

The Honorable Stephen L. Neal  
 October 13, 1976  
 Page 2

However, I'd not support the requirement that a verbatim record of FOMC meetings be maintained. I've two objections.

First, the Minutes are not sufficiently detailed from the historical viewpoint. It would be worthwhile if in addition to the FOMC Minutes, the professional papers and records of FOMC members were released, but only after several years' delay. One of the most fascinating sections in Milton Friedman and Anna Schwartz's Monetary History of the United States involved detail from the private papers of Governor George Harrison, which were independently made available to scholars. Could your second proposal be modified to include ultimate release of all of the letters, memorandums, minutes of meetings and the like that make up the full record of Federal Reserve decision making?

Second, I think that deliberative bodies can function most efficiently if individuals can express a viewpoint, hear another's view, exchange ideas, and only then take a position for the record. The policy record need not identify every sneeze, blink, or word to make it valuable in interpreting what monetary authorities are about. Furthermore, I should think that verbatim transcriptions of any meetings in Washington would be somewhat suspect today.

All in all I heartily commend your efforts to keep the public record of monetary policy making open. In that regard I hope Congress will be able to make its monetary policy oversight authority permanent. House Concurrent Resolution 133 hasn't achieved much political attention in the campaign this year, but it is surely one of the solid contributions of the current congress. Don't let it die.

Sincerely,

*William G. Dewald*

William G. Dewald  
 Professor of Economics

WGD/rjw

- - -

THE UNIVERSITY OF CHICAGO  
DEPARTMENT OF ECONOMICS  
1126 EAST 59TH STREET  
CHICAGO • ILLINOIS 60637  
October 2, 1976

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Neal:

This is in reply to your letter of September 17, 1976 soliciting my views concerning documentation for meetings of the Federal Open Market Committee of the Federal Reserve System.

May I say first that you have touched a very sensitive nerve in my particular case. When Anna Schwartz and I were writing our Monetary History of the United States we were denied access to the minutes of the Open Market Committee by the Federal Reserve System at that time. Fortunately we managed for a considerable part of the period to find a substitute in the form of the papers which George Harrison, who for a time was governor and then president of the Federal Reserve Bank of New York, had deposited at Columbia University. But for the period prior to that for which the Harrison Papers contained minutes and subsequent to his term of office, we had to rely on much less satisfactory basic sources. Knowing that this was the case, we sent an early draft of the manuscript of our book to William McChesney Martin at the Federal Reserve Board asking whether he would have the experts at the Board go over our manuscript and give us their assistance in detecting errors of fact or interpretation or in making suggestions for improvement. Although we know that our manuscript was subjected to intensive scrutiny within the Board and that several lengthy critiques of it were prepared for the purposes of the Board, we never received from Chairman Martin anything more than a polite acknowledgment of the receipt of the manuscript. At no time did the Board offer to supplement the material we had gotten from the Harrison Papers or to correct any of the statements which we had made about other periods.

The date on which the System decided to make the minutes available to the public with a five-year lag is, in our opinion not coincidentally, closely related to the publication of our book. Our book was published in 1963; the minutes were released to the public in 1964. As you know, our book was highly critical of the Federal Reserve. We have reason to believe that the Fed's major purpose in making the minutes available was to provide ammunition for other scholars who were at the time working on the history of the Fed and were, or at least the Fed

The Honorable Stephen L. Neal  
Page 2

so hoped, likely to be critical of our conclusions. Whatever the occasion we were extremely pleased that the Federal Reserve had decided to make these minutes available. There is no doubt that the lack of availability of similar minutes in the future would be a major handicap for any scholar who seeks to analyze the performance of the Federal Reserve System. Certainly the minutes which we were able to obtain from George Harrison's files were of major value to us and enabled us to give a much more satisfactory account, particularly of the period of the Great Depression, than would otherwise have been possible.

I agree also with the comments in your letter that the elimination of such documentation will make it more difficult to make the individual policy members accountable. I presume that the major explanation for the Fed's actions are the congressional actions, Freedom of Information Act and the more recent Sunshine Act which render it more difficult for government agencies to maintain confidential and secret information. I can sympathize with the System's reaction to those actions. At the same time I believe it represents an overreaction.

My own belief is that the purposes that can be served by documentation would be served by either of the two measures you propose but that of the two the preferable measure would be for the FOMC simply to reinstate its former practice of maintaining detailed memoranda of discussion for all meetings for release after a fixed period of time. With respect to the appropriate time lag, I believe that five years is much longer than is either necessary or desirable. My own preference would be that these minutes should be released not more than two years after the meetings.

May I say also that I have long been in favor of the immediate release of the records of policy actions of the FOMC. I have recommended repeatedly in testimony to Congress that the FOMC meetings be held on a Friday so that the record of policy actions can be written and coordinated over the weekend and checked with the participants and then released not later than Sunday night so that no business days pass without this record being available. It is a great improvement that the delay in the release of these minutes has been successfully cut down until it is now only thirty days; that is far better than the six months and longer periods during which they were held confidential before that, but there is no reason why those thirty days should not be cut further.

Your committee will serve a valuable function if you succeed in getting the Fed to keep a full documentation of FOMC meetings and in addition to shorten still further the delay before the release of the records of policy actions.

Sincerely yours,

  
Milton Friedman  
Professor of Economics

MF:gv

JOHN KENNETH GALBRAITH  
HARVARD UNIVERSITY  
CAMBRIDGE, MASSACHUSETTS

September 27, 1976

Congressman Stephen L. Neal  
Subcommittee on Domestic Monetary Policy  
United States House of Representatives  
Washington, D. C. 20515

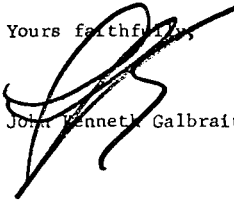
Dear Congressman Neal:

I very much appreciate your thoughtful letter of September 17. The questions you raise are real and important. It is obvious that there cannot be advance knowledge of Federal Reserve decisions, as is also the case of many actions of federal agencies. Great effort has long been taken, for example, to avoid any leakage of information on prospective crop estimates. The need to avoid thus rewarding speculators is obvious.

None of this bears on the question of reporting of past action. The effort at secrecy here has only one source: That is the long-standing effort of those having to do with banking and central banking to feel that they are above the procedures ordinarily required of other individuals and agencies. Nothing has been so assiduously cultivated over so many years as the feeling that there is some mystery associated with these matters which should not be revealed after the fact to the public. The participants in the Federal Open Market Committee meetings are highly paid men selected on the basis of their presumed qualifications. There is not the slightest reason why their positions should not be known, and they should not be held fully responsible for their comments. If somebody is undirected and erratic in his conversation, there is no reason why he should be protected; there is every reason why that should be known. There is no good reason why full minutes should not be published and why the obligation should not be fully on the Chairman to see that all discussion is on the record. Such minutes will only be examined by people with a professional interest in the subject, and the discussion will be much improved if it is known that it is subject to such consideration.

I strongly commend your efforts and urge that you not be subdued by the extraordinary snow job to which I can guarantee you will be subject on this matter.

Yours faithfully,



John Kenneth Galbraith

JKG/adw

MITH BARNEY, HARRIS UPHAM & CO  
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(212) 399-6000

October 4, 1974

Congressman Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary  
Policy of the Committee on Banking,  
Currency and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Neal:

I thank you for your interest in my views concerning documentation for meetings of the Federal Open Market Committee. I am happy to respond both from my vantage point from an investment banking and securities firm and based on my research work when I was in graduate school and teaching at the University of California. In my work I made considerable use of the documentation of FOMC meetings.

The Policy Record which offers some summary of meetings and which has been released with a 30-day delay is presently of limited value. By the time it is released, virtually everyone who follows markets closely knows what the Committee's policy has been. Markets can sense policy shifts very quickly. As a research tool, it is of very limited usefulness because it conveys so little of the happenings of the meetings. It is filled with a review of the economy and policy over the past month, most of which is available from published statistics. I think it fair to say that the Record is more a justification of policy than an explanation of policy.

The memoranda of discussion, which I have always loosely called the minutes, are much more enlightening and helpful. These still contain vagueness and euphemisms, but we all like to have our thoughts and remarks summarized in the nicest possible way. The minutes do; however,



Congressman Stephen .  
October 4, 1976  
page 2

give a much clearer flavor of what actually goes on, what really concerns the Committee and how it feels these concerns should be dealt with. If one wished to get an idea of how an individual member contributed to or voted on an issue, the minutes or something more detailed would be required.

In order to learn how policy was actually considered formulated and executed, one would need documentation at least as extensive as the minutes, not the Record. If the Manager of the System Open Market Account did not attend the meetings and had only the Record to work from I doubt that he would frequently engage in the actual operations he does. For instance, the Record reveals that at the July 1976 meeting the permissible range for the Federal funds rate was widened from  $5 \frac{1}{4}$  -  $5 \frac{3}{4}$  percent to  $4 \frac{3}{4}$  -  $5 \frac{3}{4}$  percent. The following Record shows that at the August meeting the range was narrowed to  $5$  -  $5 \frac{1}{2}$  percent. Throughout this period the Federal funds rate was held very close to  $5 \frac{1}{4}$  percent, in spite of these shifts in the permissible range. It seems clear that the Manager was receiving additional guidance which was not reported in the Record. (Parenthetically, it is reasonable to suppose that some of this direction came in the daily "Morning Calls" between the Manager and some Committee members and staff. I am not aware that any written record of these calls exists. It certainly has not been made available to the public or to the Congress, so far as I know.)

There is much policymaking which is not captured in the Record. If we are to understand monetary policymaking and learn from its inevitable occasional errors, we must have a record of how that policy was made. Scholars have learned a great deal about Federal Reserve policymaking from studying the FOMC minutes from the Great Depression, and the Federal Reserve is now benefiting from this knowledge. I would be most upset if this type of knowledge and study were permanently precluded for the future.

There are some important questions about how this information should be made available. I understand that the FOMC is concerned over the costs of keeping detailed minutes, although I would be surprised if these were really substantial. If so, however, I would recommend that mechanical recordings of the proceedings be kept for scholars to listen to and copy at their expense. Either this or a verbatim written record of the proceedings

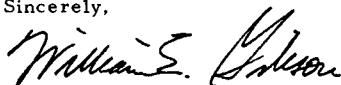
Congressman Stephen L. ...  
October 4, 1976  
page 3

would be ideal. As a modestly less desirable alternative, the detailed memoranda of discussion should be written and released. The Record by itself is not enough.

The timing of the release of these memoranda is a large concern to the FOMC, I believe. The Committee objects to immediate release, and there have been some efforts to force this under the Freedom of Information Act, I believe. I do not share the Committee's level of concern, but I would not object to allowing the release to be delayed, which I conclude might require legislation. In my view, a 5-year delay is unnecessary. Having read virtually all the memoranda of discussion, I do not see why they could not be released after one year.

I hope that my comments have been helpful. If I can be of further assistance in this matter, I hope that you will call on me.

Sincerely,



Dr. William E. Gibson  
Vice President - Director of Monetary  
Affairs and Fixed-Income Policy

WEG/dgs



SAN FRANCISCO HEADQUARTERS  
Cashier's Division  
Flow of Funds Management #317

Mr. Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy of the  
Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to respond to your letter of September 17th soliciting views concerning documentation of FOMC meetings. I personally feel very strongly that the Federal Reserve should not be allowed to unilaterally decide to suspend meaningful documentation of its monetary policy deliberations. The FOMC memoranda of discussion have in the past provided a rich source of information to the outside world of how and why the monetary policymakers arrive at their decisions, a source that has been invaluable to historians, macro economists, the news media, Fed watchers and I should think Congressional oversight committees.

A separate, but related issue is that the public at large and Congress in particular should be able to ascertain the accountability of the individual policymakers at the Federal Reserve. The "record of policy action" which apparently is to be a substitute for the minutes, totally fails in this regard. It is further inadequate in describing what happened during policy meetings and upon what basis alternative and final decisions are made.

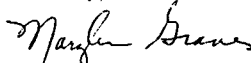
Although the time lag for the release of these minutes/memoranda has been in my view too long -- a 5 year lag is not necessary; 1 month seems more appropriate or however long it takes to get a corrected set of minutes reviewed -- still, at least the memoranda were made and released for later review. Now, it no longer even exists.

Sadly, it appears that the FOMC suspension of keeping these very important documents is now a fait accompli. It is sad because this historic decision was made without benefit of public discussion nor consideration by the public. The announcement was unobtrusive and very few persons were even aware of the decision.

The issue here is not the independence of the Fed which some seem to feel it is. In my opinion the independence of the Fed is essential for implementation of effective national economic policy. The economic good of the nation should remain out of reach of short-sighted partisan politics. But a balance to this power is needed, a balance that only Congress can, and should provide. Adequate documentation of the Fed's decision-making process as well as individual contributions to this process is a very small, but essential ingredient to providing some public review -- some balance -- to this awesome institution's power. Surely the cost of maintaining these records is miniscule in comparison to the Fed's budget or infinitesimal in comparison to the effects the Fed has on this country's economic well being. The public benefits are far too great to prevent the relatively small expenditure for keeping these records.

I strongly urge that Congress require the FOMC to reinstate the earlier Fed procedures. A tape, unless transcribed and published, is a poor, though better-than-none alternative. It would be more more difficult for the public or members of Congress to scrutinize Fed decisions, but not impossible, as is the case under current procedures.

Sincerely,



Mary Ann Graves  
Financial Information Coordinator

MAG:cpq

*UNIVERSITY of PENNSYLVANIA*

PHILADELPHIA 19174

*The Wharton School*  
DIETRICH HALL/CC

JACK M. GUTTENTAG  
ROBERT MORRIS PROFESSOR OF BANKING

September 23, 1976

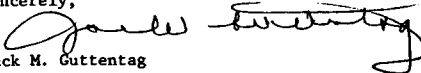
Stephen L. Neal, Chairman  
U.S. House of Representatives  
Subcommittee on Domestic Monetary Policy  
Washington, D.C. 20515

Dear Congressman Neal,

In reply to your recent letter, I was aware that the record of policy actions of the FOMC, which are now released thirty days after each FOMC meeting, have been expanded to include summary reviews expressed during the meetings. I was not aware that extended minutes which recorded the identity of individual speakers and which have been released five years after the end of the year to which they apply, have been discontinued. If this is so I strongly disapprove since I agree with your comment that "detailed minutes may contribute directly to fruitful research on monetary policy and the processes of conducting monetary policy."

There is some suggestion in your letter, however, that the detailed minutes also might be released after thirty days, and this I believe would be most unfortunate. If this were the practice, committee members would speak only for the record at formal meetings, and any real interchange between them would take place on an informal and ad hoc basis.

Sincerely,

  
Jack M. Guttentag

lcc

*1251 Avenue of the Americas  
New York, N.Y. 10020*

October 28, 1977

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency, and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for your letter of September 17, asking about my views on "documentation" of meetings of the Federal Open Market Committee of the Federal Reserve System. Please accept my apologies for the delay in my reply. Let me note at the outset that my comments at this time are as a private citizen. I retired in July 1975 from the Federal Reserve Bank of New York, where I served as president for nineteen years.

Your letter raises, in my mind, difficult questions about the proper balance between reasonably full and prompt public disclosure of official deliberations on monetary policy, and reasonable insulation of such deliberations - so that the participants in those policy discussions are not inhibited from a full and frank interchange of views, and so that premature disclosure does not interfere with the effective implementation of policy. The recent changes in documentation of FOMC meetings, mentioned in your letter, occurred after I retired from the Federal Reserve Bank, and I must confess that I have not kept in as close touch with those developments as when I was a Federal Reserve official.

From my present vantage point, I have somewhat mixed feelings about the changes that were undertaken - discontinuance of the preparation of detailed memoranda of discussion, and at the same time the preparation of more informative summaries or "records of policy action." The detailed memoranda of discussion were made available, as you note, only after a five year lag, and this probably tended to limit the public interest in these records. Yet, I would not have favored much more rapid release of these detailed accounts, because of concern that quick publication could seriously inhibit the quality of discussion and possibly of decision-making in the FOMC meetings. The enlarged policy record materials now being prepared, which I understand include brief summaries of the policy views expressed by various individual members (although without specific attribution by name), provide, I believe, a significantly more useful public document than the previous policy records. I would tend to have some misgivings about the brevity of the lag now employed - releasing the policy records only about 30 days after the meeting to which they apply - but thus far I am not

aware of any untoward consequences that have resulted from this shortened lag.

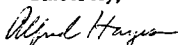
At the same time, I have some real regrets about the discontinuation of the preparation of detailed memoranda of discussion. As mentioned in your letter, these documents can be a valuable source of information for research on the policy formation process, as well as providing for "accountability" of officials in FOMC policy deliberations. While the demand for these materials has, as far as I know, been quite limited thus far, one should perhaps not be hasty in forgoing what could be a more widely used source material in the future.

On balance, weighing the potential value of retaining the detailed records of FOMC meetings against the risk that excessively early disclosure could tend to inhibit frank discussion and hence impact adversely on the quality of decision-making, I am inclined to favor the former - the preparation and retention of detailed records - provided that there could be effective assurance of a reasonably lengthy time lag before publication. I should think that Congressional action in support of a suitable time lag could be quite helpful in ensuring that an appropriate lag could be retained. As to the appropriate time interval before making public the memoranda of discussion, the Federal Reserve's past practice of using a five-year interval seemed reasonable to me, although I do not believe I would object strenuously to a somewhat shorter lag - say three years. To shorten the interval further than that, I believe, would run serious risks of inhibiting the discussion at FOMC meetings. As was done with past publications of the memoranda of discussion, there should be a procedure for editing out especially sensitive references, usually relating to particular foreign countries.

Your letter also suggests, as an alternative to preparation of memoranda of discussion, the possibility of requiring that the FOMC maintain "mechanically reported verbatim records of all meetings for release to the public after a fixed period of time." I would not favor this approach, as I believe that a policy of making such records publicly available would seriously hamper the FOMC's policy discussions. In my experience, the memoranda of discussion prepared by the FOMC staff, were faithful representations of the full substance of discussion, edited into a format that was far more useful to the serious student of monetary policy than a taping or "raw transcription" of verbatim discussion.

I hope that these comments have been helpful to you and your Committee.

Sincerely,

  
Alfred Hayes

8214 Stone Trail Drive  
Bethesda, Maryland 20034  
September 30, 1976

The Honorable Stephen L. Neal, Chairman,  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Congressman Neal:

I am responding to your letter of September 17 concerning the extent to which information about FOMC meetings should be made available to the public. I strongly favor open forums and complete disclosure of government proceedings except in the rare circumstance when the public interest can be shown to be imperiled. Full disclosure implies that the identity of persons making statements or upholding positions be revealed. Secrecy weakens the understanding of the public and is a convenient refuge in which incompetence often lurks. Sunshine is healthful!

I believe that no convincing case exists for preventing the public from having full access to the deliberations of the FOMC. This is especially so because that Committee is not subject to the discipline of the ballot box and because a number of its members are not appointed by any elected official or subject to Senate approval. The welfare of the public can be strongly affected by the FOMC's decisions; the public and its representatives must be informed about the basis for the Committee's actions and about what the group is within it that is advocating specific positions. Historians, political scientists, economists, the press and ultimately the public will be able to make more informed assessments of our government, its policies, and possible reforms with disclosure.

The timing of disclosure is a more subtle problem. Successful discretionary policy depends in part on being able to implement a strategy which smoothly achieves a goal. With immediate disclosure of a new set of goals, it is possible that serious and severe disruptions could be precipitated in financial markets. For example, a sharp movement in some interest rate could cause a bank or other financial institution to become insolvent. A better tactical route to an objective is likely to be a series of small gradual steps. Complete disclosure with a one-year lag surely would not compromise the tactical mobility of the FOMC.

A second consideration in the timing of disclosure concerns the nature of decisionmaking by committee. When votes are close or



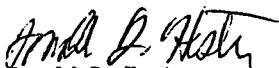
issues are closely contested, a policy stance may not prove to be firm and committee discussion may produce much confusion in the minds of the public and generate pressure from lobbyists. It is well known by social scientists that coalitions in committees are fragile and that group decisions may be unfortunate in such circumstances. Since the issues are complicated and provocative, I think that a case can be made for temporarily suppressing the release of individual views and specific strategies. Again, however, a year seems more than enough time for dispassionate consideration.

I therefore feel that the Board should continue its practice of providing records of broad policy actions and summaries of views with a lag of 30 days. In addition, I would favor having a complete set of minutes including 1) the identity of individuals holding specific points of view and 2) tactical considerations published with a lag of 12 months. The minutes might consist of a transcript in which individuals were permitted to make minor stylistic corrections or append clarifying statements as is the case currently with testimony before Congressional committees. I happen to favor the transcript approach.

In closing, I should note that such documentation does not in and of itself insure full disclosure of factors which underlie decisions. The minutes, for example, cannot reveal tacit agreements not to raise delicate issues or premeeting agreements. Nevertheless, documentation is revealing in part for what is omitted and serious gaps will be recognized.

I hope these remarks prove helpful in your deliberations.

Sincerely yours,



Donald D. Hester  
Professor of Economics  
University of Wisconsin  
(on leave of absence)

# University of Illinois at Urbana-Champaign

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DEPARTMENT OF ECONOMICS · BOX 111, COMMERCE BUILDING (WEST) · URBANA, ILLINOIS 61801 · (217) 333-0120

September 24, 1976

The Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary  
Policy of the Committee on  
Banking, Currency and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Neal:

This is in reply to your letter of September 17, 1976, concerning the manner in which the content of meetings of the Federal Open Market Committee is made public. Your letter raises a general issue concerning the desirability of full disclosure including individual attribution and a specific issue concerning the contribution made by disclosure to fruitful research on monetary policy.

The general issue lies outside my professional competence but not outside my interest as a concerned citizen in a democracy. As a general rule, the public should be in a position to review the decisions of important public bodies such as the FOMC, the Congress, and its Committees, federal and state agencies and the like. Such review is a curb on the arbitrary use of power and a check on the information, expertise and judgment of those who exercise it.

My chief concern in this regard is that the FOMC not become too vulnerable to current political pressures in reaching its decisions. My studies of central banking and of monetary and economic policy formation in various countries of western Europe have impressed me with the dangers for policy-making in a technical field when the process becomes too vulnerable to partisan political pressures.

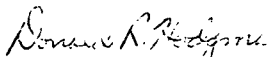
Precisely where the balance lies in applying these criteria to the minutes of the FOMC is a matter of judgment. Absent persuasive argument favoring the new mode of reporting, my preference is to continue the old system of full disclosure. This preference assumes adequate delay in publication to buffer the deliberations of the FOMC from contemporary political and lobbying pressures beyond those to which its members now are subject. I do not think monetary policy is improved when it has to be hammered out in the heat of the political process. It is probably better to err in the direction of too great rather than too short a delay in publishing FOMC minutes.

The Honorable Stephen L. Neal

September 24, 1976

It is my professional judgment that individual attribution of views expressed is of little or no consequence for economic analysis. I doubt even the need for full reporting providing decisions and objective considerations that were weighed in reaching them are fairly summarized.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Donald R. Hodgman".

Donald R. Hodgman  
Professor of Economics

DRH:mcd



# PITTSBURGH NATIONAL BANK

5TH & WOOD  
PITTSBURGH, PA. 15222

JERRY L. JORDAN  
VICE PRESIDENT & CHIEF ECONOMIST

October 21, 1976

The Honorable Stephen L. Neal  
Chairman  
U. S. House of Representatives  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
Ninety-Fourth Congress  
Washington, D.C. 20515

Dear Congressman Neal:

I apologize for being slow in replying to your letter of September 17. I think you raise very important questions, and the effects of the actions taken will be long lasting.

As an economist in the Federal Reserve for over eight years, I found the "memoranda of discussion" to be extremely useful. Even when I attended the FOMC meetings I always reviewed the memoranda of previous meetings as part of the preparation for the next meeting.

The President of the St. Louis Federal Reserve Bank was definitely influenced in a very positive way by the existence of a permanent record that would eventually be made public. It helped him and his staff to maintain intellectual honesty, sometimes in the face of great pressure to bend. He knew that even when his views fell on deaf ears in a meeting, consistent analysis of the problem and recommendations of solutions would be in the record to be viewed with historical perspective.

There is no doubt in my mind that the preparation, maintenance, and eventual release of detailed minutes of FOMC meetings contributes greatly to the process of formulating and implementing monetary policy. The records need not be verbatim, I think the previous procedure of preparing an edited memoranda of discussion was desirable. The release of the record should be automatic after no more than the previous five years, and I would favor a one or two year lag.

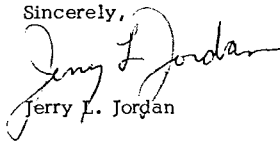
Concurrent Resolution 133 has contributed positively to monetary policy in the past year, and it should be renewed and possibly made permanent. Targets stated in terms of the growth of the monetary aggregates are essential to reducing the inflationary trend, unemployment, and interest rates.

The Honorable Stephen L. Neal

October 21, 1976

One final point, the "Record of Policy Actions" is released after a thirty-day lag at present. Currently, the daily or weekly "operating target" used by the FOMC is the Federal Funds rate -- the interest rate at which banks lend reserves to each other. I believe that is undesirable and has contributed to erratic short-run fluctuations in money growth. As an alternative, if the Fed used as an "operating target" some reserve aggregate, such as the monetary base, short-run control would be improved, and uncertainty in securities markets related to Fed operations would be reduced. If immediate disclosure of Fed targets were required ("Sunshine"), I believe the FOMC would find it preferable to control the quantity of bank reserves rather than the price of bank reserves.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jerry L. Jordan". The signature is fluid and cursive, with the first name "Jerry" and last name "Jordan" clearly distinguishable.

Jerry L. Jordan

JLJ/lp



THE OHIO STATE UNIVERSITY

October 12, 1976

Honorable Stephen L. Neal  
Chairman, Subcommittee on Domestic  
Monetary Policy of the Committee  
on Banking, Currency and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

Thanks very much for your letter of September 17, offering me the opportunity to express my opinion on the desirability of requiring the Fed to maintain a careful record of FOMC deliberations.

Advantages of Formal Records

Such a record (which has been maintained in the past) serves two main purposes. First, it allows FOMC members' individual contributions to specific policy decisions to be identified. When the record is later made public, outsiders can determine what differences existed within the committee in the diagnosis of policy problems, in understanding of how the economy functions, and in recommended policy treatments. Second, reviewing such minutes provide FOMC participants the opportunity to check how well their positions have been communicated, and to set the misunderstandings straight. It should be recognized that, with or without official minutes, FOMC participants and observers are going to compile notes on these meetings for their own purposes. When official minutes are not kept and circulated, there is less opportunity to discover and reconcile misunderstandings.

Why Did the Fed Stop Documenting FOMC Debate?

For 40 years, the FOMC found memoranda of discussion sufficiently valuable to compile regularly. One has to ask what change(s) in circumstances led Fed officials to discontinue these memoranda in 1976. What difficulties do these minutes raise for the Fed today that they did not raise previously? While I can only speculate, I can point to three specific changes that together explain the FOMC's decision to change its reporting pattern.

First, in compliance with the bargain struck with Congress in House Concurrent Resolution No. 133 (March 4, 1975), the FOMC is revealing its policy targets more fully than ever before. Specific FOMC targets for monetary aggregates are reported one-year forward in quarterly hearings before Congressional

Mr. Chairman

October 12, 1976

banking committees and the two-month targets for aggregates and the federal-funds rate approved in each FOMC meeting are released to the newspapers after a 30-day delay. This extensive information on the Fed's current intentions exposes FOMC members--as a team--to the risk of heated (often partisan) criticism. It is natural (even if not inevitable) for team members to pull together to protect each other from Monday-morning quarterbacks. This tendency is all the stronger when the team labors under the sort of siege mentality induced by the Fed's perennial battle with Congressional critics. These critics are always poking around for evidence that would let them build a compelling case for curtailing Fed autonomy.

Second, federal agencies' internal records have become increasingly less secure. Not only have Fed personnel leaked sensitive information to Congress and the press, but unfavorable court decisions and recent legislation establishing greater openness in government lead one to doubt that the System can long control legal access to FOMC records. Previously, the Fed could be confident that it could hold back memoranda of discussion for a cooling-off period of five years. This threat of sudden and unpredictable exposure of sensitive information is apt to inhibit committee discussion unless countered in some way. Less courageous FOMC participants would be reluctant to take controversial stands during the formal meetings and all participants would see advantages to shifting important confrontations to less formal gatherings.

Third, one must also mention the idiosyncrasies of FRB Chairman Arthur Burns. As mentioned earlier, in the perennial battle to maintain its autonomy the Fed seeks to minimize the production of ammunition for its critics. Far more than his predecessors, Chairman Burns has stressed internally the desirability of Fed officials speaking with one voice. He very much prefers that internal debate be kept internal. Not recording FOMC discussions enhances the "deniability" of embarrassing disputes by making it harder for outsiders to document internal controversy. A less authoritarian chairman might place less value on deniability.

#### Should Congress Require That FOMC Debates Be Documented?

Although Congress might well encourage the FOMC to record its deliberations, I see no advantage in trying to force them to do so. Such a requirement admits too many loopholes to be foisted successfully on a hostile Fed. The letter of the law can be met too easily by recourse to ambiguous phrasing (a skill that Fed officials possess in abundance) and off-the-record discussions at critical junctures.

Ascertaining what individual FOMC members think is the wrong issue on which to campaign for monetary-policy accountability. Personal accountability may well impede both institutional accountability and monetary-policy performance. Making individual officials more closely accountable would distort individual incentives toward self-protection and away from team performance. It is no accident that more extensive disclosure of Fed policy intentions has spawned simultaneous efforts to cover the tracks of individual responsibility. However, so long as team accountability exists, one can expect members of the team to deliver appropriate rewards and punishments to individual performers.

Mr. Chairman

October 12, 1976

For this reason, it is not important for outsiders to pin down which FOMC members have been right and wrong or passive and dominant on different issues. What is important is to establish what the FOMC as a whole is trying to do, whether they succeed at it, and finally whether their efforts were well-conceived in the first place. 'Rather than focus on who is "running the store," I would prefer to see Congress devote its energy to persuading the Fed to release up-to-date and better-focused information on the FOMC's short-term targets and ultimate goals and on its view of policy trade-offs. Collecting this kind of information can help us to improve both the economic understanding of the electorate and the Fed's policy performance. Collecting information on individual contributions that the individuals would prefer to hold back threatens to encourage bureaucratic deviousness and scapegoating.

Yours sincerely,



Edward J. Kane

Everett D. Reese Professor of  
Banking and Monetary Economics

EJK:lw



# University of Illinois at Urbana-Champaign

DEPARTMENT OF ECONOMICS · BOX 111, COMMERCE BUILDING (WEST) · URBANA, ILLINOIS 61801 · (217) 333-0120

1006 West Armory Avenue  
Champaign, Illinois, 61820  
September 24, 1976

Hon. Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy of the  
Committee on Banking, Currency and Housing  
94th Congress of the United States  
Washington, D.C., 20515

Dear Congressman Neal,

This is in reply to your letter of September 17 which reached me only yesterday.

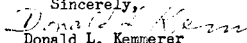
You ask my "expert opinion" regarding measures that should be taken to restore full documentation of the Federal Open Market Committee's (FOMC) deliberations and the rationale of such measures. You suggest either (1) that FOMC keep mechanically reported verbatim records of all meetings for release to the public after a fixed period of time, or else (2) a resumption of FOMC's former practice of maintaining detailed memoranda of the discussions at all meetings to be released after a fixed period of time.

Records should be kept so that the FOMC members may refer to them. Any responsible board wants a general record of its deliberations and decisions to settle subsequent disagreements over what the group decided. These are also eventually of interest to historians.

I prefer method # 2 of keeping the records, the one formerly used by the FOMC. The verbatim system is murderous for most people. Few of us speak as well as we write, certainly not as well as we rewrite a sentence. The verbatim system of keeping the minutes could stifle discussion while all but the most articulate reflected on how to phrase their thought of the moment so it would read well and be impressive. But the most articulate individuals are not necessarily those with the most good sense.

There are decision making bodies whose discussions should generally be open to the public, for example, legislatures much, but certainly not all the time, and there are others in which the best results are obtained when the speakers' uppermost thought is solving the problem at hand, not impressing a watching or reading audience. Indeed, the desire to appear generous and to please our fellow men is so strong in many of us, that it is more difficult to take an unpopular, although perhaps a more long-run beneficial stand if there is an audience in the picture. To illustrate, there are times when recommending higher interest rates is the better course. Yet advocates of higher interest rates rarely win popular acclaim in the short-run.

I think that the minutes of the FOMC should be kept confidential for at least five years and I would prefer seven or eight. But after that they should become public for historians and economists to analyze and argue over. It is possible to keep records like these confidential for too long a time as well as for too short a period.

Sincerely,  
  
Donald L. Kemmerer  
(Professor, Emeritus)

UNIVERSITY OF CALIFORNIA, LOS ANGELES

BERKELEY • DAVIS • IRVINE • LOS ANGELES • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

DEPARTMENT OF ECONOMICS  
LOS ANGELES, CALIFORNIA 90024

October 4, 1976

Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency & Housing  
United States House of Representatives  
Washington, D.C. 20515

Dear Mr. Neal:

In answer to your inquiry of September 17, I am strongly of the opinion that the Federal Open Market Committee should be instructed to resume its previous practices in the matter of keeping extended minutes of its meetings. My reasons for holding this view are broadly those described in your letter.

A requirement that the FOMC maintain mechanically reported verbatim records of its meetings, on the other hand, would be worthless at best. Most likely it would be counterproductive. There is no way to ensure that a public servant who does not want to go on record will nonetheless be on the record. And even the most responsible of officials, faced with the prospect of having his every slip-of-the-tongue recorded, might well decide to give his "real" input to the policy-formulation process before the FOMC meets for its Congress-dictated recording sessions. If the official FOMC meetings were to turn into staged shows where innocuous arguments for pre-agreed policies are recited no one will be any the wiser for having a verbatim record of the proceedings.

I suggest that the Committee request of the FOMC that it resume its previous practice -- it should, one hopes, be unnecessary to explain to FOMC why its earlier practice was a good one -- and, beyond that, simply trust to the morale of the Federal Reserve System to ensure that a meaningful, substantively accurate record is indeed preserved.

Finally, I see no reason why one should at this time tamper with the present time-lags in the release of, respectively, "records of policy actions" and the full minutes.

Sincerely yours,

A. Leijonhufvud  
Professor of Economics

THE UNIVERSITY OF CHICAGO  
DEPARTMENT OF ECONOMICS  
1126 EAST 59TH STREET  
CHICAGO • ILLINOIS 60637

September 21, 1976

Honorable Stephen L. Neal  
Committee on Banking, Currency  
and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Sir:

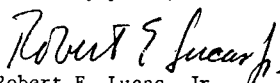
This is in reply to your letter of September 17, concerning two possible measures for requiring the FOMC to maintain and release records of their meetings.

The strongest case in favor of measures of this sort is, I think, the last one you mention: the release of minutes will substantially help researchers who are attempting to discover the implicit rules which govern the way monetary policy reacts to the state of the economy. Assuming FOMC decisions are not entirely capricious, such rules must exist. Yet traditionally, the FOMC has been reluctant to describe its behavior in these terms. This unfortunate practice leaves the important task of spelling out exactly what monetary policy is (that is, what rules are being implicitly followed) to economists and others outside the Federal Reserve System. Any information releases, certainly including minutes of FOMC meetings, which help in this task should be encouraged and, where possible, required.

Since the composition of the FOMC changes over time, one would expect FOMC decision rules to change also. To trace this process, knowledge of "who said what" is essential, and should be included in useful minutes as well.

The individual accountability of FOMC members seems to me a less important issue. The committee as a whole should certainly be open to congressional review and public criticism, but I see no reason why individual members should. Perhaps individuals could be identified in the minutes by code letters rather than by name, at least while they remain on the committee.

Sincerely yours,



Robert E. Lucas, Jr.  
Professor of Economics

## NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

204 JUNIPERO SERRA BOULEVARD, STANFORD, CALIFORNIA 94305

Sherman J. Maisel  
Co-Director, NBER-West  
(415) 326-4928

NEW YORK  
NEW HAVEN  
CAMBRIDGE  
PALO ALTO  
WASHINGTON

September 27, 1976

Chairman Stephen L. Neal  
U. S. House of Representatives  
Subcommittee on Domestic Monetary Policy of the  
Committee on Banking, Currency and Housing  
Ninety-Fourth Congress  
Washington, D.C. 20515

Dear Chairman Neal:

In reply to your letter of September 17, 1976 with respect to the minutes of the FOMC, I note the following views.

The detailed memoranda serve several different functions, some of which you have mentioned.

1. From my experience, I believe each member of the FOMC prepares more carefully and makes more considered statements based on his recognition that he and the others are on the record and will be judged in the future on their individual contributions to the debate.
2. The specific record is helpful in preparing for future meetings. If you know you will have a record to review before the next meeting, you can listen more completely to the debate and need not take complete notes on others' points of view. A review of others' opinions is most helpful in preparation for future meetings. Frequently I have found good points in the minutes I had missed in the debate.
3. The minutes can serve a very useful purpose in checking to see that the manager of the open market account is properly carrying out the instructions of the Committee. The current manager has been extremely assiduous in following instructions, and the minutes must be useful to him in enabling him to check his own observations. Past (and perhaps future) managers have been thought to have made policy because their instructions were not clear enough. Good minutes make interpretations more exact.
4. The minutes do serve a useful historical purpose. For this purpose, they must include the statistical background of the meeting; otherwise they are too difficult to interpret.

While maintaining detailed memoranda of discussions is difficult and requires a high level of skill in the staff, I do not believe the expenditures for

Chairman Stephen L. Nease

September 27, 1970

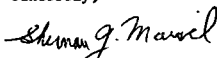
this purpose are wasted. The memoranda do somewhat homogenize the final discussion. In contrast, verbatim records may give incorrect feelings as to what actually occurred because statements can be correct but carry incorrect information because they do not reflect tones of voice and interruptions, and may have incorrect words which are correctly ignored by those in the meeting. I prefer the memoranda on the assumption the Committee checks them to make certain they are an accurate expression of views.

The question of timing is more difficult. I believe, and have so argued for many years, that the policy directive with a brief explanation should be made available at the close of the day on which the FOMC meets and adopts it. While I recognize the strong opposing arguments, I believe delayed release is advantageous to those groups actively engaged in trading government securities and is disadvantageous to the general public. A trial period of immediate release would be useful.

The timing of the release of the memoranda of discussion is more delicate. They contain information which would be harmful if released immediately. This includes information on foreign operations, exchange flows, problems in the economy, views of individuals, staff projections, etc. Knowledge that this information would be released shortly would inhibit debate and obtaining information. It would lead to poorer FOMC decisions.

I would judge that a lapse of ~~two~~ years would be more than an adequate delay, providing a limited number of excisions were allowed, as is now done with respect to privileged foreign information. It makes sense to issue a year at a time, since this leads to fewer misinterpretations that could arise from an examination of the minutes of a single meeting.

Sincerely,

  
Sherman G. Maisel

## UNIVERSITY OF CALIFORNIA, DAVIS

BERKELEY • DAVIS • IRVINE • LOS ANGELES • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

DEPARTMENT OF ECONOMICS

DAVIS, CALIFORNIA 95616

October 6, 1976

Representative Stephen L. Neal, Chairman  
 Subcommittee on Domestic Monetary Policy  
 Committee on Banking, Currency and Housing  
 Rayburn House Office Building  
 Washington, DC 20215

Dear Representative Neal:

Thank you for your letter regarding the documentation of FOMC meetings. I believe that documentation such as the previously published FOMC Minutes is desirable. It is true that these Minutes are probably not read by very many people, but, all the same, it is important that the information they contain be available. Furthermore, knowledge that the Minutes will be published should help to remind FOMC participants of the public nature of their position. It is therefore disturbing that the Federal Reserve has decided to discontinue their publication, and I am glad that your Subcommittee has taken the matter up.

I have heard that the reason the Fed has ceased keeping FOMC Minutes is its fear that a suit under recent legislation might force it to publish the Minutes soon after a FOMC session. Not being a lawyer I cannot judge how realistic this fear is, but I respectfully suggest that if this is indeed the problem, the relevant legislation could be amended to specifically exempt the FOMC Minutes.

The question naturally arises whether publication of the Minutes in their previous form is sufficient. One possibility would be to eliminate the five year lag in their publication. I believe that there is much to be said for not publishing them immediately, though I suspect that a three year lag might well be sufficient. Another question arises from the fact that the Minutes are not actually minutes in the narrow sense of the term, but are just summaries of the discussion. It may be useful to have the actual minutes published in place of these summaries, with, of course, some deletions that are necessary to avoid, for example, the publication of remarks about foreign officials.

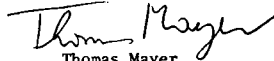
Your letter refers to using the Minutes to hold Federal Reserve officials accountable for their statements at FOMC meetings. This raises a number of problems. First, such accountability would, at best, be very limited. It would apply only to those Governors who, having served only a partial term, come up for reappointment for a term of their own. I suspect that even for governors up for reappointment, publication of detailed minutes would make little difference. First, it is likely that Congress would have a tendency to reconfirm a governor who is already serving, and second, the opinions he expressed three or

five years ago, are not as likely to generate as fervent opposition as do opinions expressed on a current issue.

And even if the opinions published in the Minutes were to play an important role at confirmation Hearings, it is far from clear that this would be desirable. In one way, it would increase the control democratically elected officials have over the Federal Reserve, which I believe is desirable, but in another way it would decrease such control. It would probably result in pressure on the President to appoint governors to a full term, rather than to unexpired terms, and this way would reduce Presidential control over the Fed. In other words it would shift some power over the Fed from the President to Congress.

Regardless of whether or not this shift is desirable, the use of the Minutes in confirmation Hearings would have three undesirable effects. One is that it would reduce the pool of qualified candidates for the governorships. (And this may be a serious problem given the relatively low salary paid to governors.) Second, it would tend to reduce the honesty and forthrightness with which FOMC members express their opinions, and this would inhibit rational policy making. Third, it would probably make for greater conformity within the FOMC. I suspect that there is something to be gained by having a wide spectrum of opinion represented on the FOMC, everything from extreme monetarism to extreme Keynesianism. But the use of the Minutes in confirmation Hearings would tend to lead to the appointment of governors whose views mirror the national consensus, rather than of governors who individually hold more diverse points of view.

Sincerely,

  
Thomas Mayer  
Professor of Economics

# **Claremont Men's College**

Bauer Center, Claremont, California 91711

Telephone (714) 626-8511

Applied Financial Economics Center

December 21, 1976



Honorable Stephen L. Neal, Chairman  
U.S. House of Representatives  
Subcommittee on Domestic Monetary Policy  
Ninety-Fourth Congress  
Washington, D.C. 20515

Dear Mr. Neal:

I have given much thought to your questions about how meetings of the Federal Open Market Committee should be documented and reported. As a researcher, I have found the Minutes extremely valuable for historical studies of the Federal Reserve System. Attached is a recent short paper for the Journal of Monetary Economics which I based largely on the FOMC Minutes for 1959 and 1960. I hate to think that future scholars will not have comparable source material covering FOMC meetings after May, 1976.

But the interests of future scholars are not the most important considerations in your decisions regarding what information to request from the Federal Reserve. The FOMC Minutes and other reports of the Committee, such as the Record of Policy Actions, have a much more immediate value to people such as you and the general public as guides to the decision-making processes of the Committee. The more we know about how FOMC decisions are made, the better we can predict Federal Reserve actions under various circumstances. I see no reason for keeping this information secret at any time, for I believe financial markets and the general economy would perform more efficiently if information on current and prospective Federal Reserve policies were more readily available. This is an argument for publishing the Record of Policy Actions and the Policy Directives immediately after each meeting of the Committee.

The problem of the Minutes is more complicated. The five-year lag certainly is excessive, in view of the great changes in Federal Reserve procedures that have taken place in the last five years. The shift toward controlling the monetary aggregates since 1970 is a revolutionary step. It would be extremely helpful to read the discussions within the Committee and the technical papers considered by the Committee during the transition to the current system, which incidentally is still evolving.

I can understand why the members of the Committee would prefer not to have the Minutes published soon after the meetings, because the Minutes I have read certainly tend to tarnish the aura of infallibility that an official body would like to maintain.

In your letter, you mentioned the difficulty of holding individual members of the FOMC to account. Although I find the views of individuals interesting, I don't think that holding individuals to account is as important a problem as holding the institution to account for its actions. Therefore, a record of the discussion that fairly reported all the substantial issues and views as presented, but yet did not identify the individuals making statements, could be satisfactory.



The difficulty is that the Federal Reserve's responsibilities are so broad, so diffuse, and so poorly defined that it is extremely difficult to hold the Federal Reserve to account. Pursuing many objectives simultaneously, the monetary authorities are bound to achieve one or more of them while missing on others.

With so many problems to discuss and with so many operations under way, it is not surprising that the members of the Committee would talk about things that they later on would prefer not to have revealed. I believe there is something to the argument that a full tape recording would inhibit members of the Committee in expressing their views. That would perhaps deprive the Committee of their best judgment. There is no way of really holding them to account without having the Congress lay down more explicit rules for their guidance. By rules for the guidance of the Federal Reserve, I mean something like specifying the rate of growth of the money supply. The Federal Reserve naturally opposes having any such rule imposed. The monetary authorities would much prefer to have full discretion, but the rule would make them accountable because it would make it possible for outsiders to see after the fact whether the Federal Reserve had performed. The Federal Reserve's new practice of announcing money growth targets in advance is a step in the right direction. I think it would be entirely consistent with this practice to have the policy record of the Open Market Committee issued within one day following a meeting of the Committee.

I was pleased to see in recent news reports that you have proposed hearings on a money growth law. I agree with your staff econometric study that a steady-money-growth policy over the past 28 years would have resulted in far less instability in incomes and prices than did the discretionary policies the Federal Reserve actually applied. Your proposal will, of course, meet great resistance from believers in discretionary policies inside the Fed and among academic economists. Many members of the financial community, who should approve it if they understood it, will also probably be afraid the Congress would manage monetary policy even worse than the Fed has done. Your point that the rule would "depoliticize" monetary policy should be reassuring to them.

I hope that in these hearings you also will deal with the Fed's practice of using Federal funds-rate targets to control money growth. A more inefficient and confusing technique could hardly be invented. To me it is a classic example of the terrible inertia of powerful, self-perpetuating bureaucracy. The current techniques are only slightly improved from the ones described in my attached paper.

Would you please send me a copy of the staff study? Also, please give my regards to Doctor Weintraub. You are fortunate to have such an able, dedicated staff director. You can count on him not only to have good judgment but to apply the highest scientific standards in treating the evidence considered by your committee.

Sincerely yours,

  
A. James Meigs  
Director

# Carnegie-Mellon University

Graduate School of Industrial Administration  
William Larimer Mellon, Founder  
Schenley Park  
Pittsburgh, Pennsylvania 15213  
[412] 621-2600

Allan H. Meltzer  
Maurice Falk Professor of  
Economics and Social Science

October 12, 1976

Congressman Stephen L. Neal  
U. S. House of Representatives  
Subcommittee on Domestic Monetary Policy  
Washington, D. C. 20515

Dear Congressman Neal:

Please excuse the delay in responding to your letter of September 17.

The records of the Federal Reserve have been an important source of information on monetary policy, and they are important for scholarship. I regret very much the decision to stop releasing the minutes of the Federal Open Market Committee.

I have read some part of each of the volumes released to 1974 as part of my research on monetary policy. The minutes have been extremely useful and have contributed a great deal to my understanding. A book, containing the result of a decade of research, is now nearing completion so I am hopeful that the benefits I received will be more widely shared. It would be regrettable if students of economic policy lose this valuable source of information on policy and the policy process.

I cannot speak with any authority about the number of users, but the number of users is not a matter of great importance at the moment. Scholarship rarely proceeds as a mass effort, and few would choose to justify or withhold support for scholarship and research based on the number of participants. Scholarship is a public enterprise in the fullest sense. The public benefit greatly exceeds the cost of the activity or the gain to the scholar.

The chief benefit to be derived from the release of the Federal Reserve minutes is improved monetary policy. The gain is large and, I believe, greatly exceeds the cost of releasing the minutes.

I find no substantive issue in the question you raised about the method of transcription, provided the minutes are edited after

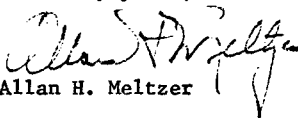
Congressman Stephen L. Neal  
October 12, 1976  
Page 2

they have been reported. Participants should be given the privilege of correcting grammar and clarifying the meaning of statements as in the past.

In the past, the Federal Reserve has released the minutes five years after the year to which the minutes apply. Delayed release permits the members to speak with less fear that their remarks will be misused. Past releases have not been abused to my knowledge, so a five year delay appears to be an adequate and may be an excessive delay. However, I would prefer to have the minutes released after a five year delay than not released at all.

I welcome your interest in this matter, and I hope you will pursue the matter until release is restored.

Sincerely yours,



Allan H. Meltzer

AHM/jep

UNIVERSITY OF MARYLAND  
COLLEGE PARK 20742

DEPARTMENT OF ECONOMICS

October 8, 1976

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee of Banking, Currency, and Housing  
U.S. House of Representative  
Washington, D.C. 20515

Dear Sir:

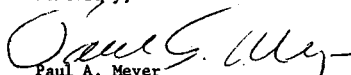
Professor Dudley Dillard, who currently is acting provost of the Division of Behavioral and Social Sciences, forwarded to me your letter of September 17, 1976, concerning documentation for meetings of the Federal Open Market Committee (FOMC) of the Federal Reserve System.

I highly agree with you that the FOMC made a mistake; they should continue to publish a detailed memoranda of discussion. The expanded and more timely "record of policy actions of the FOMC" is a healthy sign but not a substitute for detailed memoranda of discussion. I do not have strong feeling about which one of the two proposed measures to restore full documentation is the more desirable. On balance, I would prefer reinstatement of the FOMC's former practice of maintaining detailed memoranda of discussion on the grounds that previous memoranda were sufficiently comprehensive. Verbatim transcripts of FOMC meetings might be so lengthy as to discourage all but the most dedicated from looking beyond the "record of policy actions of the FOMC".

Clearly, some lag in publishing the memoranda is desirable particularly because the FOMC discusses international developments. One would not want an American agency revealing foreign plans. It is difficult to make a strong case for any specific lag. Nevertheless, I would suggest a (three-year lag. One should consider the possibility of issuing two memoranda of discussion, one memorandum covering domestic policy only could be issued six months after a FOMC meeting and a separate memorandum on international economic Affairs issued three to five years latter.

I am pleased to learn of your efforts to restore full documentation of FOMC meetings and hope my comments are helpful.

Sincerely,

  
Paul A. Meyer  
Associate Professor



Massachusetts Institute of Technology  
 Alfred P. Sloan School of Management  
 50 Memorial Drive  
 Cambridge, Massachusetts, 02139

Franco Modigliani  
 Institute Professor

November 7

Mr. Stephen L. Neal  
 Chairman  
 U.S. House of Representatives  
 Subcommittee on Domestic Monetary Policy of the  
 Committee on Banking, Currency and Housing  
 Washington, D. C. 20515

Dear Mr. Neal:

Pressure of work and a protracted absence from this country has prevented me from replying earlier to your letter of September 17. Even at this writing, I do not feel that I have had sufficient time to give you a carefully thought-out position on the issues you mention.


However, I am prepared to say that I completely agree with the point of view expressed in your letter as to the value of extensive documentation of FOMC meetings, including identification of the contributions of individual participants.

Accordingly, I would strongly favor, at the very least, a return to the practices followed until March 1976. I can also see some merits in your alternative proposal of maintaining mechanically reported verbatim records of the meetings. However, I can also see some possible drawbacks in such a procedure, especially in the danger that such a procedure might cramp the free flow of ideas. However, I would not be prepared to come to any conclusion on this alternative without hearing the views of those who have been participating in the FOMC meetings.

As for the publications, I have long felt that the five year rule was unreasonably long. I do not see why the lag could not be cut substantially to perhaps two or three years.

In concluding, I would like to say that although the views expressed above are tentative, I am in full sympathy with the thrust of your endeavor, and hope that you will pursue it with deliberate speed.

Sincerely yours,

  
 Franco Modigliani

## UNIVERSITY OF CALIFORNIA, BERKELEY

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SANTA BARBARA • SANTA CRUZ

DEPARTMENT OF ECONOMICS

BERKELEY, CALIFORNIA 94720

October 14, 1976

Mr. Stephen L. Neal, Chairman  
 Subcommittee on Domestic Monetary Policy  
 of the Committee on Banking, Currency & Hous  
 U. S. House of Representatives  
 Washington, D. C. 20515

Dear Steve:

I am sorry to have taken so long to respond to your letter of September 17, but I have only now been able to turn to correspondence following my move to Berkeley in September. I hope this belated response will still be of some help to you in your attempts to restore documentation for FOMC meetings.

The decisions made by the FOMC at its May 18 meeting concerning documentation were two sided. On the one hand, the FOMC decided to expand somewhat the content of its "record of policy action" and to speed up release of the "record." This decision was desirable. On the other hand, the FOMC decided to discontinue its "memorandum of discussion" which contains full account of each FOMC meeting. These memoranda were released five years following the year in which a meeting was held. This second decision was most unfortunate and more the offset the positive effects of the decisions concerning the record of policy actions. The policy record does not contain sufficient information to allow it to substitute for the memoranda of discussion.

When I was on the staff of Federal Reserve Board, I attended FOMC meetings for several years and made presentations to that body. At those meetings, the participants, including FOMC members, were acutely aware that their statements and comments were going on the record. It is difficult to overstate the importance of having one's views made available to public scrutiny. While the memoranda were kept secret for five years, the FOMC members knew that eventually history would be able to judge their actions. By dropping the memoranda of discussion the American people have lost an important means of monitoring and disciplining FOMC meetings.

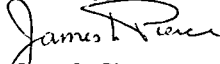
We are told by the FOMC that its meetings must be held in complete secrecy, and they are. Prior to its May 18 decision, the public at least had the opportunity to learn--with a five year lag--why decisions were made concerning the execution of monetary policy. Now we are told that the veil of secrecy will never be lifted, that the "minutes" of FOMC meeting will never be released. This is a deplorable situation.

I wish to recommend in the strongest terms that the Congress require the FOMC to reinstitute its memoranda of discussion. I believe that these records would be sufficient to satisfy the public's and Congress' "need to know" about FOMC decisions. I believe that the memoranda form as used in the past would be superior to mechanical records taken verbatim. Verbatim records would be adequate, however, if the FOMC cannot bear the expense of producing the more polished memoranda. I do find it hard to understand why the lavishly financed Fed should be concerned--as they claim to be--about the minor expense of producing the memoranda of discussion. This is an expense well worth incurring.

I have mixed feelings about making any recommendations concerning a speed up of release of the memoranda once they are reinstituted. On the one hand, I believe that the public interest would be served by requiring that the FOMC release the memoranda more quickly, say within one year following each meeting. More timely release would heighten public interest and would exert an important discipline on FOMC activity. On the other hand, I fear that any attempt to speed up release of the materials would be used by the Fed and other interests to oppose even more strenuously the rebirth of the memoranda of discussion. I would advise that at least initially the FOMC be allowed to release the memoranda with the same five year lag.

I hope that my comments have been helpful and that you are successful in your efforts to prevent the Fed from retreating completely into the dark and nondemocratic world of secrecy. Congress has a large stake in what the Fed does, as do all citizens. It cannot be allowed to successfully accomplish this arrogant act of removing one of the few links that you and I have with its crucial decisions.

Sincerely,



James L. Pierce  
Professor of Economics

Fritz Redlich  
16 Chauncy Street  
Cambridge, MA 02138

September 24, 1976

Mr. Stephen L. Neal  
Chairman  
Committee on Banking, Currency and Housing  
Subcommittee on Domestic Monetary Policy  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Neal:

This is to acknowledge the receipt of your letter of September 17.

I entirely agree with you that the earlier, now abandoned, policy of FOMC was, and would be, a good one, if the record is not made public too early. If this is done, potential decision-makers may be kept from being frank and on moot questions take the popular stand against their better insight. I may add that the original policy is desirable also to keep the historical record straight which is certainly of great importance, and needed for further decision making. These statements imply that I would recommend the reinstatement of the former practice.

Sincerely yours,



Fritz Redlich





BROWN UNIVERSITY *Providence, Rhode Island • 02912*

September 23, 1976

The Honorable Stephen L. Neal  
U.S. House of Representatives  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency & Housing  
Ninety-Fourth Congress  
Washington, D.C. 20515

Dear Congressman Neal:

I am responding to your letter of September 17, 1976 concerning my views on the documentation of meetings of the Federal Reserve Open Market Committee.

I strongly favor reinstatement of the former FOMC practice of maintaining detailed minutes ("memoranda of discussion"), provided that public release occurs with a substantial lag. I do not favor verbatim records. Verbatim records work well in a formal hearing context, but in a meeting with much open discussion it is often difficult to make sense out of such records. In a discussion and debate oriented meeting much communication takes the form of various intonations, pauses, and gestures. Accordingly, properly kept minutes are likely to be more accurate than verbatim records.

The central issue, of course, involves the length of the lag between the meeting and the release of the minutes of the meeting. In my opinion, the "sunshine" debates of the past few years have included too little discussion of the distinction between actions taken by government agencies and the policy discussions underlying those actions. Rigorous application of instant (as opposed to delayed release) sunshine laws will inevitably force many policy discussions into off-the-record formats. The real policy arguments will occur

in hallways and offices rather than in meeting rooms. Hallway policy-making will, of course, never be eliminated, but it ought not to be encouraged. To do so would only reduce the attention paid to minority views.

A (five) year delay in releasing minutes seems to me to be sensible for the Federal Reserve and many other governmental policy-making bodies as well. That delay is longer than a President's term of office and therefore is long enough that an individual's discussion can be put in a context largely free from day by day political pressures. Yet, a five year delay is short enough that an individual can be held personally accountable, and his career may be affected by disclosure of his previous positions.

In contrast to my recommendation for delayed release of policy deliberations, my recommendation is for very rapid release of information on policy actions so that some individuals do not have an extended period of time in which to profit from inside information. For example, if the IRS interprets a new regulation in a particular way, then the information should be available to everyone and not just to the particular taxpayer whose case led to the interpretation; the same argument obviously applies to most bank regulatory actions by the Federal Reserve. In addition, it is almost inevitable that knowledge of major policy decisions will filter out of large bureaucracies; those who maintain friendships with government policy-makers and administrators should not receive important information first. This problem will be more important the longer the release lag because those with inside knowledge will have more time to act on the basis of that knowledge. Of course, confidentiality of the names of the individuals affected by particular policy decisions--taxpayers and banks in the examples above--should be maintained in many cases, but I see no conflict in general between maintaining such confidentiality and release of information fully describing new regulations, interpretations, etc.

I realize that the distinction between policy deliberations and policy actions cannot be drawn as sharply as suggested above. Nevertheless, I believe the

distinction has merit in guiding thinking about the difficult issues involved. In general, I feel that the Federal Reserve in recent years has moved far in the direction suggested by my discussion. When the Fed engages in open market operations the open market desk's requests for bids by securities dealers are made in a matter of two minutes or so to all the dealers eligible to transact business with the desk. The lag in releasing FOMC policy decisions has been reduced to the absolute minimum consistent with the Fed's current operating procedures which, from time to time, call for adjustments in the narrow band permitted for fluctuations in the Federal funds rate.

That quick release of FOMC minutes is impossible is readily apparent from the fact that the FOMC is necessarily in the business of forecasting market pressures on interest rates and in debating the advisability of introducing future policy changes designed to move interest rates one way or the other. Such discussions are essential if the Fed is to maintain a long view. Quick release of such information would obviously generate market pressures changing interest rates in anticipation of Fed policy changes, and it would then be impossible to distinguish these anticipatory pressures from more fundamental market pressures.

As an aside, it is clear that anticipatory pressures on interest rates are significant even under current arrangements as market participants try to guess what the Fed will do. This is one of several factors that lead many economists, including myself, to argue that the Fed should not attempt to control interest rates directly. Fed policy intentions for money growth can be released promptly--as experience with the one-year monetary targetting procedure under House Concurrent Resolution 133 demonstrates--without generating market disturbances.

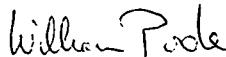
With respect to the last paragraph on page 1 of your letter, I do not believe that minutes are particularly important for maintaining the integrity of annual reports and records of policy actions. Because the Policy Record is released quickly, in preparing the

Annual Report there is no opportunity to rewrite history in a major way by taking account of events occurring after a particular FOMC meeting. It should also be noted that the Policy Record reports the vote of each voting FOMC member on the current policy directive, and that a brief explanation of a dissenter's vote is included in the Policy Record. Thus, an individual FOMC member's views are described if the views are held strongly enough to lead to a dissenting vote. Prior to release of the Policy Record FOMC members have an opportunity to review the draft Record to see if their views are accurately, even if anonymously, described.

Also with respect to your last paragraph on page 1, I believe that minutes of a FOMC meeting are essentially irrelevant in assuring that the Policy Record provides an accurate summary. There are substantial number of people in a FOMC meeting and all of them have a substantial amount of independence since their terms of office are fixed and they do not serve at the pleasure of the President or of the Federal Reserve Board Chairman. In my opinion, there are simply too many independent people involved to permit significant misreporting of a FOMC meeting in the Policy Record. Of course, some matters may be omitted from the Policy Record altogether, but given that some matters ought to be omitted (such as interest rate forecasts), I see no way to maintain long-run accountability unless delayed release of minutes is permitted. Finally, I am in full agreement with you that maintenance of minutes is important for monetary policy and historical research.

In summary, I support the second of the two alternatives listed on page 2 of your letter, provided that the release lag is substantial. I favor minutes rather than a verbatim record. Finally, I feel strongly that "instant sunshine" will be counter-productive; it will increase the pressures that already exist for hallway policy-making, will reduce rather than increase the influence of those with minority views, and will not in fact shed light on many of the arguments and individual positions underlying policy decisions.

Sincerely,



William Poole  
Professor of Economics

WP/cm

## FEDERAL RESERVE BANK OF RICHMOND

RICHMOND, VIRGINIA 23261

October 14, 1976

Honorable Stephen L. Neal  
 U. S. House of Representatives  
 Subcommittee on Domestic Monetary Policy of the  
 Committee on Banking, Currency and Housing  
 Washington, D. C. 20515

Dear Chairman Neal:

I have your letter of September 17 and I am glad to comment on the questions you have raised. Because of the scope and importance of the questions involved, I have taken the liberty of bringing this matter to the attention of the members of our board, which accounts for my delay in responding to your letter of the 17th of September.

First, let me note that I have never had an occasion to use the memoranda discussion and I find that this is also the case with the other Richmond directors. As you know, these memoranda were always published with a long and the detailed record of meetings held five or more years ago is not very to be especially useful to Reserve Bank directors in the discharge of their current duties. I assume here that you are aware that Reserve Bank directors enjoy no special privileges with respect to access to any FOMC documentation, which is accessible to us in precisely the same form and on exactly the same time schedule as they are to the general public.

Most of us, however, read with interest the published record of policy action of the FOMC. From our standpoint the expanded record which was introduced last May and is now released with a 30- to 35-day lag is a very useful document. It is my opinion that this represents a significant improvement over the record as it was published--incidentally, with a 45-day lag--prior to last May. The new format, as you know, is far more complete and conveys in considerable detail the substance of discussions and of the logic underlying FOMC decisions. It also includes a useful compendium of recent trends and developments in both domestic and international markets, with interpretations of what these may imply for the future behavior of the economy. On the whole it seems to me that the public at large is now receiving significantly more information on current monetary policy, and on a more timely basis, than ever before. Moreover, since the votes of individual members are included, the record of policy action as now published would appear to provide quite strong indications of the positions of individual participants in the FOMC discussions.

Honorable Stephen L. Ne

October 14, 1976

After looking over some of the published memoranda of discussion, my impression is that the question of the appropriate kinds of documentation of such proceedings cannot be separated from the question of the timing of the release of such documentation. I certainly agree that, from the standpoint of both historical and technical research, it is highly desirable that a detailed record of these proceedings be made public at some appropriate time. The problem here is in the matter of timing. My major concern in this regard is that too contemporaneous a release could seriously inhibit the kind of free and frank interchange of opinion and analysis that is essential to rational policy decisions. In my view, meaningful policy discussions have to be directed toward promoting understanding of current and prospective problems and toward the design of appropriate measures for solving or avoiding problems. I see some risk that premature release of detailed minutes of discussions could tend to promote posturing for the record and detract from the quality of the dialogue and analysis that goes into policy decisions.

Some of my colleagues on the Richmond board see some risk that premature disclosure of detailed proceedings of the FOMC would give some market professionals an undue advantage over other securities traders. I am not in position to evaluate any such risk that may exist. Of greater concern to me is the possibility that too complete and too contemporaneous release of detailed information on the FOMC's discussions might prejudice the activity of monetary authorities in this country to engage in constructive relative measures with foreign central banks in the international moneymarket. It is also conceivable to me that domestic monetary and/or banking situations of such a sensitive and confidential nature could arise that premature disclosure of detailed proceedings of the FOMC could produce harmful and, indeed, counterproductive results.

To summarize and reply to the specific questions you raise:

(1) I see no useful purpose to be served by a requirement that mechanically transcribed verbatim records be maintained of each FOMC meeting. I am of the opinion that detailed minutes, recorded in the conventional manner, would achieve the same objectives at lower cost. While it is of paramount importance that the public be assured that governmental agencies which possess unusual power and authority do not abuse or misuse such authority and responsibility, it is my feeling as a businessman that we must keep in mind the unusual burden placed upon government agencies as well as private industry when reporting procedures exceed the basic requirements needed for adequate control and overview by appropriate agencies of the government.

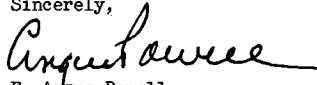
(2) With regard to the requirement that the FOMC reinstate its former practice of maintaining detailed memoranda of discussions in the old format of all meetings for release after a fixed period of time, it would seem desirable to me that this be done, provided the

Honorable Stephen L. Ner

October 14, 1976

time lag between meeting and public release is sufficient to minimize the risk already mentioned. My own view is that it is not necessary or desirable that the time lag be as long as five years as in the past, but something like two or perhaps three years would be sufficient. I do not see how a lag of such duration would seriously diminish the usefulness of such minutes in monetary policy research or in safeguarding the integrity of annual reports. Also it seems to me that the published voting record of individual FOMC members, coupled with the general powers of Congress over the Federal Reserve, takes care of the accountability problem that you mention.

Sincerely,

  
E. Argus Powell  
Chairman



RUTGERS COLLEGE • DEPARTMENT OF ECONOMICS • NEW BRUNSWICK • NEW JERSEY 08903

December 7, 1976

Stephen L. Neal, Chairman  
U.S. House of Representatives  
Subcommittee on Domestic Monetary Policy of the  
Committee on Banking, Currency and Housing  
Ninety-fourth Congress  
Washington, D. C. 20515

Dear Chairman Neal:

This letter is written in response to your letter of December 1, concerning requirements that 1. the FOMC maintain verbatim records and 2. the FOMC maintain detailed memoranda of its meetings.

My guess is that requiring the FOMC to maintain verbatim records to be released shortly after the meetings will not have the intended effect of revealing the thinking FOMC members. Instead it is likely to make the discussion at FOMC meetings mere window dressing. The real decision making process will move to less convenient, but unrecorded quarters.

The requirement that the FOMC reinstate its former practice of maintaining detailed memoranda released after a long delay will have a similar, but less strong effect. But I believe that it is still worthwhile having this policy renewed since it will be of some help to scholars in studying the evolution of FOMC policy.

I think that a more important change would be to require the FOMC from time to time, say quarterly, to publish its target for the rate of growth of Federal Reserve Credit, and to explain the reasons for the target chosen. This variable can be controlled by the Federal Reserve System, and it seems to me, is the appropriate criterion by which to judge Federal Reserve actions.

Sincerely yours,

Hugh Rockoff  
Associate Professor of Economics  
Rutgers College



LAW OFFICES  
 BIERBOWER & ROCKEFELLER

STREET, N. W., WASHINGTON, D. C.  
 (202) 347-1800  
 OF COUNSEL  
 J. L. ROBERTSON

October 1, 1976

The Honorable Stephen L. Neal  
 Chairman  
 Subcommittee on Domestic Monetary Policy  
 of the Committee on Banking, Currency  
 and Housing  
 United States House of Representatives  
 Washington, D. C. 20515

Dear Mr. Chairman:

I regret the delay in responding to your letter of September 17, 1976. It arrived while I was out of the country.

You requested my views concerning the documentation for meetings of the Federal Open Market Committee, in light of the new procedures adopted by the Committee. I can reply very succinctly.

The expansion of the "record of policy actions of the FOMC" to include summaries of views expressed during the meetings represents an improvement, in that it enables interested members of the public to get an idea, at least, of the points of view taken into consideration in formulating the Committee's decisions. But this is not an acceptable substitute for detailed reports of the meetings, including the exact words used by each member of the Committee in expressing his point of view (except to the extent they may be edited by the individual member for the sake of clarity and precision).

In my view the fomulation of monetary policy by the Open Market Committee is one of the most important factors influencing the economy. Hence it should be mandatory that there be kept a detailed record (to be made available to the Congress and the public after the lapse of appropriate time -- I would suggest experimenting with one year instead of five) of the role played by each member of the Committee.

BIERBOWER &amp; ROCKEFELLER

The Honorable Stephen L. Neal

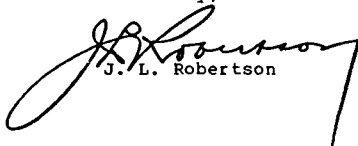
October 1, 1976

If minutes of the meetings are not kept and eventually made available, there would be no possible way for the Congress or members of the public to appraise the contribution of any member of the Committee to the formulation of policy. Such appraisals are essential to any study of how to improve the System -- and, of course, such studies of governmental agencies are essential in a democracy and an ever-changing world. It would be helpful, too, in appraising the merits of proposed new members to know something about the views and contributions of existing members. And, of course, any decision by Congress to eliminate Federal Reserve Bank Presidents from the Committee should not be made without real knowledge of the contribution they have made in the Committee's deliberations.

Furthermore, it is my considered opinion that it will be more and more difficult in the future to get qualified men to serve as Governors and Presidents if they are obliged to remain anonymous. Men competent to serve in these positions should be willing and anxious to stand on their records and be held responsible for the way in which they play their respective roles.

Finally, whether the record of committee deliberations is in the form of tapes or transcriptions of stenographic notes, as was the case in earlier years, is a question of mechanics for the technicians. But whatever method is used, the record should be as complete and comprehensible as possible -- for the sake of the System itself and its principal participants, as well as for the benefit of the Congress and the general public.

Sincerely,



J. L. Robertson

JLR:das

UNIVERSITY OF VIRGINIA  
JAMES WILSON DEPARTMENT OF ECONOMICS  
CHARLOTTESVILLE  
22901

ROUSS HALL

December 17, 1976

Representative Stephen L. Neal  
Chairman, Subcommittee on Domestic Monetary Policy  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Representative Neal:

I am indeed embarrassed to have delayed so long in responding to your letter of September 17. The topic of your letter -- the appropriate method of documentation of FOMC meetings -- is certainly an important one.

It is disturbing to me that the FOMC has terminated its former system of summarizing discussions with identification of individual speakers. I concur strongly in your judgment that such records are valuable both for future research on monetary policy and for assuring the integrity of the annual report of the Board of Governors.

The idea of taping the meetings and later producing a verbatim transcript has its attractions. On balance, however, I believe that it would be better simply to resume the old system. I have had some experience with transcribing discussions from tapes and I know that it is a costly process. Moreover, a verbatim transcript is bound to be in very rough form -- half-completed sentences, irrelevant digressions, redundancies, grammatical errors, and so forth.

The only modification of the old system that I would suggest is more prompt publication. Some delay does seem desirable to me; instantaneous publication might result in lobbying activities of an unsavory sort, causing FOMC members to be overly concerned with short-run political considerations. However, I see no point in a delay of five years. As a compromise I suggest that the record be published with a two-year lag, in annual installments.

I applaud your inquiry into this important subject.

Sincerely,



Richard T. Selden  
Chairman

RTS/mh

UNIVERSITY OF KENTUCKY  
LEXINGTON, KENTUCKY 40506

"OF THE PRESIDENT"

December 10, 1976

The Honorable Stephen L. Neal  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Congressman Neal:

Thank you for your letter of December 1 concerning the question of documentation of FOMC meetings. My delay in responding to your original letter is based upon my reluctance to assume the role of "expert". As a matter of record, I have never served on the FOMC nor have I ever attended a meeting of the group.

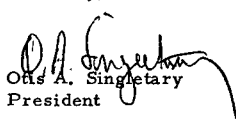
Be that as it may, I am happy to provide to you my own opinion on the questions you have raised, for what that opinion may be worth.

While I think you have a legitimate concern about accountability, research, and accuracy of circumstances during policy-making sessions, I would caution against too rigid a method of documentation. I, personally, would oppose the maintenance of verbatim records because I believe this practice all too often ends in having a chilling effect on free discussion and expression, especially when the topic under discussion involves sensitive matters of public policy. I fear that we deprive ourselves of the opportunity to hear tentative or exploratory views in such a situation.

If some form of documentation is to be required, I do not see why a generalized memorandum of discussion could not serve that purpose. In that case, a reasonable time lag should be involved.

I do hope these views will be helpful to you as you consider the documentation question.

Sincerely,

  
Otis A. Singletary  
President

ALLAN SPROUL  
KENTFIELD, CALIFORNIA  
94904

November 1, 1976.

Hon. Stephen L. Neal  
U. S. House of Representatives  
Washington, D. C. 20515.

Dear Mr. Neal:

Your letter of September 17, 1976; concerning the documentation of meetings of the Federal Open Market Committee of the Federal Reserve System, came while I was in the hospital undergoing major surgery. Only now am I making headway with an accumulation of correspondence which piled up during my illness and convalescence.

Briefly, my opinion based on my fifteen years of service on the Federal Open Market Committee (1941 -- 1956), when I was president of the Federal Reserve Bank of New York, and my observance of the procedures and reporting of similar meetings, is that it is a mistake to believe that mechanically reported, verbatim records of such meetings would contribute to the formulation of open market policy or provide a means of properly and accurately holding individual members of the Committee accountable for the results achieved by such policies.

The Committee, in its work, is dealing with a mass of information concerning domestic and international economic developments, many interpretations of which are possible and, with respect to which, there is no obviously right and clear course of action in the field of monetary policy. Its preliminary discussions are an exchange of interpretations, views and ideas, a testing of hypotheses and a thrust and parry of argument. As this discussion leads up to final action, it is the vote on that action which represents the considered opinion of the Committee and its individual members on which it and they should be judged. And it is on the ascertainable results of such actions, taken over a period of time, that the performance of the Committee as a whole should be rated.

In my opinion, the keeping of mechanically reported verbatim records of all meetings of the Federal Open Market Committee for release to the public over any period of time would impair, if not stifle, the quality of

ALLAN SPROUL  
KENTFIELD, CALIFORNIA  
94904

preliminary discussion of policy by individual members of the Committee (or drive it underground), and would detract from the essential requirements and the adequacy of the public record of the Committee as a whole.

I can see merit, however, in the resumption of the practice which was followed from 1936 to 1976, of keeping memoranda of discussions of the Federal Open Market Committee, and the substance of various members' comments during the discussion, the record to be made public after a period of years. I do<sup>not</sup> think this practice inhibits the necessary freedom of discussion, and I think that it has contributed in the past to fruitful research in the field of monetary policy.

For a current and continuing check on the actions of the Federal Open Market Committee, of course, there are the procedures which the Congress has already established for frequent reports to the appropriate committees of the Congress on all aspects of Federal Reserve operations. These reports have a place in our governmental processes although, at times, the results remind me of the response of George Washington to the suggestion that all discussions of the Constitutional Convention be promptly made public. He said it would disturb public repose with premature speculation.

Sincerely,



Allan Sproul.

HARVARD UNIVERSITY  
CHARLES WARREN CENTER for Studies in American History  
ROBINSON HALL, CAMBRIDGE, MASSACHUSETTS 02138

October 12, 1976

Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy of the  
Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, D. C. 21515

Dear Congressman Neal:

Thank you for your letter of September 17, asking my opinion about documentation of FOMC meetings. I have given this matter serious thought, and I think that you are correct in your desire for full documentation.

As a general rule, full documentation of public bodies is the best policy. There are many reasons for this preference. Foremost among them is the issue of accountability or responsiveness of the public bodies to the wishes of the electorate. In addition, full disclosure is an aid to the determination or approval of new members of public bodies. It provides information necessary to the analysis of specific policy decisions. And it provides the material for historians who wish to study history in the hope of avoiding repetition of its worst moments.

The general rule can be overcome in particular instances by onerous costs of recording or keeping this information. I do not know much about the internal workings of the FOMC, but I cannot believe that these costs are large enough in this case to warrant contravening the general rule. Quite the contrary, since the FOMC is a small body which does not meet continuously, the benefits of full disclosure appear to far outweigh the costs.

The benefits of a full record of the FOMC proceedings are particularly great at the moment. Arthur Burns has become a

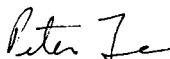
uniquely powerful figure as Chairman of the Fed. It would be healthy for the Fed and for aggregate economic policy for disagreements within the Fed to be recorded and exposed. This would both give the outside world a measure of the extent of Burns' actual power and make it worthwhile for other members of the FOMC to speak up and record disagreements when they occur. Are there many views reflected on the FOMC today? Or are all decisions unanimous? It would be very useful to know.

Accordingly, I support strongly the first possible measure you list, verbatim records of FOMC meetings. Failing this, I think your second alternative, reinstatement of the Fed's former practice of revealing a detailed memorandum after a fixed length of time, is an extremely desirable step.

As a final point, you ask about the optimum delay in publicizing the FOMC deliberations. Let me ask: why have any delay at all? I suggest that you pose this question to Chairman Burns, with the intention of working to eliminate the delay altogether if he cannot provide a convincing argument for its retention. I personally do not see why the Fed has to disguise its intervention in the bond market at all.

I hope these comments are useful in your deliberations.

Yours truly,



Peter Temin  
Professor of Economics, MIT



**Yale University** *New Haven, Connecticut 06520*

DEPARTMENT OF ECONOMICS  
*Cowles Foundation for Research in Economics*  
*Box 2123, Yale Station*

September 28, 1976

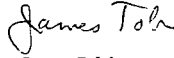
The Honorable Stephen L. Neal  
 Chairman, Subcommittee on Domestic  
 Monetary Policy  
 U. S. House of Representatives  
 Washington, D. C. 20515

Dear Congressman Neal:

I believe it is important that views expressed by individual members of the Federal Open Market Committee become available to the public. This should certainly be the case when dissenting votes occur, and the reasoning of the dissenters should be in the "records of policy actions." I also think it would be valuable in those records to attribute to individual participants the views expressed and summarized in the records.

I am less sure of the desirability of maintaining extended minutes for public availability after some years, either by verbatim transcript or tape or by memoranda of discussion. I would like to investigate this question further before expressing an opinion.

Sincerely,

  
 James Tobin

## INDIANA UNIVERSITY

*Department of Economics*

BALLANTINE HALL

BLOOMINGTON, INDIANA 47401

September 29, 1976

812-337-7808



Congressman Stephen L. Neal  
 Chairman  
 Subcommittee on Domestic Monetary Policy  
 of the Committee on Banking, Currency, and  
 Housing, Ninety-Fourth Congress  
 House of Representatives  
 Washington, D. C.

Dear Congressman Neal:

Thank you for the invitation to present my views concerning documentation for meetings of the Federal Open Market Committee. I have devoted 13 years to the study of Federal Reserve monetary policy. I was the principal consultant to the Federal Reserve Board on matters pertaining to historical records during the period when the decision was made to make the FOMC minutes available to the public. I would like to believe that I contributed in a small way to bringing about that landmark decision.

I have read and studied carefully all of the minutes of the Federal Reserve Board from 1913 to 1945 and the Federal Open Market Committee from 1922 to 1935 and from 1936 to 1960. I enclose a bibliography of my writings arising out of my investigation of Federal Reserve Board and FOMC minutes and other official records. I also enclose copies of my studies of FOMC policy during 1933, World War II, and more recently the 1950s. These studies say more about the usefulness of FOMC documentation than anything that I can write in a brief letter.

My comments refer solely to FOMC minutes prior to 1960. I have no direct first-hand knowledge of the minutes after that date. Nevertheless, I have no reason to suppose that any great change or changes were made in the way the minutes were reported between 1960 and 1975.

Internal records of decision making serve a multiplicity of purposes, at least two of which should be of interest to your committee. These records are of operational significance inasmuch as they contribute to day-to-day decision making. For example, during the 1950s the minutes served the Open Market Account Manager, as his principal guide between periodic meetings of the FOMC.

Congressman Stephen L. Neal  
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 September 29, 1976

The Manager's use of the minutes for this purpose reflected Chairman William McChesney Martin's view of how committee policy should be made and how policy should be interpreted. Martin frequently attempted to identify a consensus, but the consensus was a flexible mandate which permitted fairly wide discretion to the Account Manager. The FOMC expected him to be guided by the complete record of the policy discussion and not simply the policy directive in determining the range of variation of the "target" objectives. Internal records also serve an equally important function of providing a basis for holding policy makers accountable for their actions. A detailed documentary account of official meetings identifies not only policy action but also the policy viewpoints of the different decision makers. We can identify the focal points of leadership and can discover how a consensus policy emerges among a bewildering variety of individual points of view. In short we can measure the effectiveness of committee action by assessing the quality of leadership within the committee. Rarely in public statements do we get the full measure of the FOMC Chairman and how he operates. Unfortunately we have not had full scale biographies of FOMC Chairmen (The two most promising would be Marriner Eccles and McChesney Martin). The FOMC minutes are indispensable to such an effort. Very little is known outside of the Federal Reserve System about the quality of Reserve administration, a subject which in the past has been of little interest either to economists or political scientists.

In sum a detailed documentary account of FOMC meetings is essential if we are ever to achieve an understanding of how the Federal Reserve System works, of its strengths and weaknesses as an administrative agency and of gaining insight into how it might meaningfully be changed to improve its performance.

It strikes me that there are two questions of the greatest significance for the understanding of the behavior of Reserve officials:

1. What did the FOMC do and what were the economic effects of its actions? and
2. What did the FOMC do and why did it do it?

A very abbreviated system of minutes can report FOMC policy action. Minute taking has absolutely nothing to contribute to discerning the effects of action undertaken. Since economists have a strong interest in identifying the consequences of FOMC behavior, it is understandable why they have found so little to interest them in the minutes.

But there is another question of at least equal importance and that is why did FOMC officials behave as they did? The question of intent, the question of motivation, cannot be discerned at all clearly from the public record. Analysis of detailed documentation of FOMC meetings is the only reliable way to discern why a particular action was undertaken or delayed; it is the

Congressman Stephen L. Neal  
Page three  
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only way to discern the extent and nature of the knowledge underlying a particular policy action; and it is the only way to discern the influence and role of particular decision makers. The intent of decision makers is not a matter solely of interest to historians of monetary policy. We cannot evaluate monetary action independently of the intent of the policy makers.

The goal objectives of the FOMC are of crucial importance in assessing the merits of policy action, yet the FOMC has refrained from revealing publicly the weights they attach to the competing objectives. The minutes have been our principal and only reliable guide to the discernment of the relative significance of goal objectives. Recent econometric studies designed to quantify and to assign weights to the various goal objectives are of limited usefulness since they assume, but do not demonstrate, the priority of economic stability objectives.

A compelling reason why there should be full documentation of meetings of the FOMC is the unreliability of the speeches and other official policy statements as guides to understanding the behavior of System officials. Evidence drawn from the FOMC minutes has revealed discrepancies with that drawn solely from public speeches and policy statements, especially about the priority and specification of Reserve System objectives and the appropriate "target" of monetary policy. I would like to quote what I have written elsewhere about this matter: (Bibliography, item #8) "It is important to understand, however, that the existence of these discrepancies does not imply deliberate misrepresentation, deceit, or guile on the part of System officials. I think that the explanation can be found partly in the complexity of the monetary decision making process. Where the number of ultimate decision makers is large, there is a problem of identifying a policy rationale acceptable to all. The public record, unlike the official record, represents an attempt to synthesize divergent views, to discover a consensus, to find a common denominator that will command the widest possible agreement among the policy makers and at the same time appear convincing to the public. It so happens that this thankless task is usually reserved for the professional staff whose responsibility it is to aid in the preparation of material for the public record. The staff must translate the views of the FOMC into a defensible rationale eliminating the inconsistencies and logical confusion that inevitably attend the deliberative process. The desire to produce a consistent statement usually takes precedence over the desire to portray the decision making process in its pristine state. There is also the ever present possibility that rationalization of FOMC behavior represents more accurately and completely the views of the staff rather than individual members of the committee. The staff always shows more of a vested interest in policy rationale than do the individual policy makers; its contact with academia is

Congressman Stephen L. Neal  
Page four  
September 29, 1976

closer. The vested interest of the policy maker, on the other hand, is more likely to be previous policy decisions as well as a host of political factors.


My examination of the FOMC minutes during the 50s has led me to conclude, contrary to traditional interpretations, that the role of short-term countercyclical considerations has been exaggerated. Statements to congressional committees by System spokesmen as well as statements contained in official System publications all point to the significant role assigned to price and employment stability. So pervasive is this interpretation that its validity has been accepted almost without serious challenge. The minutes in my opinion reveal a different story.

Another example of how the FOMC minutes have revealed a discrepancy between the public and the official record is the World War II policy of fixing a pattern of interest rates. Before the Federal Reserve made its wartime records available to scholars, the view prevailed that the System relinquished its independence by acquiescing to the Treasury's desire to establish and perpetuate a pattern of interest rates. The maintenance of a stable pattern of rates was presumably a policy initiated by the Treasury and imposed on a reluctant Federal Reserve. The truth turns out to be the reverse. The official record discloses that the policy of establishing a pattern of rates originated solely within the Reserve System, and the Treasury, only after much argument and considerable delay, accepted it.

These two examples of how FOMC minutes can be used to illuminate the conduct of monetary policy are not isolated and unrepresentative incidents. I could easily multiply individual episodes if space permitted.

I wish to conclude by emphasizing that I deplore the recent decision of the FOMC to discontinue the detailed summary of what happened at monthly meetings of the committee. It is a giant step backward in the continuing effort to increase public understanding of Federal Reserve behavior. The FOMC stands to lose far more than it can hope to gain. I object to imposing any requirement that the FOMC maintain a mechanically repeated verbatim account of all meetings. I believe the arrangements ought to be restored that prevailed before the May 18, 1976 decision.

Sincerely,



Elmus R. Wicker  
Chairman  
Department of Economics

ERW/lp

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"Leaning Against the Wind: A Reconsideration of Monetary Policy in the 1950s," Bloomington, Indiana, 1976 (mimeo)



DEPARTMENT OF ECONOMICS  
DUKE UNIVERSITY

September 29, 1976

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency, and Housing  
U. S. House of Representatives  
Washington, D. C. 20505

Dear Mr. Neal:

As one of the relatively few scholars who have made extensive research use of the minutes of the Federal Open Market Committee, I am happy to respond to your request for comment on the decision to discontinue the preparation of such "memoranda of discussion," while maintaining anonymity for particular members in the expanded summary of discussion in the "record of policy actions" published in the Federal Reserve Bulletin.

Let me preface my remarks with some observations about the preoccupation of bureaucrats, in general, and central bankers, in particular, for secrecy. For the public to have access to a detailed account of the opinions and actions of a decision-making body is to invite critical discussion and judgment. Central bankers have long admired the "hidden hand" philosophy of the Bank of England, which holds that policy actions are most effective when no one knows what the central bank is doing. Only since the Radcliffe Committee study in the late 1950's has anything really been known historically about Bank of England actions; the Bank has vigorously opposed the disclosure of any significant information.

The requirements in the Federal Reserve Act for annual reports to Congress were intended to provide what Lord Keynes once erroneously called (in contrast to the Bank of England) "the full and splendid publicity of the Federal Reserve System of the United States." Unable completely to suppress the release of financial statements and records of policy actions, the Federal Reserve had to follow alternative routes to secrecy, all of which came to light in your committee's celebrated 1964 hearings on The Federal Reserve System After Fifty Years. One was (and still is) the couching of public statements in the high-sounding but ambiguous "Federalesque" language. Another was the refusal to release FOMC minutes and to provide only brief and highly cryptic summaries in the published "record of policy actions." There was considerable indignation among Federal Reserve officials when the HAMLIN papers and the HARRISON papers, containing minutes of the pre-World War II period, were left to university libraries.

The Honorable Stephen L. Neal, Chairman  
 September 29, 1976  
 Page 2

As a result of the 1964 hearings, the FOMC relented and agreed to release the minutes with a five year lag and with a stipulation for the editing of sensitive material beginning in the 1960's. At the time, various members were certain that prior knowledge of such impending release would drastically alter the content of the discussion; whether this actually happened has not, to my knowledge, been studied. When I last worked for the Federal Reserve System in 1969-70, several employees asserted that considerable editing of the minutes was instituted as long as six months after the fact, in order to put the committee's deliberations in a more favorable light.

Another route to secrecy is to attain temporary secrecy by the delaying of publication of the record of policy actions. The FOMC record used to be published only in the Federal Reserve Board's Annual Report, which, as Congress Patman noted in the 1964 hearings, had come to appear later and later in the following year. As the result of pressure from your committee, the FOMC began publishing the record of policy actions in the Federal Reserve Bulletin with a three month lag, which has now been reduced to about one month, and expanded the summaries of discussion contained therein.

I personally have spent many hours before a microfilm reader reading the FOMC minutes. As you well know, it is a devastating experience, which could literally drive one insane unless pursued with great care. Since the reorganization of the FOMC in 1955 (abolition of its executive committee and convening of the whole committee every three to four weeks), the minutes have averaged over 1,000 typed pages annually or nearly 100 pages per meeting. While far from a verbatim transcript, the minutes have identified each speaker and summarized the content of his remarks. A chief omission in the minutes has been various subcommittee reports which are referred to but not included.

My own use of the minutes has been chiefly as a backup to ambiguities in the record of policy actions. In our study of the evolution and importance of "even heel" considerations in FOMC directives, we found it necessary on occasion to go back to the minutes of particular meetings to find out if there had been any discussion of upcoming Treasury financings. In the late 1960s the FOMC, under severe criticism for spending so much time in supporting Treasury refundings and new cash financings, stopped mentioning "even heels" in the record of policy actions, even though from various statistical series on open market operations (we did not then have the minutes for this period) we knew very well they were still in fact supporting Treasury financings.

It is still too early to assess the scope of the recently enlarged FOMC record, but it appears doubtful that its authors will provide the kind of



The Honorable Stephen L. Neal, Chairman  
 September 29, 1976  
 Page 3

detail one could always find in the minutes, whose readers were always only a dedicated few who had to wait (for the post-1955 period) six to nine years to have the copies in hand. In contrast, the record of policy actions is on display a month after the fact to the entire readership of the Federal Reserve Bulletin and with complete anonymity. The May 18 record, in which the procedural change was announced, contains no more discussion of the events leading to the directive than had its predecessors since 1964. The June 22 record, published in the August, 1976 Federal Reserve Bulletin (which, as usual, appeared a week to ten days after the start of the next month), is, perhaps, fifty percent longer than usual (ten, as opposed to about seven printed pages) and is the equivalent of, at most, 20 typed pages or roughly a fifth the length of the minutes for a typical meeting. A fourth (two and a half pages) of the text is devoted to summarizing, in very general terms, the discussion at the meeting, with most of the rest of the verbiage spent on staff presentations of descriptive statistics and projections.

It would appear to me that the abandonment of the minutes ("memoranda of discussion") on the grounds that "the benefits derived from them did not justify their relatively high cost" is a thinly veiled attempt by the FOMC to regain some of their coveted pre-1964 secrecy and consequent insulation from public scrutiny. It is difficult to comprehend the meaning of "relatively high cost" solely in terms of the time and resources required to write, edit, and reproduce the minutes; on the other hand, "high cost" may also be interpreted in terms of vulnerability to criticism. The technical costs of producing verbatim transcripts would probably be less, but I, as a scholar, shudder over the prospect of having to wade through substantially greater verbiage in order to attain incrementally small returns. The task of going through the old minutes is so onerous that it is usually assigned to graduate students working on doctoral dissertations.

Several years ago I wrote a paper, "Federal Reserve Behavior," which surveyed virtually every study of FOMC decision-making up to 1972; I enclose a copy of a recent reprinting of this paper (the reprint, rather than the original, is enclosed, since the bibliography for the article has been extracted from the bibliography for an entire book). Besides my own work, note particularly the studies by Buehler & Fand (reference no. 23) and Hinshaw (reference no. 24), which made extensive use of the FOMC minutes and which would have been impossible to do without the detail of the old minutes.

The work of your committee in the past year has also gone into the methods of selection and backgrounds of Federal Reserve Bank directors, an area in which Thomas Havrilesky, David Schirm, and I have done research. An interesting question, as yet unexplored so far as I know, concerns the historical allegiances of Federal Reserve Bank presidents, elected (subject to Board

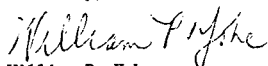
The Honorable Stephen L. Neal, Chairman  
September 29, 1976  
Page 4

of Governors approval) by their directors, in the FOMC policy-making process. To examine such a question would require records comparable to the FOMC minutes. Studies of the behavior of Federal Reserve governors would have similar requirements. Long and short versions of the record of policy actions attribute to specific individuals only the outcome of the formal vote on the policy directive, which, in the minds of many observers, is largely a formality.

To summarize, I see substantial benefits and little financial costs associated with retaining the practice of preparing and releasing the FOMC memorandum of discussion. In the past, the actual time lag has not been the avowed five years but six to nine years (one could save a year by making a trek to the National Archives or a Federal Reserve office, but the time required for perusal makes this inconvenient). I see no reason why the minutes could not be released after a ~~three~~ year lag, with copies available from the National Archives approximately a year later. It would not be hard to justify even shorter lags, but this would be a compromise.

It is a pleasure to assist you in your deliberations, and I hope these remarks may be of use.

Sincerely,



William P. Yohe  
Professor of Economics

WPY/mm

Enclosure

## APPENDIX 2.—VERBATIM MINUTES



Monash University

FACULTY OF ECONOMICS AND POLITICS

CLAYTON VICTORIA AUSTRALIA 3168

TELEPHONE: 03 541 0811 TELEGRAMS: Monashuni Melbourne  
TELEX: Monlib 31729

18th October, 1976.

Representative Stephen Neal, Chairman,  
Committee on Banking, Currency and Housing,  
U.S. House of Representatives,  
WASHINGTON, D.C., 20515.

Dear Mr. Neal,

Thank you for your letter of September 17. Having been out of the country since June, I was surprised and troubled to discover that the FOMC is currently masking its deliberations.

The verbatim records of all Federal Open Market Committee meetings should be mechanically recorded and released thirty days later.

The views of FOMC participants should not be insulated from open critical inspection. Scientific criticism of policy makers' opinions and operational theories is the best way to insure their continual improvement. Moreover, not to open participants' views to public inspection is arrantly undemocratic and inconsistent with the ideal of freedom of information.

Finally, if the FOMC deviates from the pre-announced money supply growth range it will be crucial to the Chairman of the Federal Reserve Board, Congress and the public to be able to trace down the source of the deviation. Verbatim records could be helpful in this regard. The inability of the Federal Reserve to sustain stable rates of money supply growth has been the major systematic source of profound and disturbing shocks to our economy and thereby the cause of inflation and recession.

If you would like further detailed comments, please feel free to call upon me.

Yours truly,

*Thomas Havrilesky*  
Thomas Havrilesky.  
Visiting Prof.

## MICHIGAN STATE UNIVERSITY

DEPARTMENT OF ECONOMICS · MARSHALL HALL

EAST LANSING · MICHIGAN · 48824

November 1, 1976

Honorable Stephen L. Neal, Chairman  
 Subcommittee on Domestic Monetary Policy  
 Committee on Banking, Currency and Housing  
 U. S. House of Representatives  
 Washington, D. C. 20515

Dear Congressman Neal:

Thank you for your inquiry concerning my views on documentation of the meetings of the Federal Open Market Committee. Your letter indicates that you are concerned about two separate issues 1) public accountability of members of the FOMC and 2) the availability of information for research on monetary policy. These questions are similar, though in some ways their informational requirements are distinct.

First, my comments on the issue of public accountability. The deliberations of the FOMC have been specifically exempted from the recently enacted law requiring federal regulatory agencies to hold open public meetings. For the FOMC to abandon its practice of constructing memoranda of discussion at this time strikes me as a violation of the spirit, although not the letter of this legislation. On the other hand, it is not clear that the memoranda of discussion as they have been released for the period 1936-70 are any more acceptable substitutes for open meetings than are the records of policy action. The memoranda of discussion are not transcripts of the proceedings, but rather summaries of the remarks of the individual FOMC members. As such they are also subject to a "subjective process of selecting and summarizing". Therefore, it appears to me that the issue of public accountability of the FOMC can be satisfied in the spirit of the "sunshine law" only by taping and subsequently transcribing the entire proceedings. Guidelines can and should be developed for omitting from the publicly available transactions, sensitive materials involving foreign governments or materials which involve the privacy of individuals or individual businesses along the lines of the guidelines which have been used in the memoranda of discussion. The unedited tapes and transcripts should be deposited with the National Archives for release after a suitably long length of time (say 50 years).

Second, my comments on the issue of research on monetary policy. The primary requirements of such research are: 1) information on the objective of the FOMC in undertaking a particular policy action, 2) the information which led the FOMC to conclude that a policy action was warranted, and 3) the information which led the FOMC to conclude that the policy action undertaken might produce desired results.

The first of these three requirements might be met by a "record of policy actions" or a "memoranda of discussion" if they were constructed with this goal in mind. It presumably could be deduced or inferred from a

Honorable Stephen L. Neal, Chairman  
 Subcommittee on Domestic Monetary Policy  
 Committee on Banking, Currency and Housing  
 U. S. House of Representatives  
 Washington, D. C. 20515

Page 2

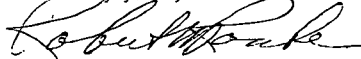
transcript of the proceedings. The second and third requirements probably cannot be completely satisfied even by a transcript of the proceedings. These require knowledge of the analysis and forecasts prepared by the staff of the FOMC for the deliberations of the committee.

As an example, consider a situation in which some policy action of the FOMC is generally agreed, in retrospect, to have been inappropriate. If the FOMC members acted with knowledge of the likely outcome of the policy, then the example could be cited as evidence of bad policy making. However, suppose that the information available to the committee suggested that some other, more appropriate, outcome of the policy action was most likely. Then the policymakers had incomplete and/or erroneous knowledge of the likely outcome, and acted in a manner which was appropriate to the knowledge which they had available. In order to reach conclusions on how to conduct monetary policy, it is important to distinguish these two kinds of situations.

Finally, what is the appropriate time lag on the release of information. For purposes of research on monetary policy, immediate availability of information is not particularly important. The present five year lag on the publication of the memoranda of discussion seems unreasonably long, however, a lag of say two years would probably not hinder anyone's research effort. For the issue of public accountability, it is necessary that the information released accurately reflect the decision making process. If the transcripts and supporting documents must be made with a very short time lag, then there is the danger that the official sessions of the FOMC may become only formalities, with all of the important discussion and decision making relegated to informal meetings or conversations which are never recorded. To minimize this possibility a time lag of one to two years would seem appropriate.

I hope that these comments would be useful to your sub-committee.

Sincerely yours,



Robert H. Rasche  
 Professor of Economics



## THE UNIVERSITY OF TEXAS AT DALLAS

October 22, 1976

The Honorable Stephen L. Neal, Chairman  
 Subcommittee on Domestic Monetary Policy  
 of the Committee on Banking, Currency &  
 Housing  
 Washington, D.C. 20515

Dear Chairman Neal:

I am responding to your letter of September 17, 1976, regarding my views concerning documentation for meetings of the Federal Open Market Committee (FOMC) of the Federal Reserve System. I have delayed my response to your letter because it is difficult to treat these issues properly within the space of a page or two. Yet I have not found the time to treat the subject fully. Consequently, I am giving you my brief opinion, and if your Committee would find a longer commentary helpful, I shall be happy to send it on.

In a word, I think that extended and accurate minutes of discussions at FOMC meetings should be kept and made public and after an interval of only one year. There is only one problem here. I recall that when I was on the staff of the Research Department of the Federal Reserve Bank of St. Louis minutes were sent in rough draft to members of the FOMC. These minutes were then carefully edited by the FOMC member, usually with staff assistance, and returned to Washington. The consequence was that FOMC minutes became a record of what, with benefit of hindsight, members of the Committee wished they had said and not what they actually did say. For this reason, I think it imperative that verbatim transcripts be made on the basis of careful taping and transcribing and that they be unedited in any way.

I am of the further opinion that records of actions of the FOMC, presently released 30 days after each meeting, should be expanded and should record the views of members of the Committee and of the seven presidents in attendance who are not members. They should also express the views of high-level economists and other staff members who either speak or give formal presentations at FOMC meetings.

Actually, I think it even more important that your Committee ask for elucidation of the "targets" allegedly aimed at in the execution of FOMC policy. The notion that the central bank should aim at certain aggregate results, such as

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BOX 688

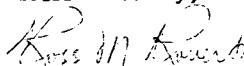
RICHARDSON, TEXAS 75080

The Honorable Stephen L. Neal  
Page 2  
October 22, 1976

an announced rate of change of  $M_1$ , and that at the same time it should try to maintain specified levels of some rate of interest, say the Federal Funds rate, is simply not defensible. It was the attempt to achieve contradictory goals in the period 1965-1971 that started us on the inflationary course we have since followed. Implicit in such a line of inquiry is a thorough reexamination of Federal Reserve failure to use the discount rate as a true money-market rate. Regulation A has got to go. We cannot continue to tolerate the practice of bad economics, bad finance, and bad central banking.

I would hope that your Committee and the appropriate committee of the Senate would gather information on this specific subject from people who not only think about the problems but who have also had some work experience in financial markets. I would be pleased to provide more specific views and to discuss those views for your group examination. If you would like to have my further extended opinion, please write or telephone me.

Yours sincerely,



Ross M. Robertson  
Professor of Finance

RMR/dt1

## TEXAS A&amp;M UNIVERSITY

DEPARTMENT OF ECONOMICS  
COLLEGE OF LIBERAL ARTS  
COLLEGE STATION, TEXAS 77843

TELEPHONE  
713 845-7351

October 8, 1976

Mr. Stephen L. Neal  
Representative, North Carolina  
Chairman, Subcommittee on  
Domestic Monetary Policy  
of the Committee on Banking,  
Currency and Housing  
Ninety-fourth Congress  
Washington, D. C. 20515

Dear Congressman Neal:

This letter constitutes my reply to your letter of September 17 concerning my views on documentation of meetings of the Federal Open Market Committee (FOMC) of the Federal Reserve System. I believe that it is of the upmost importance that the Federal Reserve System be publically accountable for its actions. On the other hand, it is equally important that we maintain a Federal Reserve System that is independent of direct short-run congressional control.

My own view is that the Federal Reserve should publish detailed material relating to the discussions of the FOMC. Such material should be made available with a lag of at least one year and I believe more on the order of two years. The reason the relatively long lag in disclosure of Federal Reserve policy is required rests in my belief that monetary policy must remain independent of direct interference from the legislative and executive branches of government.

This separation is necessary because both the legislative and executive branches of government live and make decisions in the short-run. The short-run impact of monetary policy, however, may be the complete opposite of its long-run impact. Thus, policymaking with a short-run goal may be disastrous in the long-run. For example, the road to a reduction of interest rates in the long-run is to increase interest rates in the short-run. The reason for this seeming contradiction is that the largest component of current interest rates is the rate of inflation. Reducing the rate of inflation requires a gradual decrease in the rate of monetary expansion. Such a decrease may, however, increase interest rates in the short-run. Thus, if short-run considerations dominate we can never bring interest rates down to pre-1966 levels. Therefore, difficult long term monetary policies cannot be accomplished without an independent Federal Reserve system. An independent Federal Reserve



Mr. Stephen L. Neal  
October 8, 1976  
Page 2

system will not be possible if detailed material of FOMC discussions are made available immediately after such discussions. As I indicated above, I believe the minimal lag must be a year and even that is too short.

It is important, however, that the long-run policy decision rules of the Federal Reserve be made available so that the Federal Reserve is accountable for its actions. Otherwise no incentive will exist for the system to alter its policymaking methods and goals to the changing nature of the markets in which they operate and our knowledge of the workings of the monetary system. I strongly believe that the recent more responsible behavior of the Federal Reserve is due almost entirely to well founded criticism by the professional community of the Federal Reserve's interest rate target policy. To deprive this community of access to the underlying reasons for Federal Reserve actions on the open market is to deny them the ability to evaluate the actions of the Federal Reserve. To summarize my point of view, I believe that the Federal Reserve must be allowed freedom to conduct its policies on the one hand, but on the other, it must be accountable to the public for the effect of these policies. This is why I favor requiring the Federal Reserve to publish extensive if not "verbatim" records of all FOMC meetings with a lag of preferably two years.

If I can be of any further assistance, please don't hesitate to call on me.

Sincerely,



Thomas R. Saving  
Professor of Economics

TRS/pb

## NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

261 MADISON AVENUE, NEW YORK, NEW YORK 10016  
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NEW YORK  
CAMBRIDGE  
PALO ALTO  
WASHINGTON

December

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Neal:

Your letter of December 1 indicates that you did not receive my letter of September 23 in response to your letter of September 17.

Let me briefly restate, with one amendment, what I wrote you earlier. I now opt for a requirement that the FOMC maintain mechanically reported verbatim records of all meetings. In my earlier letter I assumed that the practice of maintaining detailed Memoranda of Discussion for all meetings had been essentially unchanged since the 1920's. I have since learned that beginning 1964, when the Fed decided to release documents of meetings five years earlier, the detail in the Memoranda was substantially attenuated. Accordingly, I now favor mechanically reported verbatim records of all meetings, so that scholars will have available a complete record of the formation of monetary policy.

With respect to the appropriate lag before release of the record to the public, I would like to distinguish the delay for the release of the record of policy actions, now approximating thirty days, from the delay for the release of the full record. The former delay should be eliminated. I endorse Professor Milton Friedman's suggestion that the FOMC meetings be held on a Friday and the record of policy actions released not later than the Sunday night following. The delay for the release of the full record should be shortened from the five-year period formerly in effect. A two- or three-year delay at most should be adequate to protect the Federal Reserve against premature disclosure of internal differences.

Sincerely yours,

*Anna J. Schwartz*

Anna J. Schwartz

AJS:jh

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- - -

THE UNIVERSITY OF GEORGIA  
COLLEGE OF BUSINESS ADMINISTRATION  
ATHENS, GEORGIA 30602

DEPARTMENT OF  
BANKING AND FINANCE  
BUSINESS ADMINISTRATION  
BUILDING

September 23, 1976

Mr. Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, DC 20515

Dear Mr. Neal:

Thank you for your interesting letter of inquiry about the publication of FOMC minutes and memoranda.

Let me point out immediately that in my opinion numerous aspects of Federal Reserve System operations should be changed or deleted entirely. To answer your question first, however, I definitely agree that the opinions of individual members of the FOMC should be publicly preserved--and for the same reasons that the speeches of Members of Congress are printed verbatim in the Congressional Record. I also agree that this record of individual contributions is vital and necessary for research in monetary policy. I think verbatim records (as is done for the House and Senate debates) would be the most desirable.

I also think that the lag time allowed to make Federal Reserve System decisions available to the public should be reduced to a maximum of 30 days. This business of keeping such records secret is the kind of cloak-and-dagger policy more appropriate to the time of Talleyrand and Metternich than to democratic polity. If the policies the Fed decides upon are "good," i.e., stabilizing, their foreknowledge will have a stabilizing effect on expectations and thus complement the actual policies. For this reason, policies are more likely to be "good."

Other aspects of Federal Reserve operations I would change are as follows:

1. Abolish all discounting, rediscounting, or lending by Federal Reserve Banks to any banks or other institutions, public or private.
2. Fix reserve requirements by statute and forever at some level, say 14 percent, for all member banks regardless of size or location.

Mr. Stephen L. Neal  
 Page 2  
September 23, 1976

1. Give the Fed a monetary rule as a target for policy. This target should be fixed by Congress with the understanding that the only target the Fed can hit is a monetary growth target, and that it cannot by its own actions achieve goals relating to employment, interest rates, prices, imports, exports, or specific commodity prices in the short run.

I might add that I have just read a copy of an address given by you to the Graduate School of Banking at the University of Wisconsin last month. I heartily endorse everything you have to say, especially the last paragraph, and I earnestly applaud the research you have done on the behavior of money. Your results are very similar to some work of this sort I have done myself.

I have only one additional comment to make and that is on unemployment. In the first place, unemployment is not an economic phenomenon at this time. It is a result of political acts by the federal government. The two major sources of unemployment are the minimum wage laws and various welfare subsidies, such as unemployment compensation. This thesis is verified by the fact that the big "pockets" of unemployment occur in those sectors where minimum wage laws and unemployment compensation are the most virulent. To ask monetary policy to abate unemployment of this sort is to seek the impossible.

I finished a study about a year ago on Federal Reserve policy between 1964 and 1974. It contains reference and documentation on many of the points you raised in your address. My paper is to be published in the next issue of *Kredit und Kapital*, a German monetary journal, but I shall include a typed copy of the manuscript for your pleasure. If I can be of any further service, please let me know.

Sincerely,

*Richard H. Timberlake, Jr.*

Richard H. Timberlake, Jr.  
 Professor

CLARK WARBURTON  
1031 PINE HILL ROAD  
MCLEAN, VIRGINIA 22101

December 14, 1976

Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Mr. Neal:

I regret my delay in replying to your letter of September 17, regarding documentation of Federal Open Market Committee meetings.

My opinion regarding this matter is that there is real merit and usefulness in both the old and the new procedures. To be specific, I favor:

1. A requirement that the FOMC maintain mechanically reported verbatim records of all meetings for release five, or preferably three, years after the end of each year.
2. Continuation of the current procedure of including summaries of views expressed at each FOMC meeting in the record of policy actions released 30 days later.

I am in full accord with the reasons given in your letter for your concern about such documentation and its release.

Sincerely yours

*Clark Warburton*

APPENDIX 3.—MAINTAINING EITHER VERBATIM MINUTES OR REINSTATING THE  
MEMORANDA OF DISCUSSION

STEPHEN L. NEAL, N.C., CHAIRMAN

JOSEPH G. MINISH, N.J.  
MARK W. HANNAFORD, CALIF.  
JAMES J. BLANCHARD, MICH.  
LEONOR K. (MRS. JOHN B.)  
SULLIVAN, MD.  
CLIFFORD ALLEN, TENN.  
NORMAN E. D'AMOURS, N.H.

JOHN B. COMLAN, ARIZ.  
GEORGE HANSEN, IDAHO  
WILLIS D. GRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES  
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY  
OF THE  
COMMITTEE ON BANKING, CURRENCY AND HOUSING  
NINETY-FOURTH CONGRESS  
WASHINGTON, D.C. 20515

December 1, 1976

Professor Armin Alchian  
Department of Economics  
University of California  
Los Angeles, CA 90024

Dear Professor Alchian:

As stated in my previous letter to you, the Fed's changes in documenting FOMC meetings may significantly affect the public accountability of FOMC members, the accuracy of circumstances occurring during policymaking sessions, and the availability of useful research material. Specifically, your expert opinion in the following areas would be appreciated:

1. A requirement that the FOMC maintain mechanically reported verbatim records of all meetings for release to the public ~~after a fixed period of time.~~ *method of recording not matters timing is*
2. A requirement that the FOMC ~~reinstate~~ *immediately* its former practice of maintaining detailed Memoranda of Discussion for all meetings for release ~~after a fixed period of time.~~ *immediately.*

Your thoughts on the merits of recording FOMC meetings by taping or transcribing, or by other methods, in addition to your opinion with respect to the time lag between meetings and the release of whatever record you feel should be made and maintained would be helpful. Currently, a majority of the individuals contacted in September have responded; and I hope you will also give me an opportunity to review your ideas on this subject.

Sincerely,

*Steve L. Neal*  
STEPHEN L. NEAL  
Chairman

*After Congressmen read my notations indicate my opinion and preferences*  
*Armin Alchian*

## UNIVERSITY OF CALIFORNIA, LOS ANGELES

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SANTA BARBARA • SANTA CRUZ

DEPARTMENT OF ECONOMICS  
LOS ANGELES, CALIFORNIA 90024

September 30, 1976

The Honorable Stephen L. Neal  
 Subcommittee on Domestic Monetary Policy  
 U.S. House of Representatives  
 Washington, D.C. 20515

Sir:

Thank you for your letter of September 17th which has been forwarded from Ohio State. I have no strong preference between verbatim records and detailed memoranda of discussions for the FOMC meetings, but strongly urge that one or the other be maintained and released. I see no valid reason for delaying the release date of either beyond that for the corresponding "records of policy actions of the FOMC."

I was glad to have been of assistance in this matter.

Very truly yours,

 A handwritten signature in dark ink, appearing to read "M. R. Darby", is written over the typed name.
 

Michael R. Darby  
 Associate Professor

MRD:ks

Beryl W. Spink  
Executive Vice President and Economist



September 29, 1976

Dear Representative Neal:

In response to your inquiry regarding the documentation of Federal Open Market Committee meetings, I wish to inform you that I share your concern about discontinuing the detailed minutes of such meetings. The ability to associate the views of individual participants with the influence (or lack of influence) that those views have on policy can be invaluable in trying to determine whether the success or failure of monetary policies are due to the state of our knowledge about such policies or to personality characteristics of the participants.

Furthermore, in a position as responsible as that of a member of the FOMC, where debates and voting patterns will strongly influence business conditions, I believe that individuals should go on record with their arguments and beliefs. In this way history can judge the influence and effectiveness of each member's contribution to subsequent economic performance. Historical accountability for one's action is more likely to make that action more responsible.

For these reasons I would favor either or both of the suggestions you offer for obtaining detailed minutes of the FOMC proceedings. The rationale for waiting five years to release these minutes appears to me a reasonable period of time to permit individuals to feel free to act with regard to their best intentions while also minimizing the possible political pressure that an earlier release date could invite.

As you know, there has been a great deal of progress in releasing brief summaries of FOMC meetings. I have been pleased to see this development, but

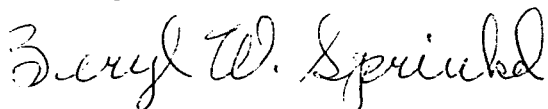
Harris Trust and Savings Bank 111 West Monroe Street Chicago, Illinois 60690  
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Page 2.

continue to believe that there is no reasonable justification for any delay at all. I would therefore urge that a summary of the FOMC's action be released immediately so that market participants have current knowledge of the Federal Reserve Board's intended policy. I continue to believe that such knowledge would help to stabilize short-term swings in financial markets by eliminating much of the mystery and uncertainty that surrounds weekly action.

Sincerely,

A handwritten signature in cursive script, reading "Beryl W. Sprinkel". The signature is written in dark ink on a white background.

The Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

## UNIVERSITY OF CALIFORNIA, BERKELEY

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SANTA BARBARA • SANTA CRUZ

DEPARTMENT OF ECONOMICS

BERKELEY, CALIFORNIA 94720

September 28, 1976

Congressman Stephen L. Neal, Chairman  
 U.S. House of Representatives  
 Subcommittee on Domestic Monetary  
 Policy of the  
 Committee on Banking, Currency,  
 and Housing  
 Ninety-Fourth Congress  
 Washington, D.C. 20515

Dear Congressman Neal:

I strongly support a requirement that the Federal Open Market Committee keep accurate and detailed minutes of their meetings and that the views of individual members of the Committee be identified by name. Such a requirement, as you suggest, would make individual members accountable for their positions.

Perhaps just as importantly, a full and uncensored record of these important policy meetings would be of enormous help to economists and economic historians in assessing the effectiveness of both monetary policy and the institutions established to formulate and implement such policy. Without such records, objective analysis would be hindered.

Sincerely yours,

Richard C. Sutch  
 Associate Professor and  
 Vice Chairman  
 Department of Economics

## NORTH CAROLINA STATE UNIVERSITY | AT RALEIGH

SCHOOL OF AGRICULTURE AND LIFE SCIENCES  
SCHOOL OF LIBERAL ARTSDEPARTMENT OF ECONOMICS AND BUSINESS  
Box 5368 Zip 27607

September 29, 1976

Congressman Stephen L. Neal, Chairman  
 Subcommittee on Domestic Monetary Policy  
 Committee on Banking, Currency and Housing  
 U.S. House of Representatives  
 Washington, D.C. 20515

Dear Congressman Neal:

I have your letter of September 17, 1976, regarding full public information and documentation of Federal Open Market Committee (FOMC) deliberations.

As an economic historian specializing in monetary and banking history, I share your concern about the discontinuation of printed minutes of FOMC meetings. Indeed, I would go beyond your statement to hold that "fruitful research on monetary policy and the processes of conducting monetary policy" has already occurred on the basis of public disclosure of FOMC minutes and is not merely something that we may hope for in the future. Some form of record, either verbatim transcripts or the detailed memoranda of the past, should surely be required for eventual release.

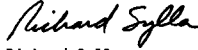
On the matter of accountability, I believe that members of the FOMC should be no more reluctant than any appointed or elected representatives of the people to have their views identified with their names. The problem that worries me is that if such information were to be released soon after policy discussions and decisions take place, then such discussions and decisions will be made "over lunch" or otherwise apart from the FOMC meetings rather than at the meetings themselves. In that case, FOMC minutes would be of a rather empty and rubber stampish nature. I believe that the five-year time lag of the past would avoid this problem, although it might be worth investigating whether a lag of this length has had anything to do with the rather rapid turnover of Board membership in recent years. Personally I doubt very much that it has had this effect.

As for policy decisions themselves, I see little reason for any lag in their release to the public. The Fed's announcements of targets for twelve-month monetary growth are to be applauded in this connection, and I see no useful purpose in all the rumors, guessing, and investigations

concerning what current Fed policy<sup>is</sup>, which now occur after each FOMC meeting. Monetary policy would be more effective if the decisions made at each meeting were publicly announced immediately after the conclusion of the meeting. Uncertainty concerning current Fed policy is uncalled for and unnecessary.

The historical record of monetary policy under the Fed is not very encouraging. Its long predilection for secrecy in policy matters has, I believe, contributed to this record. Therefore, I urge that a complete record of FOMC deliberations be kept for public release after four or five years and that current policy decisions be released immediately.

Sincerely,



Richard Sylla  
Associate Professor



Southern Illinois  
University at Carbondale  
Carbondale, Illinois 62901

Department of Economics

October 5, 1976

The Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency, and Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Neal:

As an economist with a particular interest in monetary policy and monetary history, I fully share your concern about changes in procedures of the Federal Open Market Committee. It is highly desirable that individual members be held accountable for their positions. It is also important that scholars be able, at some point, to identify the elements of evidence, analysis, and personality which combine to produce a particular direction in Federal Reserve policy. Either of the policy proposals mentioned in your letter of September 17 would seem adequate to the task. Mechanically recorded records are obviously more complete and detailed, but may be more difficult to use. The five-year lag in releasing the full minutes always seemed pretty long to me, and I believe this period could be shortened without harm to the members of the FOMC. Further, the likelihood of public scrutiny would, I believe, hasten the trend to base policy primarily on the behavior of monetary aggregates, notably the monetary base, a trend which I strongly favor.

Sincerely,

*Paul B. Trescott*  
Paul B. Trescott

Visiting Professor of Economics



SAN FRANCISCO HEADQUARTERS  
Flow of Funds Management

September 28, 1976

The Honorable Stephen L. Neal  
Chairman  
U.S. House of Representatives  
Subcommittee on Domestic  
Monetary Policy of the  
Committee on Banking, Currency & Housing  
Ninety-fourth Congress  
Washington, DC 20515

Dear Mr. Chairman:

Thank you for soliciting my views concerning the documentation for the meetings of the Federal Open Market Committee of the Federal Reserve System. I favor recording the meetings in full detail. Furthermore, I would favor making the record public with a minimum of delay; 30 days would not be too soon in my opinion. Full and timely disclosure of the policy decisions of all governmental agencies is important. Disclosure of the FOMC's decisions is doubly important because of the great impact these decisions appear to have on economic welfare and because of the independence that has been granted to the Federal Reserve System.

Either of the measures that you suggest on page 2 of your letter dated September 17, 1976, should provide for adequate recording and disclosure.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Terry L. Turner', written over a horizontal line.

Dr. Terry L. Turner  
Senior Financial Consultant

## APPENDIX 4.—SUPPORT OF THE FOMC DECISION

GEORGE H. CLAY

1008 West 63rd Street  
Kansas City, Missouri

January

The Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
U. S. House of Representatives  
Washington, D. C. 20515

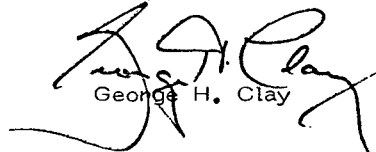
Dear Congressman Neal:

This is in response to your request for my views regarding the appropriate record that should be maintained by the Federal Open Market Committee and the time lag for the release of that information to the general public. I regret the delay in responding to your earlier request and hope that it has not caused you or your staff any inconvenience.

With regard to your questions concerning the need for a verbatim transcript to be released following an appropriate time lag, it is my judgment that such a record would not serve any useful purpose to either the Congress or to the public. As you know, the committee has in the past prepared a memoranda of discussion which sets forth in some detail discussion by the individual participants and was released to the public with a five-year time lag. It is my impression that the memoranda of discussion drew very little interest from even the historians and academicians. I would be opposed to releasing any verbatim record of any FOMC meeting without an appropriate time lag of at least three years.

I hope these comments will be helpful to you and your colleagues in your considerations of the Federal Open Market Committee.

Sincerely,

  
George H. Clay

NATIONAL CITY BANCORPORATION  
TENTH FLOOR NATIONAL CITY BANK BUILDING  
75 SOUTH FIFTH STREET  
MINNEAPOLIS, MINNESOTA 55402  
TELEPHONE: 612 / 340-3183

September 23, 1976

Congressman Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary  
Policy of the  
Committee on Banking, Currency  
and Housing  
Washington, D.C. 20515

Dear Mr. Chairman:

I have your letter of September 17, addressed to me c/o Federal Reserve Bank of Minneapolis. I am no longer in the Federal Reserve System, having left the Minneapolis Bank at the beginning of 1965 to go to the Treasury for four years and since early 1969 have been in private banking in New York and Minneapolis. Furthermore, I have not followed very closely the procedural issues relating to the maintenance and release of the FOMC minutes since the decision taken in 1964 to release them after a five-year waiting period. Nevertheless, I am happy to comment on the points raised in your letter.

I should note first that I have always had serious reservations about the usefulness of the detailed minutes for fruitful research on monetary policy and the processes of conducting such policy. Given the facts that the records of policy actions of the FOMC are released 30 days after each meeting and now have been expanded to include summaries of views expressed at the meetings together with the recorded votes of the members, and, as I understand it, detailed expression of the views of any member who dissents from the majority, I think that students of monetary policy and its formulation get a reasonably clear view of what



Congressman Neal

September 23, 1976

policy is and how it is formulated. Any serious student of monetary policy formulation should know or have easy access to materials or interviews with participants as to procedures, and can be kept almost fully current on substance. In my days in the System, there were all sorts of meetings, some of which were almost seminars, which went into great detail with respect both to procedures and substance, but the full record of policy actions of the FOMC was released only in the Board's Annual Report and, as noted, the full minutes were not released at all until 1964 with the five-year waiting period. Except for detailed historical research on the position of any one member of the FOMC I see no particular advantage for a student in getting a record five years after a meeting.

Your point about the public accountability of the individual members of the FOMC I regard as a different and perhaps more serious point. But I must note again that each member is identified as to his vote (now merely 30 days after that vote) and that any member who dissents has his reasoning explicitly cited under the new procedure. These individual positions also tend to be identifiable via the many public speeches made by members of the Board or by Reserve Bank presidents. From my own service in the past I can say that summaries of the majority position were, without any exception that I can remember, completely fair. While certain members of the FOMC had in my day (and, I suspect, this situation still holds) greater facility than others in expressing positions the conclusions they reached were not all that different, unless, of course, there were actual dissents from the majority view. These dissents now are made public much sooner than they used to be. Thus I must conclude that the public accountability factor really is being met more fully under the new procedure than under the old.

I should make one final comment on this point. I assume, that as it was in my day, the summary position of the majority and any dissent, are reviewed at the meeting when the vote is recorded and the subsequent statement is reviewed before publication by all members of the FOMC.

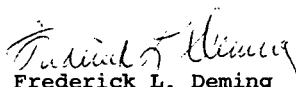
Congressman Neal

September 23, 1976

Should any member have a serious difference with the statement for publication he should, and I think does, have the responsibility and the power to require such rephrasing as he believes necessary.

Therefore, I have no reason to believe that either of the two possible measures to restore full documentation of FOMC deliberations would add anything substantial to the present procedures for informing either students of monetary policy or members of the Congress. That statement should not be taken to mean that I necessarily agree with the substance of each policy action, nor that I would necessarily oppose certain other procedural changes which have been suggested relating to the formulation of monetary policy. But neither maintenance of verbatim records released to the public after a period of time or reinstitution of the old procedures would seem to me to be productive.

Sincerely,

  
Frederick L. Deming  
President



The Honorable Stephen L. Neal  
 Chairman  
 Subcommittee on Domestic Monetary Policy of the  
 Committee on Banking, Currency and Housing  
 House of Representatives  
 Washington, D. C. 20515

Dear Chairman Neal:

I have thought at some length of how best to respond to your letter of September 17 concerning Federal Open Market Committee minutes.

Let me be brief and straightforward. I have concluded that the system recently introduced by the FOMC -- expanded explanation of FOMC analysis and actions with about a 30-day lag -- is probably the best all-around procedure for serving the public interest.

I had a chance to vote for that change at one stage while still a member of the FOMC. I felt it was superior either to immediate release of voting information and analysis or a long-delayed release of the full minutes.

I believe the full minutes are more a theoretical than a practical source of information on the functioning of the FOMC. As you can verify by checking with the Archives, relatively few scholars ever make use of the historical minutes already made public. While it is flattering for individual members to have all their personal views preserved in print (as mine are), I have come to believe that is not an essential feature of good FOMC procedure or stewardship of the public interest. Unlike Congress, the FOMC is not a body whose members are individuals with constituents to whom each should be accountable. It is a group solely responsible for reaching the best possible collective judgment. Individual members ought to be encouraged to build toward that outcome in their remarks, and not toward a personal record.

The Honorable Stephen L. Nass  
October 13, 1976  
Page 2

On those occasions when a member differs importantly from the collective judgment of his peers, he can and should register a dissenting vote, with an explanation therefor appended to the relevant published record of policy action.

This kind of record, I believe, is a good means for holding the Federal Reserve accountable. The public and the Congress have prompt and detailed weekly statistics on what the Federal Reserve actually did and an extensive monthly explanation of why it did it, whether there were differences of emphasis among its members and who if anyone felt strongly enough to dissent. With periodic Federal Reserve testimony before the Congress to enrich this record as needed, I believe the public interest is duly served.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Robert C. Holland", written in a cursive style.

Robert C. Holland



1601 West Peachtree Street, N.E. • Atlanta, Georgia 30309 • (404) 897-7301

Clifford M. Kirtland, Jr.  
President

October 1, 1976

The Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Congressman Neal:

I very much appreciate the opportunity to pass along my views concerning documentation for the meetings of the Federal Open Market Committee (FOMC) of the Federal Reserve System as requested in your letter of September 17, 1976. My personal opinion is that the changes in the documentation represent an evolutionary process and are worthwhile.

I have, for example, read carefully the "Record of Policy Actions" of the Federal Open Market Committee covering the meeting held on August 17, 1976 and released on September 24, 1976. In that record the state of the economy is well described and documented.

I also found it rather easy to understand the flavor of discussions among the various members of the FOMC. Since the process of making monetary policy is necessarily subjective to a large degree, I don't believe I would be any more enlightened by having the speaker at the meeting individually identified.

It seems to me that it is very easy, in a case like this, to have form take priority over substance. Substance to me means that the Committee works hard at its task, has a broad understanding of up-to-the-minute economic conditions and deliberates well. I believe these factors are in evidence under the new system of documentation.

As to individual accountability of FOMC members, I fail to understand why this is necessary for the process

The Honorable Stephen L. Neal  
 October 1, 1976  
 Page 2

of making monetary policy. Frankly, I would like to be bold enough to suggest the thinking along these lines derives from the way Congress itself operates. There it is necessary and important that the constituency of individual members of Congress are aware of the comments and votes of the people they elect. I see no direct comparison with the Federal Reserve Open Market Committee deliberations.

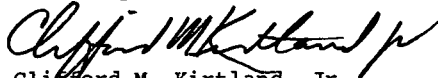
An accumulative compilation of the new documentation over a period of time I should think would be totally sufficient for the purpose of fruitful research on monetary policy.

I think the most important point of all is that the FOMC consist of persons who are thoroughly trained and experienced and have a broad concept of both domestic and international economics. If we can assume that these criteria are met, then it seems to me we should be willing to place a degree of trust and confidence in these persons without having to hold them individually accountable.

On the point of release of the "Record of Policy Actions," I am in favor of as short of span as possible between the meetings and release consistent with being able to disseminate the total text on a broad basis so that no particular group is favored by early receipt of the information.

Thank you again for letting me have the opportunity to furnish my opinions. I am taking the liberty of sending a copy to Senator Proxmire as well.

Sincerely,



Clifford M. Kirtland, Jr.  
 Deputy Chairman  
 Federal Reserve Bank of  
 Atlanta

/mn

cc: Senator William Proxmire



JOHN LAWRENCE  
CHAIRMAN OF THE BOARD

FEDERAL RESERVE BANK  
OF DALLAS

December 13, 1976

DALLAS, TEXAS 75222

Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
U. S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Neal:

This refers to your December 1, 1976 letter regarding your questions with respect to the records of the Federal Open Market Committee. Incidentally, the letter refers to a prior letter which I am unable to locate and apparently did not receive. I am pleased to relay to you my views on the Federal Reserve's documentation of FOMC meetings.

I am opposed to any requirement that would have the FOMC maintain a verbatim record of its meetings. Such a requirement would seriously inhibit the flow of discussions in the meeting and thereby reduce substantially the information available to the Committee in its deliberations. The problem would be compounded by any additional requirement that such transcripts be released to the public following a specified period of time. The effective performance of its responsibilities by the FOMC depends to a large degree upon the candid, forthright discussions of the participants. I think that there is very little doubt that if these discussions were transcribed and subsequently released to the public, the consequences would be to reduce the candid exchange of ideas, particularly regarding sensitive issues in the international, the domestic credit market, and the "problem" financial and nonfinancial institutions areas. Such requirements would especially hamper the Federal Reserve's effectiveness in matters concerning foreign central banks and governments.

As to the question about the reinstatement of the Memoranda of Discussion and the time lag between FOMC meetings and public disclosure, I believe the current procedure of releasing the policy actions several weeks after such meetings and making a permanent record by publishing them in the Federal Reserve Bulletin are satisfactory. These reports depict clearly and accurately the FOMC's policy determinations and within a time frame that is timely, while not creating the possibility that some people could capitalize upon the earlier release of the information. Apparently the Memoranda of Discussion were less informative and less useful documents than the current Record of Policy Action. I am informed that there has been no significant resort to them by either students, policymakers, or legislators, indicating the documents are of limited value.

Congressman Neal

December 13, 1976

On balance, I believe the Committee is doing a better job of documenting its meetings and policy than in prior years and that the current time frame for the release of such documentation is serving the public's "need to know" without jeopardizing the policy process. I see no need for legislative change in this respect.

Sincerely yours,

A handwritten signature in black ink, reading "Julian Lawrence". The signature is written in a cursive style with a large, stylized initial "J".



WILLIAM MCCHESENEY MARTIN  
FLEMING BUILDING  
800 SEVENTEENTH STREET, N. W.  
WASHINGTON, D. C. 20006

December 13, 1976.

The Honorable Stephen L. Neal,  
Chairman,  
Subcommittee on Domestic Monetary Policy,  
Committee on Banking, Currency and Housing,  
House of Representatives,  
Washington, D. C. 20515.

Dear Mr. Chairman:

I apologize that I have not responded earlier to your letter of September 17, with respect to the Federal Open Market Committee's ("FOMC") May 1976 decision to discontinue preparation of Memoranda of Discussion. In my retirement I am away from Washington a great deal and this unfortunately prevented my looking into the matter and giving you my views more promptly. I now also have your nice letter of December 1.

You express concern over the action by the FOMC and have identified two possible alternative actions that might be adopted with respect to record keeping procedures of the Committee. These are reinstitution of the Memoranda of Discussion, with release after an appropriate fixed period of time or maintenance by the FOMC of mechanically reported verbatim records, with release of such records after an appropriate fixed period of time.

In the course of selected studies and inquiries which I undertook relative to your letter and the FOMC's action, I learned that Chairman Burns, by letters dated July 26, 1976, wrote to Senator Proxmire and Chairman Reuss on this matter, explaining the rationale prompting the FOMC's decision to discontinue the Memoranda of Discussion. Upon reviewing this correspondence, copies of which are enclosed, I must say that I concur generally in the FOMC's action.

The Honorable Stephen L. Ne

As you correctly point out, Memoranda of Discussion were prepared by the FOMC for approximately a forty-year period (1936-1976) and during most of that time were treated strictly as internal documents. Based upon my personal experience as former Chairman of the FOMC, I can advise you that their preparation was extremely time-consuming and costly, particularly in view of their limited use by the Committee after their completion. As for the use of these Memoranda by students and historians, I favored the FOMC's decisions in or about 1964 to release Memoranda of Discussion for the years prior to 1960 to the National Archives and its position that more current Memoranda would be released on a five-year delay basis. I hoped that public access to the Memoranda would shed light on the rationale underlying the FOMC's decision-making process and would serve to reveal clearly the responsible and careful approach taken by the FOMC with respect to all issues before it. It is my understanding that, regrettably, few individuals made use of FOMC Memoranda of Discussion when they were available. I continue in the belief that these aspects of the FOMC's deliberative process should be conveyed to the public. However, this is not to say that the FOMC should be precluded from use of such records and documents as may be adjudged the most effective vehicle for achieving the aforesaid objectives. Thus, it seems appropriate for the FOMC to discontinue the preparation of the Memoranda should a more useful and timely reporting mechanism be determined. This is the nature of the newly expanded Record of Policy Actions, which discusses all major views and facts considered by the Committee. It would appear to be an informative, timely and cost-effective method of achieving the Committee's disclosure purposes. The release of this expanded record, coupled with Chairman Burns' quarterly meetings with Congress pursuant to Concurrent Resolution 133, appears to be a more effective means of achieving public awareness of the FOMC process than the Memoranda of Discussion.

I would add two final comments. First, your concern with respect to the FOMC's action is apparently premised upon the belief that discontinuation of the Memoranda of Discussion will result in the FOMC Members being less accountable to the public for their actions, since the views of each Member are not individually reported in the Record of Policy Actions. I cannot agree with this assumption. The public accountability


The Honorable Stephen L. Neal

you seek is clearly achieved through the recordation and publication of each Member's vote on final policy actions taken by the Committee. The public is apprised of Committee decisions by means of the Records of Policy Action and has full opportunity to analyze and criticize the actions taken. It is the adopted policy actions that constitute monetary policy, not the tentatively expressed, perhaps later rescinded or modified expressions of individual Members rendered prior to final vote. FOMC and members' policy actions for which accountability is warranted is in fact achieved through issuance of the Record of Policy Actions.

My second comment relates to your alternative proposal--the mechanical reporting of verbatim records of FOMC meetings. I believe that the FOMC Member must be positioned to bring to each issue before the FOMC free and uninhibited expressions of experience, views, challenge or question. Presently, a Member of the Committee is free to present a tentative view and later reconsider the validity of such view in the light of other expressions on the subject. Further, each Member can and does challenge his associates directly without fear of public confrontation or possible embarrassment. In the course of foreign exchange discussions, a Member of the FOMC can make known to his colleagues his assessment of reported or anticipated currency actions, accompanied by what supporting information he may have--often of a highly confidential or sensitive nature. This can presently be done without fear of unintentional or unauthorized disclosure of a maintained verbatim record. I anticipate that this effective, candid interchange of views would be severely curtailed under your proposal.

I appreciate the opportunity to comment on these issues. I think it important that the FOMC not be burdened with a cumbersome and wholly unnecessary record keeping requirement when, through its expanded Record of Policy Actions, it is now apparently providing a reasonably more full and useful record for public study.

Sincerely yours,



Wm. McC. Martin, Jr.

Enclosures



## CONTINENTAL BANK

CENTRAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO • 231 SOUTH LA SALLE STREET, CHICAGO, ILLINOIS 60693

December 14, 1976

DONALD C. MILLER  
VICE CHAIRMAN OF THE  
BOARD OF DIRECTORS

The Honorable Stephen L. Neal  
House of Representatives  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
Cannon House Office Building  
Washington, D.C. 20515

Dear Mr. Neal:

In looking at the alternatives suggested by you in your letter concerning changes in the way in which the FOMC meetings are reported to the public, I am concerned that both suggestions would move us in a direction which I believe would be against the long run public interest. In each case, the positions taken by the participants would be identified by name. I think this would be a mistake. First of all, such identification would inhibit them in that they would probably exercise great care and circumspection in what they say. One of the values of these sessions is certainly the give and take of the discussion and the possibility of airing all views and presenting all positions. Another implication of the suggested requirements is that they would probably lead toward a more political approach. It would mean that the participants in the meetings would open themselves up to political pressure. In short, the alternative suggestions would move the Federal Reserve a step away from the independence of thought which it was established to provide.

I think the present method of releasing the information after a 35 day lag is about as short a time period as is feasible since the committee meets once a month. If the information would be released any sooner, it would then reveal what current policy was at that time. I think the present release of data gives a lot of information in a forthright manner, presents divergent views, and gives the reader a flavor of the discussion. This is all that the public and the various market participants need.

The basic problem involved in this matter is that of achieving public accountability of the FOMC members vs. independence of action. I, for one, would opt for the latter. The Federal Reserve is a creature of Congress and is responsible to Congress. I believe it has exercised this responsibility well and, as you know, reports with regularity to Congress. In fact, I think the various Congressional committees' efforts to question the Federal Reserve have at times been overdone. Given the accountability that the FOMC thus has to Congress, I think further steps such as suggested would eventually erode the important independence of thought and action that it now has. I would ask that you look at the record of some of the other central banks around the



-2-

The Honorable Stephen L. Neal  
House of Representatives  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
Washington, D.C. 20515

December 14

world after they have been brought more closely under the wing of the treasury or executive branch of their government. In general, I believe in the separation of powers, and this is one separation that has worked but has still given Congress the chance to demand accountability when required.

I hope these brief thoughts will be of some value in your deliberations.

Sincerely,

A handwritten signature in cursive script, appearing to read "Donald C. Phillips".

UNIVERSITY OF WASHINGTON  
SEATTLE, WASHINGTON 98105

September 29, 1976

*Department of Economics*

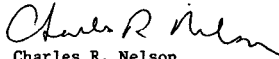
Congressman Stephen L. Neal  
Chairman, Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and  
Housing  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Neal:

Thank you very much for your letter of September 17 asking me to respond to the question of secrecy in FOMC meetings. I believe that it would be harmful to the decision process to require that verbatim minutes of the meetings be publicly available within a short time of the meetings because I think it would make people reluctant to express their opinions candidly. If an individual member of the committee does not feel that his opinions are adequately represented in the summary he does have the right to publish under his name a consenting opinion which appears in all published accounts. Therefore I do not feel that a requirement of compulsory complete minutes is really necessary to insure that dissenting members of the committee have a public forum. From the viewpoint of research into the decision making process in FOMC it would indeed be interesting to have verbatim minutes available but those minutes should not be made available for at least a decade following the actual meeting, in my opinion.

Thanks again for requesting my response.

Sincerely yours,



Charles R. Nelson  
Professor of Economics  
Director, Institute for Economic Research

CRN/ch  
cc:

## UNIVERSITY OF CALIFORNIA, BERKELEY

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SANTA BARBARA • SANTA CRUZ

Schools of Business Administration

350 Barrows Hall  
Berkeley, California 94720

November 1

Chairman Stephen L. Neal  
 Subcommittee on Domestic Monetary Policy  
 of the Committee on Banking, Currency and Housing  
 U.S. House of Representatives  
 Washington, D.C. 20515

Dear Chairman Neal:

In response to your letter of September 17, 1976, I have examined some of the minutes of the FOMC meetings held during 1970 and some of the most recent "records of policy actions." On balance, I do not think there is much to be gained by requiring either a verbatim report or requiring the detailed minutes which were previously published.

As you indicated in your letter, the new procedure which began with the March, 1976 meeting does provide a summary of the alternative views expressed at each meeting. I do not see any reason for attributing these views to individual members in order to monitor economic policy decisions. In fact, it seems possible that having Congress require such attribution would inhibit the free expression of alternative viewpoints at such meetings.

It is not clear to me how committee members are to be held "publicly accountable" for their participation in FOMC meetings. With respect to the economic ideas they express, I think that members can be held accountable by their votes on the reported policy actions. Perhaps the concern about accountability involves the possibility of members discussing and engaging in policy actions which are in their own self-interest. If this is a matter of concern to the Congress, a tamper-proof, verbatim record (with no secretarial accidents with footpedals, etc.) would be required.

Although it is not a type of research in which I have any expertise, I can imagine that some scholars (e.g. economic historians) would find a verbatim record of FOMC meetings of considerable interest.

You asked about the appropriate time lag between a meeting and the release of the record of that meeting. I suggest that the FOMC should release a record of policy action on the day after each meeting. There does not seem to be any benefit for the society in general from holding this information back from interested parties. In fact, holding it back seems

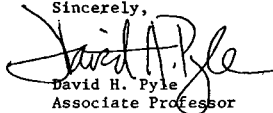
Chairman Neal  
Page 2  
11/12/76

to generate substantial uncertainty and may provide economic advantages to those institutions which deal directly with the Open Market Desk. Such advantages may not be readily available to other participants in financial markets. One might note that there is a similarity between immediate release of the FOMC policy record and the immediate release of Department of Agriculture crop reports. Both have effects on investors' anticipations regarding future prices. While there are often strong market responses to the new information in crop reports, these responses do not appear to be destabilizing in the commodity futures markets. I see no reason to believe that prompt announcement of monetary policy decisions would be destabilizing in money markets.

In summary, my suggestions are:

- (1) If auditors of government policy-making and policy-makers or research scholars have a need to review FOMC policy sessions, a tamper-proof verbatim report held in archives would be needed. I do not see any purpose for publishing such a verbatim report and since such publication would be costly, I would recommend against it.
- (2) There does not appear to be any advantage to the detailed minutes (which after all could be edited) as compared to the current record of policy action.
- (3) The record of policy action should be made public the day after the FOMC meeting which it covers.

Sincerely,



David H. Pyle  
Associate Professor  
Business Administration



RAYMOND J. SAULNIER

LEHMAN HALL  
BARNARD COLLEGE, COLUMBIA UNIVERSITY  
NEW YORK, NEW YORK 10027

September 29 1976

Congressman Stephen L Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
Washington DC 20515

Dear Congressman Neal:

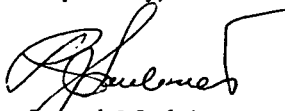
Responding to your letter of September 17 1976 soliciting my views on the documentation of Federal Open Market Committee meetings, I have always been more concerned with what was actually happening to monetary and credit conditions than with what individual members of the FOMC have had to say on policy matters. And I believe money markets would be more stable if those who watch the Federal Reserve System closely had to shape their views on the basis of only impersonal, quantitative data. To put it simply, I find the numbers more useful than the words. Indeed, I would be satisfied with nothing but numbers, provided they are reasonably complete and reasonably up-to-date. On the whole, the statistics now available, including what I get from the Federal Reserve Bank of St Louis, are enough for my purposes, but improvements could doubtless be made and I hope your committee will study possibilities to that end.

All the same, I recognize the interest of Congress, and the financial community, in having a more intimate and more personal view of what goes on within Open Market Committee meetings. Since we are to have such reports, it is my view that they should be straightforward accounts - published not less than, but not greatly more than, thirty days after the fact - of the committee's major conclusions, with identification of individual committee members only where their views depart significantly from the indicated consensus. I would think that to require deliberations of the committee to be recorded by some type of electronic apparatus, with the full record ultimately made available to the public, would seriously suppress those qualities of spontaneity, openness, and readiness to probe where facts are only dimly known and one's opinions are only tentatively formulated, that are essential in a frank and full discussion of controversial technical questions. Naturally, a good deal of what goes on in committee deliberations must be a kind of "thinking

out loud." I would regard it as a grave mistake to require a public record that would discourage such dialogue.

I hope the above responds adequately to the question you put to me; if not, feel free to inquire further.

Respectfully,



Raymond J Saulnier

Chairman Arthur F Burns

CHARLES J. SCANLON  
767 FIFTH AVENUE  
NEW YORK, N. Y. 10022

October 6, 1976

Honorable Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency  
and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for your letter dated September 17 requesting my opinions regarding several proposals incident to the documentation of deliberations at meetings of the Federal Open Market Committee. While I appreciate the opportunity to express a view on these matters, it has been almost seven years since I was an active member of the FOMC and I recognize that both the climate and the participants have changed.

In 1964, when the decision was made to release the minutes of the FOMC for the first time, I was an active supporter of that move although I thought the five-year lag was longer than the situation required. I was not critical of this, however, because we were breaking new ground and this seemed to me to be a step in the right direction.

Subsequent to the FOMC taking that action, I was surprised and disappointed that there was little evidence of public interest in examining the records. I think we must remember that in 1964 we did not have the preoccupation with disclosure that currently prevails. Nevertheless, it became increasingly clear that what really mattered to scholars and interested parties was the timely release of the policy actions taken by the FOMC and not the historical discussions which led to the conclusions on monetary policy.

As a result, I feel the gradual shortening of the release date on records of policy actions to thirty days after each meeting is desirable and is really far more important than whether or not there are memoranda of discussion in the form suggested in your letter. As

Honorable Stephen L. Ne

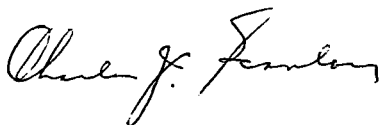
October 6, 1976

a matter of fact, it seems to me that the taping, transcribing, etc. of FOMC meetings and the publication of such records would eventually result in most participants speaking "for the record" and I would regard this as being undesirable.

I cannot emphasize too strongly my feeling that policy determination is more important than the views of one or two individual members of the FOMC. After all, they all make speeches and if any of them are in serious disagreement with the majority action it will be a matter of public record in a very short time.

In summary, I am pleased with the new thirty-day release period for an expanded record of policy actions and I am not concerned with the discontinuance of the Memorandum of Discussion.

Sincerely,

A handwritten signature in dark ink, appearing to read "Charles J. Fomberg". The signature is written in a cursive, flowing style with a large initial "C".

**First National Bank in Dallas**

Post Office Box 6031, Dallas, Texas 75283 (214) 744-8000

HARRY A. SHUFORD  
CHAIRMAN OF THE BOARD  
214 744-8668

September 30, 1976

The Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency  
and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Mr. Neal:

I appreciate the invitation in your letter of September 17 to comment on the documentation for meetings of the Federal Open Market Committee. My delay in responding is due to my having been out of town.

Preliminary to my comments, I should mention something which you need to know, since it probably influences my views. I was with the Federal Reserve Bank of Dallas from 1948 until 1962, when I left the office of First Vice President to become President of the Federal Reserve Bank of St. Louis. I resigned that position in 1966 to return to Dallas in a senior management responsibility at the First National Bank in Dallas. I continue to have the greatest respect for the Federal Reserve System and the dedicated effort it makes to contribute to our country's welfare through exercising its responsibilities, especially in the area of monetary policy.

As you know, this subject of documentation and the related one of disclosure of the actions of the FOMC has been a subject of consideration and debate for a good number of years. Most of the views expressed are certainly in good faith but are influenced, no doubt, by what one regards to be the purpose of the documentation and this, understandably, is influenced by one's profession or business, i. e., whether you are an officer of the Fed, a member of Congress or other public office, an academician, a banker, etc.

But, you have asked for my view. I believe the most important matter is the conclusion or policy reached by the FOMC as a committee and a brief, but complete, statement of the basis for that policy. Even though there are occasions when members of the committee differ, these differences are subordinate to the final policy and the reasons supporting it. I do not believe that the fact that a member's views will be recorded and disclosed

subsidiary of  First International Bancshares, Inc.

The Honorable Stephen L. Nease  
September 30, 1976  
Page Two

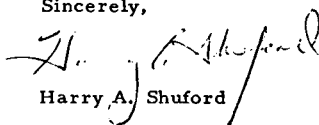
will cause that person to be any more responsible. This is predicated upon the assumption that the meetings of the committee will continue to be closed to the general public. In addition, the keeping of detailed minutes or "memoranda of discussion" requires more time and expense (recording, reviewing, correcting) than is generally known and which, in my view, is unnecessary. I admit that as a member of the committee, I liked to see my comments in summary form recorded, but this was due more to a bit of personal pleasure than of any material benefit to the formulation of policy.

As for research, I am not aware of any significant benefits that have resulted since the materials have been released, and I fail to see how they could be of much value in this respect. However, I am not an economist or academician, and the minutes may have more value in this respect than I realize.

I feel even more strongly that the FOMC should not maintain mechanically reported verbatim records. In addition to the reasons given above in connection with "summary records," there are many matters involving banks, international relationships, other countries, etc. which need to be discussed fully and candidly -- and this would be impeded, if not prevented, by a requirement for verbatim records.

I am pleased to furnish you my comments, and they are only mine, of course, and in no way reflect the views of our bank or any of my associates.

Sincerely,



Harry A. Shuford

HAS:bh

NORTHWESTERN UNIVERSITY  
EVANSTON — CHICAGOOFFICE OF THE PRESIDENT  
EVANSTON, ILLINOIS

December 30, 1976

Honorable Stephen Neal  
Chairman, Subcommittee on Domestic Monetary Policy  
of the Committee on Banking, Currency and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

I am responding to your letter of September 17 inquiring as to my views regarding documentation for meetings of the Federal Open Market Committee.

Since I have never served on this Committee, my views must be regarded as tentative and based on only an indirect understanding of the actual conduct of the meetings.

In my experience, there are two quite different types of "deliberative assemblies." One is like the House of Representatives and its various committees, or a City Council, or any essentially "political" group where representatives are important and often partisan spokesmen for defined constituencies having a number of conflicts of interest. These assemblies tend to proceed fairly formally, adhering with some care to rules of procedure. Their meetings are frequently open and it seems quite appropriate that their debates be "on the record."

The other kind of deliberative group is one that functions as a team. This would characterize most corporate boards, the local garden club, and my own administrative staff. Their deliberations are often calculated to achieve a consensus, frequently through protracted discussion and a general spirit of compromise, until there is unanimous agreement on what ought to be done. Only occasionally will a dissenting vote be recorded. Frequently in these deliberations, someone may play the role of "devil's advocate," and a wide range of alternatives might be voiced and explored simply for discussion purposes. No one is representing a particular constituency and so the "group dynamics" of this process are rather different from those of the other kind of deliberative assembly.

Honorable Stephen Neal

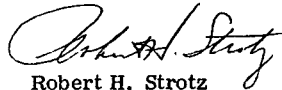
December 30, 1976

For this latter type to function effectively, it seems to me important that there be an element of privacy along with the spirit of mutual cooperation. Once their deliberations are in a goldfish bowl, people begin to grandstand, become fearful of exploring unusual and "unlikely" alternatives, and lose their quality of constructive interaction.

My own view, for what it is worth, is that the Federal Open Market Committee ought to function in the manner of the second of these two kinds of groups that I have described. I would be very fearful that any extensive documentation of their meetings, such as a stenographic record or tape recording, would be injurious to the proper functioning of their deliberative process. Needless to say, this does not touch upon the question of whether or when their conclusions should be made public. Given the substantive issues with which they deal, I think that the past practice has been to delay publication far too long and would myself support the present practice of publishing their decisions within 45 days - or even 30 days after each meeting. This publication might appropriately include summaries of the views that members would like to have recorded for public attention. Such summaries should not, in my judgment, be so extensive, however, as to hinder or embarrass the participants in the kind of free explorations of views that only a private meeting can elicit.

I hope this is responsive to your questions, and only apologize for the delay in my replying to you.

Sincerely,



Robert H. Strotz  
President



## MASSACHUSETTS INSTITUTE OF TECHNOLOGY

DEPARTMENT OF ECONOMICS

CAMBRIDGE, MASSACHUSETTS

September 27, 1976

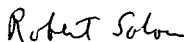
Rep. Stephen L. Neal, Chairman  
Subcommittee on Domestic Monetary Policy  
Committee on Banking, Currency and Housing  
U.S. House of Representatives  
Washington, DC 20515

Dear Congressman Neal:

Before answering your letter of September 17 about documentation of FOMC meetings, I should tell you that, in addition to being a full-time professor of economics at M.I.T., I am also a member of the Board of Directors of the Federal Reserve Bank of Boston. I believe that my views are exactly what they would be if I had no connection with the Federal Reserve system at all.

Generally speaking, I believe that it is a good thing for rather detailed documentation of discussion and decisions at FOMC meetings to be made public after 30 days. I am less clear, however, that the attribution of specific remarks to named individuals is a good idea. There are things to be said on both sides of that specific issue. I see no general reason why members of the FOMC should not be responsible for what they say in those meetings. But I can easily imagine that publication and attribution of their remarks might lead members of the FOMC to excessive blandness, and indeed to saying what they think will sound good and safe rather than what they really think. I believe it is not unknown for even members of Congress to say things for the Congressional Record with an eye to appearance rather than substance. Perhaps a reasonable compromise would be to require fairly detailed documentation, including a sample of individual members' remarks but without attribution. Votes, however, should be recorded by name.

Sincerely yours,



Robert M. Solow

RMS;ve

September 30, 1976

The Honorable Stephen L. Neal  
Chairman  
Subcommittee on Domestic Monetary  
Policy of the Committee on Banking,  
Currency and Housing  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Chairman Neal:

This is in response to your letter of September 17, 1976, expressing concern about the recent change in documentation for meetings of the Federal Open Market Committee whereby the "memorandum of discussion" record was discontinued, and requesting my opinion on the merits of taping, transcribing or otherwise detailing FOMC meetings.

As you may know, Chairman Burns discussed the discontinuance of the memorandum of discussion in his letter dated July 26 to Congressman Reuss, and I endorse the views expressed by Chairman Burns in his letter, a copy of which is enclosed for your ready reference.


As for the other alternative that you suggested, i.e., a mechanically reported verbatim record, I believe such a record would be characterized by the same disadvantages cited by Chairman Burns in his comments on the memorandum of discussion.

Sincerely,



O. Meredith Wilson  
Chairman of the Board

Enclosure



Masten, si

APPENDIX 5.—FAVORING PUBLIC ACCOUNTABILITY BUT OFFERING NO SPECIFIC  
APPROACH

FEDERAL RESERVE BANK OF ST. LOUIS  
P. O. Box 442  
ST. LOUIS, MISSOURI 63166

EDWARD J. SCHNUCK  
CHAIRMAN OF THE BOARD

P. O. Box 929  
Bridgeton, Missouri 63044

September 29, 1976

Honorable Stephen L. Neal, Chairman  
Committee on Banking, Currency and Housing  
Subcommittee on Domestic Monetary Policy  
U. S. House of Representatives  
Washington, D. C. 20515

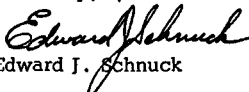
Dear Chairman Neal:

Thank you for your letter of September 17, 1976 concerning the documentation of meetings of the Federal Open Market Committee.

Although I am the Chairman of the Board of Directors of a Federal Reserve Bank, I have no direct contact with the FOMC. The President of our Bank serves as a voting member of the FOMC every third year, and is in regular attendance at the meetings during the intervening years, but he does so pursuant to a statutory mandate from the Congress and not as a representative of this Bank. He neither reports nor answers for his actions to our Board of Directors in this regard; therefore, I have no particular qualifications which would entitle me to express an expert opinion on the FOMC.

It does seem to me, however, that there is a difference between holding members of the FOMC publicly accountable for their votes and for their comments made during the course of discussion. I hope that any solution to the problem you raise will give consideration both to the public's right to know how government is conducted and the value of a full and frank exchange of views in the course of FOMC deliberations.

Sincerely,

  
Edward J. Schnuck

Princeton University    DEPARTMENT OF ECONOMICS  
PRINCETON, NEW JERSEY 08540

October 19, 1967

The Honorable Stephen L. Neal, M.C.  
Subcommittee on Domestic Monetary Policy  
House of Representatives  
U.S. Congress  
Washington, D.C. 20515

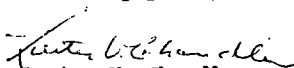
Dear Congressman Neal:

Your letter of September 17, asking for my opinions concerning documentation of meetings of the FOMC, was mis-sent to Atlanta and has only now come to my attention. However, I am glad to share my opinions on this subject with you.

I share with you the view that the FOMC and its members should be held publicly responsible for their actions. This purpose is served by publication of the decisions of the FOMC and recording votes of its members, together with reasons for any dissents. However, I strongly oppose any measures that would tend to limit freedom of discussion within the FOMC and to cause members to speak for the record rather than to put all points of view and all aspects of the issues before the Committee. And the requirement of a full transcript of proceedings, whether written or mechanically recorded, would pose that danger. Under these conditions, at least some members would be hesitant to express unpopular views, to play the role of "devil's advocate," and to display their lack of understanding of some of the numerous and complex issues involved--all of which are useful in discussions preceding the taking of decisions.

In short, I believe that the FOMC and its members should be held accountable for their actions but that nothing should be done that would limit the freedom and frankness of discussions within the Committee.

Sincerely yours,

  
Lester V. Chandler

LVC/pjd