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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 4, 1964

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

There is enclosed a copy of a memorandum to Chairman Martin dated November 16, 1964 from Messrs. Brill, Sherman, and myself entitled "A Suggested Program for Federal Open Market Committee Meetings." This is the memorandum to which the Chairman referred in the course of the discussion at the December 1 meeting of the Committee.

Ralph A. Young
Ralph A. Young, Secretary,
Federal Open Market Committee.

Enclosure

NOV 19 1964
November 16, 1964

Chairman Martin

A Suggested Program for

Messrs. Brill, Sherman and Young

FOMC Meetings

In light of the discussion at the FOMC meeting this Tuesday past, we would like to suggest a reorganization of procedures that would, we think, meet the objectives of the Committee in a somewhat more focused way without encountering the objections now levied at the "shadow" directive procedure. The basic plan would involve:

- (a) a succinct discussion of regional economic conditions, participated in by Reserve Bank presidents and Board, based on brief district reports prepared and distributed in advance (paralleling the Green Book on national conditions);
- (b) a discussion (not necessarily in complete go-round fashion) of principal economic and credit problems, following an agenda prepared especially for each meeting;
- (c) a gathering of the consensus on the appropriate general posture of policy, in light of the preceding discussion of the major current issues; and
- (d) a gathering of the consensus on the instructions to the Desk on implementation of the policy posture.

This might be coupled with a new accelerated procedure for preparation of the policy record, which would be prepared concurrently with the minutes and be available in at least draft form for review at the

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next Committee meeting. Admittedly there are staff problems in this accelerated policy record procedure and it may not prove to be practicable.

Specifics

A. Much would be gained by concentrating the discussion of regional conditions following the staff presentations on national economic conditions. Differences among F. R. districts would stand out more clearly, and developments of national import would come into focus more readily. A review of district developments, distributed in advance via the FOMC Secretariat, to all Committee members would free Bank presidents to concentrate their oral remarks at the meeting to those highlights most relevant to policy considerations.

It should be noted that, in our judgment, any effort to eliminate formal consideration of regional developments would appear to be unwise both substantively and tactically. It is often of great value to be able to see local trends developing which may foreshadow national economic shifts. Moreover, elimination of regional analyses would play into the hands of critics who argue that the presence of Bank presidents on the Committee adds nothing to the policy formulation process.

B. In the present go-round procedure, the expression of views on major economic issues tends to be spotty in coverage, with some participants noting trends in certain economic areas, others

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focusing their remarks on other subjects. One of the purposes of the "shadow" directive was to get discussion focused on all of the critical areas--both nonfinancial and financial--which should bear on policy determination. So far, it hasn't succeeded, however, in part because the "shadow" directive appears to be regarded by many as an attempt to put into Committee mouths a staff interpretation of each major issue. The present directive is short enough so that Committee members can plumb for hidden meanings, nuances, etc., within the time available. The thought of doing it for a six-page directive has impressed a number of members as forbidding indeed.

Yet the staff, to be of any help to the Committee, must interpret as well as report the evidence. The Committee should be free, of course, to reject or adopt staff interpretation as it sees fit, but staff function ought to be of more use than as a mere number-regurgitating machine.

One way around this problem would be the preparation by FOMC staff of an agenda for each meeting, listing the major topics it thinks most important in the determination of policy at the moment, and adducing the facts and a staff interpretation of the facts under each topic. This would go beyond the "Green Book" in one important sense, namely, that the staff would try to interpret the significance of developments in each subject area for current policy formulation, but it would still be strictly a staff interpretation, not committing any Committee member.

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The Committee's discussion of each agenda item--its acceptance or rejection of staff analysis--we are inclined to believe, would form a coherent basis for the policy record, which thus could be prepared more promptly after each meeting. And in this way, the Committee's views on each of the major economic issues of the day could be clearly identified by readers of the record.

Preparation of such an annotated agenda would be a burden on the staff, but probably no greater than is preparation of the "shadow" directive now. Work on the agenda could begin on Wednesdays, shortly after the "Green Book" and district reviews have been put to bed, and all subject areas but those for which newer data become available by week end could be sent by wire late Thursday or sometime Friday morning.

C. It would be helpful if the Committee, in its deliberations, separated more clearly its intermediate or longer term objectives from its operating instructions to the Manager for the next three weeks. Many of our critics have charged that we have no such objectives, and accused us of "money market myopia." True, these critics are victims of "academic astigmatism" in not recognizing that since policy is effectuated through market transactions, we have to be continuously alert to trends in and structures of the markets in which we operate. Nevertheless, it would be helpful if the record could show that the Committee, after evaluating the major economic and credit issues,

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determined the general, intermediate-term posture they thought appropriate for policy before turning to the problems of implementing that posture.

To help the Committee in arriving at this posture, perhaps the staff could prepare interpretations of what rates of growth in different types of reserves and/or what interest rate levels and structures would be consistent with alternative policy postures. These would serve as a basis for Committee consideration of the substance of Element 3 of the Ellis-Mitchell-Swan proposal or for the first paragraph of the existing directive.

D. The final Committee discussion could revolve around specific instructions to the Manager in terms of free reserves and/or money market conditions the Committee thought appropriate to achieve its objectives. Again, the staff could draft language for Committee consideration or merely point out levels and relationships that bore on the problem. The more the Committee leans in the direction of quantifying the instructions, the more specific the staff analyses can be.

There are probably many problems overlooked in this proposal, but we advance it because it seems to offer a basis on which Committee discussion can focus most sharply on major issues, staff can be most helpful, and the policy record be prepared most expeditiously.

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We have not had time to discuss this proposal at any length with the Ellis-Mitchell-Swan Subcommittee, but Governor Mitchell passed these ideas on to Mr. Ellis last Friday. In a conversation with Ellis this morning, he noted certain procedural problems, particularly in connection with the proposal for written regional reviews, while agreeing on the desirability of structuring Committee discussion around major economic issues. Other Committee members would undoubtedly have other criticisms and alternative solutions. It might be desirable to throw these ideas into the arena for discussion at a forthcoming FOMC meeting. Your reaction would be appreciated. We would be glad to discuss it with you at any time.

DHB:RAY:MS:atr

Ray
Ellis *J*