

RECORDS IN RECORDS SECTION

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November 19, 1964

Memorandum:

To Committee on the Directive

From Governor Robertson *R*Re: A Further Suggestion  
for Directive Writing

The discussion of shadow directives at the last meeting of the Federal Open Market Committee has made two points perfectly clear to me. First, it is virtually impossible for a nineteen-man deliberative body to draft a detailed analysis of economic and financial conditions, with policy implications, to be included in the text of the directive. (The editing process might necessitate a meeting of several days' duration, with the result a watered-down version wholly acceptable to no one.) But second, it is extremely important to the formulation and conduct of policy for the Committee to discuss thoroughly and to lay bare the areas of agreement and disagreement with respect to the significance for policy of economic and financial conditions, such as current trends in output, manpower utilization, prices, the balance of payments, bank credit, other credit, savings flows, money, the federal budget, and interest rates.

We, of course, do discuss these conditions. The present need is to focus our discussions even more effectively

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and to relate them more clearly to the operating instructions issued to the System Account Management.

This can be accomplished without the Committee attempting to write its analysis into the directive at the time of the meeting. Rather, as one possible procedure, the staff could prepare brief policy-oriented "best appraisal" type analysis of major current issues, with as much "pro and con" material as seems feasible, which could then be a springboard for the Committee's own discussion. This discussion (hopefully on the basis of a complete go-round - as at present - rather than a debate among the more loquacious members, depriving the Committee of the benefit of the views of us who are less aggressive!) would, in turn, be a major basis for a write-up of the policy record, which would embody the consensus of opinion achieved through Committee discussion. Unreconciled minority opinions would also be included.

Such an approach represents a further development of our present procedures, rather than a radical departure. The development would be along two lines (both consistent with the philosophy behind the shadow directives).

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First, a part of our discussions at each meeting would be reserved for issues that are central to the question of whether policy should be changed and to defining our expectations with respect to the financial results of present policy. Thus, our discussion should most desirably look ahead and include analysis of expectations for bank credit, money, and interest rates in the coming weeks. Boundaries within which these variables might fluctuate and still be consistent with the policy stance adopted should also be discussed (with the help of appropriate staff memoranda).

Second, the Account Management, being present at the meeting, will be able to reflect the Committee's views through the tenor of open market operations. The public will have access to these views through the policy record. The relation of the policy record to the directive could be made clearer by a statement at the end of the record that could read as follows: "On the basis of the foregoing analysis, the following directive was issued to the System Account Management."

The procedure suggested here would embody the anticipatory-type analysis contained in the shadow directives, and, if possible, hopefully somewhat more. But since the policy record could be drafted after the meeting, the write-up would

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have the benefit of full Committee discussion and of sufficient time for composition so that it could adequately reflect all the nuances of the discussion. The focused discussion anticipated by these suggestions should enable the policy record to be composed even more quickly than it is now.

With the policy record reoriented, the actual directive could be made more concise than it is now. A statement of purpose as in the first sentence of the current directive would be desirable. There would be no need for the rest of the first paragraph as now written because this would be in the policy record. The remainder of the directive could be limited to what is the second paragraph of the current directive. This could be made explicitly quantitative if the Committee so desired, but such an approach has dangers, as I pointed out in my memorandum on the directive circulated October 20.

The material now contained in the third paragraph of the shadow directive can easily be adapted for inclusion in the policy record, especially if it proves feasible to introduce some anticipatory statements into that record. But it should be noted that the gist of that material is also in the first sentence of the current directive.