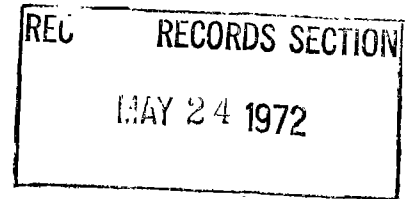




BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D C 20551



May 23, 1972

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Arthur L. Broida

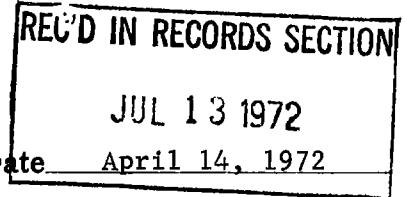
In accordance with the suggestion made at today's meeting of the Open Market Committee, we are enclosing a copy of the memorandum by Governor Brimmer dated April 14, 1972, and entitled "Reorganization of FOMC Meetings." Also enclosed is a letter from President Morris on the same subject.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida  
Deputy Secretary  
Federal Open Market Committee

Enclosures

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM



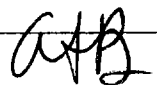
# Office Correspondence

To Mr. Holland

Subject: Reorganization of FOMC

From Governor Brimmer

Meetings



At the last meeting of the FOMC, as you will recall, I indicated a desire to discuss the organizational structure of the Committee's deliberative procedures. This memorandum is in response to your request that my suggestions for reorganization be communicated to you in written form.

For some time, it has seemed to me that the Committee's procedures for considering and setting the appropriate course of monetary policy need improvement. In my judgment, our present procedures do not integrate adequately our short-run policy decisions with a strategy that adapts monetary policy to the longer-run needs of the national economy. Under current arrangements, the course of monetary policy over the longer term is influenced greatly by a series of decisions as to what monetary policy should be from one FOMC meeting to the next. Of course, these short-run decisions are made within the context of a review of the probable course of economic and financial developments over the longer-term. But when the principal focus of the Committee's attention is on the probable effects of its policy decisions on financial variables in the immediate weeks ahead--as is often the case--a grave danger exists that the long-run course of monetary policy will turn out to be almost an incidental by-product of short-run decisions.

This long-standing problem has continued over the last year or so, despite the greater emphasis now placed on achievement of desired growth rates of the monetary aggregates as intermediate policy targets. In fact, the Committee's decision to put less emphasis on money and credit market conditions and more stress on monetary aggregates as policy targets has compelled the Committee to deal with a new and challenging set of intellectual problems. The focus on reserves as an operating target has not lessened this challenge. Consequently, the attention given to the strategy for achieving the desired growth rates in bank credit and money over the month or two ahead has increased. Simultaneously, there has been a decline in the amount of attention given to answering the question of what long-run growth rates of the monetary and credit aggregates are consistent with the Committee's desired objectives for employment, production, prices, and the balance of payments.

- 2 -

This is a disturbing trend. Therefore, I think the time has come for the Committee to consider reorganizing the structure of its decision-making procedures.

Establishment of a New Category of FOMC Meetings

A means of systematizing and integrating short-run and long-run policy decisions lies, I believe, in establishing a new class of FOMC meeting. Several times a year, the Committee could come together for a meeting focused on the longer-term outlook--a meeting beginning Monday afternoon. Some time ago, Governor Maisel made a similar suggestion. At that time, the FOMC staff would present a thorough assessment of ongoing developments in the nonfinancial economy, in financial markets, and in the balance of payments; a GNP and related financial projection for the year ahead; an analysis of how the course of economic and financial developments might be affected by alternative courses of monetary and/or fiscal policies, and a staff recommendation as to the preferred stance of policy over a period of one or more quarters. These matters would be discussed and debated as necessary by the Committee members, and broad decisions would be made as to the appropriate longer-run course for monetary policy. Assuming these deliberations were largely completed on Monday afternoon, the next morning's session would deal principally with the short-run implementation of the longer-run strategy.

At FOMC meetings in the intervals between longer-term outlook meetings, the Committee would seek to determine whether its short-run policy decisions were producing the long-term course of monetary policy it had decided upon earlier. It would also monitor economic and financial developments to ascertain whether its previous assessment had been correct, and to determine whether changes were needed in the desired longer-term course of monetary policy. Relatively brief staff presentations--not unlike those being given at current FOMC meetings--would assist the Committee in its deliberations.

The Committee would not, therefore, be frozen into a longer-run policy course by virtue of its having adopted that path as a target at an earlier meeting. But the desired course of policy over the longer-term would be one the Committee had decided upon deliberately, rather than one it had adopted incidentally as an outgrowth of short-run decision making.

- 3 -

### Frequency of Outlook Meetings

As for the frequency of these longer-term outlook Committee meetings, it seems to me that three (3) a year would be sufficient. Intervening meetings might continue at intervals of about a month--though there might well be some more appropriate interval. The dates of the longer-term outlook meetings could be set so as to obtain maximum benefit from the availability of information as to developments affecting the nonfinancial economy, financial markets, and the balance of payments. They should probably avoid the summer vacation period--in order not to put too much burden on staff personnel at the Reserve Banks and the Board.

These considerations suggest that the first longer-term outlook meeting each year should occur relatively soon after the announcement of the Administration's proposed budget for the coming fiscal year. The middle of February or thereabouts would seem suitable--since it would provide ample time for the staff and the Committee to assess the implications of new budget information that generally becomes available late in January.

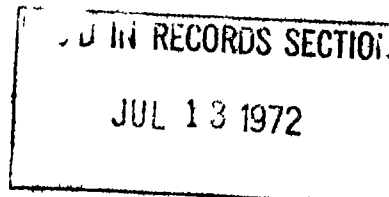
The second such meeting might be held about the middle of June--leaving a 4-month interval from the previous meeting. That is about the time that preliminary unpublished GNP data for the second quarter become available to the staff, and a fresh reading on plant and equipment anticipations reported in the Commerce-SEC survey usually would also be available.

The third longer-term outlook meeting would then be held in the fall--say from late October to around the middle of November. A date in November may be preferable from the standpoint of data availability--although the time interval between the June and the fall meeting would exceed four months, and the period to the February meeting would be less than four months. By the middle of November, information on plant and equipment anticipations for the coming year would be at hand from private surveys, and balance of payments data for the third quarter would have been received by the staff. More importantly, perhaps, sufficient information would have become available on such magnitudes as industrial production, employment, and retail sales to permit an assessment of how fall activity and prospects compared with the pre-Labor Day period of summer slack.

### Recommendation

I would urge the Committee to give careful consideration to a reorganization of our deliberative procedures along the lines outlined here. Other alternatives might also be advanced that would help. In any case, I believe we should lengthen our time horizon in the formation of monetary policy and systematize short-run with longer-run policy decisions.

FEDERAL RESERVE BANK  
OF BOSTON



FRANK E. MORRIS  
PRESIDENT

BOSTON, MASSACHUSETTS 02106  
TELEPHONE (617) 426-7100

March 30, 1972

Mr. Robert C. Holland, Secretary  
Federal Open Market Committee  
Board of Governors of the  
Federal Reserve System  
Washington, D. C. 20551

Dear Bob:

In response to the Chairman's suggestion that we write you on suggested changes in FOMC procedure, I would like to re-emphasize a suggestion made in one of the reports of the Committee on the Directive, i. e. , that we ought to schedule additional quarterly meetings of the FOMC to deal with fundamental issues which we rarely have sufficient time to cope with in the regular meetings.

Specifically, I suggest that we schedule regularly in advance quarterly meetings of the FOMC on the Monday afternoon preceding the regularly scheduled Committee meetings. The dates selected should, of course, be chosen to avoid conflict with the quarterly Presidents' Conferences.

The agenda for these meetings should be geared toward a careful consideration of the most pressing basic issues facing the Committee at the time.

Four afternoons a year devoted to the sorts of major issues which tend to be sidetracked or inadequately considered under the pressure of having to write a directive for the subsequent four weeks would, I am sure, prove to be a most productive innovation for the FOMC.

With best regards.

Sincerely yours,

Frank E. Morris