

Meeting of Federal Open Market Committee

May 20, 1975

MINUTES OF ACTIONS

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, May 20, 1975, at 9:30 a. m.

PRESENT: Mr. Burns, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Baughman  
Mr. Bucher  
Mr. Coldwell  
Mr. Eastburn  
Mr. Holland  
Mr. MacLaury  
Mr. Mayo  
Mr. Mitchell  
Mr. Wallich

Messrs. Balles, Black, Francis, and Winn,  
Alternate Members of the Federal Open  
Market Committee

Messrs. Clay, Kimbrel, and Morris,  
Presidents of the Federal Reserve Banks  
of Kansas City, Atlanta, and Boston,  
respectively

Mr. Broida, Secretary  
Mr. Altmann,<sup>1/</sup> Deputy Secretary  
Mr. Bernard,<sup>1/</sup> Assistant Secretary  
Mr. O'Connell, General Counsel  
Mr. Partee, Senior Economist  
Mr. Axilrod,<sup>1/</sup> Economist (Domestic Finance)  
Mr. Gramley,<sup>1/</sup> Economist (Domestic Business)  
Mr. Solomon,<sup>1/</sup> Economist (International Finance)

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<sup>1/</sup> Entered meeting at point indicated.

Messrs. Boehne,<sup>1/</sup> Bryant,<sup>1/</sup> Davis,<sup>1/</sup>  
Green,<sup>1/</sup> Kareken,<sup>1/</sup> Reynolds,<sup>1/</sup> and  
Scheld,<sup>1/</sup> Associate Economists

Mr. Sternlight, Deputy Manager for Domestic  
Operations

Mr. Pardee, Deputy Manager for Foreign  
Operations

Mr. Coyne,<sup>1/</sup> Assistant to the Board of  
Governors

Mr. Rippey,<sup>2/</sup> Assistant to the Board of  
Governors

Mr. Keir,<sup>1/</sup> Adviser, Division of Research  
and Statistics, Board of Governors

Mrs. Farar,<sup>1/</sup> Economist, Open Market  
Secretariat, Board of Governors

Mrs. Ferrell,<sup>1/</sup> Open Market Secretariat  
Assistant, Board of Governors

Messrs. Eisenmenger,<sup>1/</sup> Parthemos,<sup>1/</sup> Jordan,<sup>1/</sup>  
and Doll,<sup>1/</sup> Senior Vice Presidents,  
Federal Reserve Banks of Boston, Richmond,  
St. Louis, and Kansas City, respectively  
Messrs. Hocter,<sup>1/</sup> and Brandt,<sup>1/</sup> Vice Presidents,  
Federal Reserve Banks of Cleveland and  
Atlanta

Mr. Keran,<sup>1/</sup> Director of Research, Federal  
Reserve Bank of San Francisco

Mr. Meek,<sup>1/</sup> Monetary Adviser, Federal  
Reserve Bank of New York

With Mr. Bucher dissenting, the Committee decided to decline to comply with the request of April 11, 1975, from Congressman Wright Patman, Chairman of the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Currency and Housing, for the memoranda of discussion at FOMC meetings in the years 1971-74, inclusive.

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<sup>1/</sup> Entered meeting at point indicated.  
<sup>2/</sup> Left meeting at point indicated.

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Secretary's Note: On June 3, 1975, the following letter was sent to Congressman Patman over the signature of Chairman Burns:

Dear Mr. Chairman:

Your request for the memoranda of discussion for meetings of the Federal Open Market Committee ("FOMC") in the years 1971-74, inclusive, has been considered carefully by the Committee. In this connection, the FOMC has given full and deliberate consideration to the oversight responsibility that the Congress in general and your Subcommittee in particular have with respect to its functions and operations.

I might note at the outset that, apart from the memoranda which you request, there are three regularly available sources of information about the operations of the FOMC. One consists of weekly statistical releases published by the Board, which promptly and fully disclose the results of the Committee's open market operations. The most important of such weekly releases are the Federal Reserve Statement (H.4.1), the Weekly Summary of Banking and Credit Measures (H.9), and Money Stock Measures (H.6).

A second source is the record of policy actions, which is prepared pursuant to a requirement of the Federal Reserve Act. These policy records disclose the Committee's intentions with respect to open market policy, as reflected in the actions reported. They include all votes, by name, cast by members of the Committee in connection with the determination of open market policies; the reasons underlying the policy actions, including descriptions of then-current and prospective economic developments and of conditions in domestic and international financial markets; and statements of the reasons for any dissenting votes.

A third source, the minutes of actions, indicates all votes taken by the FOMC--including those relating to procedural matters as well as those relating to policy questions. The minute entries for policy actions are made available for public inspection on the same schedule as the policy records; the minute entries for most other actions are made available promptly after the meeting.

To this copious body of information concerning the operations of the FOMC, the memoranda of discussion add essentially one further type of material: reports of the deliberations through which the Committee reaches its decisions on policy and procedural matters. As you are aware, there is no legal requirement that such memoranda of FOMC meetings be prepared. However, they have proved valuable to the FOMC and its staff in connection with the ongoing work of the Committee, and we believe they constitute a useful historical record. For these reasons, they are maintained by the Committee and made available to the public after a time lag determined by the FOMC.

The memoranda of discussion reflect the unfettered, spontaneous expressions of FOMC member views and opinions. Some of these expressions may be put forth primarily to elicit discussion and clarification of issues rather than as statements of firmly held views. Some may turn out to be inconclusive with respect to the FOMC's ultimate decisions, and others at odds with those decisions. All such expressions do, however, contribute to the decisional process.

The informal "give and take" debate at FOMC meetings, as substantially reflected in the memoranda of discussion, involves the decision-making process utilized by the legislative, executive, and judicial branches of our Government since the founding of the Republic. Each branch of Government daily encounters the situation where individual opinions and advice, expressed and conveyed in the decision-making process, are re-thought, altered, or reversed on the hearing of opinions and views of other participants. Premature public exposure of such deliberations, whether involving legislative, executive, judicial, or administrative bodies, preceding as they do the official decisions and actions of such bodies, would quickly and certainly make such decisional process sterile. If the FOMC memoranda of discussion were to be released prematurely, the Committee would be faced with the choice of permitting a destructive diminution of candor in its deliberations or of preserving the members' ability to speak their minds freely and fully by terminating the preparation of such memoranda. Neither alternative would be in the public interest.

In addition, the matters commonly discussed at FOMC meetings include ongoing or prospective transactions in foreign exchange markets, the premature disclosure of which could have both immediate and longer-term adverse impact on international flows of funds. Moreover, references are frequently made to highly sensitive matters involving, or statements by or about, foreign central banks and governments. Clearly, continued FOMC access to such important and relevant communications must not be jeopardized by even a suggestion of untimely dissemination.

In view of these considerations, the Committee has concluded that it must respectfully decline to comply with your request for the 1971-74 memoranda of discussion.

The Committee's decision, premised in major part on its need to preserve the practice of free and uninhibited member contribution to discussions, reflects a legal position the concept of which was reaffirmed by the United States Supreme Court as recently as one month ago in the case of NLRB v. Sears, Roebuck, & Co., 95 S Ct. 1504, 1516 (1975). Justice White, speaking for the Court with respect to the need to protect the decision-making processes of government agencies, cited the Court's earlier position that "...experience teaches that those who expect public dissemination of their remarks may well temper candor with a concern for appearances...to the detriment of the decision-making process."

As Chairman of the Federal Open Market Committee I endorse whole-heartedly the foregoing principle.

Mr. Rippey left and staff members who were not present at the outset entered the meeting prior to the following actions.

By unanimous vote, the Committee ratified the action taken by members on April 17, 1975, revising the procedures for allocation of securities in the System Open Market Account to read as follows, effective May 1, 1975:

1. Securities in the System Open Market Account shall be reallocated at least once each year as determined by the Board's Division of Federal Reserve Bank Operations and the Manager of the System Open Market Account for the purpose of settling Interdistrict clearings and approximately equalizing for each Federal Reserve Bank the ratio of gold certificate holdings to Federal Reserve notes outstanding.

2. Until the next reallocation, the Account shall be apportioned on the basis of the ratios determined in Paragraph 1.

3. Profits and losses on the sale of securities from the account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.

By unanimous vote, the Committee ratified the action taken by members on April 30, 1975, increasing from \$3 billion to \$4 billion the limit specified in paragraph 1(a) of the Authorization for Domestic Open Market Operations on changes between meetings in System Account holdings of U.S. Government and Federal agency securities, effective April 30, 1975, through the close of business May 20, 1975.

By unanimous vote, the Committee decided to maintain the dollar limit specified in paragraph 1(a) of the Authorization for Domestic Open Market Operations at \$4 billion for the period through the close of business June 17, 1975.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee on April 14-15, 1975, were approved.

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The memorandum of discussion for the meeting of the Federal Open Market Committee on March 18, 1975, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period April 15 through May 19, 1975, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period April 15 through May 19, 1975, were approved, ratified, and confirmed.

By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions for the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that real output of goods and services--after having fallen sharply for two quarters--is declining much less rapidly in the current quarter. In April the pace of the decline in industrial production moderated considerably further, and total employment rose. However, the unemployment rate increased again, from 8.7 to 8.9 per cent, as the civilian labor force increased considerably. Average wholesale prices of industrial commodities changed little in April, as in March; prices of farm and food products rose sharply, following several months of large decreases. The advance in average wage rates so far this year has been considerably less rapid than the increase during the second half of 1974.

The foreign exchange value of the dollar has declined somewhat since mid-April, but it is still above the low of early March. U.S. imports fell sharply in the first quarter, and the foreign trade balance was in substantial surplus, in contrast to the deficits of preceding quarters. Net outflows of funds through banks were large in the first quarter, as loans to foreigners continued to increase while liabilities to foreigners declined.

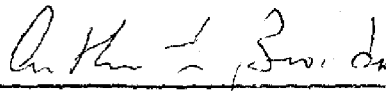
Both  $M_1$  and  $M_2$  grew moderately in April, but  $M_3$  grew more rapidly as inflows of deposits to nonbank thrift institutions remained substantial. Business demands for short-term credit remained weak, both at banks and in the commercial paper market, while demands in the long-term market continued strong. Since mid-April short-term market interest rates have declined somewhat. Most longer-term yields have changed little on balance, and mortgage rates have risen. Federal Reserve discount rates were reduced from 6-1/4 to 6 per cent in mid-May.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain about the prevailing money market conditions over the period immediately ahead, provided that monetary aggregates generally appear to be growing within currently acceptable short-run ranges of tolerance.

It was agreed that the next meeting of the Committee would be held on Monday and Tuesday, June 16 and 17, 1975.

The meeting adjourned.

  
Secretary