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

December 12, 1977

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee SUBJECT: Release of FOMC memoranda of discussion for 1972

FROM: Arthur L. Broida ALB

The staff recommends that the Committee authorize the release of its memoranda of discussion for the calendar year 1972 in mid-January, in the same manner as has been employed for earlier years--namely, by transmitting the original signed copies to the National Archives and placing bound volumes containing reproductions in the libraries of all Federal Reserve offices. The attached memorandum from the Secretariat concerns the review that has been made to determine whether any passages should be recommended for deletion when these minutes are initially released.

Several months will be required for the reproduction and binding of the copies to be placed in System libraries and, on the basis of past experience, it is likely that some time will elapse before the National Archives will be in a position to meet requests for microfilm copies of the originals. Accordingly, the staff suggests that, if the Committee approves the release of these memoranda of discussion, a few Xerox "work copies" be made available for inspection at the Board and the New York Bank during the period from mid-January until the time when the bound copies are available. A similar procedure was employed when the memoranda for 1962-71 were released.

It is contemplated that release of the 1972 memoranda will be discussed by the Committee at the December meeting.

Attachment

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TO: Federal Open Market Committee

FROM: The Secretariat

SUBJECT: Passages recommended for deletion when FOMC memoranda of discussion for 1972 are initially released

As you know, when the Committee's memoranda of discussion for the year 1962 through 1971 were released to the public a number of passages deemed to be "sensitive" were withheld.[1/] A prefatory note included with the memoranda for each of those years, shown in appendix A to this memorandum, explained that (1) deletions were made only for certain specified reasons, (2) the point at which each deletion occurred was noted, and (3) the general nature of the omitted material was indicated by footnote. The preface concluded with a statement that the deleted passages would be reviewed from time to time to determine whether they could be released.

On the assumption that the Committee would want to follow the same procedure when it released its 1972 memoranda of discussion, the

1/ Following a discussion of procedures with respect to deletions at the Committee meeting of December 14, 1971, Professor Lester V. Chandler was employed as a consultant to make an independent review of those procedures. In his report, dated April 28, 1972, Professor Chandler found that "policies and practices with respect to deletions from the minutes have been commendable and consistent with Federal Reserve reponsibilities to the public and to historians."

staffs at the Board and the New York Bank have reviewed those memoranda for the purpose of identifying potentially sensitive passages. Parts of the memoranda also have been reviewed by a representative of the U.S. Treasury Department, Mr. Frederick Springborn.

As a result of this review, we recommend certain deletions from pages 6 and 7 of the memorandum for April 18, 1972, and from page 8 of the memorandum for July 18, 1972, as shown in appendix B.[1/] These deletions have been requested by the Bank of Japan.

Attachments

1/ When the memoranda for the full year are sent to the National Archives the words enclosed in brackets would be omitted and the footnotes would be added.

Appendix A

(Text of note included at front of volume of FOMC minutes for each year in period from 1962 through 1971)

Prefatory note

Certain pages in the minutes of the Federal Open Market Committee for the years 1962 through 1971 have been replaced in the materials transmitted to the National Archives by substitute pages on which particular passages contained in the original minutes are deleted. In each such case, the point at which the deletion has been made is noted and the general nature or subject of the omitted passage is indicated by footnote.

Deletions have been made only for the following reasons:

1. The passage contains information relating to the affairs, policies, or views of particular foreign central banks or governments which they wish to have held in confidence at this time.

2. The passage contains comments about foreign countries, institutions, or individuals of such a nature that its release at this time was deemed not to be in the interest of good international relations.

3. The passage contains information of such a nature that, in the judgment of the U.S. Treasury Department, its release at this time would not be in the interests of the United States.

4. The passage contains information about the internal affairs of a named business organization.

It is anticipated that the originals of all pages for which substitutes have been introduced will be reviewed from time to time to determine whether they can be released.

Appendix B

Passages recommended for deletion

1972

reserves would probably increase substantially this year, and--reflecting their willingness to innovate--officials of the Bank of Japan were considering the possibility of investing some of their dollar accruals in various long-term American securities,[1] including Aaa corporate bonds. Apart from the additional interest earned on the long-term securities, such investments would not affect the real balance of payments situation between the United States and Japan. They would, however, affect the payments statistics, because any of Japan's dollar accruals that were invested[1] in U.S. corporate bonds would not appear in the figures for the U.S. deficit and the Japanese surplus.

Mr. Solomon noted that in the four months since December 22 the cumulative deficit in the U.S. payments balance on the official settlements basis had been less than $1-1/2 billion. It was reasonable to think that the basic deficit in that period was considerably larger, given the state of the U.S. trade balance so far this year and the volume of normal capital outflows. Apparently, then, there had been an invisible reflow of short-term capital of sizable dimensions. It was possible that such a reflow would continue for the rest of the year, remaining invisible but serving to keep the exchange markets calm.

In reply to a question by Mr. Mitchell, Mr. Bodner said[2] the Japanese had been discussing with officials of the New York Bank the possibility of investing in[1] U.S. corporate bonds. There were a number of technical problems involved, including certain tax

1/ Part of a sentence has been deleted at this point for one of the reasons cited in the preface. The deleted material described the type of transaction being considered.
2/ Part of a sentence has been deleted at this point for one of the reasons cited in the preface. The deleted material served to identify the nationality of the transactor under discussion.

$2..5 billion.

questions which the New York Bank had referred to the Internal Revenue Service. The whole matter was still in the exploratory stage, and it was quite likely that no investments would be made for a long time.

Mr. Daane remarked that, as he understood it,[1/] [the Japanese] were contemplating only an experimental program, involving rather small monthly purchases. He then referred to Mr. Solomon's remarks about the U.S. payments balance and asked whether one could be certain that the recent invisible inflows were of short-term capital.

Mr. Solomon replied in the negative, noting that the flows were not identifiable. While there were grounds for believing that a large part was of short-term funds, there might also have been some abnormal inflows of long-term capital.

Mr. Brimmer asked Mr. Bodner about the status of the program to have foreign central banks roll over more of their holdings of short-term Treasury securities into longer-term issues.

Mr. Bodner noted that in early April the Treasury had arranged to issue to the German Federal Bank another $2.5 billion of medium-term special nonmarketable securities in exchange for short-term issues held by that Bank. The Japanese had been investing in long-term marketable governments on a regular basis since last June. Their holdings of such securities now totaled about $2.5 billion.

1/ Part of a sentence has been deleted at this point for one of the reasons cited in the preface. The deleted material served to identify the nationality of the transactor under discussion.

Mr. Robertson asked whether Messrs. Daane, Sheehan, and Coombs had heard any conversations in Basle on the subject of dollar loans to multinational corporations by central banks, and the latter replied in the negative.

Mr. Robertson said he had been told that[1/] [the Bank of Japan] had begun to make such loans and that there were indications other central banks might follow.

Chairman Burns observed that[1/] [the Japanese] were both lending and borrowing dollars. They were following the seemingly inconsistent policy of trying to moderate their dollar accruals through export-import intervention, while seeking to finance in the United States such major purchases as airplanes and nuclear power plants.

Mr. Brimmer noted that a representative of[1/] [the Bank of Japan] who had visited the Board recently had addressed himself to the question of[1/] [Japan's] policy with regard to the management of its dollar balances. The visitor had indicated that[1/] [the Bank of Japan] was anxious to cut back its dollar lending activities, but it was faced with the problem that other elements in[1/] [the Japanese] government found it difficult to provide alternative financing to[1/] [Japanese] corporations. Another consideration was that those corporations were obviously anxious to secure financing on the most attractive terms, and in that respect the 6 per cent rate of the Export-Import Bank served as a magnet. Finally,[1/] [the Japanese] were somewhat

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