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

December 3, 1980

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Murray Altmann M.A.

SUBJECT: Release of FOMC memoranda of discussion for 1975.

The staff recommends that the Committee authorize the release of its memoranda of discussion for the calendar year 1975 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

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during the period from mid-January until the time when the bound copies are available. A similar procedure was employed when the memoranda for 1962-1974 were released.

It is contemplated that release of the 1975 memoranda will be discussed by the Committee at the next meeting.

Attachments

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December 3, 1980

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: The Secretariat

SUBJECT: Passages recommended for deletion when FOMC memoranda of discussion for 1975 are initially released.

As you know, when the Committee's memoranda of discussion for the years 1962 through 1974 were released to the public a number of passages deemed to be "sensitive" were withheld. 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 1975 memoranda of discussion, the 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.

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As a result of this review, we recommend certain deletions, as shown in appendix B.[1/] All of the passages recommended for deletion are contained in reports on BIS and EEC Governors' meetings, that were included as attachments to the memoranda of discussion in 1975.

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

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APPENDIX A

(Text of note included at front of volume of FOMC minutes for each year in period from 1962 through 1974)

Prefatory note

Certain pages in the minutes of the Federal Open Market Committee for the years 1962 through 1974 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 interest 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.

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Appendix B

Passages recommended for deletion

1975

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ATTACHMENT B

Henry C. Wallich
February 19, 1975

Notes on Basle Meeting on Monday, February 10, 1975

Considerable interest was shown in the outcome of Chairman Burns' meeting in London on Saturday, February 1, with Presidents Klasen and Leutwiler. In general, the ensuing intervention in exchange markets was well received, as evidence that the U.S. was taking a stronger interest in the defense of its currency. Questions were asked concerning the level to which the dollar rate for DMark and Swiss francs might be moved, what the scale of intervention might be, and how long the action might continue. The responses given by the German, Swiss and U.S. representatives were to the effect that the intention was to intervene more forcefully in pursuit of orderly markets but not of particular rates, and that no time period had been set. The U.S. representative in particular stressed that no pegging was involved, but only a more deliberate policy with respect to the dollar rate. They stressed also that, while the meeting had not taken place in Basle, it was in the nature of a reaffirmation of the agreement on exchange intervention arrived at in Basle in May 1974.

Varying views were expressed as to the potential effectiveness of the intervention. The discussion turned on whether or not the exchange market was in a "turnaround situation," in which substantial leverage could be exerted with the employment of limited funds. This

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was thought to depend on factors such as interest rates, budgetary developments in the United States, and confidence. Some very muted suggestions for more broadly coordinated intervention and even a move toward a greater fixity of the rate structure were voiced. Some of this discussion reflects ongoing efforts among the EEC countries to 1/ [limit the daily width of fluctuations among their currencies through intervention in the dollar.] The EEC countries still appear to be in the process of sorting out a plan along these lines, after an initial effort to formulate a specific plan apparently had encountered misunderstandings. We are to be kept informed of the progress of these ideas, but the project technically is an EEC rather than a BIS matter.

1/ Part of a sentence has been deleted at this point for one of the reasons cited in the preface. The deleted material described a possible plan with respect to intervention policies of the EEC countries.

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ATTACHMENT A

Henry C. Wallich
October 21, 1975

Report on BIS Meeting - October 13, 1975

In meetings and bilateral discussions, concern was expressed about the continued weakness of European economies. Some skepticism was voiced also concerning the strength of the American recovery, combined with concern about a rise in U.S. interest rates relative to European rates. The German representative defended his government's plans for financing a small part of the German budget deficit abroad, while the British representative expressed doubt about the need for throwing this burden on the international capital market, to the possible detriment of other potential borrowers. Questions were asked repeatedly about New York City.

In the discussion of the Interim Committee's gold agreement, which had left the working out of certain matters to the central banks, Zijlstra stated that he planned to render a report to the Committee at its next meeting in January. There was, in his opinion, two views. According to the first, central banks could deal in gold subject to the twofold constraint imposed by the Interim Committee -- no increase in official gold holdings and no pegging of the price of gold. The other view was that central bank dealing in gold would become possible only after amendment of the IMF agreement, which might take 18 months or more.[1/] The first view received some degree of support from almost all

1/ Two sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material described the degree of support from certain countries for one of the views cited above.

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except the U.S. and the IMF representative. The German, French, Italian, and Netherlands representatives spoke with particular vigor.] The 1/[IMF representative] argued that inter-central bank operations would not be legal prior to amendment, but suggested that the BIS could act for the central banks by buying gold and reselling it to them later, a suggestion that was not accepted by 1/[Zijlstra.] I argued for delaying gold dealings until after amendment but recognized that the alternative view might have some merit, and I suggested further discussion of the matter at the next BIS meeting.

1/[A BIS representative] expressed the view that, unless central banks bought the gold sold by the IMF for the benefit of developing countries, the IMF would be virtually unable to sell any gold at all. Even a few tons, in the present state of the market, would cause the price to collapse.

The IMF representative presented two alternative plans for the sale of one-sixth of the Fund's gold holdings over periods of alternatively three and eight years, the proceeds to be used principally to subsidize concessionary interest rates on loans from the IMF trust fund. Annual sales in case of the eight-year alternative, he pointed out, would amount to only 10 per cent of annual South African sales.

All in all, the discussion revealed very little support for the 1/[U.S.] position, and even the 1/[IMF representative's] support was predicated on a device for avoiding its consequences that was not acceptable. The desire for immediate implementation -- after the

1/ Part of a sentence has been deleted at this point for one of the reasons cited in the preface. The deleted material identified the name or nationality of those who views are described.

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January Interim Committee meeting -- does not imply that many or perhaps any central banks would buy. But there is a belief that the gold market would be stronger if it were known that central banks could buy. The ability of central banks to deal in gold seems to be regarded as a political decision rather than a legal matter. Some countries regard all parts of the gold agreement -- sales for the LDC's, restitution, and constraints on central banks' trading -- as a package. Some even say it would be useless to debate any of this if implentation had to await amendment of the IMF articles.

There was virtually no discussion of the many technical problems arising out of the IMF proposed sales. A meeting to deal with these is to be held during or immediately preceding the November BIS meeting.

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ATTACHMENT B

Henry C. Wallich
March 18, 1975

Report on Basle Meeting - March 10, 1975

The Governors' meeting (in effect the G-10) dealt principally with the following topics: (1) Swiss entry into the Snake, (2) economic conditions including the position of the dollar, and (3) gold.

1/ [(1) Leutwiler (Switzerland) explained the Swiss desire to join the Snake as a result of their recent unhappy experience in seeing the Swiss franc driven up. Intervention to hold it down had already added SF 2 billion to the monetary base, and while slightly more than half of this liquidity had been neutralized the target rate for the monetary base for all of 1975 was being approached by this expansion. Operating within the Snake, instead of in dollars, would probably be less expansionary.

Klasen (Germany) welcomed Swiss adherence. He seemed undisturbed by the prospect that adding another strong currency to the Snake might give the Snake a further upward bias. He said that he had overestimated the danger to German exports from a rise in the D-Mark.

Clappier (France) was not enthusiastic about Swiss entry into the Snake. He pointed out that a country in France's position, with a payments deficit, could not well join a group of currencies in the stronger economic condition. (The French have been trying to move the franc more or less in line with other Snake currencies, in the hope of eventually being able to join. Swiss entry and the resulting upward bias, as well as the implicit demonstration of strength on the part of the Swiss, creates a political problem for the French.)

1/ Four paragraphs have been deleted at this point for one of the reasons cited in the preface. The deleted material described the views of named foreign officials concerning Swiss entry into the Snake.

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In response to a question I commented that the joining together in a common float of currencies in similar economic conditions might have advantages but that attempts to bring together currencies in differing economic conditions would probably create problems.]

(2) The discussion of economic conditions suggested a fair degree of confidence. Conditions in many countries are weak, but for the most part there is a belief that they can be turned around. This is particularly true of Germany and Japan. Klasen referred to the German discount rate cut as having been made in coordination with the Federal Reserve cut. The German reduction was justified, he said, in terms of the weakness of German conditions.

Carli (Italy) saw a considerable improvement in the Italian position and announced the approximate suspension of the import deposit scheme. He admitted that this might weaken monetary control.

De Strycker (Belgium) complained quite strongly about the weakness of the dollar and urged that the U.S. use interest rate policy to avoid its falling further. Intervention alone, he said, was not sufficient in the face of what he called fundamental factors.

I described the position of the dollar as cyclical. Our current account had tended to improve as a result of recession, but this effect was outweighed by the adverse impact upon the capital account of declining interest rates. Without offering predictions, I invited attention to what might happen if interest rates in the U.S. should rise as a result of heavy Treasury financing.

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(3) Klasen suggested that the U.S. might undertake to sell gold in order to reduce intervention in D-Mark, as a means of supporting the dollar. The Bundesbank so far had added DM 4 billion to the monetary base, one half of the total increase targeted for 1975. Klasen made clear that the Bundesbank was not interested in buying any gold and evidentally had in mind sales in the market, not by means of an auction. I pointed out some of the difficulties and possible lack of effectiveness associated with such sales. Only Chairman Zijlstra seemed interested in pursuing the topic of gold in any detail.

Dinner Meeting of Governors

At the dinner meeting of the BIS Governors and guests the Arab boycott of Jewish banks was discussed.[1] [Chairman Zijlstra and I sought support for a statement that might be made by the Governors. There was little such support for the proposal. In its place,] Zijlstra called a meeting to be held during the next Basle meeting in the afternoon of Monday, April 7, to discuss specific means of dealing with boycott attempts. In this context, I mentioned the letter written to national banks by Comptroller James Smith, in which Smith points to the examination procedure as a means of ensuring nondiscrimination, as well as the possible applicability of Federal Trade Commission and general anti-trust powers.

1/ About two sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material reported on a proposal regarding the subject under discussion.

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EEC Governors Meeting - March 11, 1975

1/ The purpose of this meeting was to define the relationship of the Federal Reserve to EEC procedures for dollar intervention. Substantial information about these procedures previously had been supplied during the visit to Washington by Mr. Heyvaert of the Belgian National Bank. The following account of the discussion was drafted principally by Mr. Pardee.

1/ Seven pages have been deleted at this point for one of the reasons cited in the preface. The deleted material described the views of the U.S. and certain other countries on objectives and procedures with respect to operations in exchange markets.

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Governor Hoffmeyer (Denmark) welcomed Governor Wallich, representing the Federal Reserve, for the discussion of the common intervention approach under consideration by the EC central banks. Mr. Heyvaert (National Bank of Belgium), who had outlined this scheme to representatives of the Federal Reserve in Washington on March 3-4, then presented the essential elements of the plan to the meeting.

He said that the first objective is to maintain order in the exchange markets through intervention by the central banks, without, however, opposing fundamental trends in exchange rates. A second objective of the EC plan is to promote cohesion within the group. Third hallmark of the EC plan is "concertation" which relates to both the close daily consultation among EC banks and to the joint operations they may have. The plan sets forth a specific formula for intervention, limiting daily movements to no more than 1 percent, but this guideline is not considered precise or rigid. Mr. Heyvaert stressed the need for a maximum flexibility in this regard. In defining the difficult concept of a "fundamental tendency", he suggested that the persistent movements of rates in one direction or a persistent accumulation or decumulation of reserves be the main criteria. Mr. Heyvaert noted that the Europeans all generally consider the daily fixing rate to be the basis for calculating the percentage daily swing, but the closing rate in New York could also be used.

My Heyvaert closed by saying cooperation between the EC group and the Federal Reserve was considered indispensable for the success of the plan, particularly because dollar intervention was

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under consideration. Moreover, the European central banks would not want their operations to interfere with foreign exchange intervention by the Federal Reserve.

Governor Wallich responded by discussing the formal aspects of the plan, its purposes, and operating matters. With respect to the formal aspects, Governor Wallich emphasized that the U.S. could not be considered a formal participant in the EC plan but he understood that the Federal Reserve had been asked to cooperate with the EC group. He urged that there be no press statement or communique emerging from these discussions and they be kept strictly confidential. On that basis, and on our understanding of the plan, it fits within the Federal Reserve's own procedures as worked out in early February with the Bundesbank and Swiss National Bank.

Turning to purposes, Governor Wallich said that different central banks seem to have different expectations from the scheme, with differing emphasis on salient points. The "orderly markets" objective of the scheme is an attractive feature to us. At times, this may require forceful intervention, but there may be different attitudes as to the scale of operations. Also, he finds that some of the G-10 governors would like to see the scope of the Federal Reserve intervention operations broadened, to include more currencies, or the Federal Reserve to be perhaps more active to avoid any sense of "benign neglect" on the part of the U. S. authorities. He said he hoped that Under Secretary Bennett's comments to the OECD last week had relieved concerns on the question of "benign neglect". Cohesion

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received different emphasis from different people. Governor Wallich said he saw some advantages of greater cohesion of European currencies but was concerned with the different circumstances of different currencies. A rigid structure of currency relationships might not be validated by the market. It might be useful to have strong currencies linked together but formal arrangements between strong currencies and those of countries with severe payments problems could lead to difficulties. He stressed that, as far as the Federal Reserve was concerned, no pegging of exchange rates is intended.

Turning to operating aspects Governor Wallich noted that the EC central banks had in mind a 1 per cent limit on daily fluctuations, which seemed to be an appropriate order of magnitude since it would be only an indication and not a hard and fast rule and since there was ample flexibility to allow smaller or greater movements under particular circumstances. Governor Wallich also cited the trade-off between the scale of operations and the need for prompt reversal, since larger amounts of intervention may build up to larger accumulative totals unless reversed more promptly. He added that the term "concertation" does not lend itself readily to a precise English definition and we think in terms of close consultation procedures which are largely already in force between the Federal Reserve and the European central banks. These procedures and technical points, such as the basis for calculating the day-to-day exchange rate movements, could be discussed further.

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On this understanding of the EC plan, Governor Wallich said that the EC Governors could expect cooperation from the Federal Reserve. Governor Wallich said that he thought we could work fruitfully together to achieve the broader principles and objectives of the EC plan. The Federal Reserve would at least not act counter to the objectives of the EC central banks.

Governor Richardson (Bank of England) also urged that the agreement be maintained strictly confidential, given its very sensitive nature to the markets.

Governor Hoffmeyer then asked what differences there may be among the various G-10 governors as seen by Governor Wallich. Governor Wallich repeated that these related to the degree of cohesion within the group, the degree of forcefulness of intervention, and the possibilities for broadening the scope of Federal Reserve operations as in dealing in more currencies.

With respect to the scope of Federal Reserve operations, Vice President Emminger (Bundesbank) said that on several occasions when the Federal Reserve was intervening in marks, the mark was low in the snake, if not actually pushed to the floor. The Bundesbank had drawn this to the attention of the Federal Reserve and had asked that we intervene in both guilders and Belgian francs, which in fact was done. On that basis, Dr. Emminger thought the Federal Reserve should consider broadening its operations to currencies other than the Deutsche mark, particularly when the Deutsche mark itself was at

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low levels vis-a-vis other European currencies. Governor Wallich said he understood this point, but noted that the market in New York for some of the other currencies may be rather limited, making it difficult to operate effectively in those currencies.

Hoffmeyer asked if we would be willing to intervene at the request of any of the countries within the EC, and Governor Wallich responded that there are in effect bilateral swap arrangements between the Federal Reserve and the countries involved. Whether we operate or not depends on the limitations of the foreign exchange market, and on the arrangements, such as the 50-50 risk sharing, we may have with the central bank in question.

Zijlstra urged that there not be a formal arrangement for dealing in other currencies. He prefers spontaneous phone calls between the central banks to organize such an intervention as needed.

Klasen of the Bundesbank agreed that the links should not be too formal. Consultation is the best approach, with ample conversations among the central banks to determine what is proper. Some would like the scheme to be very precise but there is the need to be flexible.

Governor Wallich asked about the reversibility of operations. Emminger responded, again citing the Bundesbank's experience, noting that with the possibility of reversal in mind the 1 percent rule should be suspended under certain circumstances. Over the past three months the Federal Reserve had tried the 1 percent rule. In practice, it has been applied on days that the dollar has declined, but when

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the dollar has risen, the System has allowed uptrends to exceed 1 percent. But the System has to decide each time, based on a feel of market conditions. As far as full reversal, one cannot say a priori what the timing may be. Last year, there had been substantial intervention in dollars, as it declined from February through May, during which the Bundesbank increased its reserves by DM 5 billion. Nevertheless, there had been a complete reversal by August with a reduction in German reserves of a similar order. Last spring the Federal Reserve could not have forecast the timing and magnitude of the outcome.

Governor Wallich agreed with these considerations but asked more specifically about shorter-term reversibility. Zijlstra commented that it depended on the trade-off between reserves and exchange rates, whether the central bank wanted to have an effect on the rate or not. Klasen suggested that the governors avoid being too theoretical. It was sufficient to talk about orderly exchange market conditions and not to set objectives for short-term exchange rate policy.

Zijlstra agreed that all hypothetical questions cannot be answered now and that it would be better to act on the basis of a spirit of cooperation between the EC and the Federal Reserve. It's important to gain experience with these procedures and to then review that experience as necessary. Governor Wallich concurred.