

## **Fed Chat: FOMC Transcripts and the Politics of Monetary Policymaking**

Henry W. Chappell, Jr.  
Department of Economics  
University of South Carolina  
Columbia, South Carolina 29208  
chappell@darla.badm.sc.edu

Rob Roy McGregor  
Department of Economics  
University of North Carolina at Charlotte  
Charlotte, North Carolina 28223  
rrmcgreg@email.uncc.edu

This is a revised version of a paper presented at the annual meeting of the Public Choice Society, March 10-12, 2000, in Charleston, SC. A version of this paper focusing on the time inconsistency problem will be published by *Economics and Politics* in November 2004. This paper also serves as the foundation for two chapters in our forthcoming book with Todd Vermilyea, *Committee Decisions on Monetary Policy: Evidence from Historical Records of the Federal Open Market Committee* (MIT Press, 2005). We acknowledge the able research assistance of Matthew Birmingham, Susan Harden, Yoko Kawakami, Steven Nape, Matthew Neidell, Ann Poovey, Paul Prochaska, David Ramsey, Souren Soumbatiants, and Todd Vermilyea. William Dougan, David Gordon, and seminar participants at Clemson University and the University of South Carolina have provided helpful comments. Financial support was provided by National Science Foundation grants SBR-9422850 and SBR-9423095.

September 2004

## **Fed Chat: FOMC Transcripts and the Politics of Monetary Policymaking**

### **Abstract**

This paper investigates a variety of issues related to political aspects of monetary policymaking. The approach is anecdotal – based on our reading of textual records from meetings of the FOMC during Arthur Burns’s years as Chairman of the Federal Reserve Board. These records include *Memoranda of Discussion* for meetings between 1970 and 1976 and verbatim transcripts of meetings held between 1976 and 1978. The latter were obtained from Arthur Burns’s personal papers and are the only verbatim transcripts of policy meetings available from any major central bank.

We use the records to investigate sources of political influence on policymakers: pressures from the President, the Congress, and the public. We investigate the timing of elections and the possibility of a “political business cycle” in monetary policy. We evaluate issues related to “credibility” and the “time consistency” problem as an explanation for an inflationary bias. Further, we discuss the role of committee decision-making institutions, information strategies, and inertial forces in shaping the decisions of the Federal Open Market Committee (FOMC).

## **Fed Chat: FOMC Transcripts and the Politics of Monetary Policymaking**

It is widely recognized that monetary policymaking is carried out in the presence of political pressures. Indeed, a substantial literature in economics deals exclusively with the political environment surrounding economic policy decisions. Complementing the analytical research of economists, journalists and historians have also studied monetary policymaking using approaches that are more anecdotal. At the risk of being “unscientific,” this paper adopts the latter approach.

Our concern is with many of the same issues that have been analyzed in other studies of the political economy of monetary policymaking in the United States. We will investigate the sources of political influence: pressures from the President, the Congress, and the public. We will discuss the timing of elections and the possible existence of a “political business cycle” in monetary policy. We will evaluate issues related to “credibility” and the “time consistency” problem as an explanation for an inflationary bias. Further, we discuss the role of committee decision-making institutions, information strategies, and inertial forces in shaping the decisions of the Federal Reserve’s Federal Open Market Committee (FOMC). As is becoming apparent, the scope of this paper is not narrow.

The evidence we employ comes from detailed records of FOMC deliberations for the years 1970 – 1978, the period of Arthur Burns’s tenure as Chairman of the Board of Governors. For February 1970 – March 1976, our primary source is the FOMC’s *Memorandum of Discussion*, which summarizes the FOMC’s deliberations on monetary policy in each meeting in that period. After March 1976, the FOMC stopped producing

the *Memorandum of Discussion*. However, after that date, meeting deliberations were secretly tape-recorded, transcribed, and stored at the Fed. In 1993 the Fed acknowledged the existence of these transcripts and since that time has slowly produced edited versions for public release. Although the Fed has not yet released edited transcripts for the 1976 – 1978 period, copies of the original unedited transcripts were included in Arthur Burns’s papers archived in the Gerald Ford Presidential Library. We use these transcripts in studying the latter segment of the Burns years. These are the only verbatim transcripts of FOMC meetings ever released, providing one important reason for our choice of the Burns years as a period for study.

For each of the FOMC meetings in our sample period, we have read excerpts from the *Memoranda* and transcripts dealing with monetary policy deliberations. While reading, we accumulated a file of items related to policy issues that have been widely discussed in the economics literature. We have then organized and summarized these items for presentation in this paper. We have undoubtedly been selective in the items we report, and we cannot claim to endorse or refute any particular theory. Nevertheless, we have found occasions where theory seems to have had some relevance. It is necessary to recognize that the analysis here is based on what is *said* in FOMC meetings, rather than what is *decided*. While the latter may be of greater interest for some purposes, the former may also be informative and has certainly received less study.

Our discussion will proceed as follows. In section I, we discuss external political pressures on the FOMC. In particular, we consider what the transcripts reveal about influences on monetary policy from the U.S. President, the Congress, and the public. In section II, we specifically consider the importance of the electoral calendar and whether

FOMC members behave differently when elections are imminent. In section III, we consider the relevance of the time consistency problem for monetary policymaking. Given the emergence of inflation in the Burns era, it is appropriate to consider the time consistency problem as a possible source of that inflation. In section IV, we consider the internal politics of the FOMC. Should the Chairman be characterized as a dictator? Does a majority voting model appear to be appropriate? Are there pressures to achieve consensus? In section V, we explore issues related to information provision (or the lack of it). Conclusions are summarized in section VI. To complement our discussion, we provide a chronology of major events during the Burns era (Appendix 1) and data on selected macroeconomic series for that era (Appendix 2).

## **I. External Political Pressures on the FOMC**

In this section, we explore the importance of Presidential, Congressional, and public influences on members of the FOMC.

### *I.A. Pressure from the President*

It is clear from the textual record that the FOMC takes pride in its independence. In our reading of the *Memoranda* and transcripts, we have not seen any comments that suggest that the Committee ever followed direct instructions from any outside authority. But the record also indicates that preferences of external clients are noted and pressures are recognized.

The 1972 Presidential election provided inspiration for economic models of political business cycles and the Richard Nixon - Arthur Burns relationship is often cited

as an example of Presidential influence over the Fed. While Administration preferences are not routinely discussed in FOMC meetings, the Nixon re-election period does provide several examples. In January 1971, roughly two years in advance of the election, Burns reports to the Committee that Administration “confidence” in the Federal Reserve was diminishing as money growth failed to keep up with announced targets:

As far as society as a whole was concerned, confidence in the Federal Reserve appeared to be strong and growing. However, the Administration’s confidence in the System was weakening as a result of the shortfalls that had occurred in the rates of monetary growth. He was not concerned so much about the loss of System prestige and credibility as he was about the possible impact on other governmental policies ... The credibility of the Federal Reserve would be greatly strengthened if it became apparent that the Committee was seeking to make up the recent shortfalls. He would hope, therefore, that the members would give very serious consideration to alternative B of the draft directives.

[*Memorandum of Discussion*, January 12, 1971, p. 41]

Note that Burns partly couched his support for additional ease on the premise that failure to support the Administration might result in a more harmful stimulative fiscal policy from the Administration. Later in the same meeting, however, Chicago Fed President Robert Mayo warned that the Committee should also be wary of appearing to cave in to Administration pressures:

Adoption of alternative C [the easiest policy option proposed by the staff] might also undermine confidence in the System *by suggesting*

*that it had succumbed to Administration pressure; and it might damage confidence in the economic outlook by suggesting that the Committee thought conditions had deteriorated to the point where a very large injection of funds was needed. [Memorandum of Discussion, January 12, 1971, p. 60, emphasis added]*

In February 1971, Burns again voiced concern with low money growth rates, adding that failure to correct them might lead to undesirable consequences for the Fed:

Personally, the Chairman continued, he believed that monetary policy had been basically sound over the past year, and he had no quarrel with the policy of the last few months. However, the shortfalls from the Committee's targets for the monetary aggregates that had occurred had caused difficulties for the System, and further shortfalls would cause continuing difficulties. He did not agree with those who thought that some particular growth rate in the narrowly defined money supply in 1971 would insure a strong economic expansion this year, and in his judgment the heavy emphasis that many people were placing on the behavior of  $M_1$  involved an excessively simplified view of monetary policy. *But however unfortunate such views might be, the fact that they were widely held had consequences for the System. [Memorandum of Discussion, February 9, 1971, p. 187, emphasis added]*

By April, more robust money growth had temporarily eased some of the external pressure on Burns:

Chairman Burns said it was now recognized within the Administration to a much greater degree than earlier that the monetary authorities had done their job well, and that if any further stimulation was needed it would have to be provided by fiscal policy. [*Memorandum of Discussion*, April 6, 1971, pp. 346-347]

By the summer of 1971, inflation had become a more threatening problem than recession, and in August, the Nixon administration imposed price controls. While price controls did not directly affect the Fed's options, it is clear that Nixon imposed controls so that he could fight inflation without imposing monetary or fiscal restraint. Governor Andrew Brimmer noted as much in an April 1972 FOMC meeting:

Mr. Brimmer observed that there also was a continuing problem of inflation, despite the control program that had been in effect since mid-August 1971. However, no one should have expected to see the problems of inflation and unemployment simultaneously resolved within the eight months that had elapsed since last August 15. The significant point was that the Administration had decided at that time – with the support of the Congress and the Federal Reserve – that the way to solve the problem of inflation was to apply direct controls rather than to slow the rate of economic growth and increase excess capacity. If more effective means of fighting inflation were needed they should be sought in tighter controls, perhaps along the lines the Chairman had suggested, and not through monetary policy. [*Memorandum of Discussion*, April 17-18, 1972, pp. 447-448]

Burns and the FOMC clearly recognized that raising interest rates when prices and wages were controlled might be politically dangerous:

So long as interest rates in general remained below the levels that had prevailed before the President's address he [Burns] did not think much pressure would build up for including them in the freeze. *The situation would be different, of course, if rates were to move back up above those levels.* [*Memorandum of Discussion*, August 24, 1971, pp. 810-811, emphasis added]

In September 1971, New York Fed President Alfred Hayes commented on the Administration's apparent disposition to keep interest rates below their pre-control levels:

For the time being this should not present the System with any problems, as long as there is a sizable cushion between current rate levels and those of August 13. However, the cushion is not so large as to give me any feeling of assurance that the Administration's rate policy will not become a serious obstacle to effective monetary policy ... We can only hope that these developments will work out in such a way that the System will not be confronted with a most difficult policy dilemma. [*Memorandum of Discussion*, September 21, 1971, p. 980]

The awkwardness of the Fed's position was magnified by Nixon's decision to name Arthur Burns the Chairman of the Committee on Interest and Dividends (CID), the administrative unit charged with overseeing policy towards interest rates and dividends during the period of price controls.<sup>1</sup> Arguably, the Administration limited monetary

---

<sup>1</sup> The difficulties Burns faced in his simultaneous roles as Fed Chairman and CID Chairman are discussed by Kettl (1986) and Wells (1994).

policy options during price controls by the implied threat of imposing rigid controls on interest rates if the Fed behaved inappropriately.

In August 1972, Burns discusses his role with the Committee on Interest and Dividends more explicitly in response to an inquiry from Brimmer about whether “constraints” on interest rates were political. Burns answered that they were not, but then qualified his statement:

Nevertheless, the Federal Reserve System was a part of the Government. At present the Government had an incomes policy that applied to prices, to wages, and to profits; and through the Committee on Interest and Dividends, it also applied -- on a voluntary basis -- to dividends and interest rates ... Despite the existence of a national policy affecting prices, wages, profits, and dividends, he had considered it his duty to oppose the establishment of guidelines for interest rates. Given the framework of the Government’s incomes policy, Chairman Burns continued, there was widespread opposition to higher interest rates ... voices had been raised to advocate ceilings on interest rates. Fortunately, resistance to ceilings had come from the President and from the Secretary of the Treasury as well as from himself, and so far resistance had succeeded. In the circumstances, *the Federal Reserve should not be eager to raise interest rates.*

[*Memorandum of Discussion*, August 15, 1972, pp. 826-827, emphasis added]

After the 1972 election, there is little discussion of pressure from the Administration regarding monetary policy. Clearly Nixon’s concerns lay elsewhere once

he had been re-elected -- Watergate events quickly began to accumulate. There is also little discussion of Administration pressures from President Ford in the 1974-1976 period.<sup>2</sup> However, after Carter took office in 1977, Burns appeared to be responsive to implicit Administration concerns. Carter had campaigned on a promise not to reappoint Burns, but Burns apparently preferred to keep his job. Thus, in January 1977, the Chairman was ready to extend a signal of goodwill to the incoming President:

We have a new administration -- the new administration has proposed a fiscal plan for reducing unemployment and any lowering of monetary growth rates at this time would, I'm quite sure, be very widely interpreted, and not only in the political arena, as an attempt on the part of the Federal Reserve to frustrate the efforts of a newly elected President [and a] newly elected Congress, to get our economy, to use a popular phrase, 'moving once again.' [*FOMC Transcripts*, January 17-18, 1977, Tape 7, p. 2]

### *I.B. Pressure from the Congress*

During the Burns years, FOMC records note intermittent references to Congressional concerns, almost invariably indicating that the Congress prefers lower interest rates to higher ones.<sup>3</sup> In June 1971, Burns commented on the risks to the System of an increase in the discount rate:

---

<sup>2</sup> Wells (1994) says that after President Nixon's resignation, "Burns lost no time ingratiating himself with Gerald R. Ford's new administration. He would not repeat the mistakes of 1969 and take his relationship with the chief executive for granted" (p. 145). Kettl (1986) and Wells both note that President Ford and Burns had similar views about the appropriate course for economic policy and document the extraordinary degree of cooperation between the Administration and the Fed Chairman. In Kettl's words, the Ford-Burns period was characterized by "the closest relationship between a president and a Fed Chairman in history" (1986, p. 132).

<sup>3</sup> According to Kettl (1986) and Wells (1994), the Burns years were marked by consistent and intense Congressional scrutiny of the Federal Reserve.

For the Federal Reserve to raise the discount rate at a time when unemployment was so high would lead many observers to wonder about the nature and purposes of the System and would produce strongly negative reactions in the Congress and the Administration ... at present he would expect to oppose such an action. [*Memorandum of Discussion*, June 8, 1971, pp. 594-595]

Later, in February 1974, the Committee discussed inflation-unemployment tradeoffs. In response to a comment by Hayes that an unemployment rate of 5.75% was not sufficient to justify a decisive move toward ease, Governor Jeffrey Bucher responded that it was also important to consider the tradeoff that the Congress might consider appropriate:

Although many people now regarded a rate of unemployment in excess of 4 percent as acceptable, he was not convinced that Congress as a whole was prepared to accept a rate as high as 5 percent; certainly, it would not find a 6 percent rate acceptable. Committee members needed to be concerned about the effects that System policies might have on Congressional actions to deal with high unemployment and to recognize that, in the long run, the adverse effects of such actions on prices could be much greater than those of any marginal measures the System might take at this point. [*Memorandum of Discussion*, February 20, 1974, p. 191]

On occasion, the possible countermoves from the Congress included direct legislative remedies directed against the Fed, not just alternative macroeconomic policies. When Richmond Fed President Robert Black comments on the political difficulty faced in lowering monetary growth rates, Burns responds:

Let's be clear about that last sentence of yours. As far as our doing something, we do what we think is right. Now there are no political factors that make it hard to reason. To the extent that there are political factors, I think they're of another kind. We have very troublesome legislation in the Congress, and what we do and the way our testimony goes on the 29<sup>th</sup> when these targets will be announced may have some effect on the course of the legislation in the Congress. I think to the extent that there is a political factor here, it's really legislative; legislation involving or affecting the Federal Reserve. [*FOMC Transcripts*, July 19, 1977, Tape E, p. 7]

In other words, we do what we think is right, but we keep in mind the punishment we might receive for it!

Finally, the requirement that the Chairman testify before the Congress on monetary policy targets and objectives often influenced the tone of FOMC deliberations. In January 1977, the Committee considered proposing reductions in the money growth targets to be presented to the Congress. Governor Phillip Coldwell gives Burns the following advice:

To lower the targets, I think comes down to a point of really the degree of harassment you want to take at your hearing because I think you will get harassed by a Congress who says, well, you are trying to frustrate us and you're not going to provide the funds necessary to make our fiscal policy work. Now that doesn't bother me, because I'm not on the stand. Now, it

may bother you considerably before your hearing's over with. [*FOMC Transcripts*, January 17-18, 1977, Tape 8, p. 5]

In the same meeting, Mayo argues that it may be difficult to lower the targets today, but it will be even more difficult at the next opportunity:

... I feel much surer in my own mind that I wouldn't want to see us make a change three months from now and if we're going to pursue our longer objectives, I would rather see us do it now. Congress is either going to be in the process of passing a tax cut or will have just passed one when you go up [to testify again] three months from now. And I think the eagle eye will be placed on us 10 times -- well, [it] will be 10 times as difficult to explain a change in our targets at that point than now, everything else being equal, which of course it never is. [*FOMC Transcripts*, January 17-18, 1977, Tape 8, pp. 6-7]

In July, Burns reveals his own reservations about proposing lower money growth targets in his Congressional testimony:

I don't mind being attacked, but I want to be in a position, really, to answer the attacks in an effective manner. And I find it very difficult to do that at the present time because of the hesitation that some people are going to read into the economic events ... I am concerned about the legislation that we have before the Congress. [*FOMC Transcripts*, July 19, 1977, Tape F, pp. 2-3]

*I.C. Pressure from Public Opinion*

In the 1970s, as the FOMC struggled with stagflation, it is clear that political pressure not only came through the filter of elected politicians, but also directly from the public. As the Committee struggled with perceived tradeoffs between unemployment and inflation in the short and long runs, public attitudes toward those tradeoffs were relevant to the discussion.

In November 1970, Governor William Sherrill cited public attitudes in advocating a more expansionary policy:

... if the staff's projections for 1971 were realized the nation would be paying a price, in terms of unemployment and underutilization of other resources, that was disproportionately high relative to the benefits that would be gained in the form of slower price advances. *For the battle against inflation to take that form would, in his view, be unacceptable to the country.* [*Memorandum of Discussion*, November 17, 1970, p. 1028, emphasis added]

In July 1974, when inflation had increased considerably from its 1970 level, Governor Charles Partee argued that a growth rate of real output of 1.0% would be unacceptable even when it was recognized that the Fed was combating inflation. However, Mayo challenges Partee saying:

... he would question Mr. Partee's judgment that a real growth rate of less than 1 percent would be unacceptable to the public. Until a few months ago he [Mayo] would have agreed with that statement, but it now seemed to him that a substantial body of support for inflation control had

developed throughout the nation, even among those who were adversely affected by anti-inflation policy. He thought the public at present would be prepared to accept a 1 per cent growth rate in GNP over the next year if that were required for better control of inflation. [*Memorandum of Discussion*, July 16, 1974, pp. 792-793]

An exchange between Burns and Philadelphia Fed President David Eastburn in February 1975 is also instructive. In this instance, Burns argued that the Fed should stand firm against political pressures:

It would be a tragic mistake to yield to political pressures [for ease]; the political pressures of today would not necessarily be those of tomorrow. The Congress had established the System as an independent entity, and the Committee ought to live up to the responsibility imposed by that independence. [*Memorandum of Discussion*, February 19, 1975, pp. 215-216]

Eastburn, however, takes a view that acknowledges political concerns:

... while the Federal Reserve System was an independent entity, its actions were being closely observed. He was concerned that there would be critical public reaction to continuation of a monetary policy that had produced very little growth in the narrow money stock over the past 6 months, a period when the economy was moving into the worst recession since the 1930's. [*Memorandum of Discussion*, February 19, 1975, p. 222]

Several months later, a statement by Boston Fed President Frank Morris is even stronger:

Mr. Morris observed that in his view acceptance of the staff projection led to the conclusion that the policy course being pursued by the Committee could not be defended before the Congress or the American people. *Growth in real GNP of 5 per cent over the four quarters to the second quarter of next year, as projected, was not acceptable*, and that slow a recovery could not be justified in the interest of dampening inflationary pressures. [*Memorandum of Discussion*, May 20, 1975, p. 596, emphasis added]

## **II. Electoral Cycles**

The previous section makes it clear that the FOMC acknowledges the presence of political pressures. Further, at least in 1972, it seems clear that political pressures were applied in a way that was electorally motivated. However, it is not obvious from our earlier discussion that the FOMC routinely responds with policies that are electorally motivated, or that the Committee takes special notice of the electoral calendar. The conventional wisdom is that the Fed avoids taking any actions in a pre-election period that might appear to be politically motivated, leading to added policy inertia.<sup>4</sup> Of course, if the Fed were targeting interest rates and if fiscal policy were electorally timed, such a strategy would also result in accommodative monetary policy before elections. Further,

---

<sup>4</sup> Former Federal Reserve Governor Sherman J. Maisel (1973) has indicated that the Federal Reserve, to avoid becoming the focus of political conflict, prefers *not* to take any significant policy actions as an election approaches. Hakes (1988) found that over the 1953-1984 period, the Federal Reserve tended to be more activist after elections than before elections. Beck (1991) argued that the political monetary cycle has arisen more from monetary restraint in the early part of a Presidential term than from monetary expansion as an election approaches.

the avoidance of pre-election actions might be asymmetric -- contractionary actions might be subject to more inertia than expansionary ones.

Not surprisingly, FOMC records provide relatively little discussion of upcoming elections. The references that do occur are consistent with a desire to appear apolitical, perhaps consistent with a tendency to avoid overt actions in pre-election periods. For example, in October 1970, with Congressional elections eminent, Hayes commented that a reduction in the discount rate would be a deliberate signal of further ease and therefore not appropriate under the circumstances. He then went on to note, “This view is reinforced by even keel considerations and by the desirability of avoiding a discount rate change either immediately before, or immediately after, Election Day” [*Memorandum of Discussion*, October 20, 1970, p. 929]. Before the 1976 elections, there are similar remarks from Minneapolis Fed President Bruce MacLaury, who notes that “... I think that it will be more difficult in October-November of election time to make a further adjustment downward in the M1 range than it is to do so today” [*FOMC Transcripts*, July 20, 1976, Tape 2, p. 4]. When October arrives, Kansas City Fed President Roger Guffey adds, “I think we have some other tools of monetary policy that I’d like to see us use if we were perhaps not so close to November 2” [*FOMC Transcripts*, October 19, 1976, Tape 8, p. 5]. New York Fed President Paul Volcker agrees, saying, “... it is premature right now, given account not only of our economic conditions, but also of this time on the calendar, to give a really strong signal of easing” [*FOMC Transcripts*, October 19, 1976, Tape 7, p. 7].

In that same meeting, Volcker speculates that the uncertainty caused by elections may itself be responsible for the lack of economic momentum, which in turn leads him to conclude that at least some modest easing might be called for:

I think part of the mood, the more depressed mood that seems to be rather general around this table and in the economy, is partly related to the oncoming election. People are not terribly happy with the way that [the] campaign has developed to say the least ... I do think that part of the throes of uncertainty [are] fairly directly related to the malaise in the political environment. None of this tells me very directly what to do in terms of policy ... My first instinct would be that the economy needs a further push ... [*FOMC Transcripts*, October 19, 1976, Tape 5, p. 4]

On one occasion, there was a brief FOMC discussion of the alleged 1972 political monetary cycle. This discussion occurs in 1977, when the Committee considered a request from the *New York Times* to release the 1972 *Memorandum of Discussion* in advance of the usual date. Presumably the *Times* was interested in developing a story on the political motivations of the Fed prior to the election. Burns offered the following comment:

... there has been some speculation to the effect that in 1972, the Federal Open Market Committee, having as its chairman a certain individual was inclined to do what it could to promote the re-election of a certain gentleman called Richard M. Nixon as President. [*FOMC Transcripts*, August, 16, 1977, Tape 6, p. 22]

Burns then stated that he felt that it was inappropriate to release the minutes just to prove that his 1972 actions were honorable, as the record would demonstrate. Doing so would itself appear political, given the current controversy over whether Burns would be reappointed by Carter.

Woolley (1984), one of few previous studies to use the *Memoranda of Discussion* as a primary data source, studied records from 1972 in order to assess election-year political motivations. He concluded that while the Fed may not have directly sought Nixon's re-election, the desire to deflect political threats led the FOMC to keep interest rates low during the period of price controls.<sup>5</sup> Thus, the Fed abetted Nixon's political aims by pursuing its own bureaucratic interests. As our discussion has suggested, our reading of the *Memoranda* largely supports this view. We should note, however, that there is evidence of more direct political influence in 1971 than in 1972. In early 1971, Burns explicitly cited Administration displeasure with low money growth when advocating ease. Later in 1971, when money growth dropped again, the Nixon administration showed its displeasure more vehemently. In October, Nixon snubbed Burns by refusing to meet with him to discuss an appointment to the FOMC. In early November, he sent Burns a 3-page letter, advising him to "get off his tail and get the money supply flowing again" [*Haldeman Diaries* CD-ROM, entry for November 5, 1971]. In the subsequent FOMC meeting on November 19, Burns spoke early and advocated an easier policy, which the Committee adopted. The funds rate declined by 75 basis points during the subsequent inter-meeting period.

---

<sup>5</sup> Wells (1994) concurs in this assessment. DeLong (1997) offers this perspective on the political threats faced by the Fed: "It is difficult to imagine *any* chairman of the Board of Governors pursuing anti-inflation policy to the limits necessary to achieve significant containment, and thus risking the survival of the institution, in the circumstances of the early 1970s" (p. 273).

### **III. The Time Inconsistency Problem and Policy Credibility**

In recent years, a sizeable theoretical literature has developed on the “time inconsistency” problem in monetary policymaking. The time inconsistency problem is often invoked to explain an inflationary bias alleged to plague central banks.<sup>6</sup> The assumptions behind the reasoning are as follows. First, the central bank is assumed to choose policy actions on a period-by-period basis in each of its meetings (it is not constrained by rules, but instead uses discretion in each period). Second, public expectations of inflation for the upcoming period are viewed as given at the time of the meeting. Third, the economy can be characterized by an expectational Phillips curve; i.e., if money growth is faster than the public expects, output will temporarily exceed its natural rate. Fourth, the central bank values output in excess of its natural rate, but also dislikes higher inflation. Finally, it is assumed that expectations are rational.

With predetermined inflation expectations, the central bank sees an opportunity to increase output via surprise money growth in each of its meetings. If expected inflation were zero, for example, the Fed could increase money growth and raise output with an inflationary surprise. The added output would be “worth” the modest increase in inflation. However, a problem arises when public expectations are rational. The public, understanding the Fed’s objectives, will correctly anticipate monetary stimulus, rendering the effort to increase output ineffective. Instead, the result is inflation. At the equilibrium level of inflation, the marginal output gains from added money growth are balanced by the added costs of additional inflation in the current period. This is suboptimal in

---

<sup>6</sup> Seminal contributions include Kydland and Prescott (1977) and Barro and Gordon (1983).

comparison to a zero inflation outcome, but the latter is not an equilibrium in the absence of a credible precommitment mechanism.

Alan Blinder, a former Governor of the Federal Reserve, has argued that the time inconsistency literature is largely irrelevant to present-day monetary policymaking (Blinder 1997). His argument is a simple one. If members of the FOMC understand the time-consistency problem, they will recognize that attempts to drive output beyond its natural rate will ultimately be unsuccessful, so they will not attempt it. Similarly, DeLong (1997) says that he has “found no sign in Federal Reserve deliberations in the 1970s that time-inconsistency issues – either that future central bankers would not carry out the policies to which earlier central bankers had tried to commit them, or that the private sector would fail to believe long-run commitments to a low-inflation policy – played any role in policy formation” (p. 265). Persson and Tabellini (2000), though, argue that these criticisms miss the point, since the analysis does not predict that the Fed would want to generate policy surprises in equilibrium. Rather, in equilibrium, the Fed’s lack of credibility would cause a restrictive policy to produce a recession. As a consequence, the Fed would refrain from pursuing an anti-inflationary policy. Further, the analysis implies that the equilibrium inflation rate will depend on preferences for output versus inflation and on the available Phillips curve trade-off.

We have already presented evidence suggesting that members of the FOMC and their political principals tended to feel that employment and output performance were generally unsatisfactory during the Burns era. Our evidence has also suggested that this feeling restrained the Committee from taking an aggressive approach to controlling inflation. As inflation developed in the 1970s, there were repeated references to cost-

push inflation, apparently referring to exogenous inflationary forces arising from sources other than fiscal and monetary policies. Committee members felt that inflation from these sources was getting built into expectations and that this was complicating their efforts to slow the rate of price advances. As early as 1970, Minneapolis Fed President Hugh Galusha argued that the FOMC staff had underestimated the importance of cost-push inflation and noted that there was “little that monetary policy could do to alter that situation” [*Memorandum of Discussion*, August 18, 1970, pp. 765-766]. In November of the same year, Sherrill stated that “no combination of monetary and fiscal policies could cope with the existing problem of inflation *without incurring very high costs*” [*Memorandum of Discussion*, November 17, 1970, pp. 1028-1029, emphasis added]. In December, Kansas City Fed President George Clay stated that “the current inflationary episode had proceeded so far and had become so involved in the wage-cost structure that there was serious doubt that the inflation could be curbed by any feasible monetary-fiscal policy mix ... *Moreover, it had been and continued to be necessary for public economic policy to provide some stimulus to the economy*” [*Memorandum of Discussion*, December 15, 1970, p. 1125, emphasis added]. Partee best stated the Committee’s view, saying: “We certainly know that there’s a built-in inflation rate of some considerable size resulting from the cost increases and the labor contracts [that] *have been negotiated and will pay off regardless* in this period to come” [*FOMC Transcripts*, February 28, 1978, Tape 4, p. 10, emphasis added]. These comments suggest that from the Committee’s perspective, the available output-inflation trade-off was becoming increasingly unattractive due to the influence of cost-push factors on expectations. (In the language of

the time inconsistency problem, the Committee was faced with expectations-driven shifts in the Phillips curve that had raised the economy's equilibrium inflation rate.)

Fearful of the output-inflation trade-off becoming even less attractive, the FOMC was concerned that its policy actions not exacerbate inflation expectations. In October 1974, as the economy drifted into recession, the Committee's directive called for continued reductions in the federal funds rate. In the meeting, several members expressly argued that the easing should be carried out in a subtle fashion that would minimize expectational changes. Coldwell supported the easing, but opposed a discount rate change, noting that "in continuation of the gradual approach ... the System should not take any *overt* actions to ease at this time" [*Memorandum of Discussion*, October 14-15, 1974, p. 1133, emphasis added]. Burns argued that "any easing should be undertaken very cautiously" [p. 1124]. Atlanta Fed President Monroe Kimbrel "hoped that the System would not give the impression that it had abandoned its role in fighting inflation" [p. 1136], while Hayes added that "it was of crucial importance that the system not undermine the belief that it meant business about combating inflation" [pp. 1127-1128]. These comments at least suggest that the Committee sought an opportunity to ease without further altering expectations.<sup>7</sup>

As the 1970s wore on, the FOMC faced the increasingly difficult challenge of how to alter the equilibrium inflation rate. The dilemma that members confronted seemed to involve weighing the long-term benefits of lower inflation against the short-

---

<sup>7</sup> We do not mean to imply that the Committee was intentionally trying to produce expectational errors. The records make it clear that Committee members generally felt that markets tended to overreact to their policy changes. They feared that minimal easing might be interpreted as a major easing and therefore sought to make any changes very subtle; otherwise, they risked an even higher equilibrium inflation rate.

term costs of a disinflationary policy. In a 1976 comment, Morris summarizes the view of many:

I'd like to go back to [the] comment I wanted to make earlier on the usefulness of these alternative monetary [policy] formulations. Seems to me that they don't have an awful lot of relevance to us because of the time horizon of the projections. That is, whenever you ask an economic model to give you the economic effects of the more expansionary policy over a fairly short period of time, you're up against the fact that the lags in the impact of monetary policy are much shorter on production than they are on prices, and I think every sheet of this kind that I have seen in the past eight years around this table suggested that a more expansionary policy would produce benefits in greater real growth and very little price effects, and I think that reflects the fact that the time horizon for this kind of exercise has got to be longer to be useful to the Committee. [*FOMC Transcripts*, July 20, 1976, Longer Run Targets, Tape 1, pp. 6-7]

Burns's response to Morris captures the dilemma of the time consistency problem succinctly:

Let me just make a comment, that to do what we can in the way of longer run objectives, I think is salutary. ... But we have to do something very specific today. Mainly to set monetary growth ranges for the next 12 months for the interval between the second quarter of this year and the second quarter of next year. [*FOMC Transcripts*, July 20, 1976, Longer Run Targets, Tape 1, p. 7]

In October 1977, San Francisco Fed President John Balles comments that even hitting the 12-month targets is problematic. He notes that “...the Committee doesn’t seem to have any systematic way of getting from here to there in terms of the two-month range versus the twelve-month range” [*FOMC Transcripts*, October 17, 1977, Tape 8, p. 10]. Finally, St. Louis Fed President Lawrence Roos sums up his experience on the Committee in this fashion:

I liken what we have done in the last year sort of to the alcoholic who should do something, but he takes a little drink this time and a little drink [next time] and he’s always going to do something down the road ...We’ve set ranges until we’re blue in the face ... we’re just deluding ourselves if we think that we are really doing anything to correct the excessive growth of the money supply. [*FOMC Transcripts*, January 17, 1978, Tape 6, pp. 15-16]

Correcting the excessive money growth would have risked a recession, though, and we have seen that political pressures and public opinion during the 1970s weighed against taking such risks. We conclude, then, that the Burns-era FOMC faced a constellation of pressures and uncertainties that – consistent with the predictions of time-inconsistency models of monetary policy – imparted an inflationary bias to its policy decisions.

#### **IV. Voting Procedures**

In a separate paper (Chappell, McGregor, and Vermilyea 1998), we have investigated the decision-making process of the FOMC, focusing on the competing

pressures of majority rule, consensus building, and the power of the Chairman and other members of the Committee. Our results confirmed a persistent attraction of the median voter's ideal point, as well as disproportionate influence by the Chairman in the policy process. In this section, we use excerpts from the Burns-era *Memoranda* and transcripts to revisit the issues of majority rule, consensus building, the power of the Chairman, and the role of the district Reserve Bank presidents versus that of the Governors.

#### *IV.A. Majority Rule and Consensus Building*

While FOMC decision-making is formally majoritarian, Committee records rarely show evidence of divisiveness. This could reflect dominance by the Chairman, who is widely believed to have influence in the policy process that extends beyond his single vote within the Committee. The infrequency of recorded dissent may also reflect the high regard members hold for achieving consensus; nevertheless, unusually deep divisions among Committee members sometimes mean that consensus cannot be achieved. This is revealed in the FOMC meeting on September 20, 1977, in which multiple votes were taken in an effort to craft a consensus. The first proposed directive passed by a close 7-5 vote, prompting the following reaction from Burns:

Well let's stop and deliberate it. I think that would be a very unfortunate vote. To me the Committee is split badly. It would mean that this would excite a great deal of discussion that would not bring honor or credit to the Committee and therefore I think we must seek to accommodate one another. I didn't think our differences were that large.

Let's try again. Does anyone have a proposal to make, one of the dissenters? [*FOMC Transcripts*, September 20, 1977, Tape 8, p. 16]

Two further attempts fail to gain a consensus; the second vote is also 7-5, and the third is 8-4. Burns says, “Gentlemen, the original vote stands. The first vote. We're divided. I think it is unfortunate, I think it is undesirable and I don't know what has gotten into this group” [*FOMC Transcripts*, September 20, 1977, Tape 8, p. 19]. This particular episode is revealing, primarily because the events it describes are so unusual. Conflicts are usually muted, but attempts to reach consensus are sometimes abruptly confronted by majoritarian pressures.

That the Committee prefers consensus, though, has been well-documented. Governor Henry Wallich once said, “It is not a pleasant thing to have to keep dissenting ... One dissents less frequently than you would think. After all, you are a member of a group and you want to get along with the other members” (Greider 1987, p. 201). The *Memoranda* and transcripts report instances where Burns reminded FOMC members of the importance of consensus (or at least the appearance of consensus). In the meeting held on February 19, 1975, Burns commented on legislation pending in Congress and then advised members to keep their differences to themselves:

In view of the prominence being given to the Federal Reserve in public utterances, the Chairman continued, it was particularly important that whatever differences might exist within the System be debated around the table and not aired in public. To his mind, no good purpose would be served if any member of the System family were to carry such differences as he might have with his colleagues into the public arena. It was not to

be expected that every Board member and Reserve Bank President would find every decision taken by the board or the Committee entirely congenial, and every member of the System family could expect from time to time to find himself unable to convince his colleagues on some issue. For one in that position to try to win over his colleagues by carrying his case to the public – and thus adding to the political pressures on the Federal Reserve – could be particularly injurious at the present time.

[*Memorandum of Discussion*, February 19, 1975, pp. 161-162]

Note that Burns *twice* referred in his remarks to the “System family,” thereby appealing to the notion that “blood is thicker than water” in his effort to sway his colleagues to avoid public disagreements.

Achieving consensus will require, from time to time, accommodation of the views of a significant minority. For example, in the FOMC meeting of March 19-20, 1973, Burns initially proposed a policy course that got the support of only 7 members in a straw poll. Not liking that narrow majority, he then proposed concessions in the direction of the dissenters, sacrificing his own preference to achieve consensus.<sup>8</sup> The Committee’s subsequent vote was unanimous.

#### *IV.B. The Power of the Chairman*

Popular accounts of Federal Reserve decision-making often portray the Chairman as a monetary policy dictator. The academic literature on monetary policymaking also attributes a prominent role to the Chairman. Woolley (1984) has suggested that the

---

<sup>8</sup> Burns did say, however, that he would consult the Committee if the federal funds rate had to move outside the range that *he* had proposed.

Chairman's roles as liaison with external clients and resource allocator within the Fed give him leverage over the Committee. In addition, the Chairman controls the agenda for FOMC meetings and can use this prerogative to his advantage.

During the meeting on August 18, 1970, Burns dispensed with the usual policy go-around and took a straw poll to determine members' preferences between policy alternative A and a modified version of policy alternative B offered by Mitchell. Six members supported the former, and six members (including the Chairman) supported the latter. Subsequently, Burns proposed that the Committee reconsider the two alternatives after certain additional modifications had been made to each. No member switched from one alternative to the other as a result of the reported modifications. Burns, then, "noted that while the Committee's preferences were evenly divided between the two alternatives, a majority had concurred in the substance of each of the successive clauses of the language Mr. Mitchell had proposed. He suggested that the Committee vote the latest version of that alternative [which Burns favored] up or down" [*Memorandum of Discussion*, August 18, 1970, p. 774]. This proposal was approved with three dissents. While it is not clear that Burns's tactics in this meeting were intended to achieve a particular outcome, it is clear that his actions limited the policy options available for the Committee to consider.<sup>9</sup>

The Chairman may also influence the Committee's decision by carefully shading his policy proposals in the direction that he favors. In the meeting on June 16-17, 1975,

---

<sup>9</sup> One of the dissenters, Hayes, was annoyed that the Committee had not had its customary policy go-around and asked to submit the prepared remarks on monetary policy that he had not had the opportunity to present. Burns replied that time had not permitted the go-around at that day's meeting and invited Committee members who so desired to submit for the record their statements on monetary policy. The policy go-around provides members with an opportunity to support their policy preferences by stating their views on current and prospective economic conditions. In the process, members advancing the most persuasive arguments could sway other members' views.

Burns voiced his concern that keeping interest rates low for too long would risk losing control of money growth, as had occurred in 1972. He said that members should not be so concerned about small increases in interest rates. It seems, then, that he was pushing for some firming of policy. Later, Burns proposed the adopted policy. Along the way, he offered straw polls on 6.00% vs. 6.25% for the upper limit of the federal funds rate target range and on 5.00% vs. 5.25% for the lower limit of the range. All of these alternatives were rather high compared to other members' desired rates. Thus, while Burns never explicitly gave his own preferred target range for the funds rate, he may have had an impact on the outcome.

Another illustration of the influence of the Chairman in setting the agenda (and of the role of majority voting) occurs in the FOMC meeting on May 18, 1976. Burns took a straw poll on an M1 growth range. He wanted a show of hands "on 4 to 7.5 per cent, whether that is generally acceptable, even though not preferred" [*FOMC Transcripts*, May 18, 1976, Tape 7, p. 8]. Five of 10 found this acceptable (but note that Burns did not ask what was preferred). Seeing the 5-5 tie in the straw poll, Burns says, "Then I would make that a pleasant 6, which just tips the balance" [Tape 7, p. 8].

Perhaps the best evidence of the power of the Chairman is provided by the FOMC meeting on September 19, 1972. The Committee adopted Burns's proposal for a federal funds rate target range centered on 5.0625%, even though 10 of the 12 members had advocated higher rates (see Table 1). In proposing the adopted range, Burns was careful to include the 5.375% funds rate target preferred by a majority of members. However, his proposal had this rate as its upper limit, rather than as a midpoint. The Committee accepted Burns's proposal with only two members dissenting.

The Chairman may also be able to affect outcomes by influencing the set of policy options presented to members prior to each FOMC meeting. While these policy scenarios do not limit the Committee, there is no doubt that they help shape the discussion. For example, the *Memorandum of Discussion* for the January 1975 meeting reported the following comments by Morris:

Mr. Morris said he understood that the Committee had a wider range of options than set forth in the blue book. Nevertheless, he thought that the nature of the alternatives presented by the staff had some effect on the outcome of the Committee's discussion. [*Memorandum of Discussion*, January 20-21, 1975, p. 70]

Similarly, in the April 1974 meeting, Eugene Leonard, first vice president of the St. Louis Fed, commented on policy alternative B being the obvious choice among the three alternatives given:

Continuing, Mr. Leonard remarked that it was the Committee's practice at its meetings to examine three alternative policy courses – A, B, C – and it seemed to him at times that one could determine in advance that the Committee would adopt a course close to that of alternative B.

[*Memorandum of Discussion*, April 15-16, 1974, p. 519]

The remarks of Morris and Leonard clearly suggest that the policy alternatives presented to the Committee affect its deliberations. By implication, then, to the extent that the Chairman can influence these alternatives, he can influence the Committee's monetary policy decisions.

The Chairman can also shade policy in a direction that he favors through the interpretation that he puts on an adopted directive. The FOMC meeting on January 20, 1976, provides a good example of this. In that meeting, Burns noted that in the past the Committee had interpreted its M1 range as a “zone of tolerance or indifference” [*Memorandum of Discussion*, January 20, 1976, p. 106]. That interpretation “had changed gradually, almost imperceptibly, and – in his view – largely inadvertently” [p. 106]. The result was an “interpretation entirely different from the original one” [p. 107]. Adjustments in the federal funds rate were now made on the basis of projected M1 movements “within the range specified” [p. 107]. At the end of this meeting, the Chairman proposed that the Committee return to the original interpretation. This meant that operations should not try to move the funds rate (from its status quo or targeted midpoint) unless aggregate projections were at or outside the specified limits. Burns clearly seemed to be moving more toward fixing the funds rate, claiming uncertainty about money demand and seasonal effects as his motivation. At this meeting, that implied that the adopted policy would have an asymmetric midpoint. This was not known during the discussion of alternatives, however, since Burns did not suggest this change until after the Committee had essentially agreed on the directive. In this manner, Burns was able to get his own way within the meeting (over the objections of several members). He did not want the federal funds rate below 4.50%, but the Committee adopted 4.25% as the lower limit. Under Burns’s interpretation of the directive, though, the federal funds rate would stay at 4.75% (its prevailing level) unless money growth projections were outside specified bounds.

Chappell, McGregor, and Vermilyea (1998) offered evidence that when Burns spoke earlier in a meeting rather than later, his views often seemed to influence those of members who spoke later. The meeting on July 16, 1974, provides a good example of this. Burns spoke early, and then everyone else jumped on the bandwagon to agree. Most of the discussion in that meeting centered on the Chairman's proposal after he spoke. This strategy was not always successful, however. In the July 17, 1973, meeting, for instance, Burns spoke early in the policy go-around and proposed a federal funds rate target range of 9.0% - 11.0%. Later, after others had spoken, he proposed the target range of 9.0% - 10.5% that was then adopted. While Burns spoke first on this occasion and had a clear policy preference, his views did not prevail unaltered. Three years later, in the FOMC meeting held on July 20, 1976, there was an apparent consensus on 5.25% as the midpoint of the federal funds rate target range, but there was substantial disagreement on the width of the range. Burns proposed a target range of 5.0% - 5.5%, but the Committee adopted 4.75% - 5.75% as the target range. Although he made it clear that he would not be happy to see either increases or decreases as large as 50 basis points, Burns was nevertheless the clear loser in that meeting.

#### *IV.C. The Role of the District Reserve Bank Presidents*

While the Chairman can be particularly influential in the monetary policy process, that his views do not always prevail indicates that he is not a true dictator. The views of his fellow Committee members do matter. Accounts of Federal Reserve decision-making in both the popular press and the academic literature have focused extensively on the role of other members. While members of the Board of Governors are political appointees, the

district presidents are chosen by the boards of directors of the district Reserve Banks (subject to approval by the Board of Governors). Since the district presidents are not direct political appointees, they may be less responsive to political pressures than the Governors. Further, the district presidents have independent staff support, while the Governors depend on the Chairman for resources. The Governors, then, may be less likely to be confrontational in dealing with the Chairman, while the district presidents need feel no such restraints.

The issue of whether district presidents differ from Governors surfaced in the FOMC meeting on July 20, 1976. Burns brought this up in connection with a lawsuit by Henry Reuss, who alleged that the district presidents were unconstitutionally appointed and that they had “damaged” him by depreciating the value of a Treasury bond that he owned.<sup>10</sup> If the district presidents voted like the Governors, this would help defend the FOMC – Reuss would get the same treatment even if the district presidents were excluded. Burns claimed that there was no evidence that the district presidents voted differently from the Governors [*FOMC Transcripts*, July 20, 1976, Tape 2, p. 10]. However, subsequent analyses of the FOMC’s dissent voting record have documented significant differences in the voting behavior of the district presidents and the Governors.<sup>11</sup>

The design of the Federal Reserve System makes the Bank presidents innately different from Governors in one respect: they are representatives of regional constituents.

---

<sup>10</sup> By claiming that he had been personally damaged, Reuss had hoped to convince the court that he had standing to sue.

<sup>11</sup> See, for example, Chappell, Havrilesky, and McGregor (1993), Havrilesky and Gildea (1991), Krause (1996), McGregor (1996), Puckett (1984), and Woolley (1984). In contrast, Tootell (1991) questions the existence of a significant difference.

Whenever the FOMC meets, the Bank presidents are expected to report on economic conditions within their respective districts, and formal district reports are systematically compiled and released as the “beige book.” This naturally raises the question of whether the Reserve Bank presidents attach special importance to the economic conditions in their home regions when they make policy decisions for the nation.<sup>12</sup> Given that the presidents are required to report on regional conditions when the FOMC meets, it is difficult to know if the attention they give to those conditions is a factor in the decisions that they make. Overall, we find that the attention given to regional conditions once the meeting enters the “policy go-around” stage is limited. As always, however, there are exceptions.

One important situation arose in the fall of 1975, as New York City teetered on the brink of bankruptcy. In November, New York Fed President Volcker explicitly referred to the New York situation as a reason for not permitting the funds rate to rise [*Memorandum of Discussion*, November 18, 1975, p. 1236]. However, several other members without specific New York connections had also mentioned the bankruptcy crisis in this and preceding meetings, so it might not be appropriate to think of the New York situation as a purely regional concern.

In another instance, Eastburn acknowledges that local information may have influenced his perceptions. He first reports on the views of forecasters cited by the *Wall Street Journal*, and then on meetings he has had with local business leaders, where sentiment has been very pessimistic. Speaking of his own pessimistic outlook, he says

---

<sup>12</sup> Laney (1990) has provided evidence of differences in the FOMC voting behavior of particular regional Bank Presidents (but not in a reaction function context); he also finds that regional economic conditions affect Bank Presidents’ voting decisions. This has also been a question of some interest in a European context, as observers speculate on the importance of regional interests in the determination of monetary policy by the European Central Bank.

“partly this is a function of the fact [that the meetings were] being held in Philadelphia and the Philadelphia area is not very strong ...” [*FOMC Transcripts*, June 21, 1977, Tape 1, p. 5].

Another issue in evaluating the role of the district presidents is whether the views of those who are *not* voting at a particular FOMC meeting have any effect on outcomes. The *Memorandum of Discussion* for the meeting on January 11, 1972, reported the following comments by Burns:

With respect to targets, the Chairman observed that the members of the Committee who had expressed a preference were about evenly divided between targets I and II, typified respectively by 6 and 8 percent growth rates for M1 in January and February. If the preferences of Reserve Bank Presidents *who were not now members of the Committee* were included, a majority favored the lower target. [*Memorandum of Discussion*, January 11, 1972, p. 95, emphasis added]

Burns then proposed the lower money growth target, and it passed. This example notwithstanding, it seemed in a number of other instances that only the views of the voting members were considered in crafting a directive. On October 17, 1977, the Committee adopted a federal funds rate target range centered on 6.5%. Half of the voting members, including Burns, favored this range, while the other half of the voting members and *all* of the non-voting members preferred higher rates (see Table 2). Clearly, the preferences of the non-voting members were ignored at this meeting! Thus, most of the evidence we have gleaned from the *Memoranda* and transcripts supports our earlier

conclusion (Chappell, McGregor, and Vermilyea 1998) that the views of non-voting district presidents do not seem to matter in the monetary policy decision process.

## **V. The FOMC and the Provision of Information**

In recent years, the FOMC has moved in the direction of providing more timely information about its policy actions than it did in the past. In the Burns years, however, the Fed clearly acted under the belief that full disclosure of its actions and intentions would be counterproductive in achieving desired impacts. Furthermore, at that time, the Fed was subjected to considerable outside pressure to become more open. On one front, the Fed confronted Georgetown University law student David Merrill's legal challenge to its practice of delaying the release of the *Memorandum of Discussion* for five years after a meeting.<sup>13</sup> Simultaneously, the Congress was considering passage of the Freedom of Information Act, which also threatened some of the Fed's secretive practices. One consequence of these external threats was that the FOMC frequently had explicit discussion about its information revelation strategies in the Burns years.

In general, it seems clear that the FOMC usually wanted to conduct its policies in a way that did not "disturb" markets.<sup>14</sup> This concern stemmed from a general view that markets are often irrational and inefficient. In July 1976, Balles noted the market's "improper" reaction to the latest money growth figures, saying that he thought the Fed should publish moving averages over several weeks instead of just the last week (as if market participants could not construct such averages for themselves):

---

<sup>13</sup> The Merrill lawsuit is discussed by Goodfriend (1986), Kettl (1986), and Wells (1994).

<sup>14</sup> Goodfriend (1986) confirms this motive and lists several others. The FOMC believed (i) that prompt release of information would allow major traders to profit from speculation, (ii) that open market operations would be more costly, and (iii) that orderly execution of monetary policy would be impaired.

... I'd like to have us educate the market not to place so much weight on what the very latest weekly figures show. I think they react irrationally to that. We're getting observations that are unjustified and disturbing.

[*FOMC Transcripts*, July 20, 1976, Tape 1, p. 16]

Burns then noted that both the market and the Open Market Desk also tended to respond irrationally to the latest money growth figures:

I would say the market reacts irrationally; I would also say that I think there is some tendency on the part of this committee and, because of this committee, at the desk also to react irrationally to these figures. [*FOMC Transcripts*, July 20, 1976, Tape 1, p. 16]

To avoid market "overreactions," the FOMC often wanted policy changes to be subtle, perhaps not even immediately noticed. In section III, we noted that this was the case in October 1974, when the Committee chose to ease its stance. Similarly, in February 1976, the Committee was concerned that developments in the Merrill lawsuit might force a premature revelation of the Committee's policy directive. In light of this circumstance, Morris urged the Committee to broaden the funds rate ranges it was adopting in order to limit the information content that would be revealed if the courts ruled in favor of Merrill:

Mr. Morris added that, while he preferred stability in the funds rate over the next inter-meeting interval, he thought that the Committee should adopt the practice of setting a range for the Federal funds [rate] at least 1-1/2 percentage points in width because of the possibility of early publication of the specifications ... Accordingly, he favored a range of 4

to 5-1/2 per cent for the funds rate, even though the consensus might be for little if any movement in the rate.” [*Memorandum of Discussion*, February 17-18, 1976, p. 225]

In some instances, the Committee’s effort to limit information provision revealed a more active effort to deceive, not just an effort to be vague. In September 1977, several FOMC members, including Burns, advocated publishing a range for M1 growth with a lower limit around 3%, when they said they would be perfectly willing to see a 0% growth rate. They apparently did not want the public to see that they would tolerate such low growth [*FOMC Transcripts*, September 20, 1977, Tape 7, pp. 17-18]. In another instance, in June 1977, Burns considered the choice of “money market” or “aggregates” wording for the directive (to indicate a focus on either interest rates or monetary aggregates). He says:

Well, logic is a stern master and if one respected it really, one would have to use a money market directive, but I have found it desirable at times to throw logic to the winds and to, and I see some advantage in the monetary aggregates directive because, basically, that is what we ought to be doing.  
[*FOMC Transcripts*, June 21, 1977, Tape 4, p. 2]

In other words, he is targeting the funds rate, but he wants to suggest that he is targeting money instead.

It was also common for FOMC members to view the Committee’s money growth targets as a shield from the political attacks that often followed increases in interest rates. On August 15, 1975, for example, Governor Robert Holland suggested a strategy of backing off from stating interest rate targets because that would soon be requiring them to

seek explicitly higher interest rates [*Memorandum of Discussion*, August 15, 1975, p. 970]. At the meeting on December 20, 1976, MacLaury spoke of his desire to attach a bit more importance to the monetary aggregates:

I have certainly been among those who have viewed the greater emphasis on the monetary aggregates as useful but perhaps in a different way than the monetarists do. Not because I think there is great stability between any particular aggregate and the economy, and I think the experience of the past year or year and a half has amply demonstrated that that stability does not exist, and I share again the Chairman's view that the technological structural changes that are taking place make it particularly perilous to link ourselves to an aggregate or a set of aggregates in any sort of a slavish way. Rather it has seemed to me for a rather political point of view dealing with the Congress, the public in general, that the aggregates, in an admittedly over simplified way distracted some over-attention to interest rates and our impact upon interest rates; that we could explain to the public what we were doing by reference to the aggregates in a way that seemed to make at least structural sense. *And that therefore, when the time came for raising interest rates we could adhere to and speak in terms of the aggregates.* Likewise, I think around this table my feeling has been that if we can avoid being caught in our own rhetoric by over-emphasis upon the aggregates it has given us a reason for moving interest rates up or down more rapidly in the face of changing economic circumstances than we were inclined to in the past when we were not focusing on the

aggregates the way we have been in the recent few years [*FOMC Transcripts*, December 20, 1976, Tape 8, p. 2, emphasis added].

This was not the first time that MacLaury had taken such a position. During an earlier meeting, he said, “I think for political reasons, it’s very important that we continue to attach some significance to these aggregates and let interest rates in effect move as we try to pursue those aggregates” [*FOMC Transcripts*, April 20, 1976, Tape 7, p. 1]. These examples illustrate what seems to have been a consistent Committee strategy: When interest rates start getting high, pretend to target money!<sup>15</sup>

The importance the FOMC attached to secrecy is nicely illustrated by its response to the Merrill lawsuit, which threatened to force the FOMC to release the *Memorandum of Discussion* promptly after each meeting. Facing the threat posed by Merrill, the FOMC chose to simply discontinue publication of the *Memoranda*. Although the Fed did not directly note its motive for this action at the time, Burns left little doubt when he reflected on it in 1977. He said, “If we had had the feeling of protection that we could go along as we had, we would not have as a Committee abandoned the Memorandum of Discussion. *We did it only as a Committee, as a reaction to the judicial proceeding that had been started*” [*FOMC Transcripts*, August 16, 1977, Tape 6, p. 6, emphasis added].

In May 1976, just one month after the decision to eliminate the *Memoranda*, Burns instructed the staff to prepare a new “enhanced” policy directive to be published after each meeting. The actual purpose of the enhanced directive was apparently to mollify politicians annoyed by the demise of the *Memoranda*. With the timely publication of an “enhanced” policy directive, Burns could argue that the Committee was

---

<sup>15</sup> According to Greider (1987), this was the thinking behind the FOMC’s October 1979 decision to switch from targeting the federal funds rate to targeting nonborrowed reserves.

providing more information more promptly than before. However, the enhancements were of doubtful value. After receiving a rather short draft of the enhanced directive from his staff, Burns directed them to “produce several additional pages.” Burns added that “I’m certainly not going to say that we should do anything that remotely resembles padding,” but he seems to want exactly that [*FOMC Transcripts*, May 18, 1976, Tape 1, p. 8].

It is also apparent that the Committee often selected its long-term money growth targets with an eye towards public consumption rather than legitimate long-term planning. In July 1977, Guffey discusses long-run targets:

On the [other] hand, the cosmetic effect, if that’s the right term, of continuing to move [to lower money growth targets] is very attractive, and as a result, I think we would opt for a solution that you have proposed on the M-1 alone, that is, moving the bottom ½ percent. I don’t think it’s very meaningful at the moment. I think we’ve got to begin to focus on the shorter range of getting those aggregates down and what we do in the longer range is basically for consumption of the public and not for this Committee. So in conclusion, I guess, I would be perfectly willing to buy the cosmetic effect of moving the lower side of M-1, but leaving the remainder of the aggregates where they are for the moment, long range.

[*FOMC Transcripts*, July 19, 1977, Tape E, pp. 16-17]

In the same meeting, Burns adopts a similar attitude about a different issue. Responding to Coldwell, who has asked why the Committee should adopt a bank credit target, Burns replies, “Oh, I think it’s quite important ... to have a credit figure as well as the money

figure because we don't want to go completely monetarist at this Committee." Coldwell answers, "It's pure cosmetics," to which Burns replies, "Well, I think sometimes, I think they are symbolic. Much of life is based on symbolism" [*FOMC Transcripts*, July 19, 1977, Tape F, pp. 3-4].

Although there was much agreement that limiting information to the public was desirable, there were occasional dissenting voices. Facing increasing legal pressure, Roos argued that additional openness might not be such a bad thing. He therefore suggested that the Committee should publish its policy directives immediately just to test whether any undesirable market reactions would occur [*FOMC Transcripts*, November 17, 1977, Tape 1, p. 12]. Minneapolis Fed President Mark Willes voiced a similar opinion, but other members were not supportive.

Limited and delayed information revelation also provided a means of deflecting criticism and political pressure. During the July 20, 1976, FOMC meeting, Governor Henry Wallich suggested that it might be acceptable to include comments of specific members within the published policy directive. Burns responded as follows:

I think it can be done. I think the sentiment of the Committee was that this should not be done. That would also be my view. I think when you start mentioning names, identifying positions with individuals, one is inviting a certain emphasis on differences. And remember that this is a document that is now released approximately 30 days after our meeting. And to have the differences displayed by name I think it could excite some of us unduly to extreme utterances and I think also that our critics on Capitol Hill and elsewhere would maximize and exaggerate the differences among

us and the unity and the consensus that we should be striving for might well be lost in the process. [*FOMC Transcripts*, July 20, 1976, Tape 2, p. 3]

## **VI. Conclusions**

Our exploration of the written records of FOMC meetings from the 1970-1978 period illustrates how a multitude of forces have shaped monetary policy. At times, the Fed was clearly sensitive to its political environment. Discussions frequently referred to the concerns of political principals, including the President, the Congress, and the public. The Burns years are also notable for the emergence of higher inflation. Our analysis finds some support for the proposition that the existence of persistent inflation was a consequence of phenomena similar to those described by time inconsistency models. Regarding internal FOMC decision-making mechanics, our perceptions are mixed. We find cases where majoritarian forces seem to dominate, and other cases where the influence of the Chairman is considerable. In most meetings, there is also a clear effort to reach decisions in a consensual manner. During this period, the Fed was very concerned with limiting and protecting information. At times, this led to vagueness; at other times, the intent was more clearly to deceive.

During the Burns era there was continuing concern over measurement of the “full-employment” unemployment rate, the nature of inflationary expectations, rules versus discretion, and the issue of whether interest rates or monetary aggregates should be the proximate instrument of monetary policy. Thus, while the Burns era was in many ways

exceptional, it also reminds us that monetary policy issues faced today are not wholly unlike those that have confronted the FOMC for many years.

## References

- Barro, Robert J., and David B. Gordon. 1983. "A Positive Theory of Monetary Policy in a Natural Rate Model." *Journal of Political Economy* 91 (4): 589-610.
- Beck, Nathaniel. 1991. "The Fed and the Political Business Cycle." *Contemporary Policy Issues* 9: 25-38.
- Blinder, A. S. 1997. "What Central Bankers Could Learn from Academics – and Vice Versa." *Journal of Economic Perspectives* 11: 3-19.
- Chappell, Henry W. Jr., Thomas M. Havrilesky, and Rob Roy McGregor. 1993. "Partisan Monetary Policies: Presidential Influence Through the Power of Appointment." *Quarterly Journal of Economics* 108: 185-218.
- Chappell, Henry W. Jr., Rob Roy McGregor, and Todd Vermilyea. 1998. "Models of Monetary Policy Decision-Making: Arthur Burns and the Federal Open Market Committee." Working paper.
- DeLong, J. Bradford. 1997. "America's Peacetime Inflation: The 1970s." In Christina D. Romer and David H. Romer, eds., *Reducing Inflation: Motivation and Strategy* (Chicago, IL: University of Chicago Press): 247-276.
- Goodfriend, Marvin. 1986. "Monetary Mystique: Secrecy and Central Banking." *Journal of Monetary Economics* 17: 63-92.
- Greider, William. 1987. *Secrets of the Temple*. New York, NY: Simon and Schuster.
- Hakes, David R. 1988. "Monetary Policy and Presidential Elections: A Nonpartisan Political Cycle." *Public Choice* 57: 175-182.
- Havrilesky, Thomas M., and John Gildea. 1991. "The Policy Preferences of FOMC Members as Revealed by Dissenting Votes." *Journal of Money, Credit, and Banking* 23: 130-138.
- Kettl, Donald F. 1986. *Leadership at the Fed*. New Haven, CT: Yale University Press.
- Krause, George A. 1996. "Agent Heterogeneity and Consensual Decision Making on the Federal Open Market Committee." *Public Choice* 88: 83-101.
- Kydland, Finn E., and Edward C. Prescott. 1977. "Rules Rather than Discretion: The Inconsistency of Optimal Plans." *Journal of Political Economy* 85 (3): 473-491.
- Laney, Leroy O. 1990. "The FOMC Dissent Voting Record: Reserve Bank Presidents versus the Governors." Working paper.

- Maisel, Sherman J. 1973. *Managing the Dollar*. New York, NY: W.W. Norton and Company.
- McGregor, Rob Roy. 1996. "FOMC Voting Behavior and Electoral Cycles: Partisan Ideology and Partisan Loyalty." *Economics and Politics* 8: 17-32.
- Persson, Torsten, and Guido Tabellini. 2000. *Political Economics: Explaining Economic Policy*. Cambridge, MA: The MIT Press.
- Puckett, Richard. 1984. "Federal Open Market Committee Structure and Decisions." *Journal of Monetary Economics* 14: 97-104.
- Tootell, Geoffrey M.B. 1991. "Are District Presidents More Conservative than Board Governors?" *New England Economic Review* (September/October): 3-12.
- Wells, Wyatt C. 1994. *Economist in an Uncertain World: Arthur F. Burns and the Federal Reserve, 1970-78*. New York, NY: Columbia University Press.
- Woolley, John. 1984. *Monetary Politics*. New York, NY: Cambridge University Press.

**Table 1. Desired Federal Funds Rates<sup>1</sup>**  
**September 19, 1972**  
**(Adopted Midpoint: 5.0625)**

<b>Members/Alternates</b>	<b>Desired Federal Funds Rate</b>
<b>Members</b>	
Burns	5.0625
Sheehan	5.0625
Bucher	5.125
Daane	5.125
Mitchell	5.25
Hayes	5.375
Brimmer	5.375
Eastburn	5.375
MacLaury	5.375
Robertson	5.375
Winn	5.375
Coldwell	Not Explicit <sup>2</sup>
<b>Alternates</b>	
Heflin	Greater than 5.125
Mayo	5.25
Morris	5.375
Clay	5.375
Francis	5.875
Kimbrel	Not Explicit <sup>3</sup>

<sup>1</sup> Desired federal funds rates are measured as the midpoints of ranges proposed by members within meetings.

<sup>2</sup> Coldwell expressed a desire for a funds rate increase, but not as high as 5.50. The prevailing rate was just below 5.0.

<sup>3</sup> Kimbrel was not explicit, but appeared to favor a relatively tight stance.

**Table 2. Desired Federal Funds Rates<sup>1</sup>**  
**October 17, 1977**  
**(Adopted Midpoint: 6.5)**

<b>Members/Alternate</b>	<b>Desired Federal Funds Rate</b>
<b>Members</b>	
Burns	6.5
Volcker	6.5
Coldwell	6.5
Gardner	6.5
Lilly	6.5
Mayo	6.5
Guffey	6.625
Jackson	6.625
Partee	6.625
Wallich	6.625
Morris	6.75
Roos	6.75
<b>Alternates</b>	
Black	6.625
Winn	6.625
Smoot	6.625
Balles	6.75
Baughman	6.75
Kimbrel	6.75
Willis	6.75

<sup>1</sup> Desired federal funds rates are measured as the midpoints of ranges proposed by members within meetings.

## Appendix 1. Arthur Burns and the Federal Reserve: A Chronology

February 1, 1970	Arthur F. Burns's first term as Federal Reserve Chairman begins.
August 15, 1971	President Nixon announces his New Economic Policy. This policy includes a 90-day wage-price freeze, the suspension of the gold convertibility of the dollar, a 10% surcharge on imports, an investment tax credit, the deferral of certain proposed expenditure increases, elimination of the excise tax on automobiles, and the formation of a Cabinet committee (called the Cost of Living Council) to manage the program.
December 1971	Smithsonian Agreement among the Group of Ten ratified. Results in a 10% devaluation of the dollar and a realignment of exchange rates.
November 1972	President Nixon wins re-election.
March 1973	Collapse of Smithsonian Agreement. Era of floating exchange rates begins.
October 1973	Yom Kippur War. Arab oil-producing countries place embargo on petroleum shipments to the United States.
January 1974	Burns reappointed to a second term as Federal Reserve Chairman.
August 9, 1974	President Nixon leaves office following his resignation. Vice President Gerald R. Ford sworn into office as the 38 <sup>th</sup> President of the United States.
March 1975	Georgetown University law student David R. Merrill files suit under the Freedom of Information Act to force the FOMC to make its minutes public immediately after each Committee meeting.
May 18, 1976	FOMC responds to the federal district court decision in Merrill's favor by voting to release its policy decisions taken at one meeting immediately after the following meeting and by voting to discontinue the <i>Memoranda of Discussion</i> .

November 1976

Jimmy Carter elected as the 39<sup>th</sup> President of the United States.

January 1978

President Carter informs Burns that he will not be reappointed as Federal Reserve Chairman.

March 1978

G. William Miller takes over as Federal Reserve Chairman. Burns resigns from the Board of Governors and leaves the Federal Reserve.

**Appendix 2. Selected Macroeconomic Data  
(Quarterly, 1970-1978)**

<b>Date</b>	<b>Real GDP Growth<sup>1</sup></b>	<b>Inflation Rate<sup>2</sup></b>	<b>Unemployment Rate</b>	<b>M1 Growth Rate</b>	<b>Federal Funds Rate</b>
Mar-70	-0.5	5.8	4.2	3.5	8.57
Jun-70	0.8	5.6	4.8	3.9	7.88
Sep-70	3.5	3.4	5.2	8.5	6.70
Dec-70	-4.2	5.3	5.8	4.6	5.57
Mar-71	11.6	6.1	5.9	8.4	3.86
Jun-71	2.2	5.4	5.9	9.3	4.56
Sep-71	3.1	4.1	6.0	5.5	5.47
Dec-71	1.0	3.3	5.9	2.8	4.75
Mar-72	8.1	5.9	5.8	10.9	3.54
Jun-72	9.5	2.6	5.7	4.5	4.30
Sep-72	4.0	4.0	5.6	11.6	4.74
Dec-72	7.1	5.1	5.4	9.8	5.14
Mar-73	10.6	4.9	4.9	4.0	6.54
Jun-73	4.1	6.8	4.9	8.8	7.82
Sep-73	-1.6	7.5	4.8	1.8	10.56
Dec-73	3.4	8.8	4.8	7.4	10.00
Mar-74	-3.0	7.4	5.1	5.9	9.32
Jun-74	1.1	9.6	5.2	3.2	11.25
Sep-74	-4.4	12.4	5.6	4.0	12.09
Dec-74	-2.2	12.5	6.6	4.1	9.35
Mar-75	-5.0	9.5	8.3	3.3	6.30
Jun-75	3.6	5.7	8.9	9.7	5.42
Sep-75	7.1	7.3	8.5	4.7	6.16
Dec-75	5.1	7.3	8.3	1.2	5.41
Mar-76	9.8	4.5	7.7	8.1	4.83
Jun-76	3.4	4.1	7.6	5.6	5.20
Sep-76	1.9	5.7	7.7	4.9	5.28
Dec-76	3.3	7.4	7.8	8.1	4.87
Mar-77	5.0	6.6	7.5	10.5	4.66
Jun-77	7.4	6.7	7.1	7.0	5.16
Sep-77	7.4	4.9	6.9	7.6	5.82
Dec-77	0.5	8.5	6.7	7.2	6.51
Mar-78	1.1	6.2	6.3	7.6	6.76
Jun-78	16.3	8.0	6.0	13.0	7.28
Sep-78	3.9	7.1	6.0	6.6	8.10
Dec-78	5.5	8.4	5.9	4.9	9.58

<sup>1</sup> Computed from real GDP measured in billions of chained 1996 dollars.

<sup>2</sup> Computed from the GDP implicit price deflator (1996=100).