



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

February 7, 1977

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee
FROM: Arthur L. Broida *ALB*

Attached is a memorandum from Governor Partee dated today and entitled "Modification of recommendations regarding last two paragraphs of domestic policy directive."

It is contemplated that this memorandum will be considered by the Committee at its forthcoming meeting.

Attachment

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CONFIDENTIAL (FR)
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TO: Federal Open Market Committee SUBJECT: Modification of
FROM: Mr. Partee recommendations regarding last
two paragraphs of domestic
policy directive

In a memorandum dated November 10, 1976, the Subcommittee on the Directive recommended that the Committee recast the last two paragraphs of its domestic policy directive to incorporate the longer-run growth ranges adopted quarterly and the short-run specifications agreed upon at each meeting. The Committee held a preliminary discussion of this recommendation at its December meeting, in the course of which I mentioned two changes that the Subcommittee had decided to suggest in the specific phrasing of the proposed new-style directive.

On the basis of comments received since that time and some further reflection, Messrs. Balles, Morris, Wallich, and I now suggest certain further changes in the proposed new-style directive, primarily for the purpose of introducing appropriate qualifications.

In place of the present penultimate paragraph of the directive, we recommend the following:

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster bank reserve and other financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

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At its meeting on January 18, 1977, the Committee agreed that growth of M-1, M-2, and M-3 within ranges of 4-1/2 to 6-1/2 per cent, 7 to 10 per cent, and 8-1/2 to 11-1/2 per cent, respectively, from the fourth quarter of 1976 to the fourth quarter of 1977 appears to be consistent with these objectives.^{1/} These ranges are subject to reconsideration at any time as conditions warrant.

In place of the monetary aggregate and money market formulations of the present operational paragraph, we recommend the following:

Monetary aggregates formulation

The Committee seeks to encourage near-term rates of growth in M-1 and M-2 on a path believed to be reasonably consistent with the longer-run ranges^{2/} for monetary aggregates cited in the preceding paragraph. Specifically, at present, it expects the annual growth rates over the February-March period to be within the ranges of ___ to _____ per cent for M-1 and ___ to ___ per cent for M-2.

^{1/} Governor Wallich would prefer to insert the word "target" before "ranges" and to replace the words "appear to be consistent with" with the word "reflect."

^{2/} Governor Wallich would prefer to insert the word "target" before "ranges" here and at the corresponding point in the money market formulation.

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In the judgment of the Committee such growth rates are likely to be associated with a weekly average Federal funds rate of about ____ per cent. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period will deviate significantly from the midpoints of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of ____ to ____ per cent.

If it appears during the period before the next meeting that the operating constraints specified above are proving to be significantly inconsistent, the Manager is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Money market formulation

At this time, the Committee seeks to maintain about the prevailing money market conditions^{1/} during the period immediately ahead, provided that monetary aggregates appear to be growing at approximately the rates currently expected, which are believed to be on a path reasonably consistent with the longer-run ranges for

1/ Or, "to achieve slightly (or somewhat) easier (or firmer)...conditions."

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monetary aggregates cited in the preceding paragraph. Specifically, the Committee seeks to maintain the weekly average Federal funds rate at about ___ per cent, so long as M-1 and M-2 appear to be growing over the February-March period at annual rates within ranges of ___ to ___ per cent and ___ to ___ per cent, respectively. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period are approaching or moving beyond the limits of the indicated ranges, the operational objective for the weekly average Federal funds rate shall be modified in an orderly fashion within a range of ___ to ___ per cent.

If it appears during the period before the next meeting that the operating constraints specified above are proving to be significantly inconsistent, the Manager is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.