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February 9, 1977

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Members of the Federal Reserve Board
 and the Federal Open Market Committee
 Federal Reserve System
 Washington, D. C. 20551

Gentlemen:

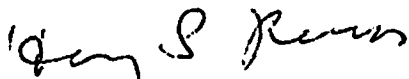
Following our hearings on February 2, 3 and 4 into monetary policy, and pursuant to our constitutional duties concerning monetary policy, we pass on to you our judgment that monetary policy during 1977 should aim at reducing unemployment and fostering recovery, without rekindling demand inflation, consistent with President Carter's proposed stimulus. In accordance with that general guideline, we suggest:

1. Money supply. Your targeted monetary growth bands for the next 12 months -- 4½ to 6½ percent for M-1, 7½ to 10 percent for M-2, and 8½ to 11½ percent for M-3 -- seem generally adequate. For M-1, in the months ahead, growth should be off the bottom of the range, and at least in the middle of the range. Deviations from the target to account for changes in velocity above or below the general post World War II trend of velocity increase of around 3 percent annually should not be made lightly; the target should be modified only if it seems well established that the historic trend of velocity has changed. Congress should be promptly informed of any such modification of long-run targets. Likewise, in our view, deviation from the long-run targets should not be made to offset cost inflation, such as an OPEC oil price increase or increases in food prices due to bad weather.
2. Interest rates. Such monetary policy should give the nation stable interest rates in the months ahead. There is, moreover, ample room for efforts by regulatory policy and moral suasion to bring about lower rates for business loans and long-term mortgage rates.

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 OF THE
 FEDERAL RESERVE SYSTEM

3. The Federal Reserve's portfolio. We commend the Federal Reserve for modest "lengthening" of the maturity of its securities portfolio in 1976, and urge that such lengthening be continued.

Sincerely,



Henry S. Reuss (Wis.), Chairman
Committee on Banking, Finance and Urban Affairs
Parren J. Mitchell (MD), Chairman
Domestic Monetary Policy Subcommittee
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