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**U.S. HOUSE OF REPRESENTATIVES**  
**SUBCOMMITTEE ON DOMESTIC MONETARY POLICY**  
**OF THE**  
**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**  
**NINETY-SEVENTH CONGRESS**  
**WASHINGTON, D.C. 20515**

H2-179, ANNEX NO. 2  
WASHINGTON, D.C. 20515  
(202) 225-7315

November 19, 1982

The Honorable Paul A. Volcker  
Chairman  
Board of Governors  
Federal Reserve System  
20th & Constitution Avenue, N.W.  
Washington, D. C. 20551

Dear Paul:

The Federal Open Market Committee last month decided that it would pay less attention to the M1 aggregate in this and coming months because unusual financial changes were distorting the meaning of that aggregate. Since then, there has been great speculation in the Congress as well as in financial markets about the FOMC's objective, about what the FOMC is using as operating targets, and about the future of M1 and other monetary aggregates as targets for monetary policy. This Subcommittee, which as you know has held hearings on the viability of the M1 aggregate and alternative targets for monetary policy, shares this concern about what the FOMC decision portends for the conduct of monetary policy and the objectives of the FOMC.

Accordingly, I would like you or other members of the Federal Open Market Committee to testify before the Subcommittee on Thursday, December 2, 1982, on the implications of the recent decisions of the FOMC for inflation, economic recovery, interest rates, and monetary targeting. The apparent decision of the FOMC to de-emphasize M1 as a target of monetary policy also raises questions about the status or utility of the M1 aggregate and whether alternative targets should be sought. I hope your testimony would therefore address the following questions:

1. In light of the apparent decision to de-emphasize the M1 aggregate, what are the present policy objectives of the FOMC with regards to inflation, economic recovery, and interest rates? How have these objectives been changed or modified over the past six months, and since October?

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2. With the various financial innovations in the market and in prospect, does the currently defined M1 monetary aggregate still have a reliable and stable influence on the ultimate goals of economic growth, lower inflation and lower unemployment? Does the current target for this aggregate still have any congruence with near-term objectives for nominal GNP, real GNP, and inflation, or can those near-term objectives only be achieved by periodically ignoring the announced targets, as the FOMC is now doing?
3. The M1 aggregate is supposed to provide a measure of those forms of money that can be readily used for conducting transactions, and that are distinct from other forms of money that are used for savings and investment. With the development of NOW accounts, money market funds, and the new money-market accounts provided for by the Garn-St Germain act, does the M1 aggregate as now defined provide an accurate measure of transaction balances? Can the M1 aggregate be redefined to provide a proper measure of transaction balances, or are distinctions between transactions and savings balances now so blurred that it is or will be impossible to construct a useful measure of transaction balances?
4. If the M1 aggregate can not be redefined, what should be the primary and secondary targets for monetary policy? What are the FOMC's opinions of such proposed alternative targets as total liquid assets, broad credit aggregates, real short-term interest rates, or long-term interest rates? Indeed, should the concept of intermediate monetary-policy targets be abandoned, with the FOMC instead adopting long-term inflation and economic growth objectives without specifying the methods and intermediate targets for achieving those objectives?

I ask that you or those who appear in your place appear before the Subcommittee at 10:00 A.M. on Thursday, December 2, 1982, in Room 2128 of the Rayburn House Office Building. The Rules of the Committee require that 100 copies of your statement be made available to the Subcommittee no later than 48 hours prior to your appearance. You should bring with you additional copies if you wish to assure that the press and others will have adequate copies.

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Any questions that you and your staff have concerning this request should be directed to Howard Lee, Staff Director of the Subcommittee, who may be reached at 226-7315.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Walt", with a horizontal line extending to the right.

Walter E. Fauntroy  
Chairman