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

May 19, 1975

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Subcommittee on the Directive[1/]

SUBJECT: Handling of numerical specifications in the FOMC policy record

As suggested at the April meeting of the FOMC, the Subcommittee on the Directive has reflected on the question of the best means of handling the various quantitative specifications in the FOMC's directive and policy record, and has the following conclusions and recommendations to report:

(1) The most logical procedure to move to eventually would be to incorporate the short- and longer-range specifications in the last and next to last paragraphs, respectively, of the directive adopted at each meeting.[2/] Once this move is made, the Committee may wish to vote separately on the next to last paragraph -- which would

1/ Messrs. Holland, Balles and Morris. (Mr. Wallich, the fourth member of the Subcommittee, did not participate in the preparation of this memorandum.)

2/ Sample directive language for accomplishing this purpose, which was shown in an attachment to the staff's memorandum to the Committee of April 10, 1975, is attached herewith.

contain the "strategic package" of longer-run objectives and specifications -- and on the last paragraph -- which would contain the "tactical package" of short-run operating targets and constraints. In suggesting that the Committee vote separately on the longer-range specifications, we do not mean to suggest that these longer-range objectives should be changed every month, but only that the timing of changes not be limited by any predetermined schedule.

(2) We are still in an experimental stage in the development and utilization of the quantitative specifications, and it is entirely appropriate for them to be handled in the record in a flexible manner during this interval. This experimental interval will also allow time to develop the most felicitious procedure for releasing this information to the public.

(3) The procedure employed in presenting these quantitative statistics in the April policy record is an appropriate and constructive way

of handling them for the present. Citing the numbers in the text of the policy record rather than in the directive allows for more flexibility and less decisiveness in their categorization. Differences of view of individual voting members as to any particular longer-range numerical specifications are aptly presented by footnote or by parenthetical reference in the text (as has been done in reporting differences of view concerning inter-meeting changes in the specified Federal funds range). At the same time, the degree of consensus in support of the proposed monetary policy, as more broadly described in the directive, is indexed by the vote recorded on the directive itself.

Attachment

Attachment

SPECIMEN DIRECTIVE
(Last two paragraphs; growth ranges shown are purely illustrative)

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating prompt economic recovery and increased utilization of the nation's resources, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments. For the 12 month period from March 1975 to March 1976, the following growth ranges for the major monetary and credit aggregates are presently thought to be consistent with this objective: M_1, 4-7 per cent; M_2, 9-11; M_3, 10-12; M_4, 8-10; M_5, 7-9; and bank credit proxy, 7-10.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee over the next five weeks seeks to achieve bank reserve and money market conditions consistent with a weekly average Federal funds rate in a 5¼-6¼ per cent range and with percentage annual rates of growth during April and May, on average, ranging between 4½-6½ per cent for M_1, 7½-9½ per cent for M_2, and 5-7 per cent for the bank credit proxy. [To the extent consistent with these objectives, open market operations should be conducted in such a way as to encourage lower long-term interest rates.]