

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

June 2, 1975

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

SUBJECT: Suggestion with respect to first-stage report of

FROM: Chairman Burns

Subcommittee on Directive

I note that in its first-stage report of March 10, 1975, the Subcommittee on the Directive recommends that the FOMC move towards replacing RPD's with nonborrowed reserves as a reserve target, and that--until such time as the FOMC acts on this and related recommendations--nonborrowed reserves be added as a "shadow" target in the materials prepared for the Committee. In connection with the second point, the Subcommittee says "This procedure will assist the FOMC in evaluating the desirability of adopting the alternative operating

The proposal that the Committee "track" nonborrowed reserves for a time before deciding whether to employ that variable as a target makes good sense to me. I also doubt the desirability engaging in extended debate on the merits of nonborrowed reserves as a target until after some such experience has been accumulated.

target in place of RPD and it will smooth the transition to nonborrowed

reserves should that be the Committee's final decision."

Accordingly, when the first-stage report is taken up by the Committee at its June meeting, I will suggest that the Committee approve the Subcommittee's recommendation for adding nonborrowed reserves as a "shadow" target at this time, and plan on discussing sometime in the fall whether to use that variable in actual operations in place of RPD's.