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

CONFIDENTIAL (FR)

November 15, 1973

To: Federal Open Market Committee

Subject: FOMC Policy Records

From: Chairman Burns

I would like to share with the Committee certain conclusions I have reached after reviewing the report, dated October 11, 1973, of the Subcommittee on Policy Records. This report, which is concerned with the question of how much quantitative information should be contained in the policy record's description of the Committee's policy decisions, is included among the items to be considered at the November meeting of the Committee.

I agree with the unanimous view of the Subcommittee that the 2-month range of tolerance for RPD's, which is now the only specification published in quantitative form, does not adequately represent the Committee's policy conclusion and is often misleading.

In my judgment, there are only two alternatives for the policy record that are worth serious consideration at the present time: (1) to publish no quantitative information on the specifications, and (2) to publish the short-run ranges of tolerance--i.e., the 2-month ranges--for growth in RPD's, M_1, and M_2, and the range for the weekly average Federal funds rate during the intermeeting period.

Finally, I believe that it would be a serious mistake for the Committee to include in the policy records quantitative information on the 6-month targets for growth rates in M_1, M_2, and the bank credit proxy. My reasons are as follows:

1. When the record for a meeting is published 3 months later, a substantial part of the time period covered by the 6-month targets adopted at that meeting will still lie ahead. Despite any cautions to the effect that the longer-run targets are subject to review and revision at each subsequent meeting, the probability is that their publication will have a significant effect on market interest rates as participants contrast the stated targets with the growth rates recorded thus far in the period and draw inferences about the likely thrust of open market operations for the remainder of the period.

2. The risk of misinterpretation of changes in the Committee's longer-run targets is great. Some of the problems involved are illustrated in the attached note, prepared by the staff, concerning the decisions taken at selected meetings in 1973.

3. Regular publication of the longer-run targets for the monetary aggregates would lead many observers to conclude that

the Committee had moved further in the direction of a monetarist approach than it in fact has.

To avoid such problems, it would be best--at least in the immediate future--to formulate any statements in the policy record regarding longer-run targets in qualitative terms, whether or not quantitative information is included on short-run operating ranges. Some experimentation along these lines will be needed, and it should be allowed to evolve. We need to improve our policy records, but we also need to move cautiously. Let us not attempt to do more at this time than we can properly assimilate.

Attachment

November 15, 1973

Note on potential misinterpretations of
Committee's 6-month targets for monetary aggregates

This note briefly reviews the Committee's decisions with respect to 6-month target growth rates in the monetary aggregates at successive meetings in 1973 through October and considers some of the likely problems of misinterpretation if quantitative information on the targets had been (for the later meetings, is to be) published in the policy records.[1/]

At its meeting in March 1973, the Committee specified a 5-1/4 per cent target for growth in M_1 over the second and third quarters--i.e., from March to September. (Literally, the target growth rate was formulated in March in terms of a range from 5 to 5-1/2 per cent.) This represented a reduction from the target range of 5 to 6 per cent (for the growth rate over the first and second quarters of 1973) that had been specified at the three preceding meetings. At its meetings in April and May the Committee reaffirmed its March decision with respect to the M_1 growth rate over the second and third quarters. In June, however, the Committee established a 4-1/2 per cent target for M_1 growth over the third and fourth quarters, and in July it reduced its target for that period to 3-3/4 per cent.

The decisions at the June and July meetings were taken against the background of recent overshoots of M_1 and reflected

1/ Statements regarding the Committee's intent at various meetings represent the staff's assessment of the consensus of a majority of members at those meetings; individual members concurring in the targets described may have held different views.

a desire to restore growth to the 5-1/4 per cent path--still measured from March, but now extended through the end of the year.[1/] Thus, in a significant sense the Committee did not change its longer-run objective for M_1 growth at those meetings. However, publication of successive 6-month target figures of 5-1/4, 4-1/2, and 3-3/4 per cent would undoubtedly have led to a widespread impression that the Committee was again lowering its sights for expansion in the money stock, as it had in March.

The 6-month targets for M_1 adopted in September and October, if published, also would be highly susceptible to misinterpretations. After reaffirming in August its 3-3/4 per cent target for M_1 growth over the third and fourth quarters, in September the Committee set its target for growth over the fourth and first quarters at 4-1/2 per cent, and in October it raised the target for that time span to 5 per cent. The September decision was taken against the background of a recent shortfall of M_1 from the 5-1/4 per cent growth path (still measured from March 1973) of such a size that, in the Committee's judgment, a return to the 5-1/4 path by March 1974 would have required an undesirably sharp easing of money market conditions. In effect, while the Committee did not abandon the 5-1/4 per cent growth path, it did abandon the attempt to restore

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1/ As indicated in charts in the blue books for June and subsequent months, the 5-1/4 per cent growth paths were measured from the March level of M_1 expected at the time of the March meeting, which was appreciably above the level subsequently published for that month. If applied to the published figure for March, the successive target growth rates for the second and third quarters would yield September levels below those contemplated by the Committee.

M_1 to that path within the 6-month time span it had previously used for specifying "longer-run" targets. By the time of the October meeting, the estimated level of M_1 in September had been revised downward sufficiently so that a growth rate of 5 per cent over the fourth and third quarters would have been required to attain the March 1974 level implied by the September decision. Publication of successive 6-month targets of 3-3/4, 4-1/2, and 5 per cent for the August, September, and October meetings would undoubtedly give many observers the impression that the Committee was raising its sights for monetary expansion, whereas--insofar as any change was intended--it had been to lower the growth path the Committee anticipated achieving over a 6-month span.

Throughout the period in question, the Committee specified 6-month targets not only for M_1 but also for M_2 and the bank credit proxy (and, through May, for RPD's), and publication of the targets for M_2 and the proxy would undoubtedly result in additional misinterpretations. In particular, observers would be likely to be misled at times when targets for one or two of the three key aggregates changed but the other(s) did not, and when changes among the several targets were in opposite directions. Such patterns occur, of course, because of shifts in public preferences among various types of financial assets.