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

December 11, 1973

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Mr. Altmann

Enclosed is a copy of a memorandum to the Committee from the staff, dated December 11, 1973, and entitled "FOMC Policy Records." Further discussion of the content of the policy records is planned for the meeting on Monday, December 17.

M. Altmann

Murray Altmann
Assistant Secretary
Federal Open Market Committee

Enclosure

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To: Federal Open Market Committee

Subject: FOMC Policy Records.

From: The Staff

Chairman Burns, in the Committee's discussion on November 20, 1973, suggested that one approach to the policy record problem was to publish quantitative data on the short-run ranges of tolerance for M_1, M_2, RPD's, and the Federal funds rate and to refer to longer-run targets only in qualitative terms. Attached are excerpts from policy records for the meetings of June through October which indicate, by capital letters and strike-throughs, how the texts might have been written in implementation of the Chairman's suggestions. The original records for the June, July, and August meetings have been published and the record for the September meeting is scheduled to be published on December 17, the day on which a further discussion of the content of the policy records is planned. The excerpt shown for the October meeting was taken from the preliminary draft distributed to the Committee on December 10. The excerpts begin with the account of the Committee's policy decision and run through the directive, the report of any dissents, and reports on any subsequent consultations.

The approach employed emphasizes that the Committee's short-run operating guides for the aggregates are in the form of ranges of tolerance (in contrast to specific targets to be interpreted on a hit or miss basis) that it believes are consistent with its longer-run objectives or will result in progress toward achievement of those objectives. When the short-run ranges encompass the longer-run targets, the former are described as being consistent with the latter; when the short-run ranges are above or below the longer-run targets, the short-run rates are described as faster or slower than the longer-run goals.

The few problems encountered were not severe. At the July meeting, the 6-month target adopted for M_1 (3-3/4 per cent) was at the low end of the 2 month range (3-3/4 to 5-3/4 per cent) but the "path" (5-1/4 per cent) was close to the high end. Because the numbers are relatively close to one another, the short-run range was described--in the attached illustration--as being consistent with the longer-run goals.

In the record for the August meeting, the short-run range of tolerance cited for M_2 was high both absolutely and in relation to the range for M_1. To lay a foundation for that fact, a sentence was inserted in the preceding "staff analysis" portion of the record, noting the expected influence of increases in interest rates on time and savings deposits on the growth rate of such deposits. The Regulation Q actions of early July were noted on page 4 of the record for that meeting.

Attachments

The Committee agreed that the economic situation and prospects called for somewhat slower growth in monetary aggregates over the months immediately ahead than appeared indicated for the first half of the year.[1/] A staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate indicated for the second quarter in response to the anticipated moderation in GNP growth, to the sharp rise in short-term interest rates that had occurred in recent months, and to the running down of the deposits that had been built up in association with the unusually large refunds of Federal income taxes in the second quarter. Moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably as a consequence of the recent rise in short-term market interest rates. It was noted, however, that projections of the demand for money were subject to more uncertainty than usual because of the unknown effects of the short-term freeze on prices and the lack of information concerning the elements of the price and wage stabilization program to follow.

The staff analysis also indicated that demands for bank credit were likely to remain strong and that banks probably would continue to add substantial amounts to the outstanding volume of large-denomination CD's. Therefore, a relatively rapid rate of growth in RPD's in the June-July period~~--at an annual rate in a range of 9.5 to 11.5 per cent~~--was projected to be consistent with

1/ It was stated in the published policy record, on page 4, that it "appeared that over the first half of 1973, M_1, M_2, and the credit proxy would grow at annual rates of about 5.5, 7.5, and 13.0 per cent, respectively."

somewhat slower growth in the monetary aggregates over the months immediately ahead than appeared indicated for the first half of the year. The analysis suggested that such a rate of growth in RPD's might be associated with little change in money market conditions but that short- and long-term market interest rates in general might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

~~In view of the rapid monetary expansion in the second quarter and uncertainty about the demand for money in the months ahead, the Committee agreed that the lower end of the range specified for the annual rate of RPD growth in the June-July period should be lower than that projected in the staff analysis. Specifically, the members~~ TAKING ACCOUNT OF THE STAFF ANALYSIS, THE COMMITTEE CONCLUDED THAT PROGRESS TOWARD ITS OBJECTIVE OF SOMEWHAT SLOWER MONETARY GROWTH THAN APPEARED INDICATED FOR THE FIRST HALF OF THE YEAR COULD BE ACHIEVED EVEN IF IN THE SHORT RUN THE AGGREGATES EXPANDED AT SOMEWHAT FASTER RATES THAN DESIRED FOR THE LONGER RUN. FOR THE JUNE-JULY PERIOD THE MEMBERS ADOPTED RANGES OF TOLERANCE OF 4 TO 8 PER CENT AND 5 TO 8 PER CENT FOR THE ANNUAL RATES OF GROWTH IN M_1 AND M_2, RESPECTIVELY, AND THEY decided that operations should be directed at fostering RPD during that period at an annual rate within a range of 8 to 11.5 per cent. ~~They agreed that money market conditions might be permitted to vary somewhat more in the inter-meeting period than had been contemplated at other recent meetings, if such variation appeared indicated in the conduct of operations directed toward achieving RPD growth in~~

~~the-desired-range.~~ THE MEMBERS AGREED THAT IN THE PERIOD UNTIL THE NEXT MEETING THE WEEKLY AVERAGE FEDERAL FUNDS RATE MIGHT BE PERMITTED TO VARY IN AN ORDERLY FASHION FROM AS LOW AS 7-3/4 TO AS HIGH AS 9-1/4 PER CENT--A SOMEWHAT WIDER RANGE THAN SPECIFIED AT OTHER RECENT MEETINGS--IF SUCH VARIATION APPEARED INDICATED IN THE COURSE OF OPERATIONS DIRECTED TOWARD ACHIEVING GROWTH RATES IN THE AGGREGATES WITHIN THE INDICATED RANGES.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments ~~and-of-deviations-in-monetary-growth-from-an acceptable-range~~. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity is slowing in the current quarter from an exceptionally rapid pace in the two preceding quarters. The unemployment rate has remained at 5 per cent. Wage rates have advanced moderately thus far this year, but the rise in both wholesale and retail prices has been exceptionally rapid. On June 13 the President announced that prices will be frozen

for a maximum of 60 days while a new and more effective system of controls is developed. Phase III controls affecting wages, profit margins, dividends, and interest rates remain in effect. In foreign exchange markets, several European currencies have appreciated against the dollar by 7 to 10 per cent since early May. The U.S. merchandise trade balance continued to improve in April, as exports other than agricultural products increased sharply further and imports dipped.

Following relatively slow growth earlier in the year, the narrowly defined money stock rose sharply in May and early June. Growth in consumer-type time and savings deposits changed little, while banks' net sales of large-denomination CD's declined further. On May 16 marginal reserve requirements were imposed on large-denomination CD's and the remaining Regulation Q ceilings on such CD's were suspended. Business loan demands have remained strong, and since mid-May short-term market interest rates have advanced considerably further. Interest rates on long-term market securities in general have risen somewhat. On June 11 Federal Reserve discount rates were raised one-half point to 6-1/2 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with somewhat slower growth in monetary aggregates over the months immediately ahead than appears indicated for the first half of the year.

> Votes for this action: Messrs. Burns, Brimmer, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, Sheehan, Clay, and Debs. Votes against this action: None.
>
> Absent and not voting: Messrs. Balles and Hayes. (Messrs. Clay and Debs voted as alternates for Messrs. Balles and Hayes, respectively.)

Subsequent to the meeting it appeared that in the June-July period the annual rate of growth in RPD's would be above 11.5 per cent and that growth in the monetary aggregates would exceed ~~an acceptable-range~~ THE RANGES OF TOLERANCE, even though ~~money-market conditions~~ THE FEDERAL FUNDS RATE had continued to ~~tighten~~ RISE. On July 6, 1973, a majority of the members concurred in a recommendation by the Chairman that ~~money-market-conditions-should-be permitted-to-tighten-still-further-if-necessary-to-limit-growth in-RPD's~~ THE UPPER LIMIT OF THE RANGE OF TOLERANCE FOR THE WEEKLY AVERAGE FEDERAL FUNDS RATE SHOULD BE RAISED FROM 9-1/4 TO 9-3/4 PER CENT.

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year.[1/] A staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate recorded in the second quarter--in response to the anticipated moderation in GNP growth and to the sharp rise in short-term interest rates that had occurred in recent months. Because of the rise in short-term market rates, moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably despite the increase in rate ceilings announced in early July. As a consequence, it was anticipated that banks would attempt to expand the outstanding volume of large-denomination CD's; the increase in these issues in the July-August period was expected to remain relatively large.

The staff analysis suggested that a relatively rapid rate of growth in RPD's in the July-August period--~~at-an-annual rate-in-a-range-of-11-1/2-to-13-1/2-per-cent~~--would be consistent with slower growth in the monetary aggregates over the months immediately ahead than had occurred in the first half of the year. The analysis also suggested that such a rate of growth in RPD's might be associated with little change in money market conditions

1/ It was stated in the published policy record, on page 4, that, "over the first half of the year, M_1, M_2, and the proxy grew at annual rates of around 6, 7.5, and 14 per cent, respectively."

but that short- and long-term market interest rates in general might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

TAKING ACCOUNT OF THE STAFF ANALYSIS, the Committee CONCLUDED THAT GROWTH IN M_1 AND M_2 OVER THE JULY-AUGUST PERIOD AT AVERAGE ANNUAL RATES WITHIN RANGES OF TOLERANCE OF 3-3/4 TO 5-3/4 PER CENT AMD 4-1/2 TO 6-1/2 PER CENT, RESPECTIVELY, WOULD BE CONSISTENT WITH ITS LONGER-RUN OBJECTIVES FOR THE MONETARY AGGREGATES, AND IT decided that operations should be directed at fostering RPD growth during the July-August period at an annual rate within a range of 11-1/2 to 13-1/2 per cent~~, while avoiding marked changes in money market conditions~~. THE MEMBERS AGREED THAT IN THE PERIOD UNTIL THE NEXT MEETING THE WEEKLY AVERAGE FEDERAL FUNDS RATE MIGHT BE PERMITTED TO VARY IN AN ORDERLY FASHION FROM AS LOW AS 9 TO AS HIGH AS 10-1/2 PER CENT IF NECESSARY IN THE COURSE OF OPERATIONS DIRECTED TOWARD ACHIEVING THE DESIRED GROWTH RATES IN THE AGGREGATES.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments~~,~~ AND of the forthcoming Treasury financing~~, and of deviations in monetary growth from an acceptable range~~. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity moderated in the second quarter from the exceptionally rapid pace of the two preceding quarters. Increases in employment were relatively substantial, however, and in June the unemployment rate dropped below 5 per cent. Wage rates advanced at a faster pace during the second quarter than earlier in the year. In the months immediately preceding the price freeze imposed in mid-June, the rise in prices of both industrial commodities and farm and food products remained extraordinarily rapid.

The U.S. merchandise trade balance worsened in May as import prices rose sharply further, but the trade deficit remained well below the first-quarter average. In foreign exchange markets, the jointly floating continental European currencies rose sharply further against the dollar in early July. After the first week in July, the dollar recovered somewhat on the basis of market expectations of official intervention. On July 10 the Federal Reserve announced substantial increases in its swap arrangements with other central banks.

Both the narrowly and more broadly defined money stock rose sharply in May and June, although inflows of consumer-type time and savings deposits slackened somewhat in the latter month. Expansion in bank credit continued at a substantial pace. Since mid-June both short- and long-term market interest rates have advanced considerably further, with the sharpest increases in the short-term sector. On June 29 increases were announced in Federal Reserve discount rates, from 6-1/2 to 7 per cent, and in member bank reserve requirements; on July 5 ceiling interest rates were increased on time and savings deposits at commercial banks and other thrift institutions.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than occurred on average in the first half of the year.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis.

Absent and not voting: Mr. Mitchell.

Mr. Francis dissented from this action not because he disagreed with the objectives of the policy adopted by the Committee but because he believed that--as had proved to be the case following other recent meetings--the objectives would not be achieved because of the constraint on ~~money-market-conditions~~ THE FEDERAL FUNDS RATE.

Subsequent to the meeting it appeared that in the July-August period the annual rate of growth in RPD's and in the monetary aggregates might exceed ~~acceptable~~ THE SPECIFIED ranges, even though money market conditions had continued to tighten. On August 3, 1973, the available members--with the exception of Messrs. Bucher and Sheehan--concurred in a recommendation by the Chairman that ~~money market-conditions-should-be-permitted-to-tighten-still-further if-necessary-to-limit-growth-in-RPD's~~ THE UPPER LIMIT OF THE RANGE OF TOLERANCE FOR THE WEEKLY AVERAGE FEDERAL FUNDS RATE SHOULD BE RAISED TO 11 FROM 10-1/2 PER CENT.

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average thus far in 1973.[1/] A staff analysis suggested that despite the substantial growth expected in nominal GNP the demand for money in the period ahead would be limited by the sharp rise in short-term interest rates that had occurred in recent months. In the immediate future, moreover, monetary growth was likely to be restricted by a downward adjustment in the public's demand for cash balances in response to the increases in rates paid on time and savings deposits. BECAUSE OF THOSE RATE CHANGES, GROWTH IN M_2 WAS EXPECTED TO BE RAPID RELATIVE TO THAT IN M_1.

The analysis also suggested, however, that business demands for bank loans would remain strong and that banks would continue to expand the outstanding volume of large-denomination CD's at a relatively fast pace. Reflecting the expansion in such CD's and also the imposition in late June of marginal reserve requirements on them, a relatively rapid rate of growth in RPD's in the August-September period~~--at-an-annual-rate-in-a-range-of 13-to-15-per-cent--~~was thought likely to be consistent with slower growth in monetary aggregates over the months immediately ahead.

1/ In the published policy record, on page 4, it was stated that, "over the first 7 months of the year, M_1, M_2, and the proxy grew at annual rates of about 6.0, 7.5, and 13 per cent, respectively."

~~In-view-of-the-rapid-pace-at-which-RPD's-had-grown-in recent-months~~ TAKING ACCOUNT OF THE STAFF ANALYSIS, the Committee CONCLUDED THAT GROWTH IN M_1 AND M_2 OVER THE AUGUST-SEPTEMBER PERIOD AT AVERAGE ANNUAL RATES WITHIN RANGES OF TOLERANCE OF 1 TO 4 PER CENT AND 6-3/4 TO 9-3/4 PER CENT, RESPECTIVELY, WOULD BE CONSISTENT WITH ITS LONGER-RUN OBJECTIVES FOR THE MONETARY AGGREGATES, AND IT decided that open market operations should be directed at fostering RPD growth during the August-September period at an annual rate within a range of 11 to 13 per cent~~,-while-avoiding-marked-changes-in-money market-conditions~~. THE MEMBERS AGREED THAT IN THE PERIOD UNTIL THE NEXT MEETING THE WEEKLY AVERAGE FEDERAL FUNDS RATE MIGHT BE PERMITTED TO VARY IN AN ORDERLY FASHION FROM AS LOW AS 10 PER CENT TO AS HIGH AS 11 PER CENT, IF NECESSARY IN THE COURSE OF OPERATIONS DIRECTED TOWARD ACHIEVING THE DESIRED EXPANSION IN THE AGGREGATES.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments~~,~~ AND of the forthcoming Treasury financing~~, and-of-deviations-in-monetary-growth-from-an-acceptable-range~~. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that growth in real output of goods and services, which slowed in the second quarter from the exceptionally rapid pace of the two preceding quarters, will be moderate in the third quarter. Increases in nonfarm employment also have slowed in recent months, but the unemployment rate has declined. The rate of rise in wage rates has remained relatively moderate. The exceptionally rapid advance in prices was interrupted in July by the temporary freeze imposed in mid-June. However, farm and food prices adjusted sharply upward after mid-July, when the freeze was lifted on most such products. The U.S. merchandise trade balance improved in June, and the balance on goods and services was in surplus in the second quarter for the first time in nearly two years. Since the end of July the dollar has strengthened markedly in foreign exchange markets, and the price of gold has dropped sharply.

Both the narrowly and more broadly defined money stock, which had increased rapidly in May and June, grew more slowly in July. Inflows of consumer-type time and savings deposits strengthened again at banks in late July and early August, while net outflows were experienced at nonbank thrift institutions. Expansion in bank credit has continued at a substantial pace. Since mid-July short-term market interest rates have advanced considerably further on balance. Long-term rates also rose substantially for much of that period, but most recently they have declined in the course of a sharp market rally. On August 13 increases were announced in Federal Reserve discount rates from 7 to 7-1/2 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than has occurred on average thus far this year.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis.
Absent and not voting: Mr. Mitchell.

Mr. Francis dissented from this action, although he agreed with the objectives of the policy adopted by the Committee, because he could not accept the constraint placed on ~~money-market conditions~~ FLUCTUATIONS IN THE FEDERAL FUNDS RATE.

The Committee agreed that the economic situation and prospects called for moderate growth in monetary aggregates over the months ahead. A staff analysis indicated that, although transactions demands for money probably would expand, growth in the money stock in the months ahead was likely to be limited in lagged response to the rise in short-term interest rates that had occurred in recent months. Consequently, achievement of moderate growth in monetary aggregates within an acceptable period of time was likely to require some easing in money market conditions. In the current environment of unusual sensitivity of expectations in financial markets, however, signs that monetary policy was moving toward a significant easing in money market conditions might result in large expectational declines in short-term interest rates and also in further declines in long-term rates, tending to erode the existing degree of monetary restraint.

The staff analysis also indicated that completion of the realignment in consumers' holdings of financial assets--which had been taking place in response to changes in the structure of interest rates--was likely to slow the growth in consumer-type time and savings deposits even if market interest rates declined moderately. It was expected that growth in business loans, although slowing from the exceptionally rapid pace in August, would remain relatively rapid and that banks' demands for funds would continue strong; however, expansion in the outstanding volume of large-denomination CD's

was likely to be tempered by the recent increase in the marginal reserve requirement against such CD's. In large part because of the reserves required against the expanding volume of large-denomination CD's, rapid growth in RPD's in the September-October period--~~at-an-annual-rate-in-a-range-of-15-to-17-per-cent~~--was thought likely to be consistent with moderate growth in the narrowly and the more broadly defined money stock over the months ahead.

~~In-view-of-the-relatively-weak-behavior-of-the-monetary aggregates-in-August-and-prospects-for-limited-expansion-in-the months-immediately-ahead~~ TAKING ACCOUNT OF THE STAFF ANALYSIS, the Committee concluded that ~~reserve-supplying-operations-should-not become-restrictive-unless-RPD's-in-the-September-October-period-appeared to-be-growing-at-an-annual-rate-of-more-than-18-per-cent~~ PROGRESS TOWARD ITS LONGER-RUN OBJECTIVE OF MODERATE MONETARY GROWTH COULD BE ACHIEVED IF THE NARROWLY DEFINED MONEY STOCK EXPANDED AT A SOMEWHAT SLOWER RATE IN THE SHORT RUN THAN DESIRED FOR THE LONGER RUN. FOR THE SEPTEMBER-OCTOBER PERIOD, THE MEMBERS ADOPTED A RANGE OF TOLERANCE OF 0 TO 4 PER CENT FOR THE ANNUAL RATE OF GROWTH IN M_1. THE CORRESPONDING RANGE FOR M_2 WAS 5 TO 8 PER CENT. ~~Specifically,-the-Committee~~ IN LIGHT OF THE SUBSTANTIAL VOLUME OF RESERVES THAT WOULD BE REQUIRED TO SUPPORT THE EXPECTED EXPANSION IN LARGE-DENOMINATION CD'S, THEY decided that operations should be directed at fostering RPD growth during that period within a range of 15 to 18 per cent~~,-while-taking account-of-deviations-in-monetary-growth-from-an-acceptable-range~~

~~and avoiding unduly sharp changes in money market conditions.~~ ~~Although~~ The members recognized that pursuit of the objective for ~~RPD's~~ THE AGGREGATES might be associated with some easing in money market conditions, AND THEY AGREED THAT THE WEEKLY AVERAGE FEDERAL FUNDS RATE IN THE PERIOD UNTIL THE NEXT MEETING MIGHT BE PERMITTED TO VARY IN AN ORDERLY FASHION FROM AS LOW AS 9-3/4 TO AS HIGH AS 10-3/4 PER CENT. HOWEVER, a number of ~~them~~ MEMBERS cautioned against the risk of generating market impressions that monetary restraint was being relaxed significantly, and ~~it~~ THE COMMITTEE ~~was~~ agreed that~~, in the conduct of operations,~~ account should be taken of domestic financial market developments IN THE PROCESS OF MAKING OPERATING DECISIONS.

As at other recent meetings, the Committee also agreed that account should be taken of international financial market developments. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that growth in real output of goods and services, which slowed in the second quarter from the exceptionally rapid pace of the two preceding quarters, will be moderate in the third quarter. Although nonfarm employment rose sharply in August, the average gain in recent months has been smaller than earlier and the unemployment rate has changed little at a level somewhat below 5 per cent. The exceptionally rapid advance in prices was interrupted in July by the temporary freeze imposed in mid-June. However, farm and food prices surged after mid-July--when the freeze was lifted on most such products--and despite later appreciable declines, they remained far above pre-freeze levels. The U.S. merchandise trade balance improved further in July, and net foreign purchases of U.S. stocks increased. In recent weeks exchange rates for the dollar against most foreign currencies have changed little on balance after strengthening in the first half of August, and the balance of payments has been in surplus on an official settlements basis.

The narrowly defined money stock, which had increased moderately in July, declined somewhat in August. The more broadly defined money stock continued to expand as a result of net inflows at banks of consumer-type time deposits. Nonbank thrift institutions experienced net deposit outflows in the July-August period. Expansion in bank credit has continued at a substantial pace. On September 7 the Federal Reserve announced an increase from 8 to 11 per cent in marginal reserve requirements on large-denomination CD's. Interest rates on long-term market securities declined from early August to early September, partly because of growing expectations that the maximum degree of monetary restraint had been reached. Later, however, such expectations weakened and some long-term rates turned up. Short-term rates generally remained under upward pressure in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a sustainable rate of advance in economic activity, and continued progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Balles, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, Sheehan, and Debs. Votes against this action: None.

Absent and not voting: Messrs. Brimmer and Hayes. (Mr. Debs voted as alternate for Mr. Hayes.)

On October 1 the System Account Manager reported that significant inconsistencies had developed among the Committee's various objectives and constraints. Incoming data had suggested that in the September-October period the annual rates of growth in RPD's, M_1, AND M_2 would fall ~~well~~ below the ~~range~~ RANGES specified by the Committee at the September 18 meeting ~~and that growth in both M_1 and M_2 would fall short of acceptable ranges~~. In domestic financial markets, however, short-term interest rates had dropped sharply--although the Federal funds rate had remained close to 10-3/4 per cent--and long-term rates had continued to decline as many market participants had become convinced that the System had relaxed its policy of restraint and that in general interest rate peaks had been passed.

The Committee held a telephone meeting on October 2, in which all members other than Chairman Burns participated. A minority of the members--Messrs. Balles, Bucher, Francis, Morris, and Sheehan--favored proceeding to provide reserves at a rate consistent with ~~an easing in money market conditions to the degree considered~~ A PROGRESSIVE REDUCTION OF THE WEEKLY AVERAGE FEDERAL FUNDS RATE WITHIN THE 9-3/4 TO 10-3/4 RANGE ~~acceptable~~ SPECIFIED at the meeting on September 18, provided that market conditions did not become disorderly and that growth in the aggregates appeared to remain below acceptable ranges. The majority of the members, however, concluded that at least over the next few days ~~money market conditions should be allowed to ease less than originally considered acceptable~~ RESERVES SHOULD BE PROVIDED AT A RATE CONSIDERED LIKELY TO BE CONSISTENT WITH AN AVERAGE FUNDS RATE OF 10-1/2 PER CENT and then only if that did not threaten to reinvigorate the sharp rally in markets for short-term securities. It was understood that further consultation was likely to be desirable before the meeting scheduled for October 16.

The Committee held another telephone meeting on October 10, in which all members participated. The additional week's data available by then suggested that in the September-October period growth in RPD's and the monetary aggregates would be still weaker than had been expected earlier. Although System operations had supplied large amounts of reserves and short-term market interest rates had declined further on balance, the Federal funds rate on most days through October 8 had remained near 10-3/4 per cent. Committee members agreed unanimously that reserves should be supplied at a ~~rate~~ PACE consistent INITIALLY with ~~some-easing in-money-market-conditions-beyond-that-decided-upon-on-October-2 and-that-conditions-should-be-eased-somewhat-further~~ AN AVERAGE FEDERAL FUNDS RATE OF 10-1/4 PER CENT, AND LATER--if the recent weakness in RPD's and in the monetary aggregates should be confirmed by data that would become available after the meeting--AT A PACE CONSISTENT WITH A FUNDS RATE OF 10 PER CENT.

At this meeting the Committee agreed that the economic situation and prospects continued to call for moderate growth in monetary aggregates over the months ahead. A staff analysis indicated that, although the transactions demand for money would probably expand, the sharp rise in short-term interest rates that had occurred through early September would tend to dampen the demand for money in the months ahead. Consequently, achievement of moderate growth in monetary aggregates was likely to require some easing in money market conditions.

The staff analysis also indicated that growth of consumer-type time and savings deposits was likely to strengthen and that expansion in the outstanding volume of large-denomination CD's would be resumed in response to moderate growth in business loan demand. However, because of the recent weakness in the aggregates in combination with lagged reserve accounting, relatively slow growth in RPD's in the October-November period--~~at an annual rate in a range of 2 to 4 per cent~~--was thought likely to be consistent with moderate growth in both the narrowly defined and the more broadly defined money stock over the months ahead.

~~In view of the weak behavior of the monetary aggregates in August and September~~ TAKING ACCOUNT OF THE STAFF ANALYSIS, the Committee concluded that ~~reserve-supplying operations should not become restrictive unless RPD's in the October-November period appeared to be growing at an annual rate of more than 5 per cent~~

PROGRESS TOWARD ITS LONGER-RUN OBJECTIVE OF MODERATE MONETARY GROWTH COULD BE ACHIEVED IF THE AGGREGATES EXPANDED AT SOMEWHAT SLOWER RATES IN THE SHORT RUN. ~~Specifically,-the-members~~ FOR THE OCTOBER-NOVEMBER PERIOD, THEREFORE, THE MEMBERS ADOPTED RANGES OF TOLERANCE OF 1 TO 4 PER CENT AND 5 TO 8 PER CENT FOR THE ANNUAL RATES OF GROWTH IN M_1 AND M_2, RESPECTIVELY, AND THEY decided that operations should be directed at fostering RPD growth during that period within a range of 2 to 5 per cent~~,-while-avoiding-unduly-sharp changes-in-money-market-conditions~~. THE MEMBERS AGREED THAT IN THE PERIOD UNTIL THE NEXT MEETING THE WEEKLY AVERAGE FEDERAL FUNDS RATE MIGHT BE PERMITTED TO VARY IN AN ORDERLY FASHION FROM AS LOW AS 9-1/4 TO AS HIGH AS 10-1/4 PER CENT IF NECESSARY IN THE COURSE OF OPERATIONS DIRECTED TOWARD ACHIEVING THE DESIRED GROWTH RATES IN THE AGGREGATES.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments~~,~~ AND of the forthcoming Treasury financing~~, and-of-deviations-in-monetary-growth-from-an-acceptable-range~~. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that growth in real output of goods and services in the fourth quarter is likely to remain at about the moderate rate indicated for the third quarter. In recent months manufacturing employment has leveled off and total nonfarm employment has expanded less rapidly than earlier; the unemployment rate has remained at 4.8 per cent. The advance in wage rates has been somewhat faster than earlier. In September wholesale prices of industrial commodities rose appreciably; farm and food prices declined, but by far less than they had risen in August. The U.S. merchandise trade balance weakened slightly in August. Net foreign purchases of U.S. stocks continued large, however, and the balance of payments on an official settlements basis was in surplus in both August and September. Exchange rates for the dollar against most foreign currencies have changed little since mid-August.

The narrowly defined money stock, which had risen sharply during the second quarter, declined in September for the second successive month. The more broadly defined money stock expanded slightly in September as a result of net inflows at banks of consumer-type time deposits. The deposit experience at nonbank thrift institutions improved somewhat in September following a period of sizable outflows. Bank credit--which had been expanding rapidly--increased little as business loan growth slowed markedly, and after mid-September the outstanding volume of large-denomination CD's declined substantially. Short-term market interest rates fell sharply from mid-September to early October, partly as a result of a shift in market expectations regarding monetary policy, and rates on long-term market securities declined moderately further.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a sustainable rate of advance in economic activity, and continued progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, and Sheehan. Votes against this action: None.