



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

April 3, 1974

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Arthur L. Broida *ALB*

Attached is a staff memorandum dated today and entitled "Background material for contemplated discussion of desirability of publishing longer-run targets in policy record."

As noted in the memorandum, this discussion will be scheduled for the session of the April FOMC meeting to be held on Monday afternoon, April 15, 1974. It is expected that the meeting will begin at 4 p.m. Copies of the agenda will be distributed during the week preceding the meeting.

Attachment

CONFIDENTIAL (FR)

April 3, 1974

To: Federal Open Market Committee      Subject: Background material for  
From: The Staff                              discussion of desirability of publishing  
longer-run targets in policy record

As agreed at the FOMC meeting on March 19, 1974, a discussion will be scheduled for Monday afternoon, April 15, of the kinds of information, if any, on the Committee's longer-run targets for the monetary aggregates that might be included in the policy records. The Committee last considered this subject in December 1973, in connection with a more general discussion of the extent to which quantitative information on targets--both short- and long-run--should be published.

This memorandum has been prepared to provide background information for the contemplated discussion. It summarizes the December discussion and sets forth some alternatives that the Committee might wish to consider at this time.

Summary of December discussion

The deliberations late last year were based on (1) the report of the Subcommittee on Policy Records, dated October 11, 1973, and (2) a memorandum from Chairman Burns, dated November 15, 1973. The Subcommittee was divided on the question of whether the Committee's targets should be shown in the policy records in quantitative form: two members said yes for both longer-run targets and short-run ranges of tolerance; one said yes for the former and no for the latter; and one said no for both. In his memorandum Chairman Burns expressed the

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view that it would be a serious mistake to include quantitative information on the longer-run targets, partly for the following reason: "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."

The memorandum concluded with the view that ". . .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."

At the December meeting, the preferences expressed by participants in the initial "go-around" were highly varied. Arguments were advanced for publishing quantitative information in the policy records for all targets; for none; for longer-run targets only; and for

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short-run ranges of tolerance only. Some suggested publishing longer-run targets with a 6-month lag, to meet the problem the Chairman had noted; others proposed issuing some type of supplementary annual publication that would include target information (ranging in the several proposals from illustrative to complete) excluded from the policy records. Some, including the Chairman, suggested that the Committee proceed cautiously, by taking an initial step with respect to short-run ranges of tolerance and, after some experience had been gained, considering whether to take a further step with respect to the longer-run targets.

At the conclusion of the discussion the Committee agreed that, beginning with the policy record for the January 1974 meeting, the Committee's short-run ranges of tolerance should be reported in numerical form and the longer-run targets should be described in qualitative terms.

It might be noted that one of the directive alternatives submitted by the staff for Committee consideration at the January meeting called for "growth in monetary aggregates over the months ahead at about the rates that prevailed over the past 12 months." It was observed in the course of the discussion that such directive language would implicitly disclose the Committee's longer-run targets, and thus could be viewed as inconsistent with the decision taken in December. A similar observation was made at the March meeting with respect to a proposal for directive language calling for "growth in

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the monetary aggregates over the quarters ahead at a somewhat slower rate than achieved over the past year."

Possible courses at this point

Listed below are four possible courses with respect to disclosure of information on longer-run targets which the Committee might wish to consider in its April 15 discussion.

1. Holding to the decision taken in December, in the expectation that the whole subject of publication of target information will be reviewed after some experience is accumulated under the procedures agreed upon then. (The first policy record prepared on the new basis, that for the January meeting, will be released on April 22.) It could be argued in support of this alternative that there have been no developments since December to cause the Committee to reverse a considered decision.

2. Setting aside the December decision, and agreeing that longer-run targets, as well as short-run ranges of tolerance, shall be published in numerical form in policy records beginning, say, with that for the February meeting. Adoption of this alternative presumably would be on the grounds that the December decision was a mistaken one.

3. Holding to the December decision, but agreeing not to exclude directives calling for growth in monetary aggregates over the months ahead at "faster (slower)" or "somewhat faster (slower)" rates

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than experienced in some specified past period. (Some convention relating to terms might be agreed upon internally--e.g., that the word "somewhat" would be used only when the target growth rates were within 2 percentage points of the rates in the historical period cited.) It could be argued that this alternative would reduce the risks of undesirable market effects to an acceptable level, since it would not involve explicit or implicit disclosure of the precise numerical targets or even the identity of the target measures, and since the period to which the targets applied would be stated in general terms ("over the months ahead"). At the same time, the language would give at least some general impression, albeit imprecise, of the direction and broad thrust of monetary objectives.

4. Proceeding as in (3), but also agreeing not to exclude directives calling for growth in monetary aggregates at rates "about the same as" those in some historical period. This alternative would be somewhat more forthcoming about the nature of the longer-run targets. On the other hand, the language could be interpreted more precisely than that under (3), and therefore would involve greater risks of undesirable market effects.