



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20531

NOV 3 1977

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

In the letters of October 19 addressed to members of the Federal Open Market Committee, you asked for their estimates of the rate of growth in real GNP and the rate of change in prices over the year ending with the third quarter of 1978, and for their estimates of the level of employment and the unemployment rate at the end of that period. This letter represents a joint response agreed upon by the members of the FOMC.

Questions concerning projections by the FOMC of GNP, prices, and employment have been raised repeatedly in recent years during Congressional hearings at which I and other members of the Federal Reserve have testified. Our response has consistently been that while our staff makes systematic numerical projections of such variables, the FOMC itself does not do so, nor do its individual members. We see no advantage in undertaking such formal arithmetical exercises. However, when requested to do so at Congressional hearings, I have presented in numerical terms my personal estimates of probable future developments in GNP, employment, and so on.

As I mentioned in a colloquy with you during hearings on the conduct of monetary policy in November 1975, "You in the Congress deal with fiscal policy, which is a very clumsy, awkward instrument. We at the Federal Reserve deal with monetary policy, which we can adjust within a month, within a day, and even within an hour. For our purposes, precise forecasts are not necessary; if we see we are not on the track we'd like to be on, we can shift course. That's much more difficult for the Congress...."

The Honorable William Proxmire

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The members of the FOMC, of course, always strive for a monetary policy that will contribute constructively to the satisfactory performance of our economy. In the course of their monthly deliberations they express at some length their views about the economic outlook, and in so doing they take such account as they deem proper of the quantitative projections prepared by the staff of the FOMC as well as by others, both within and outside the Federal Reserve System. At the October 18th meeting, when the members decided on growth ranges for the monetary aggregates for the year ending with the third quarter of 1978, they followed their usual practice of discussing the outlook for the economy at some length. Also as usual, they made no attempt to arrive at systematic numerical projections of GNP, prices, or employment.

As you know, about a month after each FOMC meeting we publish a report, entitled "Record of Policy Actions," which contains a full description, in analytical form, of the FOMC's discussion of the economic outlook and of its deliberations on monetary policy. The report for the October meeting, which is now in preparation, will be released on November 18. In view of the interest you have expressed in the FOMC members' views about prospects for the economy, we will be pleased to send you--shortly before my testimony on November 9 at the Senate Banking Committee hearings--the portion of the October report which records the discussion of the economic outlook. At those hearings I will, of course, announce the Committee's presently projected growth ranges for the monetary aggregates in the year ahead. The conclusions the Committee reached with respect to short-run policy will be made public on November 18, when the full report is released.

I trust that these arrangements will be agreeable to you.

Sincerely yours,

() Arthur F. Burns

Arthur F. Burns

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20516

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October 19, 1977

The Honorable Arthur F. Burns
Chairman, Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Chairman Burns:

Last May I asked each member of the Federal Open Market Committee to respond to questions I raised about the expected growth of the velocity of M-1 and M-2. I also asked whether goals for money stock growth would be adjusted if velocity growth did not proceed to meet the expectations expressed.

During the past six months, the growth of M-1 and M-2 has been substantially higher than the ranges of tolerance specified by the Federal Open Market Committee and velocity has been lower than might have been expected based on the experience of the last few years. These changes underscore the uncertainty between money and GNP. They also indicate, at least implicitly, that strict adherence to money growth targets previously specified could create very serious problems for the economy and that the distinction between short and long run growth of the monetary aggregates must be recognized. At this juncture, it is critically important that monetary policy decisions are "commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

As you know, the Committee on Banking, Housing and Urban Affairs is responsible for oversight and review of monetary policy decisions of the Board of Governors and the Federal Open Market Committee and for reporting its findings to the Senate. The Committee will hold three days of hearings on the conduct of monetary policy pursuant to House Concurrent Resolution 133 beginning on November 9. The adequacy of the monetary policy objectives and plans to be presented to the Committee by you on November 9 can only be judged against the expected effects that that policy will have on the growth of real GNP, employment and prices.

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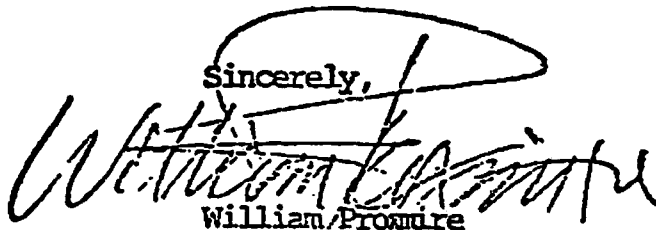
Dr. Burns has, in the past, given the Committee his own estimates of the levels of real growth, inflation and unemployment that are consistent with the FOMC's monetary growth targets. In order for the Committee to exercise its oversight responsibilities, we also need to know the estimates that each member of the FOMC has for these economic variables that are consistent with the monetary and credit aggregate objectives approved for the upcoming period. Accordingly, I am asking you and each of the other members of the Federal Open Market Committee to respond directly to the following questions:

1. What are your estimates for the rate of growth of real GNP for the year ending September 30, 1978, that is, third quarter 1977 to third quarter 1978.
2. What are your estimates for the level of employment and the rate of unemployment by the end of the third quarter of 1978.
3. What are your estimates for the rate of change in prices for the year ending September 30, 1978, that is third quarter 1977 to third quarter 1978 as measured by the implicit GNP deflator.

I am sure that you have given considerable thought to questions such as these in preparation for the FOMC meeting that was held on October 18. Therefore, I would hope that you can reply without delay and that we will receive your responses at least one week before the beginning of the Committee's hearings on the conduct of monetary policy.

All best wishes.

Sincerely,



William Proxmire
Chairman