



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

June 7, 1978

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida (1-3)

Attached is a memorandum from the staff dated today and entitled "Proposed modification of directive language."

This memorandum will be considered by the Committee at its forthcoming meeting.

Attachment

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2. It allows (in lines 25-30) for alternative formulations ("monetary aggregates" and "money market"), in view of the issue raised by President Black.

3. The phrase, "including the conditions in foreign exchange markets" has been deleted (from line 15) in light of the Committee's decision to delete the corresponding phrase from the directive adopted in May.

4. In lines 12-13, the earlier language ("In the short run, the Committee seeks to foster money market conditions....") has been replaced by the following: "In the short run, the Committee seeks to achieve bank reserve and money market conditions...." The word "achieve" is suggested instead of "foster" to avoid repetition of the latter rather unusual word, which is employed in line 2. The addition of a reference to "bank reserve" conditions is suggested in light of the facts that the Federal funds rate is of significance mainly as an indicator of the pressure on bank reserves and that the Manager affects the funds rate through operations to absorb or supply reserves.

5. In lines 14-15, the phrase "...while taking account of more general financial market conditions" has been replaced by "...while giving due regard to developing conditions in financial markets more generally." This change is suggested in the interest of clarity.

6. In lines 2-3, it is proposed to use the phrase "...to foster monetary and financial conditions..." rather than "...to foster bank reserve and other financial conditions..." for the purpose of describing the Committee's general policy stance. The former appears to be clearer and incidentally avoids repetition (with line 12) of the term "bank reserve."

Attachments

Attachment A

Current proposal

June 7, 1978

Suggested substitute for final four paragraphs of domestic policy directive

1 In light of the foregoing developments, it is the policy of
2 the Federal Open Market Committee to foster monetary and financial
3 conditions that will resist inflationary pressures while encouraging
4 continued moderate economic expansion and contributing to a sustainable
5 pattern of international transactions. At its meeting on April 18,
6 1978, the Committee agreed that these objectives would be furthered by
7 growth of M-1, M-2, and M-3 from the first quarter of 1978 to the
8 first quarter of 1979 at rates within ranges of 4 to 6½ per cent, 6½ to
9 9 per cent, and 7½ to 10 per cent, respectively. The associated range
10 for bank credit is 7½ to 10½ per cent. These ranges are subject to
11 reconsideration at any time as conditions warrant.

12 In the short run, the Committee seeks to achieve bank reserve
13 and money market conditions that are consistent with the longer-run
14 ranges for monetary aggregates cited above, while giving due regard
15 to developing conditions in financial markets more generally. During
16 the period until the next regular meeting, System open market operations
17 shall be directed initially at keeping the weekly average Federal funds
18 rate at about the current level.^{1/} Subsequently, operations shall
19 be directed at maintaining the weekly Federal funds rate within the
20 range of ____ to ____ per cent. In deciding on his specific objective
21 for the Federal funds rate the Manager shall be guided mainly by the
22 relationship between the latest estimates of annual rates of growth

^{1/} Or, at attaining a weekly average Federal funds rate slightly (or somewhat) above (or below) the current level.

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23 in the June-July period of M-1 and M-2 and the following ranges of
24 tolerance: _____ to _____ per cent for M-1 and _____ to _____ per
25 cent for M-2. If, giving approximately equal weight to M-1 and M-2,
26 their rates of growth appear to be

Monetary aggregates emphasis

27 significantly above or below the midpoints

Money market emphasis

28 close to or beyond the upper or lower limits

29 of the indicated ranges, the objective for the funds rate shall be
30 raised or lowered in an orderly fashion within its range.

31 If the rates of growth in the aggregates appear to be above
32 the upper limit or below the lower limit of the indicated ranges at a
33 time when the objective for the funds rate has already been moved
34 to the corresponding limit of its range, the Manager is promptly to
35 notify the Chairman who will then decide whether the situation calls
36 for supplementary instructions from the Committee.

Attachment B

Chairman Miller's
Proposal of May 11, 1978

Suggested substitute for final four paragraphs of domestic policy directive

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster bank reserve and other financial conditions that will resist inflationary pressures while encouraging continued moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on April 18, 1978, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the first quarter of 1978 to the first quarter of 1979 at rates within ranges of 4 to 6-1/2 per cent, 6-1/2 to 9 per cent, and 7-1/2 to 10 per cent, respectively. The associated range for bank credit is 7-1/2 to 10-1/2 per cent. These ranges are subject to reconsideration at any time as conditions warrant.

In the short run, the Committee seeks to foster money market conditions that are consistent with the longer-run ranges for monetary aggregates cited above, while taking account of more general financial market conditions, including the conditions in foreign exchange markets. During the period until the next regular meeting, System open market operations shall be directed initially at keeping the weekly average Federal funds rate at about the current level.^{1/} Subsequently, operations shall be directed at maintaining the weekly Federal funds rate within the range of _____ to _____ per cent. The specific level of the

^{1/} Or, at attaining a weekly average Federal funds rate slightly (or somewhat) above (or below) the current level.

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Federal funds rate sought shall be influenced by the relationship between the latest estimates of annual rates of growth in the May-June period of M-1 and M-2 and the following ranges: _____ to _____ per cent for M-1 and _____ to _____ per cent for M-2. For this purpose, M-1 and M-2 shall be given approximately equal weight.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.