



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

TO: Federal Open Market Committee

DATE: September 25, 1991

FROM: Governor Kelley

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SUBJECT: Survey of Views on  
Intermeeting Adjustment  
Sentence

The members were closely divided in their preferences between alternative I and alternative II in my memorandum of August 30, and only two favored alternative III. However, a number of members expressed an interest in formally reviewing the intermeeting sentence at least yearly.

In view of this result, I propose that the Committee take up this question again at the December meeting, which seems a natural time for an annual review. In the interim, staff and I will try to develop alternative language that combines elements of alternative I and alternative II. I would like to invite comments from any members who have not communicated the reasons for their preference or who might wish to add to their earlier comments.

There is attached a summary of the views that have been forwarded thus far.

Attachment

# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## DIVISION OF MONETARY AFFAIRS

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**Date:** September 25, 1991  
**To:** Governor Kelley  
**From:** Normand Bernard *NB*  
**Subject:** Summary of Views on Intermeeting Adjustment Sentence in Operational Paragraph.

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With Chairman Greenspan reserving his vote at this point, 7 members have indicated a preference for alternative I and 7 for alternative II. Alternative III attracted only 2 votes, with one additional member listing it as a second choice and another expressing "strong" reservations.

### COMMENTS ON INDIVIDUAL ALTERNATIVES

Alternative I: "Retain current list but review formally once each year . . . and make changes at other times when major developments clearly call for new instructions."

One member stressed that this alternative appropriately provides somewhat more information to the public. Another referred to it as a tool that can be used to signal changes in the emphasis of short-run policy. One member who favored this alternative argued that a shift to alternative II and especially to alternative III could be viewed by markets, the Administration, and Congress as an attempt to reduce Federal

Reserve accountability through increased secretiveness. A shift also could be viewed as an indication that the Committee is split and unable to reach a consensus on the factors that should guide intermeeting adjustments.

One member proposed a simplified version of alternative I that would list the Committee's long-run objectives first and second and place the financial informational variables in the third category. The proposed rewording is intended at least in part to reduce the problem of the relative ranking of factors:

"Depending upon progress toward price stability, trends in economic activity, and developments in the monetary aggregates and financial markets, somewhat. . . ."

Alternative II: "Adopt new language on factors guiding intermeeting adjustments keyed to the Committee's long-run objectives and sufficiently general to apply in most circumstances without raising issues about the relative ranking of these factors."<sup>1</sup>

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1. The following specific suggestion was made: "In the context of the Committee's long-run objectives for price stability and sustainable economic growth, somewhat greater reserve restraint or somewhat lesser reserve restraint would/might be acceptable in the intermeeting period, depending on developments in the economy and financial markets, including the behavior of the monetary aggregates."

An advantage cited in favor of this alternative is that it would highlight the Committee's long-term objectives and distinguish them from short-run operational considerations. In one view, changes in the order of the factors under the current procedure may reinforce a perception that the Committee is trading off one objective for another. The result may be a tendency to undermine the credibility of the System's long-run anti-inflationary goal. On the other hand, one member opted for alternative II because in practice the Committee for a number of reasons has not actively reviewed and considered changes in the ordering of the factors intended to guide possible intermeeting adjustments to policy.

Alternative III: "Eliminate the listing of factors from the directive and use the policy record to explain the considerations that reflect the Committee's guidance from meeting to meeting with regard to possible intermeeting adjustments."

The two members who preferred this alternative did not indicate their reasons. However, one stressed that in the event of a development of overriding importance to the conduct of monetary policy, an appropriate sentence or phrase could be added to the operational paragraph.