

OCT 10 1968
September 24, 1968

Chairman Martin

The FOMC Current Economic

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Policy Directive Revisited

In 1964 a committee of the FOMC was created in order to propose improvements in the directive. As a result of that study, major progress has been made in the policy statement and the directive.

The time appears ripe once again to create a subcommittee charged with re-examining the directive and its background data so that the form of the directive and the level of debate leading up to it may be improved. There has been a turn-over of half the Committee since that earlier discussion ended four years ago. A re-examination at this time would aid in making continued progress possible. It would also help the newer members by making clearer the concepts which are now embraced in the directive and policy statement.

The data, analysis, and projections made available to the Committee have improved steadily. The Green Book contains short-run forecasts of the GNP, prices, and employment. The chart shows contain annual forecasts under certain alternative assumptions. The Blue Book contains short-run monetary projections with quite explicit statements of the expected relationships among money market and marginal reserve conditions, short-term interest rates, growth in reserves, the money supply, and the credit proxy. The staff briefings give some indications of possible intermediate movements.

While considerable progress has been made, a review of the memoranda of discussion and the policy records show that gaps still exist. The major problem area seems to be in what the previous subcommittee labeled as information concerning the Committee's "policy intent" or what others have called "the intermediate-term objectives of Committee policy."

While policy statements and the surrounding discussions vary, most show but slight attention to any specifications of either over-all policy objectives or the Committee's aims for monetary variables in any intermediate period. The major exception is in the normal inclusion of two or three formula-type phrases, such as "resist inflationary pressures" or "aid in progress toward balance of payments equilibrium," at the end of the first paragraph of the directive.

This is in sharp contrast to the former subcommittee's recommendations. They felt that the Committee's discussion and policy record should include possible ranges for intermediate target variables of monetary policy such as reserves, bank credit, and the money supply. They

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To: Chairman Martin

-2-

September 24, 1968

stressed the advantages of explaining the selected ranges for these variables in light of the expected and desired movements of other magnitudes such as GNP and employment; expectations of inflationary and deflationary forces; the projected supply and demand for credit; the balance of payments; and interest rates.

A major task for the proposed subcommittee would be to see how expressions of the policy intent could be improved. Several possibilities exist. The Committee could agree on its broader policy goals periodically with changes in the goals being altered as a result of specific debate such as now takes place with respect to money market conditions. At the same time, the Blue Book could include projected levels of the intermediate monetary variables consistent with the particular short-run policy alternatives. With a range of intermediate variables available for debate, the Committee's intent regarding them could appear in the policy record by use of expressions of views similar to those now included for the more immediate money market conditions.

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