

The FOMC in 1976: Progress Against Inflation

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THE primary objective of monetary policy in 1976 was to reduce inflationary pressures while sustaining the recovery which began in early 1975. The monetary authorities expressed concern that, in an inflationary environment such as prevailed in late-1975 and early-1976, attempts to quicken the pace of economic recovery through stimulative policy actions could yield undesirable results. As expressed by Chairman Burns in February,

Recent experience . . . suggests that once inflation has become ingrained in the thinking of a nation's businessmen and consumers, highly expansionist monetary and fiscal policies do not have their intended effect . . . they may lead to larger precautionary savings and sluggish consumer buying.¹

Thus, with the pace of inflation a major concern, the monetary authorities began the year with “. . . the firm intention of staying with a course of moderation in monetary policy.”²

On balance, over 1976 the money stock (M_1) grew 5.5 percent, a rate that was “moderate,” at least by comparison with the growth rates of money experienced since the early 1970s. The growth rate of money did not sharply reaccelerate this second year of economic recovery, as it had in some previous recovery periods. When the money stock accelerated sharply, as in April and May, the Federal Open Market Committee (FOMC) adopted a more restrictive policy and the growth of M_1 fell back. Associated with this policy were falling interest rates and strong growth of deposits at thrift institutions. There was no increase in the trend growth of money—the major influence on the trend growth of prices—and the stage was set for a possible reduction in the trend growth of M_1 in 1977.

In 1976, for the second consecutive year, the FOMC publicly announced longer-run ranges for the major monetary aggregates, M_1 , M_2 , and M_3 . The policy of announcing longer-run ranges was begun in early 1975 at the request of Congress as expressed in House

NOTE: Unless otherwise stated citations throughout this paper are from either the “Record of Policy Actions of the Federal Open Market Committee” or “Statements to Congress,” Federal Reserve *Bulletin* (February 1976-February 1977).

¹“Statements” (March 1976), p. 233.

²Arthur F. Burns, “Statements” (February 1976), p. 112.

Concurrent Resolution 133 passed on March 24, 1975. This resolution requested that the Board of Governors consult with Committees of the Congress on a quarterly basis with respect to its objectives and plans for the ranges of growth of the monetary aggregates over the next twelve months.³

During 1976 Chairman Burns met with Congressional Committees at about 90 day intervals to present the intended longer-run growth rates for the monetary aggregates that had been decided upon at the FOMC meeting about 15 days earlier. These yearly ranges were based on the quarterly average for the most recent quarter to the quarterly average for one year in the future. The Federal Reserve repeatedly emphasized that targets of this nature must be subject to review and administered with flexibility.

The FOMC in 1976 also decided to release its short-run operating targets for the monetary aggregates and the Federal funds rate with a shorter delay than had previously been the case. The “Record of Policy Actions” for each FOMC meeting contains the short-run operating targets for the monetary aggregates and the Federal funds rate. From mid-1967 to early 1975 there had been a delay of about 90 days in releasing the “Record” for each FOMC meeting. In early 1975 this interval was shortened to 45 days. At the May 18, 1976 FOMC meeting the Committee voted to release this record with a delay of only about a month.

The extent to which the Federal Reserve was holding the growth of the aggregates within the announced longer-run ranges was subject to very close scrutiny by Congress and the public. Whereas in previous years the behavior of M_1 was considered significant by some, in 1976 almost every financial report and the bulk of Congressional testimony was devoted to movements in M_1 relative to the ranges announced by the FOMC.

This article reviews the operation of the FOMC during this second year of announced longer-run ranges of growth for monetary aggregates. A Supplement at the end of the article presents a detailed meeting-by-meeting summary of FOMC decisions.

³See Nancy Jianakoplos, “The FOMC in 1975: Announcing Monetary Targets,” this *Review* (March 1976), pp. 9-10.

Table I

**FOMC Operating Ranges
1975-1976**

Short-Run Tolerance Ranges¹

Date of Meeting	Federal Funds Rate	RPD ²	Period to which M1 & M2 Ranges Apply	Ranges Specified		Actual Growth Rates	
				M1	M2	M1	M2
December 16, 1975	4½-5½%	4-7%	Dec.-Jan.	4-7%	7-10%	6.8%	11.0%
January 20, 1976	4¼-5	2-7	Jan.-Feb.	4-9	7-11½	4.1	12.6
February 17-18, 1976	4¼-5¼	(-½)-(-4½)	Feb.-Mar.	5-9	9-13	5.7	11.0
March 15-16, 1976	4¼-5¼	(-2)-(+2)	Mar.-Apr.	4-8	7-11	10.1	11.0
April 20, 1976	4½-5¼		Apr.-May	4½-8½	8-12	10.9	11.5
May 18, 1976	5-5¾		May-June	4-7½	5-9	2.8	6.6
June 22, 1976	5¼-5¾		June-July	3½-7½	6-10	3.0	8.2
July 19-20, 1976	4¾-5¾		July-Aug.	4-8	7½-11½	6.1	10.6
August 17, 1976	5-5½		Aug.-Sept.	4-8	7½-11½	3.1	9.6
September 21, 1976	4¾-5½		Sept.-Oct.	4-8	8-12	7.4	13.0
October 19, 1976	4½-5¼		Oct.-Nov.	5-9	9-13	6.8	13.0
November 16, 1976	4½-5¼		Nov.-Dec.	3-7	9½-13½	4.1	11.4
December 20-21, 1976	4¼-5		Dec.-Jan.	2½-6½	9-13	6.8	11.0

Longer-Run Tolerance Ranges³

Date Announced	Target Period	M1	M2	M3	Credit Proxy ⁴
November 4, 1975	III/75-III/76	5-7½%	7½-10½%	9-12%	6-9%
February 3, 1976	IV/75-IV/76	4½-7½	7½-10½	9-12	6-9
May 3, 1976	I/76-I/77	4½-7	7½-10	9-12	6-9
July 27, 1976	II/76-II/77	4½-7	7½-9½	9-11	5-8
November 11, 1976	III/76-III/77	4½-6½	7½-10	9-11½	5-8

¹Short-run tolerance ranges were adopted at each of the FOMC's regularly scheduled meetings. The ranges for the monetary and reserve aggregates were specified in terms of two-month simple annual rates of change from the month prior to the meeting at which the ranges were established to the month following the meeting. The ranges for the Federal funds rate were specified to cover the period from the meeting at which the ranges were adopted to the following regularly scheduled meeting. Short-run ranges were made available in the "Record of Policy Actions of the Federal Open Market Committee" approximately 30 days after each meeting.

²At a special meeting held on March 29, 1976, the Committee reached the understanding that several reserve aggregates (including nonborrowed reserves, total reserves, and "monetary base" — total reserves plus currency) should be considered in formulating their instructions to the Manager of the System Open Market Account. Hence, the Committee agreed to no longer specify expected growth rates for reserves available to support private nonbank deposits (RPD's).

³Chairman of the Federal Reserve Board Arthur F. Burns announced intended growth rates of monetary aggregates over the indicated one year periods in statements presented before Congressional Committees at intervals of approximately 90 days.

⁴Daily average member bank deposits, adjusted to include funds from nondeposit sources.

Aggregate Targets

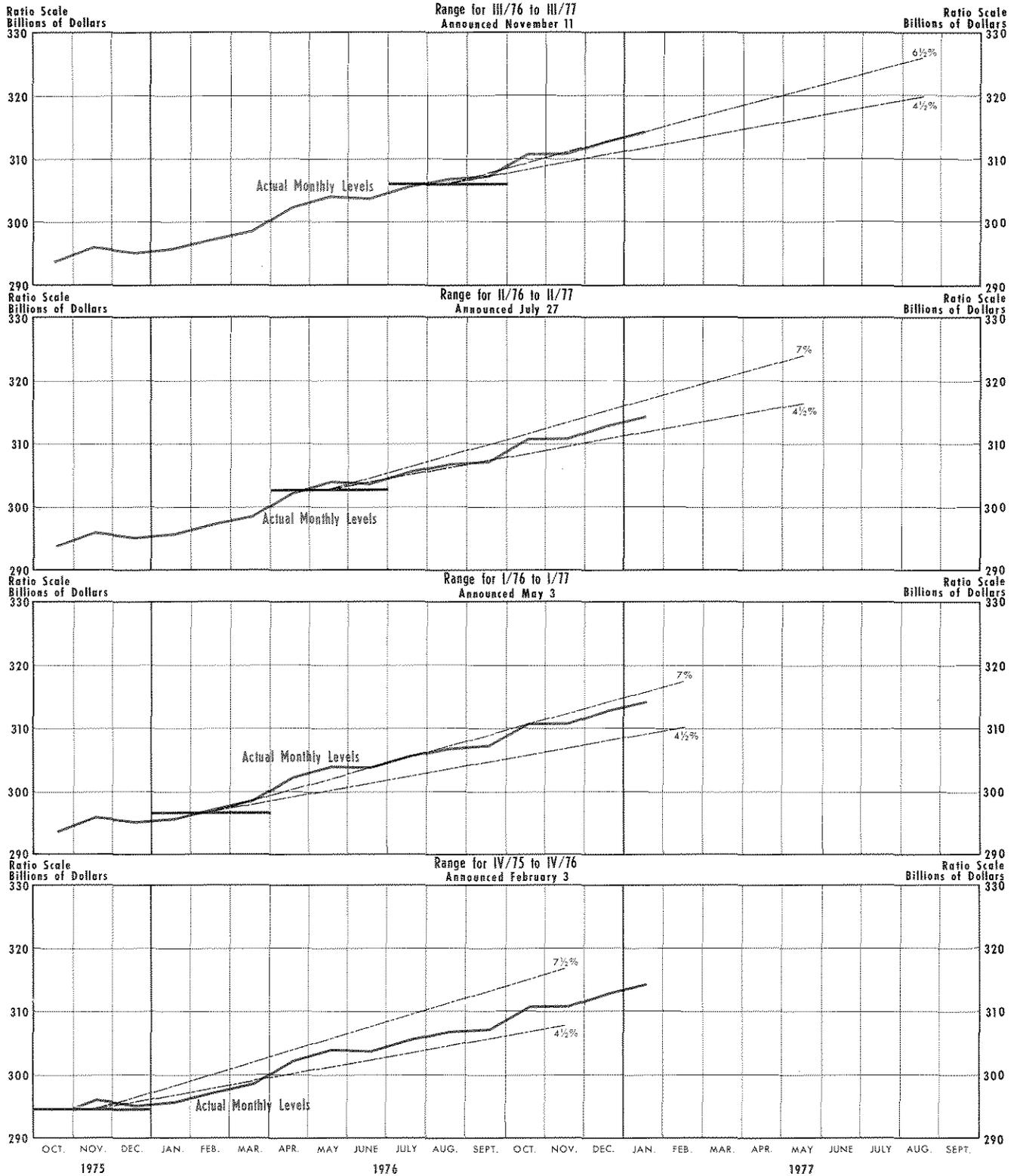
The FOMC decided upon both longer-run and short-run ranges for the monetary aggregates. These ranges for 1976 are presented in Table I, and the longer-run ranges are shown graphically in Chart I. The longer-run ranges cover a period of one year, stretching from the most recent quarter to the corresponding quarter one year in the future. These longer-run ranges were reviewed by the FOMC at the end of each quarter, and were subject to modification at any time based on new information about the likely course of the economy. Therefore, as members of the FOMC have repeatedly pointed out, the FOMC does not consider itself "locked in" to previously announced growth ranges for the whole year

period. Monetary targets are expressed as ranges, rather than single numbers.

Once basic decisions have been made about rates of money growth, problems arise concerning the manner of specifying the targets. There is the choice between a single number and a range. A single number virtually guarantees a miss but by virtue of that fact also provides a reasonable excuse for missing. The uncompromising character of a single-number target, however, is also more apt to provoke controversy. A target range is easier to hit but, by the same token, a miss may be more severely criticized. At the same time, a range is likely to be less controversial because it is less specific.⁴

⁴Henry C. Wallich, "Innovations in Monetary Policy" (paper presented at the Southern Economic Association meeting, Atlanta, Georgia, November 18, 1976), p. 7.

Chart 1
 Twelve-Month M_1 Tolerance Ranges Announced During 1976



Note: The longer-run ranges and actual M_1 levels represent the most current seasonally adjusted monthly data.

The FOMC also chooses short-run ranges for the monetary aggregates that are thought to be consistent with longer-run ranges. These short-run ranges are specified over moving 2-month periods. For example at the January meeting the FOMC specified short-run operating targets for the 2-month period January - February. Then at the February meeting, new targets were set for the February - March period. Also, at each monthly meeting the FOMC sets desired ranges for the Federal funds rate that cover the period until the next meeting. The funds rate range is chosen to be broadly consistent with the short-run ranges for the aggregates. On a meeting-to-meeting basis, control of the funds rate becomes the primary operating objective of the Trading Desk.

Longer-Run Ranges — The FOMC began 1976 operating with longer-run ranges of 5 - 7½ percent for M₁ and 7½ - 10½ percent for M₂. These ranges, which had been announced in November 1975, covered the period from third quarter 1975 to third quarter 1976. At its January meeting the FOMC reviewed its longer-run ranges and decided to reduce the lower range in M₁ growth from 5 to 4½ percent for the period from fourth quarter 1975 to fourth quarter 1976. After announcing the new longer-run range to Congress, Chairman Burns further stated that “. . . the growth rates of money and credit presently desired by the Federal Reserve cannot be maintained indefinitely without running a serious risk of releasing new inflationary pressures.”⁵

Throughout 1976 the FOMC's longer-run ranges for M₁ growth were further reduced. In the first quarter of 1976 M₁ grew at only a 2.9 percent annual rate, considerably below the lower range of 4½ percent. However, real output growth had been very strong in the first quarter and staff projections indicated that prices would rise more rapidly during the remainder of the year. At the April meeting,

It was stressed during the discussion that the rate of growth in M1 needed to accommodate a good economic recovery had been overestimated earlier: Although M1 growth in the past two quarters had fallen short of the lower limit of the range that had been specified by the Committee, it obviously had been sufficient to accommodate a strong recovery.⁶

Therefore, the FOMC voted to reduce the upper range on growth of M₁ from 7½ to 7 percent.

It was noted that the recovery in economic activity had been under way for 1 year and that the end of

the new period for the growth ranges would fall 2 years after the recession trough. Moreover, the recovery recently had gained strength. Accordingly, it was observed that this might be an opportune time for the Committee to take a small step toward its longer-range objective of returning growth in the monetary aggregates toward rates consistent with general price stability.⁷

Although real output growth slowed substantially in the second quarter of 1976, the FOMC decided at its July meeting to retain its longer-run ranges for money growth. In reaching the decision to maintain the previous one-year range for M₁, the Committee noted that even with the second quarter slowing in the rate of economic expansion, real output had increased at about a 7 percent annual rate over the first half of the year. “A staff analysis of the economic outlook suggested that the advance in business activity would soon improve from the relatively slow pace of recent months.”⁸ Staff projections suggested a “moderately rapid pace” for output growth over the next two quarters, and favorable prospects for “. . . continuation of a good rate of expansion in real output into 1977.”⁹ Since the outlook for economic activity was generally viewed as favorable, there was some sentiment among members of the FOMC to lower the longer-run range for M₁. However, the Committee concluded that

. . . this did not appear to be an appropriate time to reduce the [longer-run target] range [for M1 growth] in view of the recent hesitation in the course of the economic expansion.¹⁰

During the third quarter the FOMC continued to be satisfied with the pace of economic activity and expected a halt to the temporary “pause” and some pick up in the growth of real output later in 1976. At the Committee's August meeting,

Staff projections continued to suggest that real GNP would expand at a moderate pace in the current quarter and that moderate growth in output would continue well into 1977.

Staff projections for the second half of 1976 differed little from those of 4 weeks earlier; they continued to suggest that the slackening in economic growth in recent months would prove to be temporary.

In general, Committee members felt that the pace of expansion in over-all economic activity would soon pick up again.¹¹

⁷Ibid., pp. 516-17.

⁸“Record” (September 1976), p. 776.

⁹Ibid., p. 774.

¹⁰Ibid., p. 781.

¹¹“Record” (October 1976), pp. 837, 839-40, and 844.

⁵“Statements” (February 1976), pp. 124-25.

⁶“Record” (June 1976), p. 517.

EXHIBIT I
FOMC ECONOMIC POLICY DIRECTIVES — 1976

<u>Date of FOMC Meeting</u>	<u>Policy Consensus</u>	<u>Operating Instructions</u>	<u>Dissents</u>
January 20	. . . to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.	. . . while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.	None
February 17-18	No Change	No Change	None Absent and not voting: Mr. Gardner.
March 15-16	No Change	. . . while taking account of developments in domestic financial markets and the sensitive state of foreign exchange markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.	None
April 20	No Change	. . . while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.	None Absent and not voting: Mr. Holland.
May 18	No Change	No Change	Mr. Coldwell dissented because he did not want to provide for the possibility of a rise of as much as 1/2 percentage point in the Federal funds rate . . . in his opinion, a further rise of that amount could have an exaggerated effect on expectations in the financial markets, provoking excessive increases in interest rates.
June 22	. . . to foster financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.	No Change	None Absent and not voting: Mr. Kimbrel. (Mr. Baughman voted as alternate for Mr. Kimbrel.)

July 19-20	No Change	No Change	Mr. Volker dissented from this action because in the present circumstances he would not wish to raise or lower the Federal funds rate by as much as 1/2 of a percentage point — a change that might be interpreted as a strong signal of a change in policy and that could have repercussions in financial markets — in response merely to short-term fluctuations in the monetary aggregates that might well prove transient.
August 17	No Change	. . . while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.	None Absent and not voting: Mr. Balles. (Mr. Guffey voted as alternate for Mr. Balles.)
September 21	No Change	. . . while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.	None Absent and not voting: Mr. Partee
October 19	No Change	No Change	None
November 16	No Change	No Change	None Absent and not voting: Mr. Balles. (Mr. Guffey voted as an alternate for Mr. Balles.)
December 20-21	No Change	. . . while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.	None

This view was again expressed by the FOMC in September:

Staff projections suggested that growth in real GNP would pick up somewhat in the fourth quarter and would remain at a good rate well into 1977.

Staff projections for the period through the second quarter of 1977 suggested that growth in real output of goods and services would be at a somewhat higher rate than in the second and third quarters of 1976.

During the Committee's discussion of the economic situation at this meeting no member expressed substantial disagreement with the staff projection of stronger growth in real GNP over the quarters immediately ahead.¹²

At the October 19 FOMC meeting the preliminary estimates of growth in real GNP showed a further slowing to about a 4 percent rate in the third quarter of 1976 from the 4.5 rate recorded in the second quarter. The FOMC, although somewhat concerned about the slower than anticipated growth of real GNP, expected some improvement in real output growth in the future and retained their serious concern about inflation.

Staff projections continued to suggest that growth in real GNP would pick up somewhat in the fourth quarter and would be sustained at about the fourth-quarter rate well into 1977.

No member suggested that a decline in economic activity was likely, but some of the members expressed concern that the rate of growth in coming quarters would not achieve a sufficient reduction in unemployment. Serious concern was also expressed by various members about the persistence of a high rate of inflation.¹³

At the October meeting the longer-run ranges were discussed, but since it would be 23 days before Chairman Burns testified before Congress, the FOMC decided to postpone its decision on the appropriate ranges from third quarter 1976 to third quarter 1977 until early November. On November 8 the Committee held a telephone conference meeting where it was decided to lower the upper range on M_1 from 7 to 6½ percent. The Committee decided that such a range ". . . would provide ample scope for faster monetary growth, while still seeking a gradual return to general price stability."¹⁴ Consequently, the FOMC was operating at the end of 1976 with an upper target boundary for M_1 growth that was one full percentage point lower than at the end of 1975.

¹²"Record" (November 1976), pp. 916, 919, and 922.

¹³"Record" (December 1976), pp. 1019 and 1025.

¹⁴Ibid., p. 1031.

The FOMC also made some downward adjustments in its target ranges for the broader monetary aggregate M_2 . These adjustments were less marked than those in the M_1 ranges. The lower band of the M_2 range was left unchanged at 7½ percent throughout 1976. The upper band was reduced at the April meeting by ½ percentage point, and then was further reduced by ½ percentage point at the July meeting. However, in November when the upper band of the M_1 target range was lowered, the upper band on the M_2 range was raised ½ percentage point. This upward adjustment in the M_2 target range was made because:

Expansion in the types of time and savings deposits included in the broader aggregates had been larger than expected mainly because short-term market interest rates had proved to be lower than anticipated while rates offered by bank and nonbank thrift institutions had remained generally at regulatory ceilings. Under such circumstances, it was observed, it would be appropriate to accommodate higher rates of growth in M_2 and M_3 than contemplated in July, if they should develop.¹⁵

Short-Run Ranges — At each of its monthly meetings the FOMC decided upon short-run ranges for M_1 , M_2 , and the Federal funds rate that were thought to be consistent with the longer-run goals of policy. Because of the sharp month-to-month variation in the growth rates of the monetary aggregates, the FOMC has (1) stated its short-run objectives in terms of average growth rates over two-month periods and (2) specified much wider short-run ranges for the growth rates of the aggregates than longer-run ranges. The two-month periods cover the month in which the meeting is held and the following month. The short-run ranges, as shown in Table I, were usually about 4 percentage points in width.

The short-run implementation of policy remained, as it had been in the past, keyed to control of the Federal funds rate.

The Federal Reserve policy strategy is based in large part on the monetary aggregates, but its short-run tactical instrument is the Federal funds rate. Under the funds rate approach, the Federal Reserve estimates the level of short-term interest rates, including the funds rate, at which the public, given projections of income, will want to hold the amount of money the Federal Reserve intends to supply. Then reserves are supplied in an amount that will maintain that level of the funds rate, and that will cause the banks to generate the targeted amount of money.¹⁶

¹⁵Ibid., pp. 1031-32.

¹⁶Wallich, "Innovations in Monetary Policy," p. 12.

Organization of the Committee in 1976

The Federal Open Market Committee (FOMC) consists of the seven members of the Federal Reserve Board of Governors and five of the twelve Federal Reserve Presidents. The Chairman of the Board of Governors is also, by tradition, Chairman of the Committee. The President of the New York Federal Reserve Bank is a permanent member of the Committee and, also by tradition, its Vice Chairman. All other Federal Reserve Bank Presidents attend the meetings and present their views, but only the four Presidents who are members of the Committee may cast votes. These four memberships rotate among the Bank Presidents and are held for one-year terms beginning March 1.

Members of the Board of Governors in 1976 included Chairman Arthur F. Burns, Vice Chairman Stephen S. Gardner, Philip E. Coldwell, Philip C. Jackson, Jr., David M. Lilly, J. Charles Partee, and Henry C. Wallich. Mr. Gardner succeeded George W. Mitchell, whose term expired January 31, as Vice Chairman of the Committee effective February 13. Mr. Lilly assumed his duties June 1, replacing Robert C. Holland who resigned effective May 15. In addition to Paul A. Volcker, President of the Federal Reserve Bank of New York, the following Presidents served on the Committee during January and February 1976: Ernest T. Baughman (Dallas), David P. Eastburn (Philadelphia), Bruce K. MacLaury (Minneapolis), and Robert P. Mayo (Chicago). In March the Committee was reorganized and the four rotating positions were filled by: John J. Balles (San Francisco), Robert P. Black (Richmond), Monroe Kimbrel (Atlanta), and Willis J. Winn (Cleveland).

The Committee met regularly once each month during 1976 to discuss, among other things, economic trends and to decide upon the future course of open market operations.¹ However, as in previous years, occasional telephone or telegram consultations were held between scheduled meetings.² During each regularly scheduled meeting, a directive was issued to the Federal Reserve Bank of New York stating the general economic goals of the Committee and providing general guidelines as to how the Manager of the System Open Market Account at the New York Federal Reserve Bank should conduct open market operations to achieve these goals. Each directive contained a short review of economic developments and the general economic goals sought by the Committee. The last paragraph gave operating instructions to the Account Manager. These instructions were stated in terms of bank reserve and money market conditions which were considered consistent with the achievement of

desired growth rates of monetary aggregates. Special factors, such as Treasury financing operations, were also taken into account.

Decisions regarding the exact timing and amount of daily buying and selling of securities in fulfilling the Committee's directive are the responsibility of the System Open Market Account Manager at the Trading Desk of the New York Bank. Each morning, the Account Manager and his staff decide on a plan for open market operations to be undertaken that day. In developing this plan, money and credit market conditions and aggregate targets desired by the Committee are considered, as well as other factors which may be of concern at the time. Each morning, the Account Manager, in a conference call, informs one voting President and staff members of the Board of Governors about present market conditions and open market operations which he proposes to execute that day. Other members of the Committee are informed of the daily program by wire summary.

A summary of the Committee's actions is presented to the public in the "Record of Policy Actions of the Federal Open Market Committee." Following the Committee's decision at the May 18, 1976 meeting, the "Record" was released approximately 30 days after each meeting, beginning with the "Record" of the April 20, 1976 meeting. Soon after it is released, the "Record" appears in the Federal Reserve *Bulletin* and, in addition, "Records" for the entire year are published in the *Annual Report of the Board of Governors*. The "Record" for each meeting during 1976 generally included:

- 1) a staff summary of recent economic developments, such as prices, employment, industrial production, and components of the national income accounts; projections concerning real output growth for two or three quarters ahead; and prospective financial developments;
- 2) a discussion of recent international financial developments and the U. S. foreign trade balance;
- 3) a discussion of credit market conditions and recent interest rate movements;
- 4) a discussion of open market operations, the growth of monetary aggregates, and bank reserve and money market conditions since the previous meeting;
- 5) a discussion of current policy considerations, including money market conditions and the movements of monetary aggregates;
- 6) conclusions of the FOMC;
- 7) a policy directive issued by the Committee to the Federal Reserve Bank of New York;
- 8) a list of the members' voting positions and any dissenting comments;
- 9) a description of any actions and consultations that may have occurred between the regularly scheduled meetings.

¹The Committee held a special meeting on March 29, 1976 for the purpose of reappraising the methods employed in formulating and implementing the directives issued to the Manager of the System Open Market Account.

²On November 8, 1976 the Committee held a telephone meeting for the purpose of establishing monetary aggregate growth ranges over the year ending third quarter 1977.

Periodically during 1976 primary importance was assigned to control of the Federal funds rate as an operating target. For example, money market conditions received primary emphasis at the January, August, and December meetings:

In view of the current uncertainties regarding the behavior of the monetary aggregates, many members advocated that the Committee continue to give greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting and that it specify 2-month ranges of tolerance for growth in the monetary aggregates that were wider than usual.¹⁷

Most members favored directing operations toward maintaining about the current Federal funds rate. Accordingly, they preferred to give more weight than usual to money market conditions in formulating the operating instructions contained in the last paragraph of the domestic policy directive, and they advocated specifying a relatively narrow range for the Federal funds rate centered on the prevailing rate of 5¼ per cent.¹⁸

Most members favored giving greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting, in part because projections of growth in monetary aggregates around the year-end were highly uncertain.¹⁹

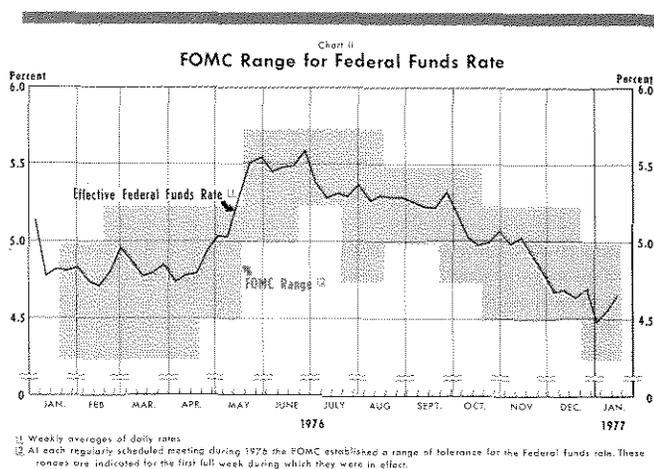
As shown in Chart II and Table I, the Federal Reserve in 1976 consistently held the Federal funds rate within its short-run target ranges, usually at about the mid-point of the target ranges. Even though the two-month growth targets for the aggregates were specified with wide ranges, the actual growth rates of the aggregates were frequently above or below the specified ranges, as shown in Chart III. However, as noted at the January meeting, "It was . . . understood [by the FOMC] that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods."²⁰ At each meeting the FOMC reviewed the short-run behavior of the aggregates relative to their expected behavior. When the aggregates were growing above their expected ranges, the FOMC in 1976 generally raised its short-run specification for the Federal funds rate. For example, the growth of M_1 accelerated rapidly in April and May. At the April meeting the FOMC voted to raise the lower band on the funds rate by 25 basis points.

¹⁷"Record" (March 1976), p. 243.

¹⁸"Record" (October 1976), p. 845.

¹⁹"Record" (February 1977), p. 137.

²⁰"Record" (March 1976), p. 243.



In view of their assessment that the pace of economic expansion would be relatively strong, most members favored directing operations in the period immediately ahead toward restraining growth of the monetary aggregates within ranges not very much higher than the longer-run ranges agreed upon at this meeting and indicated that they would tolerate some modest firming in money market conditions. It was observed that some firming in money market conditions in this period would reduce the likelihood of excessive monetary growth in subsequent months.²¹

Then at the May 18 meeting,

The members agreed that growth in monetary aggregates recently had been at unacceptably high rates, especially in view of the longer-run ranges for growth that had been adopted at the preceding meeting.

. . . to sustain confidence it was important for the System to demonstrate its intention to resist unduly rapid growth in the monetary aggregates; and that pursuit of that objective would run little or no risk of aborting the recovery in economic activity.

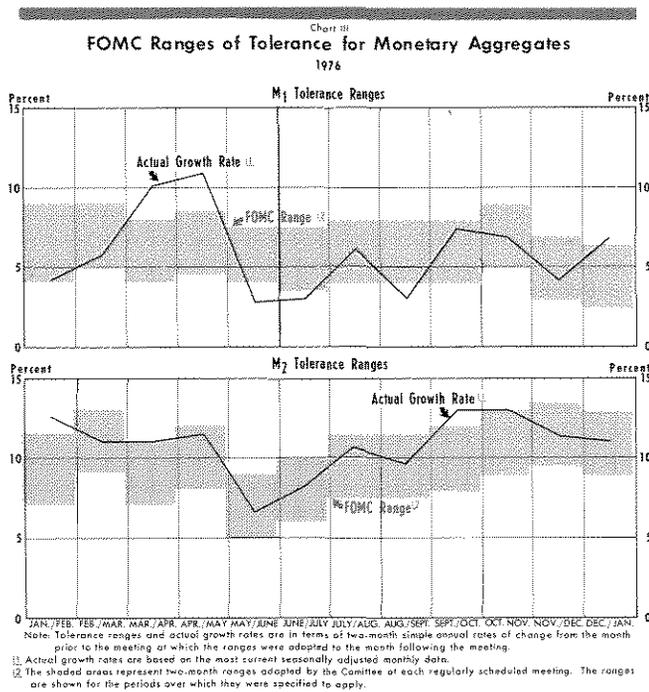
In general, Committee members favored directing operations in the period immediately ahead toward moderating growth of the monetary aggregates, and they indicated that in pursuit of that end they would accept some modest further firming in money market conditions.²²

Consequently, the FOMC adopted a Federal funds rate range of 5-5¼ percent, compared to the 4½ - 5¼ percent range adopted in April.

Mr. Coldwell dissented from the Committee's decision at the May meeting to raise the Federal funds rate range by ½ percent. An increase in the funds rate of as much as ½ percent over the next inter-meeting

²¹"Record" (June 1976), p. 518.

²²"Record" (July 1976), pp. 586-87.



gates, the Desk was initially directed to aim for a 4% percent funds rate. This was later raised to 5 percent as there appeared evidence of renewed strength in the aggregates.

At the November FOMC meeting it appeared that real output was currently expanding at an even slower rate than the 4 percent preliminary estimate for the third quarter. Members of the FOMC were generally agreed that the pause in real output growth was still in force. The Committee was concerned that near-term real output growth would not be adequate to make any progress toward reducing the unemployment rate. Consequently, the FOMC decided to ease money market conditions at the November meeting.

In the discussion of current policy at this meeting, members of the Committee in general favored some easing in money market conditions in the period immediately ahead, so long as growth in the monetary aggregates did not appear to be unduly rapid.²⁵

System operations were conducted pursuant to the Committee's decision that the Manager should aim to reduce the Federal funds rate to about 4 7/8 per cent within the first week after the meeting and to 4 3/4 per cent within the following week — provided that growth in the monetary aggregates did not appear to be strong relative to the specified ranges.²⁶

In November and early December the projections for the growth of M₁ and M₂ over the November-December period were revised downward. By early December it appeared that M₁ growth might fall below its lower short-run target band. The Desk became "somewhat more accommodative in the provision of reserves" and by the time of the December 20 FOMC meeting the Federal funds rate was at about 4 5/8 percent.

Summary and Conclusions

The FOMC began 1976 with the firm intention of avoiding a reacceleration of inflation while continuing to encourage economic recovery. In pursuit of this policy, throughout the year the FOMC moved to gradually reduce its longer-run ranges for the growth rate of the money stock (M₁). Although these ranges were reduced, the actual growth rate of the money stock was only reduced slightly, compared to its rate during the first three quarters of the current economic recovery. M₁, which had grown at a 5.6 percent rate from the first quarter of 1975 to the fourth quarter of 1975,

period, in Mr. Coldwell's opinion, "... could have an exaggerated effect on expectations in the financial markets, provoking excessive increases in interest rates."²³

As the summer progressed it became evident that money growth was low relative to the short-run targets. The Desk operated in early July to reduce the Federal funds rate to its lower band of 5 1/4 percent established at the June FOMC meeting. At the July FOMC meeting the lower band on the funds rate was lowered 1/2 percentage point to 4 3/4 percent.

Mr. Volker dissented from the Committee's action at this meeting. In his view, allowing a change in the Federal funds rate of as much as 1/2 percentage point in response to short-run variations in monetary aggregates "... might be interpreted as a strong signal of a change in policy and that could have repercussions in financial markets. . . ."²⁴

The gradual reduction in the Federal funds rate continued throughout the rest of 1976. By the end of the year the range on the Federal funds rate had been reduced to 4 1/4 to 5 percent. At the August FOMC meeting the Desk was directed to aim for a funds rate of 5 1/4 percent, and this directive was continued at the September meeting. At the October meeting, in view of the slow growth of the monetary aggregates,

²³Ibid., p. 589.

²⁴"Record" (September 1976), p. 786.

²⁵"Record" (January 1977), p. 23.

²⁶"Record" (February 1977), p. 133.

continued to grow at the same rate over the first two quarters of 1976. Over the last half of 1976, the growth of money was reduced slightly to 5.4 percent. Although the actual growth rate of money was hardly

reduced over 1976, relative to its past trend of about 6 percent it grew at a somewhat slower rate. By thus avoiding a reacceleration in money growth the FOMC made a first step toward reducing inflation.

SUPPLEMENT

FOMC Decisions in 1976

This supplement consists of selected excerpts from the "Record of Policy Actions" for each of the FOMC meetings in 1976. The excerpts are selected to highlight key factors influencing FOMC decisions. They include analyses of current and projected economic developments, discussions of current policy actions, and long- and short-run operating instructions issued by the FOMC to the Trading Desk. The full text of each "Record of Policy Actions" appears in issues of the Federal Reserve *Bulletin*.

Meeting Held on January 20, 1976

Staff projections suggested that growth in output would moderate somewhat further in the first half of 1976 and that the rate of increase in prices would change little.

System open market operations in the inter-meeting period had been guided by the Committee's decision to maintain the bank reserve and money market conditions prevailing at the time of the December meeting, provided that monetary aggregates appeared to be growing at about the rates then expected. Data that became available week by week after the December meeting suggested that in the December-January period M1 and M2 would grow at rates below the lower limits of the ranges of tolerance that had been specified by the Committee. Accordingly, near the end of December, the System began to direct operations toward some easing in bank reserve and money market conditions. By January 12 the Federal funds rate had declined from the neighborhood of 5¼ per cent — the level prevailing at the time of the December meeting — to an area of 4¾ to 4⅞ per cent.

Subsequently, a majority of Committee members concurred in Chairman Burns' recommendation of January 12 that the Manager be instructed to hold the weekly-average Federal funds rate at the approximate level of 4¾ per cent until the time of this meeting.

. . . part of the fourth-quarter shortfall in growth of M1 appeared to be attributable to a decline in the

demand for checking deposits, especially because of the shift in business deposits from demand accounts to savings accounts. Businesses were expected to continue to substitute savings accounts for demand deposits over the year ahead, although at a slower pace than in recent weeks. For that reason, and also because of other indications that demand deposits were being used more efficiently, the Committee decided to reduce the lower limit of the longer-run range specified for M1 from 5 per cent to 4½ per cent.

The ranges specified for M2 and M3 . . . were unchanged from those adopted in October.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that for the period immediately ahead uncertainty about the behavior of the demand for money was greater than usual.

In view of the current uncertainties regarding the behavior of the monetary aggregates, many members advocated that the Committee continue to give greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting and that it specify 2-month ranges of tolerance for growth in the monetary aggregates that were wider than usual. Some members preferred to give greater emphasis to variations in the behavior of the monetary aggregates relative to expectations, and the suggestion was also made that more weight be given to the behavior of M2 relative to that of M1 than had been the case in the past.

Meeting Held on February 17-18, 1976

Staff projections for the second quarter of this year suggested that growth in output would remain moderate and that the rate of increase in prices would change little.

Staff projections for the first half of 1976 suggested that growth in real output would be somewhat stronger than had been suggested 4 weeks earlier.

System open market operations in the inter-meeting period had been guided by the Committee's

decision to maintain the bank reserve and money market conditions prevailing at the time of the January meeting, provided that monetary aggregates appeared to be growing at about the rates then expected. Data that became available week by week suggested that in the January-February period M1 would grow at a rate near the lower limit of the range of tolerance that had been specified by the Committee but that M2 would grow at a rate near the upper limit of its range of tolerance. Therefore, operations were directed toward maintaining the Federal funds rate close to $4\frac{3}{4}$ per cent, the level prevailing at the time of the January meeting.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the period immediately ahead transactions demands for money — at current levels of short-term interest rates — might be expected to pick up in association with expansion in economic activity.

During the discussion it was noted that the economic situation and outlook had improved in recent weeks, and almost all Committee members indicated that they favored essentially no change in policy.

Meeting Held on March 15-16, 1976

Staff projections for the second quarter of 1976 were similar to those of 4 weeks earlier.

System open market operations in the inter-meeting period had been guided by the Committee's decision that open market operations should be directed toward maintaining the bank reserve and money market conditions prevailing at the time of the February meeting — characterized by a Federal funds rate of about $4\frac{3}{4}$ per cent — provided that monetary aggregates appeared to be growing at about the rates then expected.

Data that became available near the end of February suggested that both M1 and M2 were growing faster than had been expected, and open market operations permitted a slight firming in bank reserve and money market conditions. However, data that became available toward the end of the first week in March suggested that the monetary aggregates were growing at rates closer to those that had been originally expected, and money market conditions eased.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the period immediately ahead transactions demands for money — at current levels of short-term interest rates — might be expected to increase in association with expansion in nominal GNP; in view of recent experience, however, the analysis also suggested that the increase might be less than would be expected on the basis of historical relationships.

During the discussion it was noted that the recovery in economic activity had remained orderly, that liquidity had improved, and that the outlook for

activity was satisfactory — although inflation remained a problem. Against that background, Committee members indicated that they favored essentially no change in policy.

Meeting Held on April 20, 1976

Staff projections for the remaining quarters of this year suggested that growth in output would be moderate and that the rise in prices would be above the relatively low first-quarter pace.

System open market operations since the March 15-16 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Data that became available week by week during the inter-meeting period suggested that in the March-April period M1 and M2 would grow at rates near the midpoints of the ranges that had been specified by the Committee. Accordingly, System operations were directed toward maintaining conditions of reserve availability consistent with a Federal funds rate of about $4\frac{3}{4}$ per cent — the rate prevailing at the time of the March meeting and the midpoint of the operating range that the Committee had specified for the inter-meeting period.

During the discussion, the view was expressed that an appreciable tightening in money market conditions in the period immediately ahead would be premature. . . .

. . . financial markets were particularly sensitive at this time, and any appreciable tightening in money market conditions could have a substantial effect on short-term interest rates and could adversely affect flows of time and savings deposits at both banks and nonbank thrift institutions.

Meeting Held on May 18, 1976

Staff projections suggested that growth in real output was continuing at a vigorous, although slightly less rapid, pace in the current quarter and that it was likely to be more moderate in the second half of the year. The projections also suggested that the rise in prices would be above the relatively low first-quarter rate.

Immediately after the April meeting the System became less accommodative in the provision of reserves. Operations were directed toward achieving conditions of reserve availability consistent with a Federal funds rate of $4\frac{7}{8}$ per cent — the midpoint of the $4\frac{1}{2}$ to $5\frac{1}{4}$ per cent operating range that the Committee had specified for the inter-meeting period and $\frac{1}{8}$ percentage point above the rate prevailing at the time of the April meeting.

Data that had become available soon after that meeting and in each subsequent week suggested that in the April-May period growth in M1 and M2 would be strong relative to the ranges that had been specified by the Committee. Accordingly, the System

gradually became still less accommodative in the provision of reserves. By the end of the inter-meeting period the Federal funds rate was around 5¼ per cent, the upper limit of the specified range. . . .

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that over the May-June period the rate of growth in M1 was likely to subside from the rapid pace in April. . . .

During the Committee's discussion, it was observed that the recovery in economic activity had proceeded in a satisfactory way, although the rate of unemployment remained high and re-intensification of inflationary pressures was a serious threat.

Altogether, the outlook for economic activity was strong; to some members of the Committee, it appeared stronger than suggested by the staff projections.

The members agreed that growth in monetary aggregates recently had been at unacceptably high rates. . . .

It was observed that the moderate monetary policy that the System had been pursuing had contributed to a return of confidence; that to sustain confidence it was important for the System to demonstrate its intention to resist unduly rapid growth in the monetary aggregates; and that pursuit of that objective would run little or no risk of aborting the recovery in economic activity.

Meeting Held on June 22, 1976

Staff projections suggested that during the second half of the year real GNP would expand at a good pace and that prices would continue to rise somewhat faster than they had in the first quarter.

A staff analysis of the economic situation indicated that the economic expansion had slowed somewhat more in the second quarter than had been anticipated a month earlier. . . .

Immediately following the May meeting, the System had become a little less accommodative in the provision of reserves, as it aimed at reserve conditions consistent with a Federal funds rate averaging around 5% per cent.

Data becoming available in the latter part of May suggested that the May-June rates of growth in both M1 and M2 would be near the upper ends of the Committee's ranges of tolerance. Accordingly, the System sought reserve conditions consistent with a Federal funds rate of about 5½ per cent.

. . . the Committee took note of a staff analysis suggesting that. . . growth in M1 would be influenced by increasing demands for money associated with expansion in nominal GNP, but that the rise in June was likely to be somewhat smaller than in July because of continuing adjustments of cash balances built up during the April bulge in money growth.

During the Committee's policy discussion, it was observed that the apparent moderation in the rate of growth in real GNP in the second quarter was, by and large, a healthy development, in the sense that continuation of the rapid first-quarter rate of expansion would soon have generated undesirable boom conditions. On the whole, the members were of the view that the economic expansion was proceeding satisfactorily and that the outlook was favorable. At the same time, some concern was expressed about the possibility that inflationary pressures would strengthen as the expansion proceeded.

The Committee agreed that it would be desirable to maintain relative stability in money market conditions at this juncture, in light of the current slowing of the economic expansion and the moderation of growth in the monetary aggregates since April.

A substantial majority favored a relatively narrow range of 5¼ to 5¾ per cent, on the grounds that a significant easing of money market conditions would be undesirable at this time in view of the likelihood that it might have to be reversed shortly, and that a significant firming would be inappropriate in view of the element of uncertainty in the economic outlook.

As at other recent meetings, they decided that approximately equal weight should be given to M1 and M2 in assessing the behavior of the aggregates.

Meeting Held on July 19-20, 1976

Staff projections continued to suggest that during the second half of the year real GNP would expand at a moderately rapid pace and that prices would rise somewhat faster than they had during the first half. Moreover, prospects appeared favorable for continuation of a good rate of expansion in real output into 1977.

. . . in early July, data becoming available suggested that in the June-July period growth in M1 would be below the lower end of the specified range while growth in M2 would be close to the lower limit of its range. In those circumstances, the System became a little more accommodative in the provision of reserves, and by midmonth the Federal funds rate had declined to around 5¼ per cent, the lower limit of the specified range.

During the Committee discussion at this meeting, some members stressed the signs of hesitation in the economic expansion in the second quarter. . . .

Several members expressed a belief that the pace of economic expansion would pick up again from the reduced rate in the second quarter, and a number anticipated that in the quarters immediately ahead growth in real GNP would be faster than that suggested by the staff projections.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the July-August period various factors

that appeared to have depressed M1 balances in June would no longer be operating and, therefore, that M1 would expand appreciably.

As to policy for the period immediately ahead, members differed little in their preferences for ranges of growth in the monetary aggregates over the July-August period and for the midpoint of the inter-meeting range of tolerance for the Federal funds rate.

Differences of view were more marked with respect to the appropriate width of the range for the Federal funds rate. At its previous meeting, the Committee had agreed upon a relatively narrow range. . . .

Most members, however, favored specifying a somewhat wider range for the Federal funds rate. . . . Some of these members also stressed the existing uncertainty about the forces influencing the behavior of the monetary aggregates. . . .

. . . in their view this uncertainty was a reason for specifying a wider range for the Federal funds rate and for continuing to base operating decisions in the period immediately ahead primarily on the behavior of the aggregates.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4% to 5% per cent.

Meeting Held on August 17, 1976

Staff projections continued to suggest that real GNP would expand at a moderate pace in the current quarter and that moderate growth in output would continue well into 1977. The projections also suggested that average prices in the current quarter and in subsequent quarters would rise somewhat faster than they had during the second quarter.

Staff projections for the second half of 1976 differed little from those of 4 weeks earlier; they continued to suggest that the slackening in economic growth in recent months would prove to be temporary.

As the inter-meeting period progressed, incoming data suggested that in the July-August period growth in M1 and M2 would be close to the midpoints of the ranges specified by the Committee. In these circumstances, System open market operations were directed toward maintaining conditions of reserve availability consistent with a Federal funds rate of about 5% per cent — the rate prevailing at the time of the July meeting and the midpoint of the operating range that the Committee had specified for the inter-meeting period.

In the discussion of current policy at this meeting, it was brought out that the accelerated expansion in M1 since early this year, taken in conjunction with the reduced rate of growth in nominal GNP and with relatively little change in interest rates, could indicate that the downward shift in the demand for

money that was so evident in the latter part of 1975 was proceeding much more slowly.

During the Committee's discussion at this meeting no member expressed substantial disagreement with the staff projection of moderate growth in real GNP, although several members did stress the elements of weakness that had developed in the past few months. It was felt that uncertainty about the precise course of economic developments had increased. . . .

In general, Committee members felt that the pace of expansion in over-all economic activity would soon pick up again.

As to policy for the period immediately ahead, Committee members in general advocated continuation of the current stance. Most members favored directing operations toward maintaining about the current Federal funds rate. Accordingly, they preferred to give more weight than usual to money market conditions in formulating the operating instructions contained in the last paragraph of the domestic policy directive, and they advocated specifying a relatively narrow range for the Federal funds rate. . . .

It was agreed that System operations until the next meeting would be directed toward maintaining the weekly-average Federal funds rate at about its current level of 5¼ per cent. The members also agreed that, if growth in the aggregates should appear to be deviating significantly from the rates expected, the weekly-average Federal funds rate might be expected to vary in an orderly fashion within a range of 5 to 5½ per cent.

Meeting Held on September 21, 1976

Staff projections suggested that growth in real GNP would pick up somewhat in the fourth quarter and would remain at a good rate well into 1977. The projections also suggested that average prices would continue to rise at about the recent pace.

The rate of increase in M1 thus far in 1976 was consistent with the view that the downward shift in the demand for currency and demand deposits that was so evident in 1975 may have slowed. As a result, the velocity of M1 increased on the average over the second and third quarters of 1976 at a much slower rate than over the preceding three quarters. . . .

During the inter-meeting period the Federal funds rate deviated little from the 5¼ per cent midpoint of the operating range that had been specified by the Committee.

As to policy for the period immediately ahead, Committee members in general advocated continuation of the current stance. Interest rates, especially on long-term debt, had been adjusting downward, it was observed, in good measure because of improving confidence that the rate of inflation was being reduced, and also because of stability in the Federal funds rate.

There was near unanimity in the preferences expressed for ranges of growth in the monetary aggregates over the September-October period.

It was suggested that the relatively rapid growth in M2 ought to be accommodated.

With respect to the Federal funds rate, the members agreed that it would be appropriate to maintain the prevailing level of 5¼ per cent so long as the monetary aggregates were growing at about the rates expected. They differed, however, in their preferences for the width of the range for the funds rate.

It was observed, that if the Committee specified a wider range for the Federal funds rate than it had at the August meeting, it would be appropriate to place greater emphasis than at that meeting on the behavior of the aggregates in formulating the operating instructions contained in the last paragraph of the domestic policy directive issued to the Federal Reserve Bank of New York.

Meeting Held on October 19, 1976

Staff projections continued to suggest that growth in real GNP would pick up somewhat in the fourth quarter and would be sustained at about the fourth-quarter rate well into 1977. However, the projected rates of growth were slightly below those of a month earlier. . . .

Data that became available at the end of September indicated a substantial weakening in the growth of demand deposits. It appeared that in the September-October period growth in M1 would be below the lower end of the specified range while growth in M2 would be close to the midpoint of its range. In those circumstances the System began to be a little more accommodative in the provision of reserves, and the Federal funds rate eased to about 5 per cent.

During the Committee's discussion of the economic situation, several members expressed the view that the economic outlook was less favorable now than it had been a month or two ago, and that the risk of a shortfall from expected growth rates in real GNP had increased.

In the course of the discussion, it was pointed out that uncertainty about the fiscal policy that would be pursued in the months ahead — and about projections of economic activity for coming quarters — was greater than usual.

With respect to annual rates of growth in the aggregates over the October-November period, most members favored a range of 5 to 9 per cent for M1, given the rebound in growth already in train for October. For M2, most members favored a range of 9 to 13 per cent. While it was noted that these ranges were high in relation to the Committee's 12-month ranges for growth in these aggregates, it was argued that the Committee should consider that M1 had not grown at all in September and that

recent and prospective rates of growth in M2 — and in M3 as well — reflected the temporary stimulus provided by recent declines in yields on market securities to levels below the rates being offered on deposits.

With respect to money market conditions in the period until the next meeting, most members favored a slight easing.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4½ to 5¼ per cent. It was also agreed that the Manager should aim to reduce the Federal funds rate to about 4⅞ per cent within the next week, and to decide on subsequent objectives on the basis of incoming data on the monetary aggregates.

Meeting Held on November 16, 1976

The information reviewed at this meeting suggested that real output of goods and services . . . might be expanding at a somewhat slower pace in the current quarter. The rise in average prices . . . appeared to be somewhat faster than in the third quarter. . . .

Staff projections suggested . . . that growth in real GNP would pick up somewhat in the first quarter of 1977 and that it would be sustained at about the first-quarter rate well into the new year.

On October 21, 2 days after the October meeting, incoming data suggested that over the October-November period rates of growth in both M1 and M2 would be at about the upper limits of the ranges specified by the Committee. Therefore, it appeared likely that any reduction in the Federal funds rate in that week — pursuant to the Committee's consensus at the October meeting — would have to be quickly reversed. In those circumstances the Committee concurred in Chairman Burns' recommendation of October 21 that the Manager be instructed to continue to aim during that week for a Federal funds rate at about the prevailing level of 5 per cent.

Data becoming available during the following week continued to suggest unexpected strength in growth of the monetary aggregates. In response to an inquiry from the Manager concerning the appropriate interpretation of the Committee's instructions, Chairman Burns . . . advised that in his judgment any significant increase in the Federal funds rate at that time from the prevailing level of 5 per cent would be inconsistent with the Committee's intent. No member of the Committee expressed the view that a rise in the Federal funds rate would be appropriate.

In their discussion of the economic situation, members of the Committee were in agreement that the sluggishness or "pause" in the growth of real output was continuing. As at the mid-October meeting, no member suggested that a recession was likely.

In the discussion of current policy at this meeting, members of the Committee in general favored some

easing in money market conditions in the period immediately ahead, so long as growth in the monetary aggregates did not appear to be unduly rapid.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of $4\frac{1}{2}$ to $5\frac{1}{4}$ per cent. It was also agreed that the Manager should aim to reduce the Federal funds rate to about 4% per cent within the next week and to about $4\frac{1}{4}$ per cent within the following week — provided that growth in the monetary aggregates did not appear to be strong relative to the specified ranges — and to decide on subsequent objectives on the basis of incoming data for the monetary aggregates.

Meeting Held on December 20-21, 1976

The information reviewed at this meeting suggested that growth in real output of goods and services in the fourth quarter had remained close to the pace in the third quarter. . . .

Projections of economic activity for the rest of 1977, it was noted, depended on the assumptions made with respect to the economic policies that would be pursued by the new administration taking office on January 20.

After the first week of December, incoming data suggested that in the November-December period growth in M1 would be below its specified range while growth in M2 would be at about the midpoint of its range. Therefore, System operations became somewhat more accommodative in the provision of reserves, and at the time of this meeting the Federal funds rate was about 4% per cent — near the lower limit of the specified range. . . .

In their discussion of economic developments and prospects at this meeting, Committee members generally agreed that the latest business statistics indicated a strengthening in the situation and that the

recent sluggishness appeared to have been only a "pause" in the growth of real output rather than the forerunner of a new recession.

Moreover, it was suggested that confidence had improved. . . .

Although Committee members in general viewed the business situation and outlook as having improved, some noted that the strengthening thus far had not been great and that it was not certain that the pause had ended.

Inflation also continued to be a source of concern

Some concern was expressed that fiscal stimulus might foster new inflationary expectations or that, as at times in the past, its effects might come so late in the expansion as to cause growth of real output to accelerate at a time when it should be moving gradually toward the longer-term rate of growth in potential output. The view was also expressed, however, that a degree of fiscal stimulus was desirable.

Most members favored giving greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting, in part because projections of growth in monetary aggregates around the year-end were highly uncertain. A majority favored directing operations toward maintaining the Federal funds rate at about its prevailing level of 4% per cent for the time being, unless growth in the monetary aggregates appeared to be deviating significantly from the rates currently expected.

The members agreed that, if growth in the aggregates should appear to be strong or weak relative to the specified ranges, the weekly-average Federal funds rate might be expected to vary in an orderly fashion within a range of $4\frac{1}{4}$ to 5 per cent. As at other recent meetings, the Committee decided that approximately equal weight should be given to M1 and M2 in assessing the behavior of the aggregates.

