Congress of the United States

House of Representatives

Washington, D.C. 20515

March 14, 1975

The Honorable Carl Albert
Speaker
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Congressman Reuss thought you would be interested in how quickly the Federal Reserve eased monetary policy in response to House Concurrent Resolution 133, as the attached floor speech points out.

Sincerely,

William R. Buechner
Staff economist for
Congressman Henry S. Reuss

(For insertion in the body of the Congressional Record on Friday, March 14, 1975, under special permission granted Mr. Reuss on Friday, March 14, 1975, to address the House for 10 minutes, and to revise and extend his remarks.)

GOOD NEWS: FEDERAL RESERVE NOW EASING MONETARY POLICY

MR. REUSS. Mr. Speaker, I am pleased to report that the Federal Reserve has begun to ease monetary policy. This is in the spirit of House Concurrent Resolution 133, passed on March 4, 1975, by an overwhelming vote of 367-55. This House action followed the introduction of the basic legislation, H.R. 212, on January 14, 1975.

H. Con. Res. 133 and its accompanying report requested the Federal Reserve to "lower long-term interest rates" -- thereby stimulating homebuilding and productive capital investment, and reducing unemployment -- through either of two methods:

1. <u>Pursue a vigorous expansion of money and credit aggregates</u>. After expanding the money supply (M1) -- currency and demand deposits -- by a frequently excessive figure during 1972 and 1973, the Federal Reserve abruptly reversed course in the middle of 1974, bringing money supply growth practically to a halt, and thus contributing to today's severe recession.

In the report on H. Con. Res. 133, we pointed out that rapid economic recovery would require a money supply growth of no less than 6 percent at an annual rate during the first half of 1975, and that many prominent economists, businessmen and labor leaders were calling for an 8-10 percent money growth, including former Federal Reserve Board Governor Andrew Brimmer, former Council of Economic Advisers Chairmen Paul McCracken and Gardner Ackley, and First Pennsylvania Bank Chairman John R. Bunting.

The need for stepped-up money growth was pressed on the Federal Reserve during the February 4-6 Domestic Monetary Policy Subcommittee hearings on H.R. 212, the precursor of H. Con. Res. 133, and the February 19 full Banking Committee hearing with Federal Reserve Board Chairman Arthur Burns.

During the month February 5-March 5, 1975, for which figures have just become available, the Federal Reserve expanded the money supply (M1) by 14 percent at an annual rate, up from the zero growth rate existing between October, 1974, and January, 1975. M2 -- the broader money supply measure, including M1 plus time deposits at commercial banks -- rose 13.8 percent at an annual rate, compared with 5.2 percent between October, 1974, and January, 1975. This is excellent progress. Of course, 14 percent is <u>too</u> expansive a growth rate, but the Fed is obviously trying to recoup for earlier excessive tightness.

2. <u>Purchase long-term Treasury securities and obligations of Federal credit agencies, such as the Federal National Mortgage Association, for the Federal Open Market Account.</u>

In the report on H. Con. Res. 133, we pointed out that the Federal Reserve has failed to use purchases of long-term securities to directly lower long-term interest rates. Of the Fed's current $87 billion portfolio, over 85 percent are short-term, maturing in less than 5 years, while less than 1 percent are long-term, maturing in more than 20 years. This composition of the Fed's portfolio is badly distorted in the wrong direction.

During the month February 5 – March 5, 1975, the Fed modestly improved the composition of its securities portfolio by increasing its holdings of longer-terms by $243 million and selling $1.258 billion short-terms. More is needed, but this is at least a start.

So far, however, we have only seen a significant reduction in short-term interest rates, with the rate on 90-day Treasury bills, for example, falling from 8.7 percent in August, 1974, to

5.5 percent today. Long-term interest rates remain uncomfortably close to last year's record highs, with the yield on FHA-insured mortgages falling only from 10.3 percent to 9 percent during the same period.

By continuing to follow House Concurrent Resolution 133 and to try to lower long-term interest rates, the Federal Reserve will take a major step toward putting the nation's economy back on the road to economic recovery. Until long-term rates move downward, there will be continued economic deterioration in the nation.

Mr. Speaker, I shall continue to report on the Federal Reserve's performance.

The latest Federal Reserve money supply tables are attached: