

POLITICAL PRESSURES ON MONETARY POLICY DURING THE U.S. GREAT INFLATION

Web Appendix 2: Turning points during the great inflation

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The begin and end dates for the four disinflations from 1968 to 1981 are listed in Table A1 below. The beginning of a disinflation is the date of the FOMC meeting at which the Committee decided to tighten monetary policy in response to inflationary pressures. The end of a disinflation is the date at which the Committee decided to loosen policy in order to combat economic weakness. The primary source for my determination of these dates is the FOMC Minutes, Transcripts, and RPAs. In each case, the decision to tighten or loosen was accompanied by a substantial change in the target for the federal funds rate. As a check, I compared my begin and end dates with changes in the index of monetary policy stance constructed by Boschen and Mills (1995), and found substantial agreement.

Table A2. Dates of monetary policy turning points during the Great Inflation

FOMC meeting date	Ease/Tighten	Notes
December 17, 1968	Tighten	RPA: "The Committee was unanimously of the view that greater monetary restraint was required at this time in light of the unexpected strength of current economic activity, the persistence of inflationary pressures and expectations, and the recent rapid rate of growth in bank credit." BM: -1 (from 0 in Nov 68) FF (actual): week of 12/4/68 = 5.71%; week of 12/25/68 = 6.25%
February 10, 1970	Ease	RPA: "The Committee concluded that, in light of the latest economic developments and the current business outlook, it was appropriate to move gradually toward somewhat less restraint at this time." BM: 0 (from -1 in Jan 70) FF (actual): week of 2/4/70 = 9.21%; week of 2/25/70 = 8.41%
January 16, 1973	Tighten	RPA: "The Committee agreed that the economic situation continued to call for growth in the monetary aggregates over the months ahead at slower rates than those recorded in the second half of 1972." BM: -1 (from 0 in Dec 72) FFT-mid: 6.06 (from 5.5 in Dec 72, 5.125 in Nov 72)
October 16, 1973 – December 17-18, 1973	Ease	RPA (Oct): "...the Committee agreed that the economic situation and prospects continued to call for moderate growth in monetary aggregates over the months ahead... likely to require some easing in money market conditions." RPA (Dec): "The Committee concluded that the economic situation and outlook called for a modest easing of monetary policy." BM: -1 in Oct (from -2 in Sep), 0 in Dec (from -1 in Nov)

		FFT-mid: 9.75 in Oct (from 10.25 in Sep), 9.375 in Dec (from 9.75 in Nov)
March 18-19, 1974	Tighten	RPA: "The Committee concluded that the economic situation and outlook continued to call for moderate growth in monetary aggregates over the longer run... pursuit of that objective would be likely to entail a further tightening of bank reserve and money market conditions in the near term and some further increases in interest rates in general." BM: -1 (from 0 in Feb 74) FFT-mid: 9.75 (from 8.875 in Feb 74)
October 14-15, 1974	Ease	RPA: "The Committee concluded that the economic situation and outlook called for a resumption of moderate growth in the monetary aggregates over the longer run... money market conditions would have to ease somewhat further in the period immediately ahead." BM: 0 in Nov (from -1 in Oct and Sep) FFT-mid: 9.75 (from 11.25 in Sep)
August 15, 1978	Tighten	RPA: "... it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging continued moderate economic expansion and contributing to a sustainable pattern of international transactions." MB: -1 (beginning April 1978) FFT-mid: 8.0 (from 7.875 in July; increased to 8.375 in conference call on 9/8/78)
October 6, 1979	Tighten	RPA: "In the Committee's discussion of policy for the period immediately ahead, the members agreed that the current situation called for additional measures to restrain growth of the monetary aggregates over the month ahead... most members strongly supported a shift in the conduct of open market operations to an approach placing emphasis on supplying the volume of bank reserves estimated to be consistent with the desired rates of growth in monetary aggregates, while permitting much greater fluctuations in the federal funds rate than heretofore." BM: -2 (from -1 in Sep) FFT-mid: 13.5 (from 11.5 in Sep)
October 1982 ¹	Ease (decline in fed funds rate from mid-1981 reflected decline in inflation expectations, weakening economy; not switch to growth promotion)	RPA: "The Committee agreed that in all the circumstances, it would seek to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit... taking account of the desirability of somewhat reduced pressures in private credit markets in the light of current economic conditions." Compare with more qualified statement in RPA Aug 24, 1982: "The Committee decided that somewhat more rapid growth in the monetary aggregates would be acceptable depending upon evidence that economic and financial uncertainties were fostering unusual liquidity demands for monetary assets..." Compare with continued emphasis on containing inflation in RPA Nov 17, 1981: "[Committee members] wished to set objectives for monetary growth over the period ahead consistent with achieving further progress in reducing inflationary expectations..." BM: +1 (from 0 in Sep; moved from -1 to 0 in Nov 81) FFT-mid: 8.75 (from 9.0 in Aug, 12.5 in Jun)

RPA: Record of Policy Actions, paragraph summarizing Committee decision (just before directive)
BM: Boschen-Mills (1995) index

FF (actual): weekly average effective federal funds rate

FFT-mid: midpoint of federal funds target range (FRB New York and FOMC Minutes)

¹ The federal funds rate target moved sharply downward between April and September 1980. This is not considered an easing (hence a premature end to the disinflation begun in 1979) for a number of reasons: (1) FOMC transcripts and RPAs show that Committee members saw the decline in the federal funds rates as a result of reduced money demand following adoption of the credit control program in March 1980. (2) Though the Fed increased its short-term monetary targets beginning in the May meeting, it did this only to correct a shortfall of money supply growth relative to the long-run targets it had adopted in the December 1979 meeting, not as a conscious attempt to ease. (See Gilbert, R. Alton and Michael E. Trebing, "The FOMC in 1980: A Year of Reserve Targeting," Federal Reserve Bank of St. Louis Review, August/September 1981, p. 2-22.) (3) Boschen and Mills (1995) characterize monetary policy in 1980 as moving from a strong emphasis on reducing inflation (-2) to a moderate emphasis (-1) rather than a move to an emphasis on growth.