Central Files

THE PRESIDENT HAS SEEN

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20506

September 27, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Monetary and Financial Conditions

Summary

For the past 52 weeks as a whole the growth rates of the monetary aggregates were probably just about right in the sense that they remained a few percentage points below the rates which would continue to accommodate the present unacceptable price trend along with an expansion of output. It is necessary to use this much restraint until inflation becomes reduced, even though the price trend will respond to restraints merely with a lag while a flattening of output has shown much more promptly. Over shorter recent periods the monetary aggregates grew at a significantly lesser rate than over the past 52 weeks; the Fed, which has no full control over short-run changes in the money supply, seems aware of the fact that approaching desirable longer-run targets involves larger money growth than that of the past few weeks. Short-term interest rates declined in recent weeks.

William J. Fellner
Member

Alan Greenspan
Chairman

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Some Details

(Optional Reading)

(1) Money Growth. The following figures give numerical content to the statements in the Summary concerning the growth of the money supply.

Percent Changes of Monetary Aggregates, Seasonally Adjusted Annual Rates

Period	M_1 (currency plus demand deposits)	M2 (currency plus all commercial bank deposits except large CD's)	Credit (adjusted bank credit proxy)
From average of four weeks ending Sept. 19, 1973 to average of four weeks ending Sept. 18, 1974	5.6	8.3	10.2
From average of four weeks ending Mar. 20 to average of four weeks ending Sept. 18, 1974	4.2	6.3	15.1
From average of four weeks ending June 19 to average of Four weeks ending Sept. 18, 1974	2.0	5.5	7.9

(2) Interest Rates. The recent three-month Treasury bill rate of about 7 percent is more than 2 percentage points below the August average. The decline in the prime commercial paper rate since that time has been smaller but also in excess of 1 percentage point. No clear reversal of the preceding less pronounced uptrend of long-term interest rates is as yet observable. In general, a significant and durable lowering of the high interest rates will depend on the lessening of inflationary price expectations but the demand of investors and of consumers for loans can change also for other reasons and therefore interest rates too can.