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COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
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February 14, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Monetary and Financial Conditions

The money aggregates which were expected to start rising by now at a rate that would promote an appreciable rise in the money GNP subsequently - and thus promote economic recovery later this year - have not so far shown the expected growth rates. Over a period of some duration the reserves supplied by the Fed were used by the commercial banks largely for reducing their debts rather than for increasing the money supply, and while in the meantime the Fed has reduced the required reserve ratios, this is another move that has so far failed to show in the expected rise of the money aggregates. Furthermore, in the most recent week there has occurred a reduction also of the reserves supplied by the Fed - the so-called unborrowed reserves. Interest rates have declined further, but this is a reflection of the weakened demand for credit. Movements in the monetary aggregates will also tend to reflect the business cycle instead of countering it unless the Fed moves vigorously to expand money in periods of falling interest rates and economic decline, and to restrain monetary growth in periods of rising interest rates and rapidly expanding economic activity. The tightness of monetary policy is reflected in growth rates of M_1 and M_2 in the past 13 weeks of -0.6 and +4.7, compared to the 5.87 percent and 8.2 percent rates for the preceding 52 week period (ending October 30, 1974). A healthy economic recovery later this year will require money growth rates much larger than we have had recently.

William J. Fellner
Member

Alan Greenspan
Chairman



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)	M ₂ (currency plus all commercial bank deposits except large CD's)	Credit (adjusted bank credit proxy)
Past 52 weeks (from average of four weeks ending Feb. 6, 1974 to average of four weeks ending Feb. 5, 1975)	3.9	6.9	9.3
Past 26 weeks (from average of four weeks ending Aug. 7, 1974 to average of four weeks ending Feb. 5, 1975)	.8	5.3	3.9
Past 13 weeks (from average of four weeks ending Nov. 6, 1974 to average of four weeks ending Feb. 5, 1975)	-.6	4.7	5.9
Past 4 weeks (from average of four weeks ending Jan. 8, 1974 to average of four weeks ending Feb. 5, 1975)	-5.8	4.1	1.3

Interest Rates
(average of daily figures)

(percent)

Period	U.S. Government 3-month bills	U.S. Government 3-5 year issues	long term bonds	Prime commercial paper 4-6 months	Moody's Aaa bond rate
August	8.74	8.64	7.33	11.65	9.00
September	8.36	8.38	7.30	11.23	9.24
October	7.24	7.98	7.22	9.36	9.27
November	7.59	7.65	6.93	8.81	8.90
December	7.18	7.22	6.78	8.98	8.89
January	6.49	7.29	6.68	7.30	8.83
Week ending:					
Jan. 17	6.68	7.32	6.66	7.53	8.84
Jan. 24	6.37	7.36	6.69	6.85	8.78
Jan. 31	5.61	7.23	6.67	6.48	8.74
Feb. 7	5.67	6.91	6.59	6.45	8.68
Feb. 14 ^P	5.80	6.93	6.58	6.33	8.63