
by William T. Gavin and John N. McElravey

Twice each year, the Chairman of the Board of Governors of the Federal Reserve System appears before Congressional banking committees to report on the economy and to present objectives for monetary policy. These reports are required by the Full Employment and Balanced Growth Act of 1978, better known as the Humphrey-Hawkins Act (H-H), which describes the responsibility of the federal government with respect to monetary policy.¹

In February, the Chairman reviews the economy and Federal Reserve's performance during the previous year and formally announces money and credit targets for the current year. In July, the Chairman reviews the economy and policy for the current year and presents preliminary targets for the following year. These semiannual reports provide a way for Congress and the public to monitor the Federal Reserve's policies.

A review of the Federal Reserve's Monetary Policy Reports to Congress over the last few years reveals a decline in the role of the monetary aggregates in the policy process. The Federal Open Market Committee's projections of economic conditions supplement the money targets in evaluating current policy intentions, particularly in regard to price stability.

The Humphrey-Hawkins Act is an amendment to the Employment Act of 1946:.

Footnotes


2. For a definition of the composition of the monetary and debt aggregates, see the Federal Reserve Bulletin, table 1.10.

3. The Federal Open Market Committee is the policy-making body of the Federal Reserve System.


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August 1, 1988

ECONOMIC COM-
MENTARY

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The current H-H Act allows for deviations from the monetary targets as policy guides. If the reliability of the monetary targets is maintained and output (whether temporary or permanent) is questionable, then, as a matter of policy, the Federal Reserve will use the monetary targets as policy guides for inflation, real GNP growth, and unemployment based on its or her judgment about appropriate policy. These projections may be revised after the FOMC adopts a specific policy. The revised projections are presented in the H-H report to Congress. The projections are an important supplement to the monetary targets. The FOMC now meets eight times a year. The two important meetings are those just preceding the February and July H-H testimonies. Prior to these meetings, the FOMC members are informed and must make decisions about appropriate policy.