The Fed - The FOMCs Committee on the Directive Behind Volckers New Operating Procedures

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The FOMC's Committee on the Directive: Behind Volcker's New Operating Procedures  
Nicholas Burk and David H. Small  
Abstract: On October 6, 1979, Chairman Volcker announced that the Federal Reserve was embarking on a new, forceful, and ultimately successful campaign to lower the rampant inflation of that time. At the center of this campaign were new operating procedures for conducting monetary policy—procedures that focused daily open market operations on controlling the quantity of monetary reserves and on the quantity of nonborrowed reserves in particular. This was a dramatic shift from the prior focus on targeting the federal funds rate.  
These new operating procedures were preceded by well over a decade of work that was directed by the Federal Open Market Committee (FOMC) and was carried out by its Committee on the Directive (COD). Prior to 1979, the COD had recommended operating procedures based on controlling nonborrowed reserves but subsequently rejected them. It was the Volcker Fed that accepted and implemented these reserves-based operating procedures, and it did so with the goal of targeting the monetary aggregates to have restrained and stable growth rates.  
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