TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE MEETING

May 16, 1978

Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Staff Statements Appended to the Transcript

Mr. Pardee, Deputy Manager for Foreign Operations
Mr. Kichline, Associate Economist
Mr. Sternlight, Deputy Manager for Domestic Operations

Meeting of Federal Open Market Committee

May 16, 1978

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, May 16, 1978, at 9:30 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Baughman
Mr. Coldwell
Mr. Eastburn
Mr. Gardner
Mr. Jackson
Mr. Partee
Mr. Wallich
Mr. Willes
Mr. Winn

Messrs. Balles, Black, Kimbrel, and Mayo, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Morris, and Roos, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Axilrod, Economist

Messrs. Burns, J. Davis, Ettin, Kaminow, Keir, Kichline, Paulus, Truman, and Zeisel, Associate Economists

Mr. Pardee, Deputy Manager for Foreign Operations
Mr. Sternlight, Deputy Manager for Domestic Operations

Mr. Coyne, Assistant to the Board of Governors
Mr. Henry, Associate Director, Division of International Finance, Board of Governors
Mr. Kalchbrenner, Associate Director, Division of Research and Statistics, Board of Governors
Ms. Farar, Economist, Open Market Secretariat, Board of Governors
Mrs. Deck, Staff Assistant, Open Market Secretariat, Board of Governors

Messrs. T. Davis, Eisenmenger, Parthemos, and Scheld, Senior Vice Presidents, Federal Reserve Banks of Kansas City, Boston, Richmond, and Chicago, respectively

Messrs. Brandt, Burns, Fousek, Karnosky, and Keran, Vice Presidents, Federal Reserve Banks of Atlanta, Dallas, New York, St. Louis, and San Francisco, respectively

Ms. Lovett, Securities Trading Officer, Federal Reserve Bank of New York

Transcript of Federal Open Market Committee Meeting of
May 16, 1978

CHAIRMAN MILLER. Well, ladies and gentlemen, the time has arrived for our May meeting of the Federal Open Market Committee. I'd like to welcome all of our travelers from far away and thank the Governors for coming out of their offices so early to be with us. It's getting to be a habit to be on time! I read in the newspapers that you usually start these [meetings] 15 minutes late. You can't really believe what you read in the paper. I read yesterday that I'm part Indian, which was news to me.

SPEAKER(?). Because you're from Oklahoma?

CHAIRMAN MILLER. The Federal Reserve will do anything to get its EEO [objectives]. The first order of business is to approve the minutes of the Committee meeting on April 18 and the phone meeting on May 5. Are there any corrections or comments on the minutes? I hear no objections, so we shall consider those approved and move to item 2, the report on foreign currency operations since the last meeting. Scott Pardee.

MR. PARDEE. [Statement--see Appendix.]

CHAIRMAN MILLER. How much of that, Scott, is for the System? Just to remind everyone, that's for the Treasury and the System I think. Is it 60 percent?

MR. PARDEE. It's 60-40. [Statement continued.]

CHAIRMAN MILLER. Thank you, Scott. Any questions? Frank.

MR. MORRIS. Could you elaborate, Scott, on your reluctance to buy marks in the open market? Most of the foreign exchange traders I've talked to about this have complained about the lack of symmetry in Federal Reserve operations. I hear that if we're going to be concerned about disorderly markets on the downside that we shouldn't be afraid to show our face when the market is moving very strongly on the upside.

MR. PARDEE. Well, we haven't had too many days on which the dollar was rising in what we would technically call a disorderly market. Last Friday we did have almost a 1 percent rise and that was the day on which I bought marks--almost $40 million worth of marks.

MR. MORRIS. But not in the market.

MR. PARDEE. In the market. We went in the market and we used some techniques similar to those we had used on the downside. That was our first occasion. Now, my sensitivity is that we've gone through a period since last June in which many people in the market were persuaded, from all of the things that had been said, that the United States government wanted the dollar down. And the massive effort we have engaged in both in the market and through our public relations techniques--and even now the gold sales--to reassure the market that we don't want the dollar down has helped. But if we appear in the market in a way which would suggest that we are holding the rate down now, it would reconfirm a lot of those earlier fears. I think we are in a better position now to buy in the market than we were a month ago or a few weeks ago. And as far as I'm concerned, whenever a mark comes in my direction I want to take a look and hope we can take it in for repayment. I'm prepared now, in these nonmarket transactions, to take everything that the Bundesbank offers to us. I think with rates at these levels we can pull out all the stops in repayment, including [buying] in the market. We've had the question from the Treasury this morning, should we buy marks today. The dollar is up 30 points. Should we go in to a market that is not in any sense disorderly or frothy and buy simply to repay? That's the hard decision; I am prepared to buy more quickly now than I was.

CHAIRMAN MILLER. Henry.

MR. WALLICH. I'd like to add to what Scott said. I think our ability to repay the Bundesbank is now reasonably assured. They seem to be willing to [offer] us D-marks if we can't get them through one of the other operations. As Scott has laid out, we can get them through their capital export conversions, we can buy them in the market, and we can possibly get them from special transactions where the Germans need dollars. And if all that doesn't add up before the end of the year--that is, before the end of that 12-month period on each particular swap transaction--they would be prepared to [sell] us D-marks. So to that extent we would seem to be in the clear, as far as repayment is concerned.

Now, as far as the rate is concerned, we should not have in mind any particular rate; we rely on fundamentals. But there is such a thing as going too fast and there's also such a thing as trying to look ahead to see what the fundamentals are going to be. In both senses it seems to me that the rate has gone quite fast and it has gone in a direction that is not what the forecast of the current account deficit would lead one to think. It's quite possible that the market has looked farther than we have, but that's not the impression one gets from talking to people and asking them what they expect in the way of a deficit in 1978 and in 1979. The official statement is still that the deficit in '78 will be at least as big, or a little bigger, than that in '77. And while nobody says anything about '79, the outlook is not very strong. The summary of my remarks is that to the extent we can influence the rate by being more active when there is disorder on the upside or buying back marks simply because we need to repay--which is a known fact--I think we ought to do that. And if that slows down the upward move of the rates somewhat, I think that would be all for the good.

MR. JACKSON. I'd like to endorse what Governor Wallich said because I do think we may have a slight windfall now that we need to take advantage of; otherwise we may wish later that we had.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. May I ask Henry a question? In your view of the attitude of the German central bank, would you assume that some repayment would stand us in good stead for further drawings in the future--if the fundamentals start to reassert themselves, in other words?

MR. WALLICH. Well, as we pay off [the drawings] we are closing out the old line of $2 billion, but the new line of $2 billion we haven't even drawn upon. So we would always find ourselves with at least a $2 billion line. I think the fact that we're repaying they regard as normal. There was an issue at one time of whether we wanted to fund the debt--and I think they might have liked the funding idea--by carrying it over one year. It was the sense of this Committee that that would not be a good idea; we wanted to pay it off after one year. And we pushed fairly firmly in our negotiations for that. The Germans dropped the funding idea without saying anything more about it.

CHAIRMAN MILLER. I don't know whether we intended to wait for our normal reports to disclose that we had repaid. But whether we did or not, Dr. Emminger has made a public statement that we have repaid, so that's now in the marketplace. And there was no particular reaction to it, as I gather, Scott.

MR. PARDEE. Not yet. They're wondering where we got the marks.

CHAIRMAN MILLER. I think that a certain amount of confusion in the marketplace is healthy sometimes. Now we must act to ratify the transactions since the previous meeting. Are there any questions or comments? May we have your approval of such ratification? Hearing no dissent, we shall so approve. I regret to say that Alan Holmes is not able to be with us. He is ill today. We do have his report on the question of the status of negotiations for repayment. Scott, were you planning to comment on this in Alan's absence?

MR. PARDEE. Actually, Governor Wallich has just reviewed the three major points, so I won't go into them unless people have questions on this. The only action needed by the Committee in this procedure would be to [vote] on the renewals of the swap drawings as they come due through the three renewals out to 12 months. But so far with our repayments, we've been able to liquidate the swaps that would run out in October and November. We're taking the oldest swaps first, thus gaining two months' time before we face the 12-month deadline. For today, we have five swap drawings for a total amount of $257 million equivalent coming up for first [renewal] and I recommend that they be renewed for a second three months.

CHAIRMAN MILLER. Henry, you might just comment a moment on one source of D-marks that has been worked out, and that's the Canadian borrowing in D-marks. When they convert that, it allows us to have a source of D-marks, which is very helpful to us.

MR. WALLICH. Yes, this is part of the capital export conversion program. The Germans have an agreement with their banks that--well, for customers [who] put on D-mark issues and when these customers are foreigners, they want dollars and instead of buying the dollars in the market, they buy them from the Bundesbank. That means that there's less support for the dollar than there ought to be from these capital outflows. But the Bundesbank gets rid of its dollars. That's their intention. We have pressed for some of this to be put into the market. That hasn't carried very far. But we've been able to get one half, on average, of these accruing D-marks. And then we use these for repayment instead of buying back in the market. So the effect of that is to avoid a downward pressure on the dollar. To the extent that we use them for repayment as we do, it works in the right direction. The only sterilization of the effects that takes place is when the Bundesbank keeps the D-marks and gets rid of the dollars. We have no firm commitment there but I understand that they've been very cooperative in offering us [D-marks]. And on the Canadian, we've been getting half or more, is that right?

MR. PARDEE. I'm prepared to take all of it now.

MR. WALLICH. The Canadians have been a little sensitive about these operations. If we got any sales in the market it would mean that they were getting less for their D-mark than they might, so we had to take that into account also.

MR. PARTEE. I see. The point is that it wouldn't make any difference ordinarily whether you got them indirectly or directly from the market. But in this case the Germans would use the dollars for sterilization purposes.

MR. WALLICH. Speaking of sterilization really as a--

MR. PARTEE. Domestic monetary matter.

MR. WALLICH. No, as the exchange rate effect. They sterilize the exchange rate effect that would occur if a foreign borrower sells the D-marks he's borrowed, gets the dollars that he needs, and thereby drives up the dollar. That effect doesn't take place; they sterilize it. That's what I had in mind.

MR. PARTEE. It retires some of the debt.

MR. PARDEE. It does have a domestic monetary effect.

VICE CHAIRMAN VOLCKER. And there's a net depressing effect on the dollar from these operations because most of the issues are bought for dollars in the first place. D-marks have to be purchased by the buyer of the issue in the first place.

CHAIRMAN MILLER. But you're right, the market for D-marks would drive them up so it's a--

MR. PARDEE. But there is a domestic monetary effect. They are trying to absorb domestic liquidity through this mechanism. Governor Partee is correct. And they did exceed their monetary target early this year; it was 8 percent and they were running 12 to 15 percent. Now, they pulled it down to 7 percent in April, largely as a result of these operations, sterilizing marks--pulling marks out from, let's say, capital export conversions.

MR. JACKSON. You said the Canadians are concerned that they might not be getting the equivalent dollar effect of their conversions.

MR. WALLICH. If part of the D-marks they borrowed were sold in the market, thereby driving down the price of the D-mark, they fare a little worse than if the same D-marks are sold to the Bundesbank at what they hope would be a slightly better price. We're always talking about very small differences, of course. I just wanted to add--

MR. PARDEE. But in billions of dollars, they add up.

MR. WALLICH. Chuck is right that what the Bundesbank does is also a domestic sterilization operation. They absorb D-marks from the market and get rid of dollars.

CHAIRMAN MILLER. Scott, you have a recommendation on the open position between meetings, is that correct?

MR. PARDEE. As I noted, we reduced our net open position in the last period by over $300 million. It's just under $1.5 billion. And indeed, last Friday we even had the satisfaction of having to request the Subcommittee to approve, pursuant to the procedural instructions, our continuing to buy marks as we approached the $300 million limit on changes in the net open position between meetings. That was a pleasure.

CHAIRMAN MILLER. This is a change down instead of up, which wasn't contemplated when people set these rules.

MR. PARDEE. Oh no, that's fine. No, they were. But it's a pleasure on this side. Now, late last year and early this year, as we moved more deeply into debt, the Committee approved additional leeway for operations under the authorization. The net open position had been raised to $2.25 billion, I think back in March. And now $2.25 billion gives us more leeway than we need--$750 million--so I recommend that the Committee reduce the net open position to a limit of $2 billion.

CHAIRMAN MILLER. You've heard the recommendation. Is there any discussion or dissent? Hearing none, we will consider that recommendation approved. There were those here who were skeptical that we would be at that point at this time, but it's working fairly well.

MR. PARTEE. But I certainly--

CHAIRMAN MILLER. We have problems ahead no doubt.

MR. PARTEE. I do want to subscribe to [the view expressed by] I think it was Dave, or maybe Henry, that we ought to move right ahead while we've got the chance.

MR. PARDEE(?). That's music to my ears.

MR. PARTEE(?). And reduce that debt.

VICE CHAIRMAN VOLCKER. We ought to move ahead but cautiously.

MR. PARTEE. Well, I don't know how cautiously.

CHAIRMAN MILLER. Prudently.

MR. PARTEE. There's a difference in emphasis that I particularly subscribe to.

CHAIRMAN MILLER. Well, it will be done well. Don't worry.

VICE CHAIRMAN VOLCKER. That's right.

CHAIRMAN MILLER. Unless there are further questions, I would propose that we go ahead with the economic and financial situation and I call on Jim to give us his staff's comments.

MR. KICHLINE. [Statement--see Appendix.]

CHAIRMAN MILLER. I welcome any comments and discussion. Frank do you want to--

MR. MORRIS. Yes, let me ask the staff whether you have any consensus on the natural rate of unemployment, given the current structure of the labor force.

MR. KICHLINE. We have a project under way assessing that and I must say that there is a good deal of work yet to be done. It's a very difficult problem to assess. Our judgment today I think is something in the 5-1/2 percent area. There are many people in Washington I understand who would now judge--and some work is going on in other agencies--that perhaps 6 percent is the rate. And there are people who believe it's much lower. I think we're sort of in the middle of these forecasts. We have looked at the distribution of unemployment among various groups and there is in our view some [room for it to] move downward that could be associated with past periods of relatively high employment and still not imply a situation of extreme tight labor markets. But there is not very much room. So I think our forecast of somewhere around 5-3/4 would be getting close to the so-called natural rate of unemployment. Perhaps Jerry would like to comment; he has been directing this work that we're doing.

MR. ZEISEL. Yes, there are just a couple of points I'd like to make. It's recognized that there has been an upward bias in the unemployment rate from various sources. The age/sex structure of the labor force, for example, has over the last couple of decades tended to move the unemployment rate that is the minimum rate of unemployment at high levels of income up somewhat largely because of the large proportion of younger people and women--people who move in and out of the labor force. That's tending to move slightly in the other direction at this point, so that the effect there is to dampen that bias somewhat. Another factor over the last couple of years is the extension of unemployment benefits to well over a year, which has had a tendency, we feel, to bias the rate up. But most of those programs have now been phased out, so that probably has less of an effect now than it had, let's say, late last year. Nevertheless, there are variables operating to raise the rate. As Jim said, a very rough estimate we've been making suggests that it is somewhere in the 5-1/2 percent range, but I wouldn't want to give a point estimate.

MR. WALLICH. Jerry, if I may, it seems to me that you're being very optimistic with 5-1/2 percent. You focus on the quantitative phenomena--changes in the structure of the labor force and so forth. I think we have to take into account also changes in attitudes. One factor you mentioned goes in the other direction--the phasing out of the long compensation period. But I think basically there is a much greater acceptance of unemployment as not very detrimental, not at all dishonorable, and in some respects a productive condition. And that, it seems to me, injects a very significant upward bias into the rates.

CHAIRMAN MILLER. I would like to suggest that we get your specific questions and then do a round robin and see how everyone feels about real GNP, prices, and unemployment either in relation to the staff or in relation to their own work or experiences. Ernie, do you have a question? I think [you're] next. Oh, Frank, I'm sorry, did we cover yours?

MR. MORRIS. [Unintelligible] right.

MR. BAUGHMAN. I would just raise a question as to whether there is a significant possibility that we may see stronger capital expenditures coming on than is now currently indicated in the surveys or from other sources. I guess I would make a further comment that I see indications in the Southwest that capital expenditures are moving about as fast as the available real resources will permit. And there are increasing shortages of the materials that are used in capital investment, increasing delays in getting materials, and increasing difficulty in getting staff to work on these projects.

MR. KICHLINE. Well, there is always the possibility, of course, that investment plans will be scaled up even more. It's difficult to judge the dynamics involved in this whole process but if firms now, for example, experience much higher ordering rates than they thought, that could surely be an encouraging factor. And I would presume that that's one of the things involved in the scaling up of the funds that we've seen recently. That could go on. I think the construction area, as you noted, is a segment that has caught on; it was one of the weaker areas earlier and we have noticed an increase of size in commercial and industrial contract awards. They're up something like 60 percent March over March. So it's a huge increase but it's from a fairly low level. I think the orders and survey results available to date would be supportive of a fairly moderate picture. In fact, we will have a reading early in June from the Commerce Department and that would need to be scaled up significantly in order to achieve the staff forecast. So implicit in our own forecast is a view that conditions were reasonably optimistic so that businesses would be prompted to scale up their plans. So what we've seen to date, I think, is what we have hoped for and I don't think it has run beyond that. But, of course, there is that possibility.

CHAIRMAN MILLER. Jim, wouldn't you say, though, that if they would scale up their plans, we'd still have a lag time because of [unintelligible] problems? These kinds of problems are worse today than they were five years ago.

MR. KICHLINE. Oh, sure.

CHAIRMAN MILLER. So even if plans get built up, it's hard to get the spending in very quickly. Bob Black.

MR. BLACK. Jim, I was impressed that right after the first-quarter GNP figures appeared there was an unusually strong statistic for March. I was just wondering what odds you would put on an upward revision of that [Q1 GNP] from an actual decline to a positive figure.

MR. KICHLINE. Well, early on, I suggested that my guess was that it would be revised up perhaps to at worst no change but [probably] to a small positive number. I've been changing my view, however. That is, some of those March data that I was looking at have been revised down. In particular, retail sales have been revised down and some of the construction [data have] been revised down a bit. The March net exports [figure] was somewhat worse than we had anticipated and worse than Commerce had anticipated, so for now I would think zero is the highest [for Q1 GNP] and probably it's in the range of minus 0.5 to minus 1 percent--a negative. We will get a reading on that Thursday; that is the next revision.

CHAIRMAN MILLER. Chuck, you had a question.

MR. PARTEE. Well, I was just going to comment that I would be inclined to say that I don't quite know what the natural rate of unemployment means. "Natural" in what sense? I presume it means the unemployment rate that would be associated with no acceleration in inflation, in which case we must already be below the natural rate of unemployment because we're having the acceleration in inflation. But if you're looking at what is achievable, I would say it certainly could be brought down to 5-1/2 percent and perhaps a little lower. So I disagree with Henry. Just looking at the age structure, the quality of the labor force, and that kind of thing, I would say it could go lower. I wanted it to be clear that I disagree with Henry on that point.

CHAIRMAN MILLER. Dave. No rebuttals. You can discuss it at lunch.

MR. EASTBURN. My question is on consumer spending in anticipation of higher prices. I have the impression that studies somewhere--perhaps earlier in the Katona studies and others--have indicated that consumers have reacted adversely to expected price increases. (A) Is that wrong? and (B) have things changed?

MR. KICHLINE. (A) It's right. That is, the studies in the past--the Katona studies, which I think are the most important in that area--have pointed to an irrational response, if you will: As prices rose, consumers deferred purchasing. But interestingly, the Michigan surveys--and that's the source of the Katona studies--have been picking up increasingly now reports of "this is a good time to buy to avoid further price increases" where they used to get "now is a terrible time to buy" when prices began to rise. So we're getting a different response in the Michigan surveys than used to be the case. And I think in general it may well be that there is an increasing awareness on the part of consumers as to what has happened in the last several years, and their behavior may well be changing.

CHAIRMAN MILLER. Phil Coldwell.

MR. COLDWELL. Jim, you've got a fairly strong durable goods personal consumption estimate in here and yet you're also commenting on the very high level of consumer debt. How do you [reconcile] those two?

MR. KICHLINE. Well, I think the high level of consumer debt is driven by essentially two things. As you know, one is consumer installment debt--for autos particularly. But that's not the most important factor driving up the total; it's housing. And for housing the debt is longer [term] so perhaps the repayment burden in the view of consumers doesn't necessarily track into a less willing feeling on their part to acquire debt than would be the case if the debt had been taken on for something other than housing. So a good deal of this debt burden problem is, in fact, associated with mortgages. As I noted, it's very high. A year ago it wasn't and six months ago it didn't look that bad. But right now debt outstanding relative to disposable income is above the peak level that we experienced in '70, which was in the fourth quarter of 1970. It's a couple of percentage points above that. So it shot up dramatically. The repayment burden now is also up there. I think the attitudes for durable goods purchases in the short run are really quite strong in part because of this inflation phenomenon. As we go out further, one of the problems we have in looking at these aggregate statistics is that we have nothing on individual consumers. And it may well be that what we're talking about is a universe of consumers in which there are many willing and able to take on additional debt in this environment. The fact that we have talked a little bit about reducing personal consumption expenditures for durables reflects our judgment that income growth will be weaker in the first half of next year. And associated with that, we'll have lower purchases of durables--not as large an increase, if you will, in purchases of durables.

CHAIRMAN MILLER. Willis, you had a question.

MR. WINN. On the housing figure, shouldn't we put back in manufactured homes or mobile homes? It fell out of bed but it's really coming back very strong. I wonder if we shouldn't look at that.

MR. KICHLINE. Well, it's in on the expenditure side but we don't refer to it.

MR. WINN. Second, the inventory behavior is the thing I'm beginning to be puzzled about in terms of what lies ahead. [That] is occasioned by a couple of factors. One is steel, which is talking about operating at 90 percent capacity, and that introduces the capacity argument. But the question is: How much of that is for inventory rebuilding and what is happening there? And if you look at warehouse space problems, again you wonder if there is not some inventory building. And with this big spurt in sales, what's the prospect that we'll follow this with an inventory cycle before we get into the capital goods cycle of an expenditures problem? You see this in certain chemical lines now, in steel, and a whole host of areas. [It] makes me wonder if we may not be on the verge of a--

MR. KICHLINE. Well, I think that's one of the risks. I did not refer to it explicitly but to the extent that concerns about rising prices prompt speculative behavior or hedging attempts, you could get into that situation. We're not aware of any significant problems right now and we have been attempting to be alert to those sorts of things. [In] the steel area that you referred to, we have done a bit of checking and are fairly convinced that in the short run it is rebuilding of depleted stocks. As you know, in the first quarter steel inventories were run down substantially. So as of now we're not aware of significant problems, but the environment is one which I think would perhaps be conducive to that sort of behavior cropping up.

MR. WINN. The third point I'd make has to do with the capacity problem. Part of this is in steel and part of it is in transportation equipment where you just can't get rail cars for anything. If you try to get on a plane, you feel like the same thing [is going on] there. Delivery time on machine tools has been extended and that's one indication of the problems in this area. The labor market problem is another. To what extent are we really close to capacity bottlenecks here that throw off the price expectations pretty fast?

MR. KICHLINE. Well, I think you pointed to the key areas. I am not sure about airlines, but steel and other transportation would certainly be pressing [capacity constraints]. There are many other areas, of course, in manufacturing where that's not the case. So I'm not sure that we're not talking about spot problems perhaps for now that would traditionally be associated with that sort of thing going on. I was struck, however, by comments in the Redbook which this month referred to more such areas than had been the case in the past. So we're alert to that. It's clear that as we go on from here, there is less capacity available--less room--and these problems would naturally be expected to crop up.

MR. WINN. Ford shut down in the Cleveland area because of no engines.

CHAIRMAN MILLER. Because of what?

MR. WINN. No engines, which they have been importing through Canada.

CHAIRMAN MILLER. And there's the Mexican box car situation. They were buying from Mexico and had trouble with customers, and that has created a real shortage.

MR. MAYO. We have a big shortage in the Midwest, too, Bill. They can't find box cars. They are accusing ConRail of taking them to New England and losing them somewhere.

CHAIRMAN MILLER. [Unintelligible] you go down that rail and you'll go into the ocean; you can't expect to come back.

MR. MAYO. Well, these are hopper cars, too. They're not moving the export grain the way it's supposed to [be done]. In fact, they've even gotten unitrains, going all the way to Los Angeles, because that's the simplest way of getting some of the grain out of Iowa.

CHAIRMAN MILLER. John Balles, you had a question.

MR. BALLES. Yes sir, I have two quick ones here--one a question and one a comment. The question: Jim, you stated that you marked down your housing forecast somewhat because the recent change in the Q ceiling wasn't as big as you had assumed earlier, which I think was 50 basis points across the board and in all the categories.

MR. KICHLINE. All except passbook accounts.

MR. BALLES. All except passbooks. Why is it that you think the recent changes will not be as effective in keeping savings in the thrift institutions and the banks as what would have occurred under your assumption?

MR. KICHLINE. I'd like to give that question to Ed Ettin, who is the concocter of the numbers.

MR. ETTIN. First of all, the 8-year certificate clearly is a certificate with a lower rate ceiling than we had been anticipating and for a longer-term [instrument]. We don't think that would pick up as much money as, say, raising the ceiling for the existing 4- and 6-year certificates. On the 6-month certificate, we have to admit that we're working in an area of considerable uncertainty. We've never had anything like this; we don't know how big the impact will be, although we are reasonably certain that the impact will be larger for thrift institutions than it will be for commercial banks because of the differential. The cost of the [unintelligible] is directed toward [unintelligible] funds. Our own judgment had suggested that the 50 basis point increase across the board would be worth, other things equal, anywhere from 1-3/4 to 2 percentage points of additional growth. Our best judgment is that this package, other things equal, not adjusted for interest rate changes, would be worth between 1 and 1-1/2 percentage points. It is admittedly the roughest of judgments because we haven't had experience with the 6-month certificate.

MR. BALLES. I appreciate the difficulty, Ed, of making that forecast here. All I can say is that in sounding out the banks in our area, we expect a lot of action in the 6-month money market certificate. The other thing, Mr. Chairman, just quickly, is that Frank raised an interesting question, I thought a crucial question, about what sort of non-inflationary rate of unemployment we can get down to. There is another question that Willis touched on and I'd like to piggy back on it, and that's: How close are we to [a level] of capacity use that may itself generate inflationary pressures? Some of the work done by our staff quite recently indicates--contrary to the usual view that we don't get inflationary pressures until we get up to about 87 percent capacity utilization--that inflationary [pressures] begin at somewhere between 81 and 85 percent. A more refined analysis of that [relationship] leads them to that conclusion. I was wondering if your staff here, Jim, has done any work on that, which I consider an equally important area. And I think you touched on this, Mr. Chairman, in your testimony--[saying] that capacity is one thing but the cost of the capacity is another.

CHAIRMAN MILLER. I was just interviewed yesterday. I hope we get the right answer here that's consistent with what I said. I always try to answer and get the facts later!

MR. KICHLINE. We haven't done any work along those lines but I'd be very interested in having the opportunity to see that [work by your staff].

MR. BALLES. We're going to send it out to everybody around the table, as a matter of fact, for information and possible comments if they have any.

CHAIRMAN MILLER. I think there is no question that we're going to hit the pressure sooner. We have some high cost capacity that's counted in capacity. It's obsolete, [given] high energy costs.

MR. MORRIS. In this connection, Mr. Chairman, could I follow up on this? [Jim], have you taken a look at this study by Wachter that just came out recently? I haven't had a chance to read it myself but I understand it suggests that we are much closer to capacity than most of the numbers generated earlier have suggested.

MR. KICHLINE. No, I have not personally looked at it.

CHAIRMAN MILLER. Well, why don't we do a round robin on how you all see the economy? Do we want to start with volunteers or should I just start here with Steve and go around? Why don't we ask you, Steve, to give us your views? Do you agree with the staff or do you have--

MR. GARDNER. Yes, I'm reasonably in agreement with the staff. I've been thinking that this very old and aging recovery would eventually get a thrust from business investment spending and you seem to feel that that's coming on now. That can only not be a factor for a certain period of time; it must come on [eventually]. Technologies change and costs change. I've also been convinced since last fall that it's time to change automobiles. There are an incredible number of models which offer longer mileage and certain advantages like front wheel drive. It's quite impressive and, therefore, I'm not surprised at all by the automobile record that you expect and that the industry is anticipating. So I believe that there is merit to the staff forecast and that we will have a stronger period this year than we originally thought.

CHAIRMAN MILLER. Henry.

MR. WALLICH. I'm less optimistic on the price outlook than the staff. We've now had three months where the [increase in the] CPI, computed at an annual rate, would be at 9 percent. We are likely to get another bad month in April because we've had a bad wholesale price index. That would give us four bad months to live down, as it were, if we want to stay at or near a 7 percent CPI for the year. In fact, it would have to [rise] at close to a 5 to 6 percent annual rate for the rest of the year and I think that's quite unlikely in the light of what we see. So I'm pessimistic about the price outlook. I feel that way also because from my colloquy with Chuck it is clear that I think the limit on where we can go with unemployment without producing more inflation is unfortunately higher. I don't doubt that one could get to 5-1/2 percent or even 5, but you see that even now there are some inflationary consequences. They may not be closely related to employment, but I think four or five of the Reserve Banks referred in the Redbook to incipient skilled labor shortages. [The unemployment rate for] married males is 3 percent, if it hasn't gone down below that. So my concern about inflation rests on these factors.

Now, as far as income is concerned, if you take 6 percent unemployment or near there--I would be surprised if it did go below that--what we ought to do then is not to aim above 4 percent for real growth. In fact, we ought to aim over the rest of the year for slowing down to the long-term rate of 3-1/2 percent. That's about what we can expect to do at constant unemployment. We don't have to shift to that right now but by the end of the year it seems to me we ought to not worry at all if we're in the 3 to 4 or around the 3-1/2 percent range. That makes me somewhat more relaxed about concerns that the economy is not as strong as it seemed to be.

CHAIRMAN MILLER. But you want that to be a soft landing.

MR. WALLICH. Right, a soft landing.

CHAIRMAN MILLER. Phil.

MR. COLDWELL. Mr. Chairman, I find myself in agreement with Governor Wallich's comments. I think our effective labor supply is narrowing and I think our capacity availability is less than shown. I am especially worried about price pressures, which I view as very strong; and if fed by the availability of credit, they will intensify. Credit demands in this nation are extremely strong in certain areas and strengthening elsewhere. The competition for it is good; nevertheless, the demands are high and they're going to be met with some of the liquidity and large CD funding. I view the possibility of the staff's forecast as I guess 50 percent and maybe that's enough for you, Jim. But I suspect that your second-quarter GNP [forecast] is still going to be low. I think the chances of 10 percent are very good. Third-quarter GNP, I think is going to fall off faster than you have indicated--perhaps down to 4 percent and then in the fourth quarter, I view down to 2 percent [as likely]. I see that largely because I think consumer demand is going to weaken as debt increases and I think the interest rate increases are going to dampen housing and eventually in 1979 they may have an impact on capital spending. I don't view this as a very horrible scenario because I think we need to slow the growth of the economy down to a [pace that is sustainable] longer run because if we don't and we face these continued price pressures, we're going to have a bigger problem later on.

CHAIRMAN MILLER. Frank.

MR. MORRIS. Well, in a sense, Mr. Chairman, my view is a little opposite from Phil's as far as the third quarter is concerned. I hope that the pattern that [the staff] set out in the Bluebook happens, because I think it is pretty close to an optimum development over the next year or so. But what I'm concerned about now is the possibility that the third quarter may be substantially stronger than we are now contemplating.

CHAIRMAN MILLER. Frank, would you think the second quarter is along the lines that Phil talked about?

MR. MORRIS. I think the second quarter is going along very strong.

CHAIRMAN MILLER. Would you go up to 10 percent?

MR. MORRIS. Well, I think the Board's staff's 9 percent is about right. What I'm concerned about is the stronger third quarter and there are two pieces of evidence that led me to wonder about this. I don't have a conviction, but if we do get a much stronger third quarter than we're projecting, I think we'll have real problems this summer. The first of the two pieces of evidence is the surprising performance of automobile sales, which I think were probably above all of our expectations, particularly because of the level of consumer debt. This does not jibe with the kind of behavior on the part of the consumer that I had expected. The other thing is the amazing strength in the stock market, which suggests to me that animal spirits in the Keynesian sense have had a remarkable recovery.

CHAIRMAN MILLER. The block buying is going to pick up.

MR. MORRIS. Well, it suggests to me that capital spending may well pick up much more strongly than perhaps even the staff is projecting. Certainly, the stock market--I think you'd agree with me, Bill--does influence the behavior of businessmen and it reflects the thinking of businessmen. And it has a wealth effect on consumer spending. So if this remarkable performance were to continue for a while, I think it could be an independent source of strength in capital goods and in consumer spending. I hope that doesn't happen because I think two very strong quarters back-to-back could put us in a very difficult position. So I hope you're right about the third quarter.

CHAIRMAN MILLER. Ernie.

MR. BAUGHMAN. Mr. Chairman, in terms of a specific forecast, I would not quarrel with what the staff has presented. It seems to me to be a reasonable representation as to what may happen. In terms of problem situations, however, I see increasing indications now that we may see over the next nine months to a year that confluence of events which typically sets the stage for a period of adjustment. I have not had such a feeling thus far in this particular period of expansion, but at the present time it seems to me that we now see indications of that final burst of activity which brings the distortions in the economy that then get washed out during a period of adjustment which we call recession. This suggests that if we are to have a soft landing, we probably need to be working very hard at the present time to moderate that final burst of activity that typically gives us--toward the end of a period of business expansion--those distortions which give us recession.

I've been trying to [determine the] significance of a recent observation made in our District but haven't been able to; nevertheless, I'll report it to you. In one of the towns in western Texas, there was a sign over a hall, which for recent months had read "American Agricultural Headquarters." I'm told that that has now been replaced with a sign that reads "Domino Hall." Thank you.

CHAIRMAN MILLER. John.

MR. BALLES. Mr. Chairman, our staff forecast is broadly consistent with that of the Board staff going, say, to about the third quarter of the year. But from about the fourth quarter on and running into early '79, we are not as optimistic and for several reasons. One is the capacity bottleneck factor that I have already mentioned. We think we are already there, in fact, in terms of where it can go without generating further inflationary pressures. Based on some work we published several months ago, we think we are already there in terms of how low we can get the unemployment rate without generating some inflationary pressures. Our staff analysis, if I recall the figures right, suggested that a range of between 5.6 and 6.3 percent is the range below which you'd get considerable inflationary pressures. In short, translating this into GNP components, by the fourth quarter and first and second quarters of '79 we just see less strength in the economy than the Board staff does. I detailed some of these figures in March, so I won't repeat them again, but it's principally in consumption expenditures, especially in housing and other durables, and consequently in business inventories. But I would also add what I think I heard Phil saying--that it's not all that bad. I think we've probably got to slow down based on the real growth capacity of the economy [to avoid] generating a lot of inflationary pressures after a surge of activity for three years now that very clearly has been above the long-term trend growth rate in the United States.

CHAIRMAN MILLER. Thanks, John. Mark.

MR. WILLES. I agree basically with what the staff has [forecast], with two fairly significant differences, I think. One is that I agree very much with Henry's statement on the outlook for inflation. Last week I had a meeting with 170 primarily middle level businessmen--chief financial officers and that sort of person. I took a little poll and 80 percent expected inflation of at least 8 percent for 1978; 40 percent expected inflation of 10 percent or higher in 1979. You know, it just doesn't make any difference whether that is soundly based or not. If that feeling is widespread, they will make decisions that will in fact generate those kinds of rates. So, as I look at it, I think the inflation forecast that the Board staff has is probably still on the low side. I also agree with Frank, for slightly different reasons, that the chances are that real growth in '78 will be still somewhat higher than we really would like to have, given where we are. We are a little more optimistic on housing than the staff is, reflecting primarily [our view that] the thrifts will get more money than the Board staff thinks.

On consumer spending, I think the Board staff is right. We think that is going to be quite strong. This may come out kind of funny because it's hard to articulate, but it seems consistent to me to have a negative reaction be the basic reaction to inflation in terms of consumer spending and yet still in the short run have consumer spending, particularly for durable goods, go up. That's because what you would expect in a period of inflation is a substitution--purchasing durables which, if you buy on credit you then rent from yourself for the rest of the time and substituting that for other kinds of nondurable services you ordinarily would have bought. What that would mean is that in 1978 we will continue to get strong consumer spending as [people] make this change in their spending decisions. And then, unfortunately, that could be one of the things that comes back to haunt us in 1979 if we fail to make a soft landing--where we get a significant fallback in consumer spending. So in terms of real growth for '78, we are quite optimistic, but increasingly pessimistic about what all of this means for '79.

CHAIRMAN MILLER. Bob.

MR. MAYO. I have no quarrel, Bill, with the staff projection on real GNP; a range of 4 to 4-1/2 percent certainly covers my personal feelings and those of my staff as logical for this year. I think we will be very lucky in this country, however, if we keep the inflation rate under 7-1/2 percent for this year. I think the outlook for agricultural prices is perhaps even a little more bleak than the staff has estimated, and they certainly have been more pessimistic than they were earlier in the year. I feel fairly strongly that we can't get the unemployment rate in this cycle under 6 percent because I have seen so much evidence of companies grabbing up help because they anticipate some sort of a boom--in which way they aren't quite sure themselves. And this is one of the reasons for our very low productivity figures that we have seen, for what they are worth, in the first part of 1978. So I guess I'm just a little more pessimistic on the inflation front than the staff and a little more pessimistic on the labor force side. And yet I must say that I'm very skeptical as to how much help monetary policy can be--we can be of some help--in alleviating what seems to be another potential, at least, boom and bust situation. It's not as bad as 1973-74, but it is one that could be rather serious.

MR. GUFFEY. Our views are consistent with the staff's with respect to growth in real GNP, with maybe some variation of how that occurs. We're expecting somewhat stronger growth perhaps in the third quarter, as Frank also may have mentioned, and somewhat less as we move into 1979. As to prices, we believe the staff may be a little bit low. That is to say we expect the pressures to be somewhat greater than the staff's 7 percent projection. [I've heard] an interesting comment, and I really don't know what it means. But businessmen I have met with most recently on two occasions have mentioned the fact that their suppliers had been posting price increases to take effect either 60 or 90 days hence and then were withdrawing those before the price really goes into effect. The thought is that they are [hedging] again against some wage or price controls--that they are building their case. So apparently there is a very strong expectation for [the rate of increase in] prices in our part of the world to accelerate, and it's a matter of when and how much. Lastly, as to employment and unemployment--particularly on a regional or District basis--in the nonagricultural sector we are finding unemployment levels at or below 5 percent now and all skilled laborers fully employed. So there is going to be some pressure on that side, we believe. Thus we think prices may be modestly higher than the staff is now projecting.

CHAIRMAN MILLER. We will skip across and pick up Larry.

MR. ROOS. Mr. Chairman, as you know, where I work we feel that there is a direct relationship between the decisions made by monetary policymakers on the rate of growth of money and these various elements we are taking about. So, assuming a 6 percent annual rate of money growth this year--though we have no way of knowing whether that will be the case--we would project an average real GNP figure of 3-1/2 percent, prices at 6-1/2 percent, and unemployment at 5-3/4 to 6 percent.

I would like, Mr. Chairman, if I'm not out of order, just to comment on one other aspect of what has been discussed this morning by John Balles. Some of us at the Reserve Bank level do significant research and devote significant research resources to subjects such as capacity. As John knows, just as his people have, our economists have done a lot of work over the last year, year and a half. I just wondered--I'm sure this can't be settled today--whether there couldn't be some method devised whereby on some of these fundamental questions there could be greater interaction between the staff at Washington and some of the Reserve Bank staffs. So if they are doing research in some specific underlying subjects we would know of that. [Now we're] operating totally independently of the others, only knowing what the others do if we read their publications. I just think we have great resources and that we could pool them in some way on selected subjects on selected occasions. I think there would be value.

CHAIRMAN MILLER. Thank you. Bones.

MR. KIMBREL. Mr. Chairman, we too are becoming increasingly concerned about the burst of activity. [We thought] first that maybe it was a rebound from the winter induced difficulties, but that does not seem to continue now. We think it's a matter of genuine concern. Housing for instance, [we were] thinking the availability of mortgages and the cost of money would be limiting that. It is not happening. Real estate fellows are telling us they have never known business to be better. [There's a] scarcity of sites in some areas and prices are just jumping. And we are less optimistic over the total price [picture] than suggested here, partly because of the demands of labor, number one. And frankly, the scarcity of skilled labor is becoming very marked in some areas. Farm prices we think are likely to add an extra kick or two. And almost every group of businessmen we join now suggests that they are anticipating price increases and are adjusting--marking [up] for that purpose.

Incidentally, Mr. Chairman, I'd mention the yacht [business]. One of our directors happens to be a builder of luxury yachts and could not take another order for the rest of this year. The customs people running the drug traffic insisted that he do two for them to be specially designed to be a little bit faster than the [others]. That's sort of the demand in that field.

CHAIRMAN MILLER. Not to mention the control boats for oil people too--right, Ernie?

MR. BAUGHMAN. They're moving just as rapidly as they can find the labor to move.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. Well, I already agree essentially with the staff forecast and I would also agree with what [seems] to be the sentiment around the table so far that if the forecast is wrong, it underestimates the [rate of] price increase. I have also listened with considerable interest to the groping around for [answers to] the question--Ernie started it, I think--of whether factors are building here for a possible recession in '79. I've asked this question in our [Bank] several times and as nearly as we can see, these forces aren't building, at least in our forecast, autonomously within the economy. There is a great unknown as to how people will behave with respect to the uncertainty of inflation. And that was the reason for my question to Jim as to how consumers are reacting. It may be that we are in a new kind of psychological environment that makes it very difficult for us to understand and forecast these factors. But as nearly as we can see, we are not building these cumulative forces for a recession.

Now, the other possibility of bringing on a recession is what we do here around this table with monetary policy. If I understand the research that has been done on this by Bill Poole and others in the past, to bring that about would require considerably lower money growth rates than the kinds we're contemplating. So I don't see that as building, and I don't think we are about to [foster a recession] through monetary policy. So my risks are all on the inflationary side.

CHAIRMAN MILLER. Willis.

MR. WINN. I guess I have a little stronger feeling about the economy than the staff. And I see a more normal cyclical kind of development out of that than Dave does in terms of the setup. The price phenomenon bothers all of us and I think we are picking up the fact that [inflation] is suddenly accelerating in the service area. Some of my [lawyer] friends are increasing their fees by 20 percent and they are amazed that they are not running into any resistance.

CHAIRMAN MILLER. Are they still your friends?

MR. WINN. Yes, they are not charging me. With the prospect for what seems to me a typical inventory cycle in the setup coinciding with the bottleneck problem in the construction [area], I get worried about '79 and not about '78. The '78 pressure seems to me much bigger than we have anticipated. It creates challenges to us in terms of what we do here. On the credit side, I would just like to make a couple of comments. One is that I think we ought to be a little concerned about what's happening in the margin credit area, particularly with the options on some of these things. In the real estate area we are seeing a very different phenomenon. These apartments and shopping centers and other buildings are all being constructed with much higher equity than in the 1972-74 boom. Where [formerly] it was a 20/80 kind of equity/debt ratio, we are now seeing 33-1/3 and 66-2/3, which is really quite a different phenomenon in this area. So that building boom strikes me as being a better base in terms of the credit side of the picture, but in some of these other areas I am getting concerned [about] what we are seeing.

MR. BAUGHMAN. Mr. Chairman, if I could just [add a] footnote on that. I agree with the observation of higher equity in real estate development, but that equity in our part of the country is largely foreign money rather than domestic.

MR. WINN. I don't care where the money comes from, as long as it's in there.

MR. BAUGHMAN. That's true. You're right.

CHAIRMAN MILLER. Bob.

MR. BLACK. Mr. Chairman, I think one can make a reasonable case for any of these scenarios that have been painted around this table. I think the crucial issue is what happens to inflation and inflationary expectations. We are riding a crest now [where it] seems that everybody thinks that the Administration, Congress, and the Federal Reserve are all committed to fighting inflation as a primary target. I think it would be very unfortunate if they shifted their [beliefs] to something else; I think that could be extremely risky. I would be especially concerned if the foreigners were to reach such a conclusion--that we had shifted away from this primary emphasis--because this would lead to a weakened dollar, strong outflows of money, and probably rising interest rates. I think it could [unintelligible] and also give us a pretty [hefty] burst of inflation.

CHAIRMAN MILLER. Chuck.

MR. PARTEE. Well, I'm sorry to say that I don't think the economy is developing very well. I agree with Frank that the third quarter is a very strategic quarter from the standpoint of what's going to happen in the cycle. I don't think it makes too much difference whether [GNP growth in] the second quarter is 9 or 10. It's going to be a big quarter, partly just because of the arithmetic of the comparisons of the three average months against the three average months. But I'm inclined to think we are developing the steam for continued rather rapid expansion into the summer, made up partly of capital spending which I think is taking off. And some of that [unintelligible]. You are right, Bill; you can't really do that in a long-term new capital project but things like heavy trucks apparently--according to the Chicago report that I read yesterday--are in very large demand. There are a number of things you can spend money on where you don't need to worry about [unintelligible] and I think we are getting a surge beginning now in capital spending.

I'm also inclined to think that some consumers at least are more inclined to spend in anticipation of inflation than had been the case for the thirty years in the Katona survey because they have been so badly burned by [inflation] in the past. And finally, I would point out to you that the staff doesn't have an inventory cycle. You never project an inventory cycle. There's no way to project an inventory cycle. But there is a source of instability that isn't in the projection--a considerably bigger buildup in inventory in the summer and the fall and then a retreating from that next winter or early spring that will bring on a recession in the spring of 1979.

Now, I also happen to be even gloomier than Henry about the rate of inflation. I think it's going to be very substantial in the period to come. It wasn't mentioned, but some information that we received yesterday from the staff you ought to have in your mind. And that is that the inflation rate that is predicted by the staff is based in part on a decline in the rate of increase in food prices to the 5 to 6 percent range from here on out. I think it's more likely to be double that because of meat prices principally. And that's going to make a high inflation rate for the year as a whole, which will then guarantee an even higher inflation rate for 1979 because the wage settlement round that is coming up is wholly based on this year's inflation and will be very, very large. I am halfway inclined to buy your businessmen's 10 percent expectations for next year on the rate of inflation, [Mark]. And that's of course going to upset, as it has done before, real activity and calculations about the future and in the end consumers' ability to spend. For some time important segments of the consumer society won't keep pace with that. So I think we have probably already set the stage for a recession next year and one with a relatively high rate of inflation continuing. And finally, Mr. Chairman, I don't really think that what we are doing in monetary policy will change that rate of inflation very much one way or the other. It's going to be high regardless of that.

CHAIRMAN MILLER. Phil.

MR. JACKSON. I would say that, given the constraint put on the staff forecast by this Committee's projections of monetary growth, the staff forecast is certainly a rational one. I personally doubt when the time really comes that the Committee is going to exercise the severe constraints that we presently have imposed upon them. And for that reason the forecast is, yes, based on their instructions but perhaps not their judgment as to the most likely outcome. I think we've got some downside and upside potentials and for that reason our risks of being wrong in substantial degree are perhaps greater than we have had before. On the downside, I can see a sharper drop in housing than that forecast because the staff forecast has just a very modest drop in actual current levels of housing starts and activity. As I remember, the average for the year is 1.75 million, which is still pretty high and probably is reflective of the real capacity of that industry today. It looks like there is no way we can produce above 2 million with the present capacity level without it just getting out of hand as far as supplies and materials. The other downside risk is that if we get the types of inflation that have been discussed, I think all sectors of the economy could have their confidence severely shaken and therefore retrench some. And the other thing is that we could have a reverse trend in the value of the dollar, which struck me as one of the contributors to our first-quarter reversal. There appeared to be a substantial multiplier effect of even the psychology of that fact throughout the economy.

I don't think we are likely to get much lower rates of unemployment, and I do think that given the circumstances we are getting very close to the bottom. There's one factor that I haven't heard mentioned in that respect. As a result of the dramatic change in the role of women in the economy, in many cases when we create unemployment we don't mean that the family is without income; we just mean today that one of the breadwinners is without a job. And that produces a substantial difference in attitude toward unemployment, which you mentioned, Henry, and I think we haven't really understood the effect of that yet on the economy.

On the upside, I would say that the chances of carrying forward at the present level of activity are pretty good. People everywhere think that business prospects look good. It's hard for a man with a substantial backlog of orders to think business is bad enough to start worrying yet. I think when the history book is written on this expansion, we will say that the previous expansions were speculative in capital goods, in business activity, inventories, and commercial real estate, and things like that. The one before that was built on mergers and acquisitions and speculation on things of that sort. This one is probably going to be based on the speculative consumer. Now, if you don't think that is a fact, let's point fingers around the room. Governor Coldwell still has his house in Dallas, speculating on the future value, while he lives in Washington. Governor Lilly did not sell his house in Washington when he went back to Minneapolis; he kept it because of the increase in value. Governor Partee now owns two yachts.

MR. MAYO. I have two 14-foot canoes!

MR. JACKSON. I just used that for illustration; people are buying recreation and residences already. We are all speculating on real estate to a substantial degree and I think when we get that behind us someday we will see the possibilities. I would on balance think that the prospects for '78 are probably better than the staff forecast. That means, of course, that inflation will be worse and that means that the risks for '79, when sooner or later consumer confidence is shaken up, are likely to be more severe than we are presently anticipating.

CHAIRMAN MILLER. Paul.

VICE CHAIRMAN VOLCKER. Governor Jackson reminds me that we in New York are living in a completely different world. We worry about the City going bankrupt and whether the price of the cooperative apartments will go down. And the debate on wage increases is whether they should be 3 or 4 percent a year. I hear of all this over-exuberance in the rest of the world and maybe there's some hope for New York business eventually--when banks get business loans. They haven't gotten any business loans. That's right.

My feeling about the business outlook has been more like the beginning of this conversation than the latter part: Things may slow down more rapidly in the second half of the year and more abruptly. I'm not drastically different than the staff forecast, but a little bit on the lower side of that and continuing into '79. I think that would be a good thing if it happened, as was suggested earlier. I'm just thinking of a rate of growth of something like 3-1/2 percent--that's too good to be true, of course--in terms of the long-run potential. But I do think that, while our people forecast prices at exactly the same annual rates per period of time as the staff here has, all the risks are on the higher side. That is related to the fact that I think there is some risk of some boom psychology entering in here, particularly with inventories and an inventory buildup of the kind that Chuck Partee mentioned, although I don't think you see evidence of it now. You just have the feeling that it could happen and there's some risk and that would be a major destabilizing factor looking out further ahead into '79.

On this whole question of price increases, let me just report some very simple correlations that someone in New York did. They suggest, if I recall them correctly, simple regressions. You have to get a 6-1/2 percent rate of unemployment; that was the only factor you were looking at, to have any deceleration in the rate of price [increase] at all. And if you were going to get down to something you call price stability--which isn't exactly a zero rate of price increase--within a decade, you had to have a rate of unemployment steadily above 7 percent. That was just a simple regression coming out of what has happened in the last decade. You wonder how to deal with this inflation problem, even with the kind of levels of unemployment that we have now. But I guess I don't come away feeling quite so pessimistic as at least some of our last comments suggested. I think there is a risk of a more speculative bubble on top, coming out of what I think is a temporary spurt here in the second quarter. But together with the price developments it could catch on into an inventory, and beyond inventory, kind of spurt that I think would bode very poorly for business next year if it happened. It's not my central expectation.

CHAIRMAN MILLER. Well, thank you all. May I just say that what I hear is a universal opinion of a strong second quarter, not terribly different from the real growth that the staff has [forecast]. I hear differences of opinion as to the outlook for growth in the second half of the year and almost a universal feeling that the risk is for higher inflation. That's what I hear.

Jim, before we leave the subject, I think several of the staff, when asked yesterday by the Governors in our briefing, indicated their feeling that if there was any risk in the last half of the year it might be that the performance would be weaker than the [forecast]. Is that still the staff opinion? Or did I reflect it correctly?

MR. KICHLINE. You reflected it correctly, and I don't know of any change--certainly not on my part.

CHAIRMAN MILLER. I thought that the Committee might [want to] know that. You all see some things, but the staff was questioned on this yesterday and I think they would probably feel that prices are the most vulnerable part of their forecast--that they see pressures--but for the discussion on actual real activity, [they thought] it might be lower. Let me ask: I'm told coffee is ready, but is [a coffee break] desirable or can we get out some reports before? What would be your pleasure--break and come back? All right, why don't we do that and we'll pick up on the next and most exciting part, I thought, of an FOMC meeting.

[Coffee break]

CHAIRMAN MILLER. Ladies and gentlemen, may we reconvene to come to the part we are paid for? For now it's going to [unintelligible]. Opinions are very valuable, but votes separating the folks [unintelligible]. Let's see now; [the next agenda item is] domestic open market operations. Peter Sternlight will give us a report on operations since our last meeting.

MR. STERNLIGHT. [Statement--see Appendix.]

CHAIRMAN MILLER. Thank you, Peter. Any questions? Phil.

MR. JACKSON. How does the market currently view the disparity between the level of the federal funds rate and the 90-day bill rate? What is the market conversation about that disparity in rates?

MR. STERNLIGHT. Well, bills, particularly short bills, are widely regarded and accurately regarded as just being in very short supply. Our Desk was a big buyer of bills for foreign accounts from late last year to the first few months of this year. That has lessened--turned around a little bit--but that type of buying has been replaced, I think, by some buying of short bills by people who see prospects of rising rates and want to stay in the shortest, most liquid, investment in the short term as a hedge. They recognize that [rates on] bills are out of line in some historical sense. There are those reasons for their being sold--foreign accounts, captive-type customers, and others who [unintelligible].

CHAIRMAN MILLER. You all have received a report on the transactions of the Desk and we need action to ratify those. Are there any questions or comments? Are there any dissents from approval? Then we will consider those approved and turn to Steve Axilrod for his comments.

MR. AXILROD. Well, Mr. Chairman, I would just like to make a few comments with regard to the evaluation of M1 and M2 [and] its implications for current policy. We had some time past looked at variability of M1 and M2 in the short run and in the long run. I think as background some of that may be interesting to Committee members. I don't think the results would be unexpected. These are measures I had from 1960 through mid-1977, and I don't think anything in recent results would change this. That is, the '77 data for M1 would be somewhat smoother because the old seasonals were revised. But we found that on a week-to-week and month-to-month basis, the variability of M1 is, of course, quite a bit higher--less so monthly than weekly--than the variability of M2, using a number of measures of variability. We had looked at 3 or 4 standard deviations, average absolute deviation from the mean, average absolute change in the series itself. By any of these measures the variability of M1 was higher than the variability of M2. However, if you lengthen the period to a quarter, the results change. That is, it is no longer the case that the variability of M1 was noticeably higher than the variability of M2. In fact, over a long period in the sense of the absolute amount of the variability, there was very little difference. M1 had become somewhat more variable in the periods since '73, but going back 17 or 18 years there was no discernable difference at all. And if you lengthen the period even further to a year, M1 is less variable than M2. It shows less variability by these various measures. So I think the general rule is, that as the time period lengthens, M1 becomes a more "stable indicator" than M2. Thus, I think the trend of M1--and the trend over a fairly modest period of a quarter or so--can be said to have no less significance than the trend of M2, in this limited statistical sense that I'm talking about.

Well, that brings up the question of what have been the trends recently in M1 and M2. And of course, I think the April result for M1, which also caused M2 to be strong, clearly should be discounted. But over the 12-month period ending in April, M1 grew at a 7.3 percent annual rate, above the upper limit of the 4 to 6-1/2 percent range. For the 5-month period from the fourth-quarter average [to] April, M1 also grew at a 7.3 percent annual rate. Of course, for the year 1977, M1 had grown at a 7.8 percent annual rate. So I would say that the evidence is fairly clear--and it's buttressed by just looking at those charts we put in the Bluebook--that M1 is running above the Committee's 4 to 6-1/2 percent range. M2, if you look at the 12-month April-over-April period, rose at an 8.2 percent rate. And if you look at the 5-month period from the fourth-quarter average to April, it grew at a 7.2 percent rate. So the growth rate of M2 is well within the Committee's 6-1/2 to 9 percent range over these periods, again as is clear from the charts that we introduced in the Bluebook.

I think the question that then comes up for the Committee in its decisionmaking--and it can be put fairly starkly--is: If you had your choice of having M1 out of its range but M2 in, or having M2 out of its range and M1 in, what in the present circumstances would you choose? That puts it in somewhat of an extreme way but I don't think it's terribly unrealistic. And I think at the moment I would take M2 in its range, so long as M1--again speaking in a trend way--is growing less than last year. [Its] growth rate was 7.8 percent and [it is] growing less by, say, on the order of magnitude of a percentage point or so.

I have three reasons. First, a significantly slower rate of growth of M1 than last year would in any event represent progress in curtailing inflation. The realistic growth rates in M1 were 7.8 percent last year and in 1976 considerably higher--the 5.7 percent after allowances were made for shifts into money from other deposits [and] shifts out of money into other deposits such as business saving deposits. Secondly, I believe that M1 may be mis-specified; that is, the velocity implied by M1 growth in the 4 to 6-1/2 percent range is unrealistic under current circumstances. And a higher rate of growth in M1 than the Committee's range may be required for any desirable GNP outcome. And thirdly, if M2 and M3 have to be below their ranges, if M1 is within its range, I believe there are serious implications for a credit crunch as it affects thrift institutions in any such very low number.

Clearly, I don't mean by that that M1 can be or should be ignored. First, so far as all our research goes, M1 has considerable information content; the behavior of M1 relative to its projections does tell us something about GNP. When it's running strong, it apparently tells us GNP will be strengthening. And when it's running weak, it seems to tell us the opposite. Work done by Mr. Kalchbrenner and his group seems to bear this out. Secondly, if M1 is running very high relative to its current trend, I think that is clearly in an inflationary direction. And thirdly, we have a problem with M2 because of the artificiality of Q ceiling rates; and that problem is going to be important in the months to come because the new ceiling rates go into effect June 1. We have made some allowance for that in our projection in the Bluebook, but as Mr. Balles brought out in the discussion, we can not be certain of the response to a new instrument such as this new certificate.

Finally, Mr. Chairman, I would point out that the staff does expect that interest rates will rise from here on, even if M1 is to be kept at a rate of growth of around 7-1/4 percent. And certainly they will rise much as indicated in the Bluebook for lower rates of growth. I think that in terms of current decisionmaking, if FOMC members are determined to lower M1 growth into a 4 to 6-1/2 percent range, there's little reason to wait before permitting interest rates to rise, given the distance we think it would have to go. On the other hand, if FOMC members wish to give more weight to M2 relative to M1 and are willing to countenance this relatively high M1 relative to its range, then there is certainly a stronger argument for waiting now and appraising the future before permitting further interest rate increases. Those are my comments.

MR. ROOS. If I may inquire of Steve: If we have these continuing problems of jumping back and forth in the emphasis we give M1 and M2--perhaps the answer to this question is obvious because it dates back prior to my involvement in this process--why don't we target on the monetary base, for example? Isn't that much more controllable?

MR. AXILROD. Well, President Roos, the monetary base is certainly controllable and in my view is probably more controllable than M1. You have member bank borrowing [in] it, which is not exactly a controllable item. But [it's] more controllable than M1 or M2. We simply can't be certain at what rate of growth you should control the monetary base because the demand for monetary base depends on the public demand for demand deposits, time deposits, and currency relative to other liquid assets. So the problem that I see with the monetary base is to know what rate of growth to have, because in order to make that determination you have to make a prior determination about what you want in currency and demand deposits and other time deposits. You don't eliminate any of the problems we now have.

MR. ROOS. But we don't have any fewer problems than the way we're going now, right?

MR. PARTEE. Well, we don't have to worry about currency right now.

MR. AXILROD. That would get me into a long essay. I don't think that anyone could take that much time.

CHAIRMAN MILLER. We have a question from Frank Morris.

MR. MORRIS. Steve, could you elaborate a bit more than you did in the Bluebook on the reasons for the big bulge in the last published data and [give us] whatever information you have as to how permanent that bulge is likely to be?

MR. AXILROD. The one factor that we could see that is different this year was that the amount of nonwithheld tax payments paid by individuals in April was $6 billion higher than it had been in the previous three years on average. Now that $6 billion--if you make the assumption that people sold other securities and transferred time deposits into cash to make that payment, then that $6 billion, let us say, would go into demand deposits. And if it stayed in there for a week on average, that little fact itself would add $18 billion on a monthly average [at an annual rate; a week is 1/4 of a month so in terms of an annual rate of growth for the month the calculation would be] 1/4 of $6 billion times 12, which is around 5 or 6 percentage points on M1. [Those funds] would be drawn down but just being in there for a week would add 5 or 6 percentage points to growth of M1. Then we have further evidence that the Treasury was processing the money that came in slowly, so [the $6 billion] might have stayed in [demand deposits for] more than a week. Clearly, people don't transfer all that money; they make some payments out of existing accounts. So we have been saying that in round numbers this little fact--the greater nonwithheld payments and the slower processing by the Treasury--might have temporarily added 4 to 8 percentage points to the growth rate of M1 in April.

Now, given the usual patterns of inflow to the Treasury and even with some slowing in their depositing checks into their own account, we would have expected that to come out in the first week of May and it didn't. It went to around $4 billion. But our preliminary data for the second week of May suggest a drop of about $4 billion. So there is some evidence of things beginning to calm down to a more normal level. However, the average for those two weeks in May is not sufficiently low to believe that you're going to have all these 8 percentage points go away and get a May growth rate of around zero, which is what would be required. So we are not able to put substantial credence into that explanation. We're not able to say for sure that the underlying growth rate is 7 percent and you're going to get 19 percent with a zero or negative in May and [return to] the underlying growth rate. We just don't have the evidence to substantiate a reasonable explanation. So it may very well be that the underlying growth rate for M1 is stronger than on the order of 7 percent. It's clearly stronger in the second quarter because of a large rebound in nominal GNP calling for transactions cash. So that's why we've come up with a 9 percent projection, possibly with a margin of error that's close to 1 or 2 percent.

MR. BAUGHMAN. May I ask a further question, Mr. Chairman?

CHAIRMAN MILLER. I think we have a couple ahead [of you]. We'll put your name on the list. Paul you had [a question].

VICE CHAIRMAN VOLCKER. I'm just curious, after listening to Mr. Axilrod's [description] of the dilemma between M1 and M2, which is readily understandable in recent data. My question is if you look ahead [at] the projections that the staff gave us, somehow they both fall nicely within their ranges. I would think the implication at this time is that it would be somehow--Well, what are the implications for the future when we seem to be suggesting that we can't accomplish that but the projections say we can?

MR. AXILROD. The projection assumes a further increase in Q ceilings. That's the first thing the projection assumes, which we now do not have. And secondly, the projection is in some sense a maximum likelihood, but I don't think it means that the probability is over 50 percent. I think that if you order the probabilities, the projection may be a modal one and that mode may be 20 percent and you have 19 percent and 18 percent and 17 percent for a lot of the other ones.

VICE CHAIRMAN VOLCKER. All the other chances are on the other side?

MR. AXILROD. Well, it can be on either side.

VICE CHAIRMAN VOLCKER. The mode.

CHAIRMAN MILLER. Henry, you had a question, I think.

MR. WALLICH. Given the prospects for a reduced federal deficit and reduced federal borrowing, can you make any quantitative guess as to what impact that might have on interest rates if nothing else changes? Would it be at all significant?

MR. AXILROD. I can't really give you a guess. I think you have to go through the GNP projection because if you have higher taxes than you would otherwise have or reduced spending, you clearly have to go to the GNP projections and through that assess money demand. So offhand I really couldn't give you an estimate, Governor Wallich, and I don't know whether we've gone through that projection method yet.

MR. KICHLINE. We have run a couple of simulations. For what it's worth, if you use the new package, which is deferral for one quarter and 1/5 smaller in size, the bill rate as compared with that in the forecast now would be about 1/4 percentage point lower than we had assumed in both the first and the fourth quarter and no change in the second quarter. But it's really a small impact on bill rates.

CHAIRMAN MILLER. Chuck.

MR. PARTEE. Well, I think Steve answered this, but I just wanted to clarify. The precise figures you gave on M1, Steve, fourth quarter-to-April and April-to-April suggested something like an unchanged trend rate of growth of 7-1/4 percent. Now, that just happened to be that way because the last period that you were using was a quite weak GNP period. And I think you said that you would anticipate that the trend rate of growth in M1 has moved up from that.

MR. AXILROD. Yes.

MR. PARTEE. Into the 8 to 9 percent range.

MR. AXILROD. That's right. To hold 7-1/4 we think you'd have that interest rate rise, but of course not at the levels we had in the Bluebook.

MR. PARTEE. Yes, so that without action to over time impact on the growth of M1, it would be more than 7-1/4.

MR. AXILROD. That's our thought, yes--given recent trends in velocity.

CHAIRMAN MILLER. Ernie.

MR. BAUGHMAN. On the large amount of nonwithheld taxes, Steve, do you have any impression as to how that's split between personal and business? Is it predominantly one of them?

MR. AXILROD. I'm talking about individuals.

MR. BAUGHMAN. About individuals. So you would not relate this development to the strong surge in business loans and--

MR. AXILROD. No, that was individuals only on the nonwithheld [taxes]. I would relate the strong surge in business loans to the strength of the economy; and the strong demands for cash in the economy had an effect on M1. I think they are related facts, but through the effect on the economy.

MR. BAUGHMAN. We used to hear, on a quarterly basis, quite a lot of conversation in banking circles about loan demand for tax payments in the business sector. I just hadn't encountered any such conversations [recently].

MR. AXILROD. No, no, that was not it.

CHAIRMAN MILLER. I would like to suggest a procedure now that you've asked your questions of Steve. I would like to give you some personal comments about the question of the directive and then perhaps call on the voting members of the FOMC in order to get your personal viewpoints and then call on the other Presidents to give us their inputs. I think that might speed up the process in getting to a decision.

I think this is the most difficult of the few meetings I've been to in terms of making the right judgment and I'll tell you a few reasons why. I won't try to give you the full scope of my interests and concerns because I don't want to take that much of your time. But first let me just give you a few slants on the money situation. If you look at the [figures on the] money aggregates on page 4, change the second M3 to M4; we don't have two M3s. The first thing that has concerned me about the decision this month is to what degree [M1 growth in] April is an aberration and to what degree [it is due] to the tax deposits--the nonwithheld payments--which were higher than usual. And to what extent has the high level of stock market activity created aberrations that we can't yet measure or understand? I'm beginning to assume that it is an aberration. I look back and I see--not on this table--7.8 percent growth in M1 in calendar year '77 and for the last twelve months 7.3; it's coming down. In the last six months, including this April, it's 6.5. And in the last three months, including this April, it's 7.2. My first observation is that if there is something strange about April, then averaging over time, the figures aren't nearly as bad as we might be thinking [when] looking too closely at one month. You see the same thing in M2. Steve, refresh my memory. What was the rate of growth in calendar '77?

MR. AXILROD. I have the figure right here--9.8 percent.

CHAIRMAN MILLER. It was 9.8. But in the last twelve months it's down to 8.2 and in the last six months it's down to 6.9. And even with 3 months and April the way it is, it's 7.0. So my first conclusion is that perhaps we should not begin to exercise policy too quickly over a month that may have strange features about it.

My second concern goes to the general judgment about the economy and the risk of being right or wrong on that judgment. It's interesting that when we look out at the [unintelligible] as it is. What we've got to do in judging the economy in the next twelve months is to judge how it's going to behave, and it never behaves like we feel today. It always behaves in some other pattern. When we look at the first half of the year, we have an average real growth of 4-1/4, or maybe 4-1/2, and we put that against the context of the early projections of the staff for growth for the full year of 4.6 percent. And the first half, with a strong quarter, is less than that. I don't see the characteristics of an overheated economy if you assume that the two quarters do have to be averaged because of the characteristics of the first quarter and the catch-up significance of the second quarter--the second-quarter bounceback. When we were here talking earlier in the year and looking at first-quarter figures, everybody assumed a much softer bounceback, you see. Now that it has happened and it averages out everybody assumes that it's going to continue forever. I think we tend to do this psychologically. I worry about that because it might make us make poor judgments.

The inevitability of the circumstances, if I'm correct, would indicate that we shouldn't yet judge that there is a built-in strong economic uptrend. One would expect that we'd be running out of characteristics of catch-up buying, running out of characteristics that may be influencing consumers [to spend], recognizing that we have already put some restraint into the system and recognizing that the change in the tax proposals mean the fourth quarter is going to have a reduction of stimulus of about $35 billion, annual rate. I think the more likely scenario is for a slowdown in the economy along the lines of the staff projection--perhaps even weaker by the fourth quarter. I personally think this is good. I assume our policy direction for the last few months has been directed toward slowing the economy as a means of slowing inflation and as a means of bringing some equilibrium in world economic conditions because our fast growth rate against slow rates have created certain problems for us.

Now, if in fact that judgment is true, I hope we'd be cautious in further monetary action that might precipitate or trigger some dislocations that we don't intend. I also would think that we want to achieve that lower growth rate with that soft landing that Henry Wallich speaks of, which means we ought to be a little cautious in how we move to reinforce that slowdown for fear that we'd overshoot and we don't land very softly--we go right on through the line and end up in a recession. I guess my fear is that we're at the point of time at the Federal Reserve where if we don't make a very judicious judgment here, we could well find ourselves being the cause of recessionary pressures.

On the other side, I view the risk as being low if we go slowly, because I don't see further significant tightening here as doing much for inflation or doing much for preventing a cycle if it's already under way from some of the forces you all mentioned. I mean it's going to happen then, so why do we need to accelerate it? Therefore, I don't see a high risk in going slowly. I see a high risk in going too fast because if the scenario [I've outlined] is right, surely that will bring about a recession, which I think would be unwise. So [that's how] I look at the balance of risks--and again I'm shortening this without telling you about my recent conversation with the housing industry yesterday. They came out with a very strong anti-inflation resolution and they're home saying they're going to cut down their activities because this is what the group meeting in Washington yesterday was saying. They were calling on the federal government to balance the budget this year [and] in '79; they were calling on the federal government to take action to balance the budget even if it meant withdrawing money from housing. So there is a psychology a little different from what I heard [previously]; they're going home with the idea of dampening their activities and being willing to forgo building in order to hold down inflation. That was the story when they had a written resolution they had just adopted 90-10--90 percent voting for it after a very intense debate.

So there are, it seems to me, more probabilities that we could create problems by going too far this time than we'd create by being a little more cautious. Therefore, my tendency is to hope in our discussion that we might find some concurrence in that viewpoint and some consensus that we [should] learn more before we begin to take too significant an action in either direction. There are no conditions here for easing money, at all, that I can see. But what I worry about is that we might begin to tighten too much too soon without knowing enough and regret it later.

Now, I would hope that we might run down the list, as I say, and ask for your viewpoints, specifically on what [alternative] you'd like to see us adopt--A, B, or others. And then if you were willing, I'd like to suggest that you might last turn your attention to some of the revised wording in the memo that I sent to you. It's not a big issue, but if we have time, we might at least look at that question as to the wording of the directive. So Ernie, your name [begins with a] B, so I guess you start.

MR. BAUGHMAN. Mr. Chairman, I guess I assess the probabilities of making an error at the present time, judged in the perspective of looking back twelve months [and] down the road, as being somewhat different. My major reason for this is our historical experience. Granted, every experience is a different one, but my impression is that our historical record of monetary policy overall tends to say that we were too slow in undertaking the restraining measures as the economy was moving toward full use of its resources. And that contributed both to the fact of a subsequent adjustment, which took the form of recession, and to the duration and depth of the recession. So I'm inclined to feel that the probability of achieving a so-called soft landing, which I judge is a leveling off of activity at a level approximating capacity use of resources, is increased by moving fairly vigorously on the restraint side at a point in time [such as] now in the pattern of this economic expansion, but with a high sensitivity to easing off earlier. I realize that particular judgment as to the timing of easing off is a high risk one because we have not demonstrated any particular ability to pinpoint the beginning of recession.

Coming to specifics, my preference this time would be to take a federal funds rate range on the order of about 7-1/4 to 8, with a 7-5/8 midpoint, I believe, on that range. I would be inclined to move rather judiciously within that range. As to the monetary aggregates, the difference between A and B is fairly small and I could ride with either one of those.

CHAIRMAN MILLER. Thank you, Ernie. Phil Coldwell.

MR. COLDWELL. Mr. Chairman, I'll be brief. I think the point of view that Ernie has expressed fairly well encompasses my position. I think we run a greater risk of a bigger inflationary blow-up by not taking a small judicious action in tightening further now. The change in fiscal stance, I think, will be helpful but I don't think it is material. So in my view we need to slow this GNP down a bit more and I think the inflation problem is our greatest problem. I'd prefer to have, in line with what Steve said, a greater emphasis on M2. I made this comment at the Board meeting the other day. I'd be willing to [give it] 2/3rd weight as our policy action guide. But I think we do need to curtail growth if inflation is to be slowed. Therefore, I'd take a small step. I happen to have come out with precisely the same [range] on federal funds that Ernie came out with but I would put the midpoint at a skewed level of 7-1/2 instead of taking the 7-5/8 [midpoint] and then I'd wait to see what happened to the monetary aggregates against our expectations. And here I would provide a little more room for action, which would mean that we didn't necessarily push ourselves. I would prefer an M1 range of 3 to 8 and an M2 range of 4 to 9, which I think gives us a bit more leeway here to work with, and at the same time a skewed federal funds range.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. Well, let me say first, Mr. Chairman, that I found your opening comments very provocative. However, I think I am following in the same trend direction as Ernie and Phil. On the April bulge, I think there are two risks. One is that it is essentially temporary and that to respond too promptly to something like that presents a problem of having to undo something that you wish you hadn't done. I think an example of this is two years ago when we did respond too quickly to bumps and had to undo it. So that's one risk. The other risk, however, is that with a bulge of this kind followed by subsequent but more moderate rates of growth that these more moderate rates of growth will not be sufficiently low to average out to the kind of growth rates over the whole period that we really should have. I'm inclined to think that that's the more likely possibility and that we may find ourselves with growth rates over an average of the first half, for example, that will be higher than they should be in this kind of an economic environment. So, I would be inclined to move very cautiously and moderately toward somewhat less expansion. The funds rate range that I had is from 7-1/4 to 7-3/4, although Ernie's would be acceptable to me. I'd be inclined to place the midpoint low in that range.

CHAIRMAN MILLER. What would you do?

MR. EASTBURN. Not to be picky about it but I'd say 7-3/8 or something like that. I wouldn't object to 7-1/2. In any case, it shouldn't go down. I think we are agreed on that. On the aggregates, I would prefer something like 3 to 7 percent for M1 and whatever is appropriate for M2 to conform with that.

CHAIRMAN MILLER. Thank you. Steve.

MR. GARDNER. Well, you've heard me speak before about the danger of organized meetings of groups who will then feel that they are pressed to do something. I would be supportive of your view. I think we have had good luck and good fortune and the Federal Reserve's role has been somewhat spotlighted. And I am not sure enough about a continuation of this bulge to be certain that we should throw at the country a significantly higher rate at this time. We've got some transactions balances to worry about--the announcement we made about transferring funds from savings to checking accounts. We have a new system for setting ceiling rates. And I'd just as soon move cautiously at this time for any length of time that you wish. It may not be as long as [until] the next meeting but it certainly would require another conference of some kind. So I would much prefer not to boost the fed funds rate significantly higher than we have already boosted it. There we will be leading. The prime rate will go up and all kinds of things will happen. Therefore, I would stay around [the current rate] for awhile.

CHAIRMAN MILLER. Thank you, Steve. Philip Jackson.

MR. JACKSON. I think as we talk about ranges of growth--and focusing on M1 for purposes of discussion--we need to recall that we did make a 5.6 percent change in the seasonal adjustment so that if we compare 1978 against 1977 we are talking about roughly 24 percent for April, which strikes me as being in the range of growth hard to excuse for just abnormal factors. It gets out of hand. I also would agree that to rush pell-mell toward double-digit interest rates is probably foolish and that, therefore, we will need to be more judicious in our use of monetary policy. At the same time, unfortunately, we are in a period where the risks of a loss of public confidence, in my judgment, not only will damage the economy but will exacerbate the underlying inflation that we have. [That's] because if the public perceives that there is no attempt to do something, then you'll get the negative reaction and things like that will contribute to it. So for that reason, despite the risks, I think the Federal Reserve has to contain inflation or at least continue its visible policy of doing what it can on the control of inflation. For that reason I see no choice in the face of the monetary evidence that we have [but] to continue to increase interest rates to some degree. I think the degree should be moderate and cautious. To be explicit, it's my judgment that we should go on to the 7-1/2 midpoint of a 7-1/4 to 7-3/4 percent federal funds range over the next month. Considering April and the consequences for the third quarter, if we had a zero rate of growth for May-June we'd still end up with 6-1/3. As a consequence--

CHAIRMAN MILLER. Is that right?

MR. JACKSON. It was 19 in April.

CHAIRMAN MILLER. For May and June, what are your growth figures?

MR. AXILROD. 6-1/2 for M1.

CHAIRMAN MILLER. For May and June. What would it average for the quarter then?

MR. AXILROD. For the quarter it would be 9.2.

MR. JACKSON. As I say, if it was zero, we'd still end up with a 6. So it's my judgment that particularly on M1, the [low] side of the projected 2-month range we ought to drop to 2. I'd say zero but I think that's foolishness; here again 2 is more realistic. In other words, what I am really saying is that I think our chances of reducing the federal funds rate as a consequence of the aggregates that come in should be very low. At the same time, I would prefer an 8 percent top on that. I would buy the suggestion that 4 to 9 would be a realistic range on M2 in that respect.

I do think it is time for us to face, and face seriously, the probability that the demand function for M1 in relationship to real GNP is changed from what we expected it to be. And, therefore, we need to readdress our ranges for M1 and make a significant change to adjust them to the real world that we've now seen unfold over a sufficient length of time where short-term aberrations are less likely to be the cause of it. I could even be tempted to go ahead and address it now as much to remind ourselves as the Congress that you don't have to wait three months before you face the facts. However, in view of the regulatory changes that are anticipated, which will in turn influence the results of the ranges, I think the smartest course of action would be to wait until our regular period in July to readdress that question, hoping that we will have at least better insight or more study. I think either one would be helpful, preferably more insight but in the absence of insight at least more effort to gain insight. But at least [we ought to] address that question then so that we can give consideration to the consequences of the regulatory action. So for that reason I would defer it but I do think it's time for us to do something, Mr. Chairman.

CHAIRMAN MILLER. Thank you. Chuck.

MR. PARTEE. Well, I'm not really far away from you for a very short-term strategy. But I think I probably am considerably away from you in terms of what the ultimate result may be. As many people around this table have probably long suspected--and I shall now admit--I'm not much of a monetarist.

CHAIRMAN MILLER. Surprise, surprise!

MR. PARTEE. I've always looked at [money growth] as an index, as a guide of what we're doing rather than a quantity that is of any significance to control in and of itself. But I think at a stage like this in the business cycle, with these differences that have come to light here this morning on what may develop after we get through this temporary bulge, that what we especially have to guard against is the creation of too much credit. We have to be sure that the conditions in the credit markets are such that if there is a self-generating burst of credit demand--and I must say that I see some signs of it in business demands for credit and in consumer demands for credit. You know, the consumer credit increase reported in this last month was the largest ever for one month. We have to be in a position to resist that. For that reason I think the aggregates have significance as an indirect proxy for that purpose, and that may mean substantially tighter conditions and substantially higher rates. I am particularly bothered by the fact that the kind of interest rates that we are talking about may not be at all sufficient if in fact there's been an acceleration in inflation of a point or two since the end of the year. So I do believe that we may have to move and move substantially as the spring and summer go on.

For now we have given the market quite a shock in the increases that we've had in the last several weeks. And we have touched off, certainly, the basis for disintermediation. Perhaps the new certificate--which is where I put my confidence rather than in the 8-year note--will help forestall that to a degree. I don't know. But I think we have given [the market] a shock so I would say that we ought to go easily and carefully for the period right ahead. I think an 8 percent funds rate is really too high to contemplate unless we again seriously consider the implications of an 8 percent funds rate. So I come out with a fairly narrow funds rate range--7-1/4 to 7-3/4. I would put the midpoint at 7-3/8, Mr. Chairman, which is just about where we are now, but move if in fact the aggregates seem to be strengthening within the ranges I am going to suggest. The ranges I am going to suggest are 3 to 8 for M1 and 4 to 9 for M2. I think that does bias the probabilities a little on the side of our being high in the ranges and, therefore, needing to move up the funds rate but not greatly because this 19 percent increase was so large in April that we may well have a backup from that in the period to come. So that's what I would propose; and I would of course have a monetary aggregates type directive. No one else has mentioned that, I think.

CHAIRMAN MILLER. Thank you. Henry.

MR. WALLICH. Let me look at the economy first. Inflation looks worse than it did some time ago. Growth looks a little worse, too, but I think that's not inappropriate because we are, in my opinion, close to full employment. I think our main need now is to go out against accelerating inflation. If [a pickup in inflation] were to happen, we would be sure of a recession and probably, with inflation going into wages, very little chance of winding down that inflation. As far as the dollar is concerned, I would argue that it's strong enough and we don't need to do much to tighten as far as that consideration is concerned, which I don't give a great deal of weight to. Now, that [leads] me to [want a] somewhat tighter position. Looking at the aggregates, I think the evolution of M1 over time will be that we will not try to get back on track but that we will go on overshooting and using base drift as a means of covering our tracks. So we'll be going on at 4 to 6-1/2 percent. I don't share Philip's view that we ought to change this because I think it would create a false psychological impact. But I do agree that it's not a meaningful target once one recognizes that velocity gains are going to be smaller than seemed possible. But we can get by perfectly with 4 to 6-1/2 and occasional overshoots. The danger is, I think, that these overshoots might be very large and I'd like to guard against that by setting a slightly higher funds rate target now and putting the trigger points on the aggregates not too high. So that would get me to a range of 7-1/4 to 7-3/4 on the funds rate, with 7-1/2 to move to. For M1 I would have 3 to 7-1/2, bearing in mind the need for a relatively low upper trigger. [I'd favor] for M2 a range of 4 to 8 and a monetary aggregates directive.

CHAIRMAN MILLER. Thank you, Henry. Mark, I think is our next member. Is that right?

MR. WILLES. As I listened to most of the discussion, I seemed to follow it well right until we got to the policy prescription and then I wonder what--.

SPEAKER(?). That's the trouble with listening!

MR. WILLES. I'm going to make a different recommendation, so I guess I'd better explain briefly why. First of all with regard to the inflation outlook, I thought that we all pretty much agreed earlier in the day that it is very serious and most of the risks are on [the high] side. While it's perfectly true that we can't do anything about that in the short run, I think it's also true even for non-monetarists that in the long run you tend to get the same rate of inflation at which you have allowed the trend rate of money to grow. Chuck made the point earlier, and I think it's a very critical one, that abstracting from the first quarter--which I think has to be considered an aberration because of what was happening in the real economy--the trend rate of growth of money is up. And my guess is that when people look back at that they're going to say: "There they went again and they followed a pro-cyclical monetary policy, with the trend rate of growth of money increasing precisely at the time when inflation was increasing and we were at a very high level of capacity utilization." So it seems to me, while there are always reasons why we need to be concerned about bulges and that sort of thing, that if there ever were a time when we ought to get the trend rate of growth of money down, now is the time to do that. And I think that will have an impact, although unfortunately a moderate one, in 1979, and it will have a significantly greater impact beyond that. And if we don't get the trend rate of money growth down then all we do is simply validate the higher inflation rate that we're looking at through 1979.

I think, too, that the point Phil Jackson made is a very crucial one. People are looking very closely at the moment at what we do and if they see us quote "easing up" in whatever way they [view] that--the rate of growth of money or whatever--I think that can have a very serious short-run implication in terms of inflation. We currently have the inflation rate expected to go above 7 percent for 1978. That means that, at current levels of interest rates, the Treasury bill for example has a negative real rate. Now, I know there are lots of technical ways of trying to figure out what real rates are, but just making very crude calculations here we are accelerating inflation at almost near full employment and we still have some negative real rates of interest. And that seems to me to be a very strange posture for us to be in. So I'm not at all concerned about a further movement of interest rates.

Second, since we have had an enormous bulge in April, we are looking for a reduction from that in May. But in order to get that reduction we're going to have to have what I think would be one of the largest drops in the history of the series to get it. The staff's forecast for May and June is 6-1/2 percent coming off that huge increase in April. I can't conjure up in my mind why we would want money to grow any faster than that in May and June because that will still give us for the quarter [growth] of money of over 9 percent. So in terms of M1, I would put the range at 2-1/2 to 6-1/2 because I don't see why we would want--coming off the very strong April number--to have it go any faster than that in May and June. And that will still give us a quarterly number that I think is too high. In conjunction with that, I have M2 at 4 to 8 although I go in the opposite direction of Steve. I become less confident about M2 as we move into these kinds of periods rather than more confident about what it means. In terms of the federal funds rate, I would prefer a range of 7-1/4 to 8 and would let it get there as fast as the aggregates suggest that it should.

CHAIRMAN MILLER. Thank you, Mark. Willis.

MR. WINN. I'm puzzled as to what happened to V in our alphabet.

CHAIRMAN MILLER. V?

MR. WINN. Paul Volcker.

CHAIRMAN MILLER. Oh, the Chairman and the Vice Chairman will speak last. We want all your wisdom--all that we can get--first.

MR. WINN. I'm afraid I'm not contributing much wisdom but I do have a sense of experience at having been burned for being a little foot-dragging in our efforts to broach some of these problems. I guess my tendency is to average out to perfection by erring on the other side.

CHAIRMAN MILLER. Be wrong?

MR. BLACK. Two wrongs don't make a right.

MR. WINN. I understand, but I can do two wrongs as well as a right sometimes. My tendency would be to be concerned about the image of the Fed and its actions as they are perceived by others. The problems are very real in terms of the inflation front and activity. While I realize what we do has impacts down the road and not immediately, my tendency would be to proceed cautiously, but certainly. [I'd go] with ranges of 4 to 8 or 3 to 8 and 5 to 9--I don't really care too much on those--with the funds rate range of 7-1/4 to 8 with a 7-1/2 midpoint and a conference call before we proceed over 7-3/4. But at least it makes us face up to it again should the aggregates [grow] more rapidly than we're projecting.

CHAIRMAN MILLER. Why don't I quickly get the views of the other Presidents and I'll come back to you, Paul. John.

MR. BALLES. All things considered, I think I would join those [who would] snug up a bit, doing it very cautiously and for not the same reason that you mentioned. Looking down the road a bit I am quite concerned about the further inflation risks from the cost-push side. I'm concerned about the rejection [by] the AFL-CIO of the President's suggested guidelines for wage behavior. I'm concerned about the implications for inflation [given] the extent to which I think we are already at a practical full employment point. I'm concerned about the inflation risks coming from what I think are capacity restraints in industry; for all intents and purposes we're at a point where any further use of capacity will build in inflationary pressures.

I think that the Administration has come quite a distance, [with] prodding from you possibly. The President's inflation message I might add was received with tremendous lack of enthusiasm in the four Far East countries I was visiting in April. They looked [at it as] a lot of rhetoric with no real cutting edge. About the only thing that helped the psychology in terms of the dollar were actions that the System took and that the Treasury took in announcing gold sales. I'm hoping that we'll get some beneficial reaction to this latest scaling down in the way of a tax cut; nevertheless the budget deficit will still be as big as it was in the past fiscal year. And Chuck, I think part of the burden is still on us to go a bit further than we have already. Net, the bottom line I would come out with is a federal funds rate midpoint of about 7-1/2 or a range of 7-1/4 to 7-3/4, M1 at 3 to 8, M2 at 4 to 9, and a monetary aggregates directive.

CHAIRMAN MILLER. Thank you, John. Bob Black.

MR. BLACK. Mr. Chairman, I again end up closer to Mark Willes than anyone else, although I'm not exactly at the same point. I do think there are a couple reasons why we might not get as much growth in M1 as we may have been assuming. Our work with the aggregates, for what it may be worth, suggested that there may be more of a reversal in June than in May--[more] than the staff [shows]. And I think that we ought to bear in mind that we have had a pretty significant deceleration in M2. If you take out of M2 the large non-negotiable CDs that are in there, we've had even more [deceleration] so that's one we don't want to see decelerate too much. But having said all this, I still think the way M1 has gone that we ought to move up. My specific figures come out to be for the federal funds range 7-1/4 to 8 with a midpoint of 7-5/8 to which I would want to move right away and for M2, 4 to 8--Chuck is going to throw up his hands in horror at this again but I'm thinking along the same lines as Phil Jackson--and for M1, 1 to 5 percent. And Chuck, if you trigger that one, you go 1 percentage point past the midpoint and that would still give you 8-3/4 if you average the three rates in M1 for [unintelligible].

MR. PARTEE. You are specifying an 8 percent funds rate, in other words. Why bother with the aggregates?

MR. BLACK. No, not necessarily.

MR. PARTEE. Yes it is. Almost certainly.

MR. JACKSON. Your predictions are--

CHAIRMAN MILLER. Thank you very much, Bob. Roger.

MR. GUFFEY. Mr. Chairman, I'd like to come out on the side of that we have moved a considerable extent since the last meeting and it seems to me that the risk now may be on the side of going a little too far and in early 1979 our actions maybe accounting for this possible recession. It also seems to me that right now, whatever we do around this table, there isn't an awful lot monetary policy can do to abate inflationary pressures in the near term. I could also say that it seems to me that the criticism of the Fed is that we always move too slowly and we must take the first step. And indeed, I believe that in this past month we have taken the first step. So I would propose that we not move too much further at the moment and just wait and see. [My preference] would be a 4 to 8 M1 range and a 5 to 9 M2 range, with a federal funds range of 7-1/4 to 7-3/4 with at least a near-term midpoint of 7-3/8--where we are now. I would like really to see us move over the period to 7-1/2 [by] this time next month. I think the market anticipates it. I think we're going to do it sometime in the future and the pain would be very little for us to be at 7-1/2 this time next month.

CHAIRMAN MILLER. Thank you very much. Bones.

MR. KIMBREL. Mr. Chairman, from our vantage point, I think we'd want to associate with those who want to snug cautiously. Maybe we do not contribute to the inflationary restraint at the moment but I think the market psychology can be very helpful and I am encouraged by the responses we've been able to obtain in that area recently, sustaining efforts both in the equity and the foreign exchange markets. Accordingly, I'd like to see us move cautiously with [a funds range of] 7-1/4 to 8 percent maybe skewed to 7-1/2 but not be reluctant to move if the aggregates suggest it. [The ranges I'd propose] there are 3 to 8 and 4 to 9.

CHAIRMAN MILLER. Thank you. Bob Mayo.

MR. MAYO. Well, I guess I'll join Chuck in confessing. Nobody ever thought it--and I wouldn't want to repeat it--but I am a monetarist over a period of a year or more. I think money does matter in that period of time but again I hope it isn't a monthly speech that we are committing, if I may use the term, "idolatry" in worshiping statistics that are the best we have and the best in the world. But they're really not good enough to [base short-] term decisions on without a considerable degree of perspective and flexibility in realizing what we're doing. To illustrate my point on statistics, I have a table in front of me that shows the 12-month moving average on the money supply going down very substantially from its peak of almost 8 percent last September and October to under 7 percent including April. Figures on M2 show an even more dramatic reversal in [terms of] showing our resolve in keeping the money supply under control. I join Roger in feeling that we made a courageous decision in this Committee a month ago. I think it has paid off in many, many ways--whether you look at the stock market, whether you look at the foreigners and they look at us, whether you are looking at the prestige of the Federal Reserve and its influence on the fiscal side. In just any number of ways we are riding pretty well. Let's not let that go to our heads and try to overdo it. I think we've made our major move for this quarter for tightness. We'll be here again next month. I don't see any reason to tighten further.

On the other hand, for psychological reasons I see no reason either, if the aggregates are bumping up a little bit, for being shy about going to 7-1/2. We are actually at 7-3/8, I believe, are we not now? [That 7-1/2 is] a practical expression on the federal funds rate. I don't see much reason for going beyond that without a special meeting, even if the aggregates are not behaving as we would like. I don't have that much faith in our weekly figures of the aggregates and that's no complaint about the staff. I think it's merely an expression of realism. I would go with the 7--or even the 7-1/4 is all right--to 7-3/4, keeping it at 7-3/8 unless things seem to be pushing a little. I think this will keep our market image proper--if we are indeed concerned about that, which we should be. I would widen M1 to 4 to 9 and go with 4-1/2 to 9-1/2 on M2. I see no reason to go lower in either maximum or minimum M1 or M2. I think it would again be an expression of overly fine-tuning.

CHAIRMAN MILLER. Thank you, Bob. Frank Morris.

MR. MORRIS. Mr. Chairman, I support your position for a reason that you didn't mention.

CHAIRMAN MILLER. Give some reasons out.

MR. MORRIS. Well, I think that this is a reasonably important one. We did get a jump on the problem last month and it's the first time that I have sat around this table that this Committee has ever acted in anticipation of a bulge in the money supply and I think that's a great step forward. But we also know from a study of history that the monetary aggregates react with a lag to a change in interest rate policy by the central bank, so that we have not yet seen the full effect of the move that we've already made and the impact that the current level of rates is having. I don't think we should ignore that fact. One little piece of evidence: the New England mutual savings banks outside of Boston--and their deposit flows are less sensitive to interest rates than those of the Boston savings banks--had a net outflow in the month of April.

MR. JACKSON(?). After the tax date.

MR. MORRIS. Yes, but still it is significant nonetheless. On the other hand, Mr. Chairman, while I can accept Steve's projection of 9 percent for M1 for the second quarter, since I can average that [with] the first quarter and come out with 6-1/2, I do think that we've got to structure ourselves so that we don't exceed that number. Therefore, it seems to me that we should do this: First, I like the funds rate of alternative A, moving to 7-3/8--we're almost there now. But I would scale down the range for M1 to 3 to 7 because an 8-1/2 upper limit for that range would mean that if the staff projection for May is correct it could accommodate a 10-1/2 percent increase in June, which I think is too high. Similarly, on M2, if the staff projection is correct, the 9 percent May-June average would accommodate roughly a 12 percent rise in M2 in June. And it seems to me that we simply can't [accept that]; that's beyond the pale. Therefore, those ranges ought to be revised downward to something like 3 to 7 and 3-1/2 to 7-1/2, which would assure that we stay within the current projections for the second quarter. And to do so I would give the Manager full authority to move up to 7-3/4 percent if necessary--if the evidence coming in suggests that June is busting out all over, as the song goes.

MR. PARTEE. Just one comment, Frank: On M2, you ought to recognize that those new certificates go in on June 1 and there could be some stock adjustments [unintelligible]. It's more likely at the thrifts than at the banks, but there might be some at the banks.

CHAIRMAN MILLER. Citibank just announced its offering of it already.

MR. MORRIS. That's true.

MR. JACKSON. But it only has a one-third impact, given the fact that M1 is currency and demand deposits--

CHAIRMAN MILLER. Yes, but it’s in the M2.

MR. PARTEE. Two-fifths.

CHAIRMAN MILLER. Larry.

MR. ROOS. If this is the month for confessing, I must confess that I’m neither a monetarist nor an economist but I am a realist, I think. And there are certain things about this posture we find ourselves in today which I think realistically ought to be observed. First of all, we’re between a rock and a hard place; we’re in an awfully difficult position. We are here because of our own--and this was before you came aboard, Mr. Chairman--doings. Since the third quarter of 1976, for seven quarters M1 has grown at an average rate of 7-1/2 percent and there’s no way in the world after we’ve permitted that to happen that we can do anything in the near term to rectify this situation or to materially fend off inflation in the period ahead. However, I think we can make one terrible mistake. I think the best thing that the economy has going for it, both as far as the domestic economy is concerned and the international economy, is the fact that an awful lot of people, Mr. Chairman, believe that we are at long last concerned about inflation and that we’re determined to do something about it. I’m not sure whether this has permeated the Washington climate, but this is the one thing that businessmen and everyone in our part of the world feel good about--that we’re doing something about it.

Whatever policy decisions are made today have got to be made in a manner that would not reflect any easing of our determination to continue to try to reduce the rate of inflation. I would subscribe to Mark Willes’s basic proposals with one additional word of caution--that under conditions of strong credit demand as presently exist if we are not willing to permit the fed funds range to [move] upward to at least the 8 percent upper limit, we may as well right now in the cold light of day admit that we’re going to refuel and we’re setting the fires of further inflation. I think we ought to face up to these things realistically. I don’t think they make us monetarists or non-monetarists but we’re in an awful tough situation and I think it’s our own doing.

CHAIRMAN MILLER. Thank you. Paul.

VICE CHAIRMAN VOLCKER. Well, I am really struck, Mr. Chairman, in listening to all of this by the difference in semantics used by members of the Committee. They are not reflected very much as differences in prescription.

CHAIRMAN MILLER. The figures are closer than I would have thought.

VICE CHAIRMAN VOLCKER. Virtually everybody is 7-1/4 on the downside of the federal funds range and the whole difference in the range is split between 7-3/4 and 8 essentially and split between 7-3/8 and 7-5/8, it would seem, for the midpoint. The language sounded like a bigger difference than that, somehow. My own feeling is somewhat reinforced after listening to all of this. I think at this particular meeting we are caught in the midst of a policy change, a federal funds rate change, which I don't think the market considers completed; I don't really consider it completed. We are in motion a bit having let it go a little above 7-1/4. I suspect the market really thinks that we are going to end up around 7-1/2 in this particular phase. And it would take 7-1/2 without any very sharp impact either in the stock market or in the bond market. Now, that is a matter of judgment. On balance, I would think that we would be well advised, given the risks that have been alluded to on the inflation front and otherwise, to permit this to work out its natural culmination at this stage which I see it as 7-1/2 [and] not very upsetting. I think there would be some question if we stopped at right where we are; we might lose a little bit of that credibility that we've built up here in the last month when they see the inflation figures coming in very badly and the business picture as strong as it is now. So I would be willing to move to 7-1/2 as a midpoint--not necessarily tomorrow or this week--not really seeing that myself as a new move but as completing something that we started with the federal funds range of 7-1/4 to 7-3/4 percent.

I think going above 7-3/4 would certainly bring us into a new policy area and I'd want to take another look at it. I would agree with the logic that Governor Jackson presented on the ranges for the aggregates. I don't think we want to move down very quickly if for a few weeks the money supply did happen to come in low. Our projections also show a low, along with Richmond's, so I like his 2 percent lower range. I also think we ought to be pretty cautious. It would be a new move in my mind going above 7-1/2 so I'd leave that 8 percent at the top of the range for the same reason that he did. And something like 4 to 9 or 4-1/2 to 8-1/2 on M2 looks fine to me. So I put this in a context of completing what we started here, pausing before we make another discrete new move.

CHAIRMAN MILLER. Well, hearing all that, let me see if I can come up with a proposal to be voted on. Let me start off with what I think is an easy one looking down the list. Six people--a majority of 7, if I include myself--say 7-1/4 to 7-3/4 for the range of the fed funds rate. My own preference would be to operate in a mode from where we are now and seek in due course a 7-1/2 percent rate, with an understanding not to go above that without some consultation. That's the trigger point at which the market in my mind would be wondering if we weren't in a new phase. On the ranges I would think that 3 to 8 and 4 to 9 would suit most everybody, as I look down the list. There are some who went a little lower, but most seem to prefer 3 or 4 as a starting base and 8 seems to be the majority on the upside. So if I have expressed myself well, it would be 7-1/4 to 7-3/4--moving toward 7-1/2 percent as the objective, but cautiously and not going above it without some discussion--and 3 to 8 and 4 to 9. Is there--

MR. PARTEE. Is the midpoint 7-3/8 or 7-1/2?

CHAIRMAN MILLER. Well, I would make the midpoint 7-3/8 but expect the Desk to be moving to 7-1/2.

MR. PARTEE. I see. And you wouldn't want them to go above 7-1/2 no matter how strong the aggregates.

CHAIRMAN MILLER. Well, I think I would like to consult with people just to see where we stand. Maybe we have to go further than that.

MR. JACKSON. Mr. Chairman, you've introduced a new procedure that I suspect is not going to serve us as well as that under which we have been operating--namely that we set a range and then don't use it until we have had another meeting.

CHAIRMAN MILLER. That has been the procedure for the last few meetings. I've been there. The first meeting was we don't go above a certain level until we consult and the second meeting was the same thing. So if I am setting a new procedure, it's news to me.

MR. JACKSON. Well, I mean by that our practice. It strikes me that we had compelling reasons to do that in the previous meetings. And as a result of the way we've moved, it strikes me that at the present moment we would be better served to [go to] whatever midpoint the Committee agrees upon and if we agree on the 7-3/4 top limit that we allow the Manager to go ahead and move above 7-1/2 based on the aggregate figures without having to call another meeting. Otherwise, we effectively have a money market directive because we have told the Manager don't move because of the narrow ranges that we have given in which he has discretion.

CHAIRMAN MILLER. Well, I would not feel comfortable myself with just turning it loose to 7-3/4. I just have to be frank; I would be uncomfortable with that.

MR. JACKSON. Well, I differ with that judgment.

CHAIRMAN MILLER. I would have to say that's my judgment. Let's take a vote on the proposal I've made. If we don't have a majority, then we'll take a vote on another proposal.

VICE CHAIRMAN VOLCKER. I really interpreted it the way you said it as kind of a 7-3/8 to 7-1/2 midpoint.

CHAIRMAN MILLER. Yes, that's right.

VICE CHAIRMAN VOLCKER. Okay.

CHAIRMAN MILLER. That's absolutely right. But I didn't want it to go above 7-1/2 without some consultation with the group because I think it may have some broader implications--that's all. So where are we, Mr. Secretary?

MR. BROIDA. Why not have just a show of hands?

CHAIRMAN MILLER. Well, whichever you like.

MR. BROIDA. You can have the formal vote later.

CHAIRMAN MILLER. All right. How many of the voting members would be willing to accede to that proposal?

MR. BROIDA. Five.

CHAIRMAN MILLER. Okay. And how many would not?

MR. BROIDA. Six.

CHAIRMAN MILLER. Okay. And what differences do you want?

MR. COLDWELL. Mr. Chairman, may I suggest that my objection is registered largely on your 7-3/8 midpoint? I would take the 7-1/2 midpoint and I would permit the Desk to go on to the 7-3/4 percent. I have no objection to consultation. You can call a meeting of the FOMC by telephone any time you like or you can send a wire out.

CHAIRMAN MILLER. I'm sorry, I don't understand. What's different from what I said then--just the 7-1/2?

MR. COLDWELL. Well, my principal point is that I think we ought not to put a cap on the 7-1/2 right now and merely say that's going to trigger a meeting. I think we ought to move to the 7-1/2 promptly. That's my biggest difference here.

CHAIRMAN MILLER. How many of you would prefer that?

MR. BROIDA. Five.

MR. WILLES. We are just voting on the narrow question of whether we prefer to go to 7-1/2 immediately or whether, if we do that, we can then accept the rest of the package?

CHAIRMAN MILLER. Well, I think we were voting on the whole package with that change.

VICE CHAIRMAN VOLCKER. How immediate is immediate?

MR. COLDWELL. Just as we normally do, Paul. I wouldn't change the normal arrangements of this.

MR. PARTEE. But last time we went on Wednesday.

MR. COLDWELL. But that's not a normal arrangement.

VICE CHAIRMAN VOLCKER. No, I understand we're not going tomorrow.

MR. WALLICH. We shouldn't go immediately after Thursday because if the preliminary indications stand up, then Thursday there would be a considerable drop [in the money supply figures we publish], which is not unexpected, but wouldn't be consonant with a move.

MR. COLDWELL. But, Paul, the position I think is right. We are at 7-3/8 now and edging on up to 7-1/2 is no big deal right now.

MR. PARTEE. I must say that I don't think people generally recognize that we are at 7-3/8. They may see that we've had an average that has been a little above 7-1/4. I think there are a considerable number of people in Washington who think [our objective] is 7-1/4.

VICE CHAIRMAN VOLCKER. That may be true. But I think the concerns of the market may be useful--

CHAIRMAN MILLER. Peter.

MR. STERNLIGHT. I think the market perceives us as at kind of a tight 7-1/4--7-1/4 ranging a little [above it].

MR. WALLICH. That's not the language of the directive.

MR. STERNLIGHT. I think the account of it in the New York Times this morning was not a bad one. The comment was that he thinks the target is still 7-1/4 but it's a damn curious 7-1/4.

MR. PARTEE. That you don't want to go below that.

MR. STERNLIGHT. The rate had averaged 7-3/8 through yesterday but today it's a little softer. It started out at 7-5/16 and it has been at 7-1/4.

MR. PARTEE. I think [going to] 7-1/2 is a considerable move. I think we will make it in a week or 10 days or so, but I don't--

VICE CHAIRMAN VOLCKER. I'm not quite sure where we are, Mr. Chairman. As I understand it, with Mr. Coldwell's amendment the presumption is we go to 7-1/2 over the course of the next week or so.

MR. COLDWELL. Of course not tomorrow.

CHAIRMAN MILLER. That was my proposal originally--that we edge up to 7-1/2. The only difference I see is whether or not there's consultation [before we go] above 7-1/2.

VICE CHAIRMAN VOLCKER. So far as I'm concerned, you can have a consultation whenever you want. If you want to have it at 7-1/2, I certainly am not going to vote against that.

CHAIRMAN MILLER. So where are we split on the votes then? I'm not sure I understand. Is it on the ranges for M1 and M2? As I look down the list here 1, 2, 3, 4, 5, 6 people suggested--7 actually--no higher than a 7-1/2 for the midpoint. So is that what--

VICE CHAIRMAN VOLCKER. Well, I can certainly agree with Governor Coldwell's amendment--if it is an amendment. I suspect other people can, too, but I don't know about that.

MR. PARTEE. A week to 10 days, Phil?

MR. COLDWELL. A week to 10 days; that doesn't bother me a bit.

MR. PARTEE. All right, I can accept that.

CHAIRMAN MILLER. Okay, let's try it again. Let's be sure what we are talking about, though. Do you have any problem with the M1 and M2 ranges? To repeat, they are 3 to 8 and 4 to 9. The range on fed funds is 7-1/4 to 7-3/4, moving to 7-1/2 in a week to 10 days after looking at the Thursday numbers. And I must say that I intend to get back to the FOMC, whether we have it in the understanding or not, if [the situation] requires going over 7-1/2. I just feel that has to require some discussion.

MR. JACKSON. What statistical event, then, would trigger the upper figure?

CHAIRMAN MILLER. The statistics that would mean that we can't live within these ranges without going higher [on the funds rate]. And I want everybody to look at what is happening in the economy, the revision of the first quarter, and--

MR. STERNLIGHT. Well, I think a perception that the aggregates were consistently above the midpoint of these ranges--

CHAIRMAN MILLER. Yes.

MR. JACKSON. In that case, the projections would dictate an immediate consultation because the projections are for 6-1/2 [percent M1 growth].

CHAIRMAN MILLER. All right, how about that one? Therein is a question. Suppose we end up and have a surprise--we have a negative. Suppose money behaves differently [than we expect] in the next week. What we would do then? Go to the 7-1/2 regardless?

VICE CHAIRMAN VOLCKER. If it's really negative--

CHAIRMAN MILLER. I don't think that's a problem. Why don't we just [vote]. We'll take care of that if necessary. So, is there a vote on this one? How many would favor what you think the proposal is?

MR. GARDNER. Tell me what the funds rate is. What's the range?

CHAIRMAN MILLER. The funds rate range will be 7-1/4 to 7-3/4, with the plan to move it up to 7-1/2 in the next week to 10 days after looking at [developments].

MR. GARDNER. What I wanted or hoped for is a consultation before we went above 7-1/2.

CHAIRMAN MILLER. Yes, I'm going to do that.

MR. COLDWELL. That's what the Chairman has the right to do.

CHAIRMAN MILLER. That's what I'm going to do.

VICE CHAIRMAN VOLCKER. He has expressed his opinion.

MR. PARTEE. Yes, I'd rather not have it in the directive.

MR. COLDWELL. I'd rather not have it in the directive.

MR. JACKSON. I don't think we should.

CHAIRMAN MILLER. Okay, how many of the voting members are for this particular one?

MR. BROIDA. Eight.

CHAIRMAN MILLER. Let's call the roll.

MR. COLDWELL. Yes, Mr. Chairman, do you want to get the type of directive [in this vote as well]?

VICE CHAIRMAN VOLCKER. Aggregates.

CHAIRMAN MILLER. Let's see who's for this, and nobody will be locked in until we clear the language.

MR. BROIDA. This is an informal poll.

Chairman Miller	Yes
Vice Chairman Volcker	Yes

President Baughman	Yes
Governor Coldwell	Yes
President Eastburn	Yes
Governor Gardner	Yes
Governor Jackson	Yes
Governor Partee	Yes
Governor Wallich	Yes
President Willes	No
President Winn	Yes

CHAIRMAN MILLER. Now may I turn to the language? If it's inappropriate to consider the changes in the directive language at this meeting because of the lateness or anything, we can defer it. My point in suggesting it is because I find around Washington that people think we are doing something different than I think we are--in fact the language reads as if we are. I have something to read--

MR. WALLICH. Mr. Chairman, the way it is written I think is quite a distance from where we are now. It's more in the direction of an interest rate oriented, and less of an aggregates oriented--

CHAIRMAN MILLER. Let me read you some language. Let me read first the language of your present directive, which says what you have been saying, "Specifically, at present, it expects the annual growth rates over the May-June period to be within ranges of" so-and-so to so-and-so. That's read in the world as meaning that we are forecasting [those rates of growth] and that is where we intend to be. The actual operation has been that if [the aggregates] move beyond the midpoints or beyond those ranges, that triggers further action on the funds rate. It is not a prediction that they will necessarily be within those ranges. And that difference of perception is causing the Federal Reserve to be read as not knowing what it's doing. That's how those on Capitol Hill read these directives. [They say,] "You guys say you are going to do so-and-so and you never do it, so obviously you don't know what you are doing."

Now, regardless of whether it's a money market or aggregates [directive]--I'm not worried about the technical part--I only am concerned for the welfare of the Federal Reserve as to whether it says what it's going to do and does what it says it's going to do. So I have some language here, which Chuck Partee has suggested, which I will throw out to you. I think it is an improvement. It says, "In the short run, the Committee seeks to foster money market conditions that are consistent with the longer-run ranges for the monetary aggregates cited above, while taking account of more general financial market conditions, including the conditions in foreign exchange markets. During the period until the next regular meeting, System open market operations shall be directed initially at keeping the weekly federal funds rate at about the current level"--or in this case I should say "slightly above the current level." [The wording continues,] "Subsequently, operations shall be directed at maintaining the weekly federal funds rate in a range of 7-1/4 to 7-3/4 percent." Now here is the new language: "In deciding on his specific objective for the federal funds rate, the

Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the May-June period of M1 and M2 within the following ranges of tolerance: 3 to 8 percent for M1 and 4 to 9 percent for M2." Personally I would add--because I think Governor Coldwell has a point--"For this purpose M2 shall be given somewhat greater weight than M1."

MR. ROOS. What was that early language again, sir?

CHAIRMAN MILLER. The changed language? You probably all have this before you. If you don't, it suggests changing the sentence that [talks about] the specific level [of the funds rate]. It would read: In deciding on his specific objective for the federal funds rate, the Manager shall be guided mainly--this "influenced" is a bad word--by the relationship between the latest estimates of annual rates of growth in the May-June period of M1 and M2 and the following ranges of tolerance. This [latter part] is a very big improvement in my mind because these have been perceived by me to be tolerance ranges.

VICE CHAIRMAN VOLCKER. This seems to be a much more accurate description.

CHAIRMAN MILLER. That's what we are really doing, and that's why I was trying to--

MR. PARTEE. I realize some people might not like the "mainly," but since we referred earlier to money market conditions including foreign exchange market conditions it isn't correct unless we have--

CHAIRMAN MILLER. But since you are the author--

MR. PARTEE. But some people might prefer just "guided by."

MR. MORRIS. I think this is an improvement in language, but I don't think it necessarily will get you out of the PR problem that these 2-month ranges have caused--and it has been [going on] for a long time. I think there's a lot to be said for the Committee moving away from this 2-month structure, and I want to compliment the Philadelphia Fed for the research it has done in this area. It seems to me that this is the question the Committee fundamentally ought to address itself to pretty soon, because I don't think there is any way we can describe these 2-month ranges without the press and the Congress describing them as targets--I don't care what we call them.

CHAIRMAN MILLER. Yes, I think you're right, Frank. I think there has to be another session to address this issue in depth. We may or may not solve it. But I think an interim step to play it in a different way can be constructive.

MR. ROOS. Mr. Chairman.

CHAIRMAN MILLER. Yes.

MR. ROOS. Would it be in order to make one other suggestion?

CHAIRMAN MILLER. Surely, all kinds of [suggestions are welcome] or we can even drop the whole idea.

MR. ROOS. No sir, I think the idea is excellent. I wonder whether you would consider one other minor change, and that is in that same paragraph--the second paragraph on page 1, line 5--putting in before the words "during the period" these words: "In view of the recent growth of monetary aggregates with respect to the proposed longer-run ranges during the period" et cetera. The purpose of that would be to clarify in the public's mind that we are targeting on the longer-run ranges and to dramatize, if you will, or at least to point out, that what we are doing in adjusting our fed funds target is being done with the view of trying to accomplish in the long pull the targeted growth of monetary aggregates. It would read "in view of the recent growth of monetary aggregates with respect to the proposed longer-run ranges…" It identifies longer-run ranges and what has happened recently [as what] we're taking [into account with regard to] the fed funds action.

CHAIRMAN MILLER. Let me read that. In view of the recent growth of monetary aggregates in relation to--

MR. ROOS. With respect to or in relation to--

CHAIRMAN MILLER. Well, let's say "in relation to" the longer-run ranges. See, then you tie in the prior [sentence]. That's our objective. Then we say in view of the growth in relation to such longer-run...

MR. PARTEE. I don't understand the purpose of this addition, Mr. Chairman.

MR. ROOS. The significance of the sentence--

MR. PARTEE. The first sentence of the paragraph says that.

MR. ROOS. The significance of it is to clarify in the public's mind how the short-term fed funds targets relate to our attempt to achieve the longer-term monetary aggregate targets.

MR. COLDWELL. That's what the first sentence says.

MR. PARTEE. That's why I asked you the second time.

CHAIRMAN MILLER. Yes, Bob.

MR. MAYO. These are all good ideas, but we're getting into the position of the Committee writing the directive. I would like to [suggest that we] refer this to the Subcommittee on the

Directive to combine with their discussion of a quarterly or whatever it is on the 2-month [issue] and to come back with a recommendation. I think to take an interim step might merely cause the market to puzzle over why we are doing that--especially if we change it again in a couple of months. So I would like to refer it to the Subcommittee on the Directive.

MR. WALLICH. I would support that.

MR. COLDWELL. I would also.

MR. JACKSON. Larry, I think the question is addressed on page 2 of the draft on line 27--if you get the formal [version] of the revised draft. It says "M1, which had grown moderately in the first quarter, rose sharply in April." Therefore, I think that read with the subsequent paragraph in the directive will address the point which you just read.

MR. ROOS. I don't feel strongly about it; I think what you are doing here is excellent.

MR. PARTEE. Well, I might say, Mr. Chairman, as the Chairman of the Subcommittee on the Directive, that I don't think the proposal that you made--with the modest word amendments that I suggested--represents a change in policy or in the prescription for policy and, therefore, I don't think it needs to be referred to the Subcommittee on the Directive. I do think the idea of changing the relative weights given to M1 and M2 is a change in policy and does require referral. In fact, we have already studied it and concluded that 50-50 is the best we can do. But we will study it again.

VICE CHAIRMAN VOLCKER. I'm a little worried about that one. Right at this point when you are going to [see] some intermediation--

MR. PARTEE. But as far as your--

CHAIRMAN MILLER. My original proposal was merely to shift wording to explain what we are doing, rather than change policy. While I tend to like Phil Coldwell's suggestion, I think I agree with you that we are getting into substance and it probably shouldn't be done. But I'm also willing to leave everything the way it is and let you consider it at the next meeting.

VICE CHAIRMAN VOLCKER. May I make one--I hope modest--proposal of substance? It has nothing to do with what we are now talking about but I see that the directive has in it "including conditions in foreign exchange markets." We put that in rather explicitly in either December or January because we were particularly worried about the foreign exchange markets in influencing policy.

CHAIRMAN MILLER. Why don't we take it out?

VICE CHAIRMAN VOLCKER. I might want to put it back in next month. I don't think it's all that--

MR. WALLICH. I think this is a code word now for one thing to support another.

VICE CHAIRMAN VOLCKER. I think it's wrong when it's not actively influencing the direction of what we are doing.

MR. BAUGHMAN. And you are pretty sure you won't want it [in again] before a month has passed?

CHAIRMAN MILLER. I hope not. Bob.

MR. BLACK. I do have one technical point--and I hate to prolong this--but it says here that the Manager shall be guided mainly by the relationship between the latest estimates of the aggregates M1 and M2 and "the following ranges…" But when we use a money market directive we have a different trigger point. When we have a monetary aggregates [directive, the Manager] acts when [money growth] deviates significantly from the midpoints of the indicated ranges. When we have a money market formulation, it's when growth appears to be approaching or moving beyond the limits. I think we could take [care] of that very easily by inserting in there "the midpoints" of the following ranges or "the upper and lower limits" of the following ranges. Otherwise, I think we act at the same trigger point.

MR. MORRIS. Which is the appropriate one?

MR. BLACK. Well, if you use an aggregates directive it would be the midpoints of the [following] ranges, and if you use a money market it would be the upper and lower limits.

MR. AXILROD. Mr. Chairman I think that--

MR. COLDWELL. It's not totally agreed on.

MR. AXILROD. That affects the interpretations of policy, I think. For example, when the Committee adopted the 3 to 8 percent range, it was not clear to me from the discussion that they wanted to lower the midpoint or whether they were just saying that you don't worry too much if [growth hits the low] end and worry more when it gets to the high end. So it's the limits that got to be more important, even with the aggregates directive or the money market. So, really, I think it depends on a sense of the interpretation of the Committee's wishes, no matter what the form of the directive.

MR. BLACK. Yes, I would criticize our earlier discussion for that ambiguity, Steve. I thought that was one issue we didn't settle, and that's one reason why Chuck and I see it so differently on the appropriate ranges. I see a different trigger point than he does.

CHAIRMAN MILLER. Roger.

MR. GUFFEY. Mr. Chairman, as a non-voting member, I would like to protest the exercise we have gone through around this table. The lateness of the time of receiving your memorandum hasn't given me an opportunity to read it and think it through and yet we are amending that language here at the table. It's very difficult to follow and I can't think precisely what the effect may be. It does seem to me that Frank Morris has identified the real problem. So long as you publish the ranges, you are going to have the same problem you're trying to correct. As a result, maybe this isn't the time to be changing [the language] but maybe next month when we have a little more time to consider it.

CHAIRMAN MILLER. Mark.

MR. WILLES. I was going to say almost the same thing. I feel uncomfortable because it's not clear to me whether we are just changing words or changing policy, and I'd like more time to think about it.

MR. WALLICH. I feel the same way.

CHAIRMAN MILLER. Is there a general consensus on that viewpoint? We have no reason to rush this. The issue is still with us.

MR. JACKSON. I think we need to clear it up, but I don't think it has to be done today.

CHAIRMAN MILLER. No. There's no reason [to rush]. I think we need to address the point that we continue to use the word "expects." I even think we ought to consider taking that out of the directive if we do nothing else.

VICE CHAIRMAN VOLCKER. That's the one word that jumped out at me in the directive. Sometimes we deliberately put the ranges at a place we don't expect.

CHAIRMAN MILLER. Let's look then at [that language]. I gathered from the conversation that everyone would like a monetary aggregates formulation. Let's look on page 3, which has the operating paragraph, which is what we are talking about. "The Committee seeks to encourage near-term rates of growth in M1 and M2 on a path believed to be reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, at present," it intends to be guided, or what? "Expects" is really wrong to my mind.

MR. COLDWELL. You could say the ranges of tolerance of the annual growth rates. Picking up Chuck's words for the aggregates, "the ranges of tolerance for the annual growth rates of the May-June period would be 3 to 8 and 4 to 9…"

CHAIRMAN MILLER. The ranges of tolerance, okay. And then "In the judgment of the Committee such growth rates are likely to be associated with a weekly-average federal funds rate slightly above the current level. If, giving approximately equal weight to M1 and M2, it appears that the growth rates will deviate significantly from the midpoints [of the indicated ranges,]…” And the word “midpoints” is your problem, [Steve]?

MR. COLDWELL. That’s the formulation with a monetary aggregates [directive].

MR. AXILROD. I think that wording can be interpreted asymmetrically, if the Committee wishes.

CHAIRMAN MILLER. Significantly.

MR. AXILROD. Or sensitive to up or down.

CHAIRMAN MILLER. All right. [The rest of that sentence reads “…the operational] objective for the federal funds rate shall be modified in an orderly fashion within a range of 7-1/4 to 7-3/4 percent.” Any other changes?

MR. COLDWELL. I hope we are not understanding a change of policy here on this. Midpoints are midpoints. And they do trigger a change if [the aggregates] move above them.

MR. WALLICH. That’s not really the intention that I think was implied today. We treated the ranges as trigger points and not as a defining midpoint.

MR. COLDWELL. Meaning you’re waiting until you get to the peak--to the ceiling--before you change?

MR. WALLICH. You move gradually.

MR. AXILROD. I was asking if the Committee is more sensitive to moving above the midpoint rather than [below].

MR. COLDWELL. No question about that.

CHAIRMAN MILLER. So I think so we can live with this. Any other changes?

MR. GARDNER. We have 30 days, don’t we?

CHAIRMAN MILLER. Yes. All right, I suspect at this point that we should ask your blessing on the directive. Is there any dissent from it as we have outlined it? Oh, Mark. All right.

[Next on the agenda is] the Federal agency issues, which I think can be deferred. Our next meeting is Tuesday, June 20. And we can now adjourn. I thank you for your patience. Your tolerance, within ranges, has been very good.

MR. JACKSON. Has a letter been sent to Congress?

CHAIRMAN MILLER. Yes.

END OF MEETING