Meeting of the Federal Open Market Committee

March 28, 1995

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, March 28, 1995, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Blinder
Mr. Hoenig
Mr. Kelley
Mr. Lindsey
Mr. Melzer
Ms. Minehan
Mr. Moskow
Ms. Phillips
Ms. Yellen

Messrs. Boehne, Jordan, McTeer, and Stern, Alternate Members of the Federal Open Market Committee

Messrs. Broaddus, Forrestal, and Parry, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Baxter, Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Ms. Browne, Messrs. Davis, Hunter, Lindsey, Mishkin, Promisel, Siegman, Slifman, and Stockton, Associate Economists

Mr. Fisher, Manager, System Open Market Account

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Madigan, Associate Director, Division of Monetary Affairs, Board of Governors
Mr. Simpson, Associate Director, Division of Research and Statistics, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Goodfriend, Lang, Rolnick, Rosenblum, and Sniderman, Senior Vice Presidents, Federal Reserve Banks of Richmond, Philadelphia, Minneapolis, Dallas, and Cleveland, respectively
Messrs. Kos and Judd, and Ms. Rosenbaum, Vice Presidents, Federal Reserve Banks of New York, San Francisco, and Atlanta, respectively
Mr. Thornton, Assistant Vice President, Federal Reserve Bank of St. Louis

Transcript of Federal Open Market Committee Meeting
March 28, 1995

CHAIRMAN GREENSPAN. Would somebody like to move approval of the minutes?

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Without objection. The Committee has received a memorandum on the delegation of responsibility for appeals of staff decisions to deny access to Committee records under the Freedom of Information Act. The need for this delegation stems from the vacancy that was created when David Mullins resigned from the FOMC. The recommendation is to follow past practice and elect the individuals who are involved in the similar function with respect to the Board of Governors--Governor Phillips as the principal and Governor Yellen as the alternate--to serve in that function for the FOMC. Does anybody have any questions with respect to that memorandum? If not, would somebody like to move it?

MS. MINEHAN. So move.

CHAIRMAN GREENSPAN. Without objection. I turn to the Vice Chairman for a nomination to elect a Deputy General Counsel from the Federal Reserve Bank of New York.

VICE CHAIRMAN MCDONOUGH. Thank you, Mr. Chairman. Ernie Patrikis, who has been serving in that position, has been elected with the approval of the Board of Governors to the position of First Vice President of the Federal Reserve Bank of New York, effective June 1. His successor as the General Counsel of the New York Bank and the person we recommend as Deputy General Counsel of the FOMC is Thomas Baxter. Mr. Baxter is 40 years old, even younger than most of us, and a graduate of Georgetown University. His specialty has been litigation. We consider him an outstanding attorney and a very fine person, and we are proud to recommend him to you.

CHAIRMAN GREENSPAN. Would somebody like to move that nomination?

MR. KELLEY. Move it.

CHAIRMAN GREENSPAN. Would somebody second it?

MS. MINEHAN. Second.

CHAIRMAN GREENSPAN. Without objection. Next we move to the election of an associate economist from the Federal Reserve Bank of Chicago. President Moskow, would you like to address that?

MR. MOSKOW. Mr. Chairman, I would like to nominate William Curt Hunter as the associate economist representing Chicago. He is now Senior Vice President and Director of Research.

CHAIRMAN GREENSPAN. Is there discussion? Would somebody like to move it?

SEVERAL. So move.

CHAIRMAN GREENSPAN. Moved and seconded and approved without objection. The next agenda item is a review of the Committee's Program for Security of FOMC Information. There are a number of items in the memorandum you received. I don't want to go over them necessarily. Does anybody have any questions with respect to them? I thought they were pretty pro forma myself. There is the issue of increasing from 4 to 7 the number of persons with access to Class I FOMC materials within each Reserve Bank; that increase would square the number with that for those who have access to Class II materials. I gather that a number of the members have raised this issue. There are a couple of other items of a similar nature. Does anybody have any questions with respect to this matter?

MR. HOENIG. Mr. Chairman, since it is proposed to increase the access to Class I from 4 to 7, that means the same number of people can have access to Class I and to Class II as you noted. It might be of some value, at least to us, if we could also move up by 3 the access to Class II. I don't know if there would be any problem with that; at least I want to raise it as a possibility.

CHAIRMAN GREENSPAN. The reason for the proposal to increase staff access to Class I is basically that Jerry Jordan and I think some others among you have raised questions about the current limit and have suggested moving it up from 4. The Secretariat, I assume in its exuberance, said "Well, 4 is an exotic number so why not try 7?" I wonder whether 7 may be too high and whether we ought to back off that to keep a gap between Class I and Class II. Suppose we did raise Class I to 5. Is that a problem?

SPEAKER(?). No.

MR. KOHN. President Jordan's suggestion was to go from 4 to at least 6.

CHAIRMAN GREENSPAN. How much higher do you want to go?

MR. JORDAN. I am not sure why it is helpful to have access to Class I and Class II differ.

CHAIRMAN GREENSPAN. The basic presumption is that there are fewer people designated "top secret" than "secret." Now, whether that is a valid judgment--[Laughter]

MR. HOENIG. I think it would be desirable to allow a few more people to have access to less important information for the experience of reading it and understanding it.

CHAIRMAN GREENSPAN. I think the issue here is basically not the Class II; it's the Class I. Since the proposal is to give all those who now have access to Class II access to Class I as well, is there any status to having Class I clearance? I don't know. Mr. Secretary, do you have any suggestions on this? I got away a very long punt! [Laughter]

MR. HOENIG. I'm sorry I made my suggestion!

MR. KOHN. When it comes to returning punts, I am no Brian Mitchell, I can tell you that! I would suggest that you let me poll the rest of the Committee to see whether people really want to move from 7 to 10 on access to the Greenbook. This is a pretty sensitive document; that is what we are talking about. I don't know if Mike has any views on this.

MR. PRELL. We are talking about Part I.

MR. KOHN. Yes, Part I of the Greenbook.

MR. PRELL. Part I is classified as Class II.

MR. KOHN. Right. The number having access is now 7 and President Hoenig's suggestion is to raise that to 10. I guess I'd like to think about it and see whether there is a ground swell from the rest of the Committee.

CHAIRMAN GREENSPAN. Why don't we bring this back then at the next meeting? There is no urgency about it. Does anyone else have any views that would be helpful?

MR. LINDSEY. I just pulled out a confidential Class II-FOMC document here. It reports on exchange rates. I read the document very carefully and I don't see why it is confidential.

MR. TRUMAN. The reason, Governor Lindsey, is that we often do report intervention numbers in that document. We can't say it's Class II when it has intervention numbers, and it's not classified when it doesn't have intervention numbers because then we would be revealing something. That is the point. That's why it's always Class II regardless of whether or not it has intervention numbers in it.

CHAIRMAN GREENSPAN. The presumption is that since it reports the intervention numbers when intervention occurs, the absence of such a report means intervention was zero, which also is classified information. That is sort of putting it backwards!

Does anyone else want to raise any issues with respect to this before we reconsider it at the next meeting? If not, the next item on the agenda is a review of the Authorization for Domestic Open Market Operations. There's a memorandum. Does anybody have any questions? Incidentally, all of these items would ordinarily be on the February meeting agenda and were moved forward for obvious reasons relating to the crowded agenda for the February meeting. Are there any questions with respect to that memo? If not, would somebody like to move it?

MS. MINEHAN. So move.

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Without objection. The next issue, which also was moved from the February meeting, is the review of (a) the Foreign Currency Authorization, (b) the Foreign Currency Directive, and (c) the Procedural Instructions with Respect to Foreign Currency Operations including a review of the "warehousing" authority incorporated in (a) and (b). These items were, of course, discussed at great length at recent meetings and telephone conferences, and I am just curious as to whether anyone has anything to add to the rather exhaustive discussions that we have had.

MR. BROADDUS. Mr. Chairman, is this the time to say something about warehousing if we have views on that?

CHAIRMAN GREENSPAN. Yes.

MR. BROADDUS. I have just a few comments if I could make them briefly. Ted Truman sent out a lot of background materials regarding warehousing and I reread most of it and reread the memorandum that Virgil and his colleagues did earlier. I think the memo makes it clear that from a legal standpoint the Fed definitely has the authority--or certainly that we can make a strong case that the Fed has the authority--to warehouse foreign exchange for the Treasury, and I understand that. But however defensible these operations may be from a legal perspective, I just don't think the case is very compelling when I look at the issue in a somewhat broader context that takes account of the Fed's role in the government generally and the independence we are supposed to have. As I see it, warehousing is essentially a fiscal policy action or at least is fully equivalent in its effect to a fiscal policy action. By that I mean that in the end the warehousing operation has exactly the same final effect as if Congress authorized the Treasury or the ESF to purchase the foreign exchange and fund the purchase by issuing additional debt in the market. The only difference when the transaction is done via warehousing is that the usual Congressional appropriations process is circumvented, and the purchase does not show up in the budget. I really worry about the risk that we are taking over the longer term with this practice.

CHAIRMAN GREENSPAN. Do you mean market risk?

MR. BROADDUS. No, I mean the risk to the institutional position of the Federal Reserve. That is really the issue I am trying to focus on, Mr. Chairman. I think we can get some sense of that in the public's reaction to the Mexican support package. I don't want to go into that in any detail. I just think it's an example that is very relevant here. As we all know, the use of public funds to assist foreign governments, however sensible that may be in particular instances, is a highly charged political issue, especially when some people see good alternative uses for the funds at home. The Congressional leadership apparently supported the package in this instance, but I don't believe Congress would have voted to authorize the funds. I think a broad segment of the general public, rightly or wrongly, opposes assisting Mexico so generously. The point here and the risk as I see it is that if things go badly in Mexico going forward, this could become an issue in the election next year. In that event, our role would become more widely understood, and it is quite possible that people could begin to raise questions about our independence. It could come under much more careful scrutiny.

I would sum up the issue briefly this way: Congress placed the Fed outside the regular appropriations process to protect our independence. If we are perceived as abusing this sort of off-budget status, we run some serious risks over the longer run. Now, I recognize the practical difficulty of trying to pull back immediately from these operations. But I would hope that you, Mr. Chairman, and this Committee would at least consider conveying our concerns forcefully to the Treasury and then work with them hopefully to reach an accord whereby we could withdraw from these operations over a period of time, maybe by some defined target date. Again, I recognize that there is a clear legal basis for doing these operations, but I think the broader argument against doing them is really quite persuasive.

CHAIRMAN GREENSPAN. One of the reasons why I was very careful to indicate to the Congress that we indeed had this warehousing facility with respect to the Mexican deal was precisely to put it up front. Now, some members of Congress may not have understood it, but I must tell you that I got no negative responses, and the types of questions they were asking suggested to me that at least those who were asking questions had some idea of the nature of this whole operation. On the issue of how we deal with the Treasury in this government, as fiscal agent we involve ourselves in various types of support for the Treasury and that does in one sense impinge on the independence of this institution. The trouble, unfortunately, is that we can not be fully independent because there is only one government and there is an element here of trying to draw the line. I think we are all somewhat uncomfortable about the warehousing facility. I think we are all uncomfortable to a greater or lesser extent about our own swap line facility, and in discussions with the Treasury regarding all of these issues we basically have been to a lesser or greater extent somewhat in opposition to the initiatives of the Treasury. But we also recognize, as I think I indicated here a number of months ago, that the central bank has very broad responsibilities to ensure the safety and soundness of the financial system. We could move ourselves back into a very narrow central bank mode, and I would agree with you that in that respect there would be less risk for us. But I am not sure whether we would be giving the country something of value. I think we have to take some risks, but certainly the issues that you raise are valid ones. I don't think there is great disagreement about the need to be very careful on these issues. I think we have been careful and I hope we will continue to be.

MR. BROADDUS. I appreciate that and I am sorry to keep raising these issues. I do think that this is not a short-term risk; it's not the sort of thing that is likely to hit us in the face immediately. But I worry that over time those who really would like to compromise the position of this institution in the government, if they are looking for an argument, this is I think the strongest argument they would find.

CHAIRMAN GREENSPAN. The strongest argument they have is monetary policy.

MR. BROADDUS. Okay.

MR. TRUMAN. Mr. Chairman, just to make a technical point on the warehousing issue: I don't want to comment on the political aspects of it; that is not my role. But as a technical matter the Treasury could conduct its warehousing transactions with the market or with another financial institution. So the notion that warehousing as a technical matter is an evasion of the fiscal authority of Congress I think is not correct. I am not talking about perceptions. We have worked hard and have changed the warehousing arrangement so that it is now very clearly an arms-length, market-related transaction. We do it on exactly the same terms that the Treasury could if it divided it all up and did it with 150 institutions in the market. All we are doing is to accommodate the Treasury as a convenience to them. This does raise questions about our role and our role in assisting Mexico in these kinds of things, which I perfectly well acknowledge. But as a technical matter, the transaction could be done with the market. Therefore, I don't think it's fair to say that this is an evasion of the fiscal authority of Congress.

MR. BROADDUS. When it's done with us, though, basically it does not show up in the budget, is that right?

MR. TRUMAN. It wouldn't show up in the budget either way. What the Treasury does is to swap their DM or their yen with us. They sell it to us spot and buy it back forward. They can do that on exactly the same terms with Citibank or Chase or Deutsche Bank or the Bank of Tokyo, whatever institution it might be. That would have exactly the same impact on them fiscally.

CHAIRMAN GREENSPAN. The fiscal effect occurs when the ESF funds are created. At the moment the ESF has a big set of assets and a big set of liabilities. Nobody is talking about expanding the size of the ESF or increasing its capital through appropriations. What we are talking about is refinancing its assets on a different basis and that has no fiscal effects.

MR. BROADDUS. My feeling is that if it can be done with private institutions and the market, we ought to see what we can do to push the Treasury to do that. Whatever convenience the Treasury is gaining from doing it with us is, from our standpoint at least, offset by the longer-term risk of our continuing with these operations.

CHAIRMAN GREENSPAN. That is a legitimate question. In my view the issue essentially is that if the Treasury requests us to do it, we have to give their request very serious consideration. Their view may be that while the transaction is technically feasible in the private market, the inconvenience involved in arranging relatively large sums there raises questions as to the efficiency of the operation. That is a reasonable consideration that we have to confront. We have to be careful as to precisely how we get ourselves intertwined with the Treasury; that is a very crucial issue. In recent years I think we have widened the gap or increased the wedge between us and the Treasury, as Ted was mentioning. In other words, we have gone to a market relationship and basically to an arms-length approach where feasible in an effort to make certain that we don't inadvertently get caught up in some of the Treasury initiatives that they want us to get involved in. Most of the time we say "no."

MR. BROADDUS. I understand those points. I just hope that we can continue that process and widen that gap a little further.

CHAIRMAN GREENSPAN. I personally am not uncomfortable with what we are doing. I am uncomfortable with the thought that we might have to pick up the entire $20 billion warehousing, but that obviously is a very remote contingency. President Jordan.

MR. JORDAN. All the things that Ted sent out ruined my weekend as well! I read all this material before, one time or another, but I always have to reread it because there is so much that I can't remember all of it. I am satisfied that from a technical standpoint and a legal standpoint there is not really an issue to be discussed because the lawyers can always figure out a way to do whatever it is we think is good public policy to do. So, the question comes down to whether or not it is good public policy.

The current set of institutional arrangements was designed in a totally different era for a different purpose. The ESF, swaps, warehousing--all of that--were intended to give us access to liquidity. The ESF was designed when the dollar was not even the dominant reserve currency. The other arrangements came into being when we had the Bretton Woods system. If we did not now have the ESF and the capability of warehousing or have something like swap lines and we were dealing with a situation such as the one that surfaced in December with Mexico, these are not the institutional arrangements we would have designed to address those issues. In today's world, given the role of the dollar and our arrangements with other central banks, we would establish a set of institutional arrangements to provide liquidity to other countries such as Mexico or, in the future, Chile, Costa Rica, whomever. We would not set up something resembling what we have today.

What I would like to see happen is for Peter Fisher to work with Board staff to think through what kind of institutional arrangements we would like to have for the 21st century and produce some kind of report by the time this issue comes up again next February. At Fed speed I don't know if they could get that done between now and February. In the private sector if they had such a problem they would give staff a mandate and get it done by three months from now. But at Fed speed, we could ask that the staff come back with a set of proposals by next February as to the kind of arrangements that would provide international liquidity to these countries, especially those that are less developed and that occasionally get themselves in a mess. The objective is for us to carry out our central bank role without getting into this possibility of people saying we are doing something that is not consistent with foreign policy objectives or doing something that is subverting a debt limit issue that may come up between the executive and legislative branches of government. As in 1979 and 1980, we definitely don't want to get ourselves, as a central bank, in between the executive and legislative branches if they are playing a political game over something like the debt ceiling. We want to be nowhere in sight if something like that happens again. Warehousing leaves us open to be in a position of getting caught up in something that we don't intend to do. So, I would just like to see this whole issue rethought.

CHAIRMAN GREENSPAN. The question really is whether or not our role or central function is to provide dollar liquidity to other nations on an ongoing basis or on an ad hoc basis. If you are going to raise the argument that the international financial markets have changed from where they were under the Bretton Woods structure, the emergence of private global finance has to a very substantial extent made much of the purposes of the Bretton Woods structure of dubious merit in the current environment. The reason I raised questions earlier about the use of swaps is that their role in the modern world

--especially the order of magnitude of the swaps if we look at them in the context of the size and types of problems that seem to have emerged in the EMS, Mexico and the like--seems to be an anachronism. I am a little concerned, however, about setting up a study in the form in which you suggested. That is an expensive undertaking. I do think it might not be a bad idea, however, to have a couple of memoranda that discuss the broader questions without getting into the initiatives that you are suggesting. Your proposal strikes me as a much larger project and use of resources than I think we are prepared to get involved in until we get a clearer focus on how we view this issue. The important question that I think you are raising, Jerry, is how much of our post Bretton Woods structure at the Federal Reserve is an anachronism and what our role is in today's environment. I would much prefer to have a few short memoranda on that than spend a lot of time trying to think of what type of structure we should go to from here. So, unless someone has an objection to that, I will request Ted to see whether or not we could have some short review of the history of this issue. It would involve revisiting a lot of the material that has been put together, but I think the central focus should be on the question of what difference the emergence of private global finance makes relative to the structure that we have had since it evolved in the 1960s.

MS. MINEHAN. Mr. Chairman?

CHAIRMAN GREENSPAN. Yes.

MS. MINEHAN. I don't have any objection, but this is an issue that has to have been discussed at tables like this around the world, given what has happened in Mexico, Argentina, and other countries. I am wondering what rethinking is going on internationally with regard to how these sorts of things play out and what can be done.

CHAIRMAN GREENSPAN. On the basis of the meetings that I at least have been involved in--and some of our colleagues have been in similar meetings--I think there is a general recognition that the size of the problem that emerged in Mexico and the size of the international facility that was perceived to be necessary to address it clearly rule out a generic facility. There is not enough cash in the world to handle the problems without producing potentially large inflationary pressures through use of SDRs, IMF quota expansions, and all of that.

MS. MINEHAN. The moral hazard is extraordinary.

CHAIRMAN GREENSPAN. Yes, including what I am sure the IMF would like, which is for the IMF to become a world bank lender of last resort. That is about the last resort I should think for anything. This has led us to the question of whether it is possible to have bankruptcy statutes for sovereign nations. As you know, at the moment that does not exist and the question is whether there is a mechanism that would make it possible to address the types of problems confronting Mexico in a restructuring mode that is the equivalent of a bankruptcy facility rather than by providing liquidity, which is implicit in our swap and other relationships. That discussion is going forward at the BIS. Ted, I assume there is some talk at the Halifax Summit on this?

MR. TRUMAN. The Mexico situation, for better or for worse, has clearly given the Halifax Summit something to focus on--something more than just chit-chat about stable exchange rates, if I may put it that way. Doing something in the bankruptcy or orderly workout area is one of the ideas that is under some discussion. It's also fair to say that other ideas under discussion include some that the Chairman has tried to pour cold water on--that of vastly increasing the size of the IMF and its capacity to deal with these kinds of situations. I don't think there is a consensus among the various nations involved in the G-7 on what to do at the moment. It appears that most options are still on the table, though some people think that a few options have been taken off.

MS. MINEHAN. I would think that whatever rethinking we do about what the Federal Reserve's response should be and how we view these things has to take place in the context of how the rest of the world is thinking about these issues.

MR. TRUMAN. Yes, certainly there are big and small issues involved and both types have been raised here in this discussion. That's partly because we started with Mexico, which on the one hand is a country-specific type of problem. On the other hand, Mexico is regarded as symptomatic, as the Chairman has said, of the nature of the international financial system and its functioning and the potential problems and challenges as we move into the 21st century. It's difficult to sort those things out. As far as country-specific problems are concerned, it is fair to say that many other central banks of the major industrial countries are in fact more involved in this process than we are. The nature of their involvement is different from ours. It might be useful to the Committee, as one of the little studies that the Chairman requested, for us to describe what other G-10 central banks do with regard to dealing with these smaller--if I may put it that way--problems. Indeed, in most of the cases where efforts have been made to help other countries we have not been involved in terms of our own money, though the U. S. Treasury is often involved whereas other central banks have been involved. An example is the current effort to put together a bridge loan for Argentina. You will find the other G-10 central banks backing the BIS in that loan. In the case of United States participation, if that goes forward, it will be done exclusively by the Treasury. Most of those central banks in turn are supported by their treasuries in one way or another, sometimes formally but not always formally. In some cases there are central banks that take a degree of risk in a loan to another country in a far corner of the world; an example is Sweden relative to Argentina. The Federal Reserve has chosen not to do that. So maybe it would be useful, at least as a background note, to try to put together a study to describe what other countries do. That doesn't touch the big issues but it might help deal with the little ones.

MS. MINEHAN. It's probably not right to think that we can dot every "i" and cross every "t" and have a set process that we follow in all circumstances. But what you're suggesting would be helpful, I think, in terms of our understanding this better.

CHAIRMAN GREENSPAN. Vice Chairman, you have been as much involved with this as anybody.

VICE CHAIRMAN MCDONOUGH. Yes, Mr. Chairman. I think that a very basic issue that exists even in light of the very changed international financial markets is whether an individual country is responsible for its own conduct, including paying the price for its own mistakes. The debates that were very difficult on occasion in the Mexican situation were those where some of our normal allies questioned whether we were forgiving Mexico excessively for policy errors. We took the view, as you know, that Mexico was unique, not just unusual, and that there was very serious systemic risk involved. That was not the easiest case to make as Alan Blinder and I discovered at the January and February BIS Sunday night dinners and Mike Kelley at the March dinner. Having been the permanent feature from the Federal Reserve at all three meetings, I got to get my head bloodied at all three!

I think one of the difficult questions in moving toward elaborate discussions of the IMF becoming the lender of last resort, which I think is a terrible idea as you do, and even whether we should modify significantly the swap lines and the other central bank relationships that exist from the Bretton Woods era is just that basic question: Is it the responsibility of each country, including our own, to manage its affairs in such a way that the market does not turn and punish it severely? The main thing that the speed and size of capital flows have changed is that the punishment is very quick and very severe. It's not all that different; it's just faster and deeper. There is great reluctance on the part of leading central banks in Europe and Japan, and I think by and large those of us around the table here, to think that we should shift to a world in which everybody can misbehave and the world will take care of them. The world doesn't have the riches or the resources to make that possible. I think we have to be careful, including in meetings like the Halifax Summit, not to be moving in this excessively and unrealistically permissive direction.

The Federal Reserve, it seems to me, has been handling brilliantly the very difficult balancing act involved in being supportive of U.S. policy on Mexico, which we thought was basically a good idea at least in substance--I say that as a compliment to you, Mr. Chairman, because you had to do most of it--without getting confused that it should be translated into something that is much more broadly applicable. That policy was to consider the Mexican case unique, which was very difficult for us to do because the next deserving case in the view of many people was Argentina. One could argue that the Argentines have had better policy and that they are taking much more aggressive actions to fix themselves. And therefore it was tough for us to say that we thought Mexico needed support, including support from the Federal Reserve, but that we did not think Argentina needed our support. I think the single best argument that we had is that Mexico is unique. If it isn't, if it's only unusual, God knows where you decide the line gets established.

CHAIRMAN GREENSPAN. If there is no further discussion, I would like to combine the three foreign policy instruments and move them simultaneously. Would somebody like to make a motion?

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Is there a second?

MS. MINEHAN. Second.

CHAIRMAN GREENSPAN. Without objection. Let's move on finally to our regular agenda and I call on Peter Fisher.

MR. FISHER. Thank you, Mr. Chairman. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Peter on either the domestic or the foreign side?

MR. JORDAN. Peter, there's been some press commentary to the effect that the dollar's role as the dominant international reserve currency is on the wane, that we are following the pound sterling's earlier slide. Yet the facts are, as you have reported, that central banks around the world have substantially increased their holdings of dollars and reduced their holdings of deutschemarks and other currencies. These outside commentaries would suggest that central banks around the world are now holding a lot more dollar reserves than they really want. Is that your perception?

MR. FISHER. I think a number of central banks are holding more dollar reserves than some people within those central banks think they ought to be holding. I wouldn't pretend to say that is the official posture of all the central banks, but I think the leakage into the markets occurs as a result of that. There are a number of central banks in Asia that both have accumulated large dollar reserves and have a rather active approach to foreign exchange trading as a potential source of central bank profit. In those central banks, some people may have a view that they would rather hold fewer dollars, and since the banks' foreign exchange desks tend to be somewhat active, the market then is free to interpret that when they move one way that must be a secular trend. It is more frequently just trading back and forth, but that sort of activity certainly has provided some credence to that general story.

MR. JORDAN. One final question: In particular, do you know how the Bundesbank and the Bank of Japan feel about the exchange translation that has been eroding their dollar assets?

MR. FISHER. I talk to them from time to time about that. They are not happy about it, but the Bundesbank is fully committed to a single reserve currency--the dollar. They have no appetite for diversifying their portfolio. I think the Bank of Japan at a policy level is still more or less committed to a dollar reserve policy. They have diversified somewhat and are holding a few more marks. It's still a tiny, tiny fraction of their total reserves.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. This is a question for either Peter or Ted. In terms of causes of the weakness in the dollar, you referred to the change in expectations about future U.S. fiscal deficits. One way to look at the effect of deficits is that if monetary policy has an inflation objective, the impact of greater deficits is to increase the real rate of interest. Very often that would lead to a higher value of the dollar. In fact, there are many macro models that have that type of linkage. For you to get a lower value of the dollar, I think there has to be an assumption that the debt would be monetized. My question is, of these two types of influences on the dollar, what roles do you think they play over the longer term and what role have they played in the most recent period?

MR. FISHER. I'll take the short term and leave Ted with the long term! In the short term, I think the fiscal picture weighs on the dollar as I mentioned principally in terms of the competence issue as it relates to U.S. economic management, not in the sense of forecasting a macro economic effect. Whether analytically correct or not, market participants do in a sense add up the two deficits, the current account deficit and the fiscal deficit, and say we can't manage anything so they can't find any reason to buy dollars or hold dollars. In the short run, at least in the last three months, I don't think the markets have really tried to digest the implications, as you have, on a much more sophisticated basis. But they are negative in the short run. Now, I'll defer to Ted on the tougher question.

MR. TRUMAN. Well, on the tougher question, I think you are absolutely right about the result that the standard macro models will give you: A cut in the fiscal deficit will produce lower interest rates and that in turn will translate through to reducing the external deficit through lower interest rates and a lower currency. One way to square that with the notion that the dollar should appreciate if the fiscal deficit is cut, is to distinguish between real and nominal. To the extent that there is a fear out there that the central bank will seek at some point to monetize the deficit or float it away through more inflation, then a country could have a stronger nominal currency at the same time that it had a weaker real currency.

MR. PARRY. I guess the point I want to make is that it keys off what monetary policy--

MR. TRUMAN. There is one other argument for which there is some support in the literature. It is a longer-term argument that would run from a lower deficit to more investment, a more competitive currency, and therefore an appreciation of the dollar. That is a very long-run argument. A slightly different argument has a timing feature: If the fiscal deficit is cut, that will start to bring down the current account deficit sooner than otherwise and less of a depreciation will be needed in the long run than otherwise. That is a sort of "compared with what" argument. In terms of the long run, much of this argument does turn on the factors that Peter was talking about--the notion that the fiscal situation has played on the dollar more in terms of whether we, the United States, can manage our affairs appropriately. That probably has been exacerbated again in the psychological realm by the Mexican situation. Those two situations have played off against each other more than any deep reading of the macroeconomics involved.

CHAIRMAN GREENSPAN. Governor Blinder.

MR. BLINDER. I want to make a comment on Bob Parry's point and then pose a question. On Bob's point and the answers to it, isn't it relevant that over the last three months, six months, nine months, twelve months--pick your timeframe; it almost doesn't matter--surveys of inflationary expectations in the United States have shown no deterioration and long bonds here are trading at lower interest rates, not higher interest rates? Those two things would seem to me largely persuasive--although none of this is definitive with regard to the state of long-term inflationary expectations absent an index bond, for which all of us here at the Federal Reserve have been rooting for a long time. But it is about the best information that we have, and it seems to me that it speaks with one voice on the extent to which the market expects the Federal Reserve to monetize deficits. I think--I guess the opposite of "ahistorical" is "historical"--that is also an historical observation because the Federal Reserve has not been monetizing deficits. Whether one has rational or adaptive expectations, I think it is sensible not to presume that the Federal Reserve is going to monetize deficits. And I don't believe the markets believe that the Federal Reserve is going to monetize them. Do either of you disagree with that, Ted or Peter?

MR. FISHER. No.

MR. TRUMAN. No. I only wish I had thought of it.

MR. BLINDER. Now the question I was going to pose: Peter, I thought you said--correct me if I just misheard what you were reading --that the short end led interest rates down since the last FOMC meeting. Did you say that?

MR. FISHER. That is our sense that the short end--

MR. BLINDER. I am reading the Greenbook table--

MR. PRELL. I think Peter was referring to the shorter intermediate term, the 1- to 3-year area.

MR. FISHER. I am very sorry if that was not clear. I was referring to the 2-year maturity of the coupon curve.

MR. BLINDER. Okay. Fine. I have no question in that case.

MS. MINEHAN. Peter, you mentioned that the dealers were surprised by the demand for Treasuries and that was what made the difference in terms of the price and yield moves in the Treasury market. Clearly, people are not buying dollars to get into the Treasury market. Has there been a big change in the ownership of these securities foreign vis-a-vis domestic? Or is it even appropriate to ask that?

MR. FISHER. No, I don't think there has been a big rush of foreign demand for Treasuries. The sense is that the money has been coming out of the investment community, the mutual funds, and the real money crowd into the dealer community. The dealers have been surprised by that. Their tendency had been to play the market from the short side during this period. It gave the market a bit of a choppy feel from time to time, and in fact contributed to some of the rise in prices. There was a phenomenon of the market doing better during the afternoons, which was sort of curious. We feel that was a bit the result of the dealers just catching up with their own customers. But we don't have any sense of foreign demand. There is constant chatter going on about how the capital flight from Latin America is fueling the bond market. Capital flight from Latin America, however defined, is not of a sufficient size to drive the overall dollar exchange rate. It is large relative to the peso and other Latin American currencies. It's hard to see if it is not big enough to affect the dollar exchange rate overall how it is really big enough to drive the bond market, which is rather large.

MS. MINEHAN. It's not big enough to affect the Treasury market.

MR. FISHER. So, these stories are more in the nature of anecdotes floating around than anything we have been able to pin down.

MR. TRUMAN. There is one explanation that I'm not sure is right, but it helps to answer the question of why the dollar was weak relative to many of the European currencies over this period. One story that can be told is that there has been some degree of flight from emerging markets, or shifts in demand for emerging market instruments. And emerging market instruments are dollar-denominated.

Ms. MINEHAN. Right.

MR. TRUMAN. The most important of these are the Brady bonds. Those bonds have taken a tremendous hit over the first quarter of this year. Although U.S. investors hold some of the Brady bonds, they also are held around the world by all kinds of investment funds. It's not irrational for those funds, many of which are Japanese--after all there is a lot of savings in Japan--to think that as investors move out of Brady bonds that are dollar denominated instruments, they will move into instruments denominated in the other two or three major currencies, including the Swiss franc. So that seems to me to be the one element one can point to that would help explain some degree of rally in terms of our own bond market and some degree of weakness of the dollar vis-a-vis the yen, the deutschemark, and the Swiss franc. I am not sure it is quantitatively significant enough, but if you look at what has happened to the prices of the Brady bonds, it has to mean that there has been a big shift in the ex-ante demand for those instruments over this period.

CHAIRMAN GREENSPAN. One of the central banks that we ought to be concerned about other than the Bundesbank and the Bank of Japan, as large holders of dollars that they are not going to relinquish, is the Bank of Taiwan. It holds close to $90 billion in Eurodollars and direct claims against the U.S., largely in Treasury securities. They are traders, needless to say. Whereas it is fairly difficult politically and strategically in the context of the G-7 to have major shifts in dollar holdings by either the Bank of Japan or the Bundesbank, I am not sure there is terribly much inhibition in that large sort of bloated stock of securities sitting out there. We have some data; I haven't looked at it. What proportion of their holdings of U.S. Treasuries are short-term Treasury bills? Do you know?

MR. TRUMAN. We wouldn't have the data unless they are held at the New York Bank.

MR. FISHER. We have data on what they hold with us as custodian, but that is only a portion of what most central banks hold.

CHAIRMAN GREENSPAN. Have you checked the data?

MR. FISHER. I don't have an exact view. I don't have any of those data here.

CHAIRMAN GREENSPAN. Peter, what has happened to the total custodian holdings of Treasury securities in the last 10 weeks or so?

MR. FISHER. In the last 10 weeks they have gone up. We had an extraordinary rise of $10 billion in one reporting period. There has been some back and forth movement in such holdings.

CHAIRMAN GREENSPAN. Is that because of the Caribbean--?

MR. FISHER. No, it didn't include the Caribbean. The market all read it as entirely the Bank of Japan.
Ironically, it was to a substantial extent other Asian central banks who were thought to be sellers of dollars.

CHAIRMAN GREENSPAN. Who in fact were buying dollars!

MR. FISHER. Who just happened to be shifting.

MR. TRUMAN. You have to remember that as a statistical matter they can move investments from Eurodollar holdings to the Federal Reserve Bank of New York and that will show up as custodian holdings but it doesn't have any currency implications at all.

MR. FISHER. We did have a period when our custodial accounts went down quite a bit, net, but I haven't looked at the figures. There was a period where some of the Asian central banks--
--went into bills, came out of them, and went back. That created some volatility in our custody holdings. So those holdings probably are a little higher over the past 10 or 20 weeks, but not dramatically, I would think.

CHAIRMAN GREENSPAN. I assume there is no concern about the American dollar in the context of our holding dollars as custodians for foreign official accounts! I only got a chuckle out of the Vice Chairman!

VICE CHAIRMAN MCDONOUGH. That was with my President of the Federal Reserve Bank of New York hat on. That's why I chuckled.

CHAIRMAN GREENSPAN. I realize that.

MR. FISHER. If I could comment, going back to the reserve currency status issue, it is interesting that the markets all chatter about how the dollar is losing its reserve currency status. Yet, the dollar bill is in heavy demand around the world.

CHAIRMAN GREENSPAN. You mean the hundred dollar bill?

MR. FISHER. The hundred dollar bill, yes. The greenback. It's an interesting offset to the concept that the dollar is losing its reserve currency status.

CHAIRMAN GREENSPAN. Any further questions for Peter?

MR. MCTEER. Peter, I understand that some Fed watchers, in trying to decide whether to blame the Federal Reserve for the weakness of the dollar, have pointed to the fact that the dollar price of gold has not gone up very much while the mark and yen prices of gold have gone down. On that basis they pretty much absolve us from blame and say it's more of a mark and yen problem than it is a dollar problem. Do you take any comfort in that view?

MR. FISHER. A tiny tiny bit. I don't particularly! [Laughter]

MR. MCTEER. To what degree do you think we have a dollar problem as opposed to a mark and yen problem?

MR. FISHER. I think we have a dollar problem, as I mentioned, in the way the foreign exchange market looks at the relationship between our interest rates and our current account. I don't mean that should drive the policy decided around this table, but that is the chain around our ankle, if you will, that we have to deal with; it's the load we are carrying. The mark is at extraordinary highs on a trade-weighted basis. The mark clearly is strong--however defined--against us, against Europe, against everybody. There also is a problem of an ever appreciating yen. Now, something may break that at some point, but until it does I think there are problems in each corner; each leg of this stool has its own problem. And that in my view is how we get the historic lows or historic highs--when there is something that is pushing the exchange rate on both sides in the same direction.

CHAIRMAN GREENSPAN. Further questions for Peter? If not, would somebody like to move approval of the actions of the foreign Desk?

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Is there a second?

MS. MINEHAN. Second.

CHAIRMAN GREENSPAN. Without objection. The domestic Desk transactions?

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Second?

MS. MINEHAN. Second.

CHAIRMAN GREENSPAN. Without objection. Let's now move on to what used to be called the Chart Show. Whatever happened to the chart presentation?

MR. PRELL. We didn't have it in February. It's an open issue for July.

CHAIRMAN GREENSPAN. We don't have it today?

MR. PRELL. No.

CHAIRMAN GREENSPAN. That sounds like a precedent to me! [Laughter]

MR. TRUMAN. Either that or an exception.

CHAIRMAN GREENSPAN. Messrs. Prell and Truman.

MR. PRELL. After we have gone on even briefly you may decide that you don't want the full length Chart Show, but we'll see. [Statement--see Appendix.]

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

CHAIRMAN GREENSPAN. Questions for either gentleman?

MR. PARRY. Mike, in terms of the growth rates for the baseline forecast of real GDP, it looks like almost a perfect soft landing in some respects. But as one focuses more on what the economy looks like in 1996, it seems to me that there are some very troubling aspects, particularly if one considers what a simulation for 1997 might produce. For example, we see that at the end of the year the unemployment rate is below conventional estimates of the natural rate. That suggests to me that if we were to simulate through 1997 we probably would have higher inflation. Therefore, the conclusion is that on the baseline forecast we not only are making no progress toward reducing inflation, we actually are going to see a period of three years in which inflation at best would stay about flat, but in terms of models most likely would worsen. Is that a correct assumption?

MR. PRELL. Reading the numbers as precisely as they are written down, the thrust of the baseline forecast is that we think we have a modest degree of financial restraint that will hold growth slightly below potential and have the unemployment rate creep up. But we are at a point where we think high levels of resource utilization will begin to foster very gradually some momentum toward higher inflation. So, yes, the most natural extrapolation from this would be a slightly higher rate of inflation in 1997.

MR. PARRY. Thank you.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. Mike, I guess I am a little surprised at your answer to Bob, and that intrigues me some because my question related to the almost "too good to be true" sort of pattern for nominal GDP growth through the next two years and the composition of prices--whether the deflator or the CPI--and output. If I understand it, your assumption is that the fed funds rate stays at 6 percent for the full eight quarters.

MR. PRELL. That is correct.

MR. JORDAN. You have long bond yields coming down somewhat further. You don't say how much, but I assume you still have an upward sloping yield curve through the whole two-year period.

MR. PRELL. Essentially, we would have an upward slope of average dimension.

MR. JORDAN. Some liquidity premium in there?

MR. PRELL. Yes.

MR. JORDAN. So you have nominal spending rising at a rate of less than 5 percent for eight quarters and pretty much a flat pattern through 1996. It's not much different from the last several Greenbooks except that at least it's flat now whereas before it dropped this year and rose later. So, to decompose nominal spending into its parts, you have real output rising a little less than 2-1/2 percent on average and prices also rising a little less than 2-1/2 percent, using the deflator anyway, to give you that nominal spending. Yet, you have a structure of interest rates in which rates are 6 percent and higher throughout the yield curve for the whole eight-quarter period. I look at that and say I don't know whether it's a good forecast or a bad forecast. I certainly don't have a different one to propose, but in the sense of a "reasonableness" check, should I expect nominal interest rates to be in the 6 to 7 percent range while nominal spending is under 5 percent for a two-year period? Comment?

MR. PRELL. If you are asking whether the relationship of nominal interest rates to nominal growth looks abnormal or unreasonable here, I would say that there is not a very strong regularity in the history of the relationship between nominal interest rates and nominal GDP growth. We have played around with some econometric exercises to see whether there is any information to be gained by looking at that spread as an index of restraint and prospective real economic activity. It is weak. It can contribute a little to explaining the prospects. I don't feel uncomfortable with this forecast. I think the fact that the nominal interest rate is a little higher than nominal GDP growth is consistent with our sense that this is putting some drag on economic activity, just as the fact that the real short-term rate, a bit above historical averages as we perceive it, could be interpreted as being consistent with some modest monetary restraint on top of what we believe to be some moderate fiscal restraint. That is very hard to say. The real rate of interest could vary considerably over a cycle or even a little longer.

MR. JORDAN. If I could follow up--one thing implicit in both the assumptions and the forecast and your responses to me and to Bob Parry earlier is that either the financial markets are embodying and maintaining a higher inflation premium for a sustained period of time than what we are observing or we have a higher real yield. I take this as being a forecast of an economy that is operating for the next two years essentially at full employment or full capacity. We are right at the ceiling over this whole period.

MR. PRELL. We are slightly above the ceiling now, drifting back toward the ceiling.

MR. JORDAN. Okay, but at least not below it.

MR. PRELL. We are splitting hairs here.

MR. JORDAN. So you would say it is unlikely that the real yield embodied in financial instruments is higher than what the economy is actually churning out or capable of churning out. Unless you have some sort of risk or uncertainty assumption in there, that implies that the market is maintaining an inflation premium. Market participants are still looking out beyond this forecast horizon at a rate of inflation and that is still being embedded in nominal yields.

MR. PRELL. Let me separate these questions. In some simple models, one can relate the observed real rate of interest to the longer-term growth of the economy as a sort of equilibrium, steady state condition. But if one starts elaborating those models, it can get much more complicated. On the question of what we think is going on with inflation expectations, yes, our presumption is that the current inflation expectation for the shorter run is in the 3 percent --3 percent plus--area for consumer prices. As we go out into the intermediate-term--5 to 10 years--expectations are probably closer to 4 percent inflation.

MR. JORDAN. Okay.

MR. PRELL. At this point, in our judgment, the notion of a downward trend to inflation is not embedded in the markets. Rather, there is some more inflation in the works, as President Parry was suggesting. Our forecast is pointing toward some gradual pickup to a higher level of inflation.

CHAIRMAN GREENSPAN. Other questions?

MR. BLINDER. I did have a question, but I am again picking up on Bob Parry, especially on the answer to his question.

SPEAKER(?). Picking on him or picking up on him?

MR. BLINDER. No, picking up on him--definitely not picking on him. Inspired by him. Mike, referring to your answer to Bob, I was reading the quarterly Greenbook numbers on the capacity utilization rate. They peak at 85.1 and they go down every single quarter through 1996 Q4, at that point reaching 82.9. I can't imagine, though I thought I heard you say "yes" in your answer to Bob, that if this page were another two inches wide and we saw the numbers for 1997 on it, that the utilization rate would abruptly turn back up. Again, I am reading this just the way you stated it, Mike, with the economy gradually going back to its natural growth rate, which does not lead to ever accelerating inflation.

MR. PRELL. Indeed. But in 1997, assuming gradual convergence, we are as I said splitting hairs.

MR. BLINDER. You already have 5.8 percent unemployment and 82.9 capacity utilization by the end of 1996.

MR. PRELL. Exactly, and in 1997 on this trajectory, we would get back to the NAIRU and a little lower on capacity utilization. In theory at that point, the inflation rate would stabilize at just a hair higher than we observe as the trend to 1996.

MR. BLINDER. Okay.

MR. TRUMAN. Maybe this is cutting it too close, but if you look at the two years together in the Greenbook, we have a little more inflation this year because of what we have assumed about the dollar. Therefore, the flatness produces a bit of a distortion. It suggests that the trend is very gradual, but there may be more trend than the numbers themselves suggest.

MR. PRELL. We are using the usual sacrifice ratios and a NAIRU around 6 percent; and given our projected unemployment rate, we are only talking about accelerations of a couple of tenths a year. The convergence by 1997 implies that we may not even have that in that year.

MR. BLINDER. That was my point.

MR. PARRY. The point I wanted to make was that clearly your projection does not show any improvement on inflation; we are not making progress.

MR. LINDSEY. I understood it to be a deterioration.

MR. PARRY. Yes.

MR. TRUMAN. A slight deterioration.

MR. PRELL. Yes.

MR. BLINDER. Thank you.

CHAIRMAN GREENSPAN. Further questions? If not, who would like to start the discussion? President McTeer.

MR. MCTEER. The Eleventh District has slowed somewhat over the past few months, and most of the slowing seems to be in Texas rather than in our parts of New Mexico and Louisiana. A member of our Advisory Council on Small Business and Agriculture said with respect to New Mexico that they had "hit the three cherries" there this past year. I am not familiar with that terminology, [Laughter] but it probably would apply to Louisiana whose rebound last year seems to have a lot to do with the gaming industry. The picture in Texas is mixed; employment declined in January for the first time in thirty months, but it rebounded in February. The biggest negative for Texas, of course, is the situation in Mexico, both actual and prospective. Our staff has conducted three special Beigebook surveys on expectations about the impact of Mexico's problems on Texas businesses, and each of those surveys has gotten more pessimistic about the overall impact on Texas. Dozens of retail establishments have closed in most of our border towns. Unemployment is up all along the border. With respect to Mexico itself, given that their economic policies in recent years have been fundamentally sound, the austerity program that this country apparently has been pushing on them seems unnecessarily harsh to me and may prove to be counterproductive in the long run.

As for the national economy, about the only straw in the wind that I have picked up that others may not have picked up has to do with retail sales. J.C. Penney, which I regard as the retailer to the middle class, is having in March its second consecutive decline in sales.

CHAIRMAN GREENSPAN. President Minehan.

MS. MINEHAN. Both the statistical indicators and our informal contacts suggest that the pace of expansion is slowing in the First District. Since we never got into an expansionary phase to begin with, this is not being met with great joy around the District. Payroll employment in the region grew a little more slowly at the end of 1994 than it had earlier in the year and then dropped in January. Help-wanted advertising dropped. At the same time, our retail contacts, which are really quite a diverse set, were almost unanimous in reporting that sales were flat to down in both January and February. Some attributed the disappointing performance to the weather; again, we didn't have much snow this year. But there was general agreement that the regional economy is slowing. On the manufacturing side, our contacts are more positive than the retailers. That has been the general pattern for the last several months. A majority of our contacts reported increases over the year ranging from quite modest to fairly strong--in the range of 30 percent or so. But there are some notable areas of weakness: aircraft parts, medical equipment, and potentially the small volume of manufacturing in our area that relates to the auto industry. The price picture remains as before. Prices are generally stable but there are major exceptions in the areas of paper, plastics, and leather in particular. Residential construction has slowed in our region as it apparently has elsewhere, but the potential for nonresidential construction is solid, both as we see it happening right now and in the future. Vacancy rates in Boston are now about 10 percent, which is a level that, at least earlier in the 1990s, nobody predicted would happen over the next 10 years. It may well be that we will see new office construction soon--if not in downtown Boston, then on the circumferential highways of 128 and 495. By way of contrast--and New England has really been an area of contrasts throughout this recovery--Hartford vacancy rates are in the mid-20 percent range and still rising.

Two major items of economic interest have dominated the regional news. The first of these is the report of the commission on military base closings--the defense industry in the New England region is about 1 in 10 jobs--and the second is the proposed Fleet-Shawmut merger. Hanscomb Air Force Base, which is in eastern Massachusetts, was not on the closing list to the great relief of many in Massachusetts. If the initial recommendations are approved and Hanscomb continues in operation, it will add slightly to jobs in the region rather than take away something like 11,000 jobs. The Fleet-Shawmut merger has prompted at least two state attorneys general to threaten some sort of action--we are not really sure what--over the loss of jobs as a result of efficiency measures expected after the merger. So far, Connecticut appears to have negotiated a deal to keep certain jobs that would otherwise have been cut, and I am sure Massachusetts has this in mind as well. We have not seen a draft application, which I think is being held up because of the complexity of some of the competitive issues involved in this merger.

Turning to the Greenbook, I must say that I have some concerns along the lines that Bob Parry was suggesting. We find ourselves in agreement with the basic GDP growth rates shown in the baseline forecast. But when we use these growth rates, our own projections of unemployment are slightly lower than the Greenbook's and our estimates of inflation growth are a bit higher. More importantly, we don't see the level of inflation stabilizing next year. I know there is a tradeoff in terms of the impact from the external sector, but we don't see that level of stability in terms of rates of inflation growth in 1996. We see a gradual uptick, which is consistent with our projections of unemployment. We believe that the core trend is rising, which is discussed in the Greenbook. Therefore, we think and maybe others believe as well, that there is a bit of upside risk in the degree of inflationary pressure in the baseline forecast, particularly as we take it out through 1996.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, growth in the Twelfth District economy as a whole remains moderately strong. The District's unemployment rate has dropped 1-1/2 percentage points in the past 12 months. The intermountain states have experienced very rapid growth, although we have seen some moderation recently. In California, the modest recovery may gain some momentum this year. Revised payroll employment data for California show that the recovery so far has been characterized by a rebound in construction, recent strength in non-aerospace manufacturing, and continued growth in services. Payroll employment in southern California now is growing at the fastest pace among the regions in California after falling at the fastest rate during the recession.

While overall conditions remain strong in the District, several special factors will damp growth in some areas. In California, the estimated damage from March rains and floods is expected to reach $2 billion, including $400 million in crop losses. The recent storms also will depress state employment, construction activity, and retail sales. Recent developments in Mexico likely are beginning to restrain growth in California and Arizona. Arizona's dependence on trade with Mexico is about three times the national average, while California's dependence is about 1-1/2 times the nation's. To date, the anecdotal evidence confirms initial estimates that developments in Mexico will reduce growth in U.S. real GDP by a few tenths of a percentage point in 1995--Ted indicated roughly a third of a percent in his forecast--which implies a moderate-sized shock to both California and Arizona. However, I must admit there is concern that a severe recession in Mexico could bring about more substantial effects on these states, particularly as one gets closer and closer to the Mexican border. In Washington State, the widely publicized cutbacks at Boeing will hold down employment in the near term. However, it appears to us that these cutbacks are more indicative of a restructuring effort than of a downturn in the longer-run outlook for aircraft production in the state of Washington.

If I may turn briefly to the national economy, the broad contour of our forecast is similar to that of the Greenbook, although we seem to have differences that are very similar to those mentioned by President Minehan. Throughout this year, the economy most likely will remain above levels of labor and capacity utilization that are consistent with steady inflation, despite a slowing of growth in real GDP. Thus, we anticipate that inflation will increase a bit this year and next. Of course, there is always considerable uncertainty in such forecasts and this is a particularly important consideration at this early stage of a slowdown in growth that now appears to be under way. I find it interesting that several of the spending equations in our model are predicting levels that are below the actual data in the fourth quarter, suggesting that there may be some downside risks to the real side of the forecast. Moreover, I guess we have all noted that forecasts from a model often underpredict the amplitude of cyclical movements in the economy. Thank you, Mr. Chairman.

CHAIRMAN GREENSPAN. President Moskow.

MR. MOSKOW. Mr. Chairman, Seventh District manufacturing activity remained brisk in recent months, but there were signs of moderation in some of the interest rate-sensitive industries, notably autos and single-family housing. Sales of autos and light trucks in January and February came in under a 15 million unit, seasonally adjusted, annual rate, which was below industry forecasts as well as our own forecast. Auto makers responded quickly by cutting first- and second-quarter assembly schedules. In line with the Greenbook, we now expect light vehicle output to add very little to first-quarter GDP and probably subtract at least a full percentage point from second-quarter growth. It is important to keep in mind that April is a critical month for the auto industry because that is when they determine their model year build-out. Once they determine the number of units produced, they then apply the incentives necessary to sell them for the remainder of the model year. Recent reports from the Big Three auto makers as well as from District auto dealers and distributors suggest that light vehicle sales have improved in March, perhaps to as much as a 15-1/2 million unit rate, with sales increases concentrated among those models where incentives have been enhanced. I emphasize, "as much as." However, it will take another month or so before we know whether the early 1995 softness in lighter vehicle sales reflects what one industry contact called "the pause that refreshes" or whether there has been a more permanent pullback on the part of consumers.

Single-family housing is the other major industry that showed outright weakness in early 1995. But this is being countered by growing multifamily and commercial construction activity. In addition, we have had a few reports that recent declines in mortgage interest rates may have mitigated some of the softening in mortgage demand and existing home sales. We are all aware that sales of Michael Jordan's new number 45 Chicago Bulls jersey have been exceptionally strong recently, [Laughter] but overall retail sales growth in the District has slowed from the fourth-quarter pace. District reports on March-to-date sales suggest no change from the moderating pace set in January and February. Apart from apparel, inventories are not seriously out of line with desired levels, although an increasing number of retailers in our February Michigan survey reported rising stocks. Price discounting continues to be pervasive and competition intense.

The District's manufacturing sector outside autos continues to expand at a robust pace. District steel production in the first quarter will post its second largest year-over-year gain since the end of the 1990-1991 recession. However, confidential information we have on the Chicago Purchasing Managers Index, which will be released to the public this Friday--I emphasize that this is confidential until

Friday--will indicate a significant slowing in the pace of expansion during March as well as a slight easing in prices-paid inflation. I would add that, on the other hand, the tone of our recent meeting of the Advisory Council on Agriculture, Labor and Small Business was quite positive, with representatives indicating that their small business contacts still expect growth in 1995 to be in line with that in 1994. The agricultural sector is stronger than we had expected. Farm land values continue to rise. There was a 6-1/2 percent increase in District farm land values last year, and that was the largest annual gain in six years. January and February unit sales of farm tractors and combines were the strongest since 1984 and were up nearly 10 percent from a year ago. On the employment front, labor markets remain very tight. Help wanted ads continue to climb in the region, and the survey of Midwest employers indicates further strengthening in hiring plans. Virtually all of our contacts in the personnel supply industry report difficulties finding workers to meet the needs of their customers. Our directors as well as the members of our Advisory Council express significant concerns about labor shortages, particularly in the state of Indiana. One of our directors from Indiana told of a help wanted ad being placed offering a sign-up bonus of $200. By mistake, the ad ran with an extra 0, offering a $2,000 bonus, and it ran for two days before they realized it. They had a total of three responses to the ad! Overall developments in the Seventh District, while upbeat in many respects, are gradually beginning to reflect some of the mixed signals observed around the nation.

Our appraisal of the national economic picture is very similar to the Greenbook's. In general, we concur with its forecast of slower real growth combined with a modest but increasing rate of CPI inflation.

MR. BOEHNE. Mike, when Hoosiers see something that is too good to be true, they know it probably is. [Laughter]

MR. FORRESTAL. Spoken like a true Hoosier!

CHAIRMAN GREENSPAN. Quick, President Broaddus.

MR. BROADDUS. Mr. Chairman, reports coming out of our District, which I would remind you is the District where Michael Jordan came from originally-- [Laughter]

MR. MOSKOW. He's now in Chicago.

MR. BROADDUS. These reports continue to show some slowing in the regional economy. We do, of course, conduct monthly manufacturing and service sector surveys, and for the latest two months both surveys are consistent with some general softening in activity in our region. Our directors, while they are still broadly optimistic, are presenting more balanced comments now on local and regional conditions than earlier when almost all of their comments emphasized the strength in business activity. Let me give you a couple of quick examples. The central North Carolina area around the cities of Durham and Raleigh has been the strongest local economy in our District, probably about the strongest local area in the entire country. Activity there is still strong, but we are seeing some signs of softening there. Home sales are weaker than they were; automobile sales and sales of other durables are also a bit weaker. As another example, is on the board of a large national apparel retailer. In that role, she watches consumer trends not only in the apparel industry specifically but more generally, and she is not very optimistic about the outlook for consumer spending either regionally or nationally.

To summarize by sector in our District: Retail activity clearly has weakened since the beginning of the year; manufacturing also has moderated, although a good bit less; and both residential and commercial real estate activity have been flat over recent weeks, but some leasing agents have told us that the market for prime office space has become a good bit tighter over the last few months. There is some closing of the gap there.

The situation in our region, of course, is broadly consistent with developments at the national level. Much of the national data since our last meeting, as we all know, clearly suggests that the expansion is beginning to moderate. I think the most compelling evidence of that is in the retail sales data. Further evidence is provided by some of the latest residential construction information, especially the decline in single-family starts to the lowest level in about two years. In my view these developments clearly have been reflected in financial markets. Despite the recent acceleration in core CPI, bond rates have come down. I think that certainly can be an indication of some reduction in inflation expectations, presumably on the grounds that slower growth will reduce the pressures on resource utilization and hence on cost and prices going forward.

Against that background, the downward revision in the Greenbook's projections for the first half of this year and, of course, the substantial downward revision for the first quarter, are reasonable. One can support the revised projection analytically in a variety of ways. In particular, it is consistent with the permanent income hypothesis, which is a model that many economists now find persuasive in thinking about consumer behavior. As you know, even though consumer outlays have diminished lately, income growth has been well maintained. The saving rate rose significantly in the final quarter of last year, and if current trends persist, we are going to get the same kind of increase in the current quarter. The permanent income hypothesis implies that households will save more if they expect income to grow more slowly in the future, and of course, that is consistent with the Greenbook's scenario. In that regard, I might just note that one of our economists, Peter Ireland, recently developed a projection for real disposable labor income for this year, 1995, using a VAR model that is really driven by the saving rate. His projection is consistent with the Greenbook projection using a very different model of the economy. So, again, I think the broad profile of the Greenbook's near-term projections is certainly plausible.

Having said all of this, I think that the risks in the outlook, while certainly more balanced than they were earlier, are still skewed a bit to the up side. I think we have to keep in mind that a lot of talk and focus has been on the softer data in some areas, but not all the recent data have been soft. In particular, employment has expanded sharply over the last three months. It is up 3/4 of a million jobs over that period. That is an annual growth rate of 2-1/2 percent, which clearly is significantly higher than what is consistent with longer-term noninflationary trend growth in employment. Also, industrial production was strong enough in February to push the capacity utilization index back up again. It is now at the highest level since 1979, if my figures are right on that. And perhaps most importantly, I am impressed by the continued strength of business fixed investment, which is a forward-looking indicator, at least in some sense. So, again, I think the upside risk is still there and we should not lose sight of that. I just hope we keep that in the back of our minds going forward.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, the economy in the Southeast has continued to expand in the first quarter, although we are seeing some signs of slowing from last year's very strong fourth quarter. Employment growth accelerated in January, and preliminary February data suggest both strong employment growth and a further decline in the District unemployment rate. We are now forecasting an unemployment rate in the District of 4.7 percent when we get the final data. There are, of course, signs of deceleration as I have indicated, although I don't view any of these as being signs of real weakness in any sense. The slowing that we have had is pretty much along the lines of what we have heard from others for the rest of the country. Retail sales were quite disappointing to retailers in February, but this was attributable to particularly wet weather, and the early March data point to some recovery. Automobile sales have been declining since 1994, and single-family home sales continued to fall through early March and are now below year-ago levels. Manufacturing activity as reported in our manufacturing survey softened a bit in February--that is both in terms of production and shipments--and some of this slowing has been attributed to the situation in Mexico. But other reports suggest that inventory shortages in several industries are contributing some strength. That is especially true in chemicals, paper, and packaging. In Tennessee, the auto plants are operating at full capacity as are the packaging and paperboard facilities throughout the District. The strongest increases reported to us are in communications equipment.

On the inflation side, there has been some abatement of raw materials price increases, and as I have been reporting for several months, where there have been materials price increases, they generally have not been passed through to the intermediate or consumer levels. We still are hearing stories of labor shortages and we too have heard of signing bonuses, although not quite the size of that erroneous figure reported by Mike Moskow. Wage increases are still pretty spotty around the District.

Travel and tourism are quite mixed, with business and convention travel to Florida, New Orleans, and the Gulf Coast of Mississippi especially strong. But in general tourism in Florida remains very lackluster. Tourism around the major baseball spring camps has been in decline, as you would imagine. Traffic to Florida from Latin America, again not unexpectedly, has slowed. And European visitors are still scarce, but that is showing some hints of turning around. One of our directors from Florida did report that German visitors are not necessarily all tourists because they are buying the high-priced homes in Palm Beach. The Germans are moving in very aggressively and the $2 million and above houses are now flying the German flag. In Atlanta, the Olympics are beginning to have an effect, both in terms of infrastructure and construction for the venues.

With respect to the national economy, we see underlying momentum in the economy as still being pretty strong. The signs of weakness or deceleration that we do have seem somewhat unpersuasive to me in the face of the resilient fundamentals that seem to exist in the economy. That is, employment and income are still quite strong, as Al Broaddus just mentioned. New orders have been strong, as has been business fixed investment. I am particularly impressed by the plans that I see for more industrial capacity coming on line this year and next. Of course, as I have indicated, we do see some moderation, but less than in the Greenbook. And our differences with the Greenbook are the same as they were last time. That is, we anticipate somewhat stronger growth with somewhat higher inflation. We see the inflation rate moving up in 1995 to 3.5 percent, but expect it to peak at that level.

We have had some discussion about the dollar this morning, Mr. Chairman, and I thought I would interject just one comment on that subject. Although I found Peter's description of the reasons for the dollar decline quite persuasive, I still am not entirely clear in my mind what the real reasons are. There are probably many, but I don't think we really know categorically what they are. More importantly for us is the question of what impact the lower dollar will have on the economy. It seems to me that there may be few tangible repercussions for real activity and prices if the dollar stabilizes around current levels. Perhaps this is preaching to the choir to some extent, but I think as a matter of principle we should not be adjusting policy to achieve some particular external value of the dollar. In some sense, I believe this is one of the reasons we have a flexible exchange rate. The dollar is a signal, although a noisy one, but I don't think it should be a target. Thank you.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, the Tenth District economy remains strong, with strength evident throughout the region. Our directors are uniformly reporting robust growth in all District states. Moreover, recently revised employment data confirm the strength of the District economy. Nonfarm jobs were up 4.2 percent in January over the previous year. New Mexico, for example, continues to rank among the top states in terms of job growth. Six of our seven District states are experiencing job growth above the national average. Manufacturing is a leading source of economic strength; factories in the region are generally operating at high levels of capacity. Durable goods makers have been adding jobs at a rapid pace. Retail sales are generally buoyant across the region, although automobile sales have shown some weakness recently. In the construction sector, a recent surge in office construction has more than offset the slowing in the housing sector. Notwithstanding the recent strength that I am reporting, there are signs that overall activity is beginning to slow. Our quarterly survey of manufacturers suggests that activity has begun to cool somewhat. Fewer factory managers are reporting gains in production and shipments than was the case last fall. Also, loan growth in District banks has moderated lately from the rapid growth of the fourth quarter last year. Manufacturers report steady increases in prices of materials, with more of these hikes being passed through to final product prices. Reports of wage pressures, however, are still isolated.

Turning to the national economy, recent signs of moderation in economic activity to a more sustainable level are, of course, welcome. But whether that moderation will be sufficient to cap inflation--to echo what others have said--is still an open question. I believe that, on balance, there is upside risk to the forecast over the year as a whole. I would like to mention some of the reasons. The interest-sensitive sectors of the economy may show more strength than was projected, particularly if the recent run-up in bond prices is sustained. Notwithstanding Mexico and South America, export growth may outperform our expectations, given the decline in the dollar. Firms may be more aggressive in investing in new plant and equipment, especially given their capacity levels, and less aggressive in paring inventory growth than we currently believe. Moreover, recent national bank lending data are consistent with an economy that is still growing at a fairly strong pace. As for inflation, I agree that the core level of the CPI is likely to move up to the 3-1/4 percent range this year. But if the economy comes in stronger than expected and if the dollar continues to weaken, I think inflation could move higher. I do not look for much help on the labor cost side because traditionally labor cost movements have lagged inflation movements, suggesting that the best news on this front may be behind us. The implication in my view is that the risks continue to lie on the side of inflationary pressures. Thank you.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. The Fourth District is operating at a very high level of economic activity, though clearly the rate of change has slowed. Directors and other contacts consistently report that business is not growing as fast as last year, but there are very few indications of anything declining in an absolute sense or even concerns of such. Motor vehicles are quite strong. However, the dealers are now telling us that they have as much in inventory as they want, and they are sending messages back to the manufacturers to slow the rate of shipments. How the manufacturers will respond to that in terms of production is going to be determined in the months ahead. We have a lot of exporting out of the District although, of course, a great deal of it is to Canada. Ohio also has large exports to Mexico --Kentucky does as well--of auto parts. So far, exporters in our District are not raising any concerns about Mexico as being a particular problem because, as our companies tell us, their other markets for exports are quite strong. Canada continues to be a good export market for us. Canada also is still, for better or worse, a strong source of investment funds coming into the region. I am not sure why the motivations are all that attractive from a Canadian standpoint. Both director reports and direct contacts with some retailing companies--these are companies that may be headquartered in our District and operate all over the country--tell us that there has been a slowing in the growth of retail sales, not absolute declines. One area of absolute declines is in residential construction. Generally, there is a pattern of new-start activity being below what it was in the recent past. Inventories of "for sale" homes seem to be lengthening. Commercial real estate construction activity has picked up compared to last year. Also, industrial spending, for both productivity and capacity increases, especially motor vehicle-related capacity, is growing. Companies also tell us that steel capacity through 1996 and 1997 will be very substantially increased. Since we have already seen reports of declines in steel prices, they say that we should look forward to some softness in the steel market in the next couple of years. One area that is creating a lot of comment, but to me more uncertainty as to what it all means, is health care consolidation. We see very large companies getting together. People talk about the consolidations resulting in job losses, but we have not yet seen them materialize in any observable way.

As for the national economy, the Greenbook's projection that nominal spending growth will slow to the range of something under 5 percent this year and next year looks to me like a very desirable forecast, as I indicated earlier. I don't have any reason to quarrel with that. If I didn't think that that was going to happen, and if I thought that nominal spending growth was going to continue in the range that it was last year, then I would be a lot more concerned than I am about the prospects for inflation in 1996 and beyond. But if that forecast of total spending does materialize, then the question about inflation comes down to issues about productivity growth and the ability of this economy to expand. I am not too disturbed about what might happen in terms of reported rates of inflation for 1995. I don't think that monetary policy can do much about that anyway. At this point, I mainly would be interested in seeing that the rate of inflation in 1996 and 1997 resumes decelerating a percentage point or two from where it has been in the last couple of years. Right now, I don't have any reason to believe that we are not on a track to achieve that result. So I am comfortable with the national forecast.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. There are some clear signs of moderating growth in the Philadelphia District. Manufacturers in particular indicate a slackening pace that is apparent in new and unfilled orders as well as current shipments. Retailers report a slowing pace of sales, especially in autos and other durables, although I think there is considerable uncertainty among retailers as to whether this is just a temporary slackening to be followed by a pickup or the beginning of a slower trend. Residential sales and construction are in a lull and there likewise I think most realtors are not sure whether this is just a lull that will pass or the beginning of a long, dry spell. Commercial real estate conditions are soft, but the cycle seems to have bottomed out in areas of the District that show more strength. Looking across the District, even in those areas where economic activity is stronger than in others, there really is an absence of wage and price pressures. They just remain subdued and are a nonproblem. Increasingly in the District, the outlook for moderating growth is becoming the conventional wisdom, following the fast finish of last year, which temporarily raised spirits that 1995 might be a very strong year. Since the Philadelphia District has been a laggard during this expansion, there is some feeling that the good times could have lasted longer--the same view that Cathy Minehan finds in New England.

For the nation, I think we need more than the usual amount of humility about our assessment of the outlook. To be sure, there are increasing signs of slowing growth, but we could be surprised either on the up side or the down side. Areas like inventories or net exports or consumption expenditures all strike me as having more potential than usual for surprises for reasons that have been discussed. How much inventory accumulation is intended or unintended? Certainly, the net export outlook has a number of crosscurrents. Since the lull in consumption expenditures has been mainly in the durables side, just how temporary is that or is it more permanent?

We are likely to have some increases in inflation in 1995. We need to try to distinguish between cyclical increases that are likely to moderate as the cycle matures and increases of a more underlying or core character. In this context, a slowing of economic activity makes credible the case that we may see more of a cyclical increase than an underlying increase. But here too, we need to keep a few upticks in inflation in the context of a cycle. This comes back to the importance of gauging the strength of economic activity, and I think this is a time for monitoring.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Thank you, Mr. Chairman. Let me comment first on the national economy. I find myself a little more confident than I normally am about the general contour of the Greenbook forecast in part because, as many people have commented, the incoming data on the national economy are convincing evidence to me that the pace of growth has slowed. Those data are also consistent with the tenor of the anecdotes that I have been picking up in the District lately. I take some comfort from the incoming data and the Greenbook forecast and indeed from our own forecast, because as recently as a couple of months ago it was mostly a hope and a prayer that growth would slow to something more consistent with trend. Now I think it is a little more than that. I don't know where the risks lie, particularly; I do know that the confidence bands around these forecasts, if one does it rigorously, are very, very wide. I think that is worth bearing in mind as we go forward.

With regard to the Ninth District and the anecdotes there, first of all, I think it is worth saying that the District economy on balance remains very healthy. But, and there are some "buts," there is no doubt that auto sales, housing activity, and retail sales generally have slowed perceptibly. The sellers are disappointed and their attitudes have soured somewhat. I think they attribute this slowing to the level of interest rates to at least some considerable degree. On the other side of the coin, labor remains in quite short supply in most of the District. This has not translated into any real acceleration in the rate of wage inflation, but it does seem to be affecting expansion plans and/or current production activity, simply deferring those plans or limiting output; I think it has made a difference. The final comment I would offer is that I have a sense that we are in for some kind of inventory correction. I say that not on the basis of a lot of rigorous analysis of how production has matched up with consumption or other spending, but mostly as I listen to stories about some of the disappointment that has occurred. That suggests to me that there are some inventories around that people would rather not be holding, whether they want to admit it or not. Certainly, the incoming production data on the national economy have been stronger than the spending data, consistent with the same story. That suggests to me that an inventory correction will occur.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Thanks, Alan. My view is that the U.S. economy continues to show strength even though there are now a few signs that the pace of economic activity may be slowing. Real GDP grew at a 4.6 percent rate in the fourth quarter according to the most recent estimate. Inventories were a net drag on output growth and domestic demand was strong. This combination, which was not apparent in the original advanced GDP report, is a plus for the first quarter since there should be less risk of a quick slowdown due to a quick inventory correction. Inventory-based stories of a slowdown have been problematic in any event over the last several quarters, and the inventory-to-sales ratio remains near a historic low.

The Eighth District economy remains strong, and at 4.5 percent, unemployment in major District states remains well below the national average. Parts of the District continue to report very tight labor market conditions. A recent survey of businesses in the District shows that about as many plan to add employees in the next three months as did at this time a year ago. Auto production in the District for the second quarter is projected to be much stronger than in either the fourth quarter or the current quarter. Taking these facts together, I view the overall picture on the real side as one of a healthy economy.

It is not nearly so easy to be sanguine about the inflation outlook. In January and February core inflation averaged about 4.2 percent, up substantially from the 2.8 percent rate we saw in 1994. Virtually all major forecasters expect inflation to rise in 1995. The Blue Chip consensus, for example, puts the increase in the CPI at 3.4 percent in 1995 and 3.6 percent in 1996 as compared with 2.6 percent in 1994. Longer-term forecasts of inflation are worrisome from the perspective of this Committee because they indicate that market participants expect inflation at or above its current level at horizons as long as five years. A recent University of Michigan survey put inflation expectations at just over 4 percent for 5 to 10 years from now. I might add that this troubling figure is actually down from 5 percent late last year. This indicates that we are moving in the right direction, but it is clear that few in the marketplace believe our commitment to long-term price stability. In this environment, it is particularly important that we ask ourselves what our objectives are. Even if we have put a cap on inflation in the 3 to 4 percent range--and I am not sure that that is necessarily clear at this point--we are a long way from our goal of stable prices and the low long-term interest rates that would accompany such an achievement. The U.S. government borrowed long term at 4 percent in the late 1950s and the early 1960s when inflation was held to the 0 to 2 percent range in this country. The Japanese government can now borrow long term at 4 percent when its inflation rate is comparably low. We clearly have a long way to go to establish that kind of credibility again.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, the Second District economy, which has been flat for about the last six months, had a little positive flurry, mainly in New York State, in February with retail sales and employment up a bit. However, the continuing announcement of shrinkage by major employers, the difficulties on Wall Street, and certain base closings would lead one to believe that for the rest of the year the economy in the District is likely to be flat.

Regarding the national economy, we, like everybody else, are uncertain as to where the economy is going--whether it has slowed enough to sustain a reasonable level of growth and progress toward price stability. On the positive side, we have consumer spending moderating, retail sales down, auto sales down, a little fall in the Michigan index of consumer sentiment, housing starts declining substantially, exports to Mexico and Latin America decreasing, and wage growth continuing to be moderate indeed. On the other hand, one has to look at the fact that in recent years we have had a pattern of a first-quarter slowdown followed by a strong rebound, and none of us can be certain that that won't happen again. Employment growth is still quite strong. The stock market is very strong indeed and the long bond rates have declined. Capacity utilization is still above 85 percent and employment below 5-1/2 percent. CPI inflation has crept up in recent months.

Regarding any differences with the Greenbook forecast, we do have differences that are somewhat troubling in that we have the real GDP growth rate slightly higher in 1995 and somewhat lower, down to about 2 percent, in 1996. But the unemployment rate is still low, and we are less sanguine about wage pressures. Consequently, we have the CPI up 3.4 percent fourth-quarter-to-fourth-quarter in 1995 and up 3.7 percent in 1996. In the financial markets, the strong stock market and the strong bond market would seem to reflect the notion in these markets that we have in fact achieved the soft landing, which none of us is quite sure is true, and that the Fed is about to declare formal victory, given the number of comments by some members of the Committee about having raised interest rates high enough. I think the financial markets may have it right, but if they don't, they have it wrong by being euphoric on the top side. If in fact we get a rebound in the economy or any continued pickup in inflation, I think the Federal Reserve would have to tighten even further because of this attitude in financial markets, and perhaps in part because we have contributed to this attitude in those markets. So in my view this is very clearly a time for us to be attentive to what's happening in the economy but perhaps attentive in the sense of looking for a demonstration of price stability from the economy rather than looking hopefully for an indication that we already have been successful. It seems to me it is too early for that.

CHAIRMAN GREENSPAN. Let's take a 10 minute coffee break at this point.

[Coffee break]

CHAIRMAN GREENSPAN. Governor Kelley, you have the floor.

MR. KELLEY. Thank you, Mr. Chairman. I would like to lean into the wind a little here as several have done, particularly the Vice Chairman when he spoke just a moment ago. I don't think there is much question that the expansion seems to be slowing right now, and I certainly respect the strong logic in the Greenbook about the expectation for upcoming quarters. But I have to say that as of right now, from what I can see today, I am agnostic about the course of the upcoming quarters and the balance of the forecast period. While I am not prepared to bet very heavily on it, I surely would not overly discount the possibility that we are going to see a reacceleration here or at least a considerably lesser degree of softening. I had a list of factors here; almost all of them have been mentioned. One that I would like to repeat was mentioned by the Vice Chairman a minute ago. I have never known whether the old saying that history never repeats itself is correct, or the one that says that those who ignore history are doomed to repeat it. But we should keep in mind that for the last two years in a row we have had a configuration of a fourth quarter going into a first quarter that looks very much like the one we have right now. Certainly, some things are a lot different right at this point, most obviously interest rates, but we have had this kind of configuration for two years--

CHAIRMAN GREENSPAN. I think it is three years.

MR. KELLEY. Three years? I'm sorry. I didn't go back far enough in my research. The economy is still forming new jobs at a rapid clip--500,000 or so in the first two months. The related earnings will be kicking into the spending stream. I am not sure what may happen on inventories, but certainly we still have a very low historic inventory-to-sales ratio, which leaves a lot of room to build inventories. Factory orders are still strong; backlogs are still rising. Nominal rates all along the yield curve are well off their highs, and real rates are certainly down from where they were. I don't think we can call the real rates high by any reasonable standard that I can see. That may reflect the slowing that we have right now, but it also could set the stage for some reacceleration later. I have been anticipating that the consumer would run out of gas before now, and that has clearly been wrong. Now it seems that the consumer is still quite solvent. With the stronger stock market and bond market that we have had recently, I would expect that confidence will continue to stay high. It is still high, maybe a little off its peak, but nevertheless still quite strong. It will be interesting to see how the lower dollar plays out. As Ted said a few minutes ago, the band of uncertainty is very large. But a great many observers feel that the dollar could easily go lower over time from where it is right now, even if the decline may be somewhat overdone on a short-term basis in the last couple of months. It seems to me that that could give us an upside surprise on the export side. All in all, if you use the baseline forecast in the Greenbook and ask yourself where the risks are around that, at the moment it would seem to me that they are still on the up side, with a meaningfully larger chance that we will see a stronger economy versus the baseline forecast than a weaker economy.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Thank you. In December I thought a slowdown was likely, or feasible, and the evidence is now becoming a bit more definite that we are seeing that slowdown. I think everybody has been pretty consistent in citing housing and retail sales--autos and durables in particular--as the weakening areas. I guess consumers are finally feeling the stress of higher interest rates as their ARMs were repriced and as they took on increased amounts of consumer debt last year. With wage increases flattening out, taking on additional leverage to spend is not as advantageous. Like several others around the table, I also would like to argue that in spite of the fact that we are seeing a slowdown, I think it is likely to be quite mild. Employment at fairly lofty levels implies that aggregate income will continue to support consumption. Also, we don't have any very significant balance sheet strains at the household level.

On the business side, I think the climate remains favorable for continued investment at least in the near term. We are carrying forward considerable momentum from 1994. With this kind of business investment, we are going to have significant lead times on projects, and that leaves a fair amount of expenditures in the pipeline. The cost of capital in the aggregate is still relatively low. Business commitments to cost control and increased productivity do imply additional capital expenditures, although I would admit that the impulse of those expenditures is mitigated by the fact that we are seeing falling computer prices. Nevertheless, corporate profits and cash flows are stronger than expected and this can support additional investment. Balance sheets are stronger on the corporate side. Again, this is supporting the opportunity for increased investment.

It is possible that the slowdown will ease the strain on resource utilization, but in any case I think most people would agree that the economic slack currently is either significantly diminished or perhaps the economy is operating over capacity. I continue to believe that it is difficult to interpret these capacity questions. On the labor market side, it could well be that we have more flexibility than 5.4 percent unemployment implies, and I would cite the increased use of temporaries. I think the reengineering process has left people employed but willing to relocate if better opportunities come up. For various reasons, perhaps including benefits, people are not moving to seek new employment in the same patterns as in the past. On the manufacturing capacity side, there have been several examples around the table today of capacity being added. Technology, I think, is making it very difficult to ascertain whether our old levels of capacity are even as relevant anymore. Thus, with respect to resource utilization, although both product and labor markets are fairly taut, those data are difficult to assess.

On the inflation front, there has been considerable progress both in the numbers and the psychology, but we are continuing to see pressure at the commodity and intermediate materials levels. We have forecast a slight uptick in the CPI for 1995. But the difficulty of interpreting capacity and measuring the NAIRU makes it difficult to know how close we are to building more permanent inflationary increases back into the economy. Perhaps in the near term, we are not likely to see too much erosion of the progress that we have made against inflation if the expansion does slow a bit and wages stay under control. But I think it would be a stretch to see much room for improvement on the inflation front under current circumstances, particularly when we take dollar depreciation into account.

CHAIRMAN GREENSPAN. Thank you. Governor Lindsey.

MR. LINDSEY. Thank you, Mr. Chairman. Like my colleague, Governor Kelley, I am agnostic. The difference is that I am a scared agnostic. Maybe I have to find the right church to go to or something to make me feel better about the future. I am scared for two reasons. First, with regard to the domestic economy, I think that the Greenbook underestimates what I view as very likely fiscal contraction later this year. It seems to me that the way the politics are stacking up, we are going to have a contingent tax cut passed. The contingency will be that we be on a steady and sure path of deficit reduction of about $25 billion a year in order to reach balance by 2002. Now, one can fantasize about how we will get to the out-year parts of that, but we can easily understand why Congress would be interested in passing such a near-term contingency in order to put dollars directly in voters' pocketbooks. I would imagine that beginning in the fourth quarter of this year, where we now have what is described as a change in the High Employment Budget of roughly zero on a quarterly basis, we would see about 1/2 percent of GDP on an annual basis, about $25 billion a year, knocked off. I think that will be a significant brake on the economy. The reason that is a little frightening is that we are also in a situation where the financial sector is in much more precarious shape around the world than it is here. The problems with the Japanese banking industry are well known in this room. They will have to be marking to market on Friday, and that will be an interesting exercise both at the Bank of Japan and at the private financial institutions. I think there will be some interesting activity between now and then. Similarly, the German economy seems to have been slowing down. I think the pressure on the Germans to do something about the deutschemark will become irresistible. Here again, going back to Governor Kelley's analogy of history repeating itself, this reminds me a lot of late 1992 or early 1993 where the possibilities of strange things happening in currency markets seemed high.

Back in this country, there is one other ghost on the horizon and that has to do with the debt ceiling bill that will have to pass, probably in September of this year. I have been through two of those where the government shuts down and I went home as a Federal worker--or whatever we do. I went home anyway! [Laughter] The difference here is that the dynamic is slightly different. Previously it was a failure of negotiations where the Executive was trying to restrain spending and Congress was trying to increase it. That makes a lot of sense. What we will have this time, I think, will be Congress trying to restrain spending. The default in that situation really is a zero spending game, and I think it is quite possible to have a protracted period, unlike the 8 or 9 hours or in one case a 2-day period, when the government is shut down. The ramifications of that for the economy and financial markets could be quite interesting. There is a good chance we will avoid it, but if we don't the effects in our bond markets and world currency markets this fall will be very interesting to observe. So, I am worried about the end of the year. I think we are going to have a general drag on the economy from fiscal policy. And with the Japanese, the Germans, and our Congress and Administration, the capacity for something worse happening certainly seems to be there.

CHAIRMAN GREENSPAN. What I read mainly is that the variance is rising. I couldn't quite figure out where the signs came out.

MR. LINDSEY. That is why I am an agnostic.

CHAIRMAN GREENSPAN. Governor Yellen.

MS. YELLEN. The data that we reviewed at our last meeting provided inconclusive and, as we put it, tentative signs of slowing in growth. The magnitude of any moderation in demand growth seemed uncertain and the timing of the long awaited slowdown was also in question. That certainly raised the concern that it wasn't going to occur quickly enough to avoid a further reduction in labor market slack, with future inflationary consequences. Since that meeting, I think we have learned a lot, although I agree that not all doubts have been erased. From my point of view, the Greenbook does an outstanding job of digesting all the new information. The analysis it presents is very well reasoned. I would say the evidence in hand now points to a slowdown that is somewhat greater and more pervasive than previously anticipated. The incoming data coupled, of course, with our recent rate hike have led to downward revisions in the projected growth in virtually every component of demand. I think the outlook for net exports, at least beyond the current horizon, is the single modest exception to that pattern. From my standpoint, what we are finally seeing is the result of previous Fed tightening emerging through the pipeline, with the interest-sensitive sectors, housing and autos, leading the way exactly as theory and past experience predict. On the down side, we are now seeing a significant inventory buildup in automobiles leading to production cuts in the spring, and that significantly weakens the forecast in the near term. Investment growth also looks like it is slowing, not excessively but nevertheless slowing. So, at the moment the economy looks to me like it is not too hot, it is not too cold, it is just right.

The long-term inflation risk, it seems to me, is not entirely absent. Therefore, we have to be vigilant to see how things progress from here. But it does seem to me that the risk has subsided a little. We now have a forecast embodying more labor market slack in 1995 and 1996 than our last Greenbook forecast, and a forecast of significant new capacity coming on line. Most important, of course, what we are seeing is, to my mind, surprising and continued moderation in compensation growth and subdued growth in unit labor costs. If wages continue to be, as Ed Boehne put it, a nonproblem, that suggests that eventually we may have reason to question whether that the NAIRU is 6 percent or .1 or so lower. I think we should keep an open mind on that topic.

The Greenbook emphasizes that the dollar poses significant risk to the forecast. I thought the simulations in the Greenbook did a very good job of assessing the risk. I agree with President Forrestal that the exchange rate should not be a target of our policy, but it does have appreciable effects on output and inflation. Nevertheless, it does seem to me that the risks from the dollar are roughly balanced because, although we are told some interesting stories about why the dollar is doing what it is doing, I think when all is said and done that I would agree with Ted's conclusion that in truth the recent movement in the dollar does not seem to be warranted by any perceptible change in fundamentals. On balance, I would say that in a market like this where psychology matters so much, random walks work well. That is probably going to be the best forecast of where things are headed. Certainly, the dollar could move a lot, but it could go either up or down. The Greenbook assumption of a path with the dollar staying where it is seems appropriate to me, on balance. I take as the moral of those simulations that what we need to do at this point is watch and wait and be prepared to adjust policy in either direction if the exchange rate or any other risk factor in this forecast changes significantly. On balance, I see the risks to the forecast as being in both directions and roughly balanced at this point.

CHAIRMAN GREENSPAN. Governor Blinder.

MR. BLINDER. Thank you, Mr. Chairman, I will be quite brief. The scenario sketched in the Greenbook looks reasonable to me both in broad outline and in most particulars. A definition of a reasonable forecast is that there should be risks on both sides, and they should be reasonably close to balanced. I think this one is, but I would shade the risks slightly higher on the down side. Let me tell you why. I could list 12 upside and 15 downside risks, but I'll list only two on each side because I said I would be brief, and the other 13 are already covered. [Laughter] On the up side, I would mention net export performance being better than thought, with or without further depreciation of the dollar, and even more so if there is further depreciation of the dollar--although on that issue I am a random walker, exactly as Govenor Yellen is. The second one I would mention, and it has been mentioned several times, is that this could indeed be a false negative as we have had several times. I can remember, prominently, developments last summer when the economy started to emit a little feel of a slowdown. But the data that we have had in the last two months, I think, are quite different from the two months' worth of data that we had last summer. It is more pervasive. I think it is much less likely that this is a false negative than some of these other episodes that we have seen.

CHAIRMAN GREENSPAN. Why don't you repeat that; I want to get all the signs right! [Laughter]

MR. BLINDER. You want to get all the signs? I think it is less likely that this is a false negative. That was two negatives; I think I got three in the first go-around. On the down side, it seems my role in this FOMC meeting is to keep echoing what Bob Parry said. I agree very much with Bob's analysis. As I look at the pieces of the Greenbook forecast, it is easier to tell stories component-by-component--consumer spending, business fixed investment, inventories, etc.--coming in lower rather than higher. Of these, I think I would put inventories on the top of the list. But these are hunches, after all, and I have no major bone to pick with the Greenbook on any of those details.

Much more important than that is the fact--and it really is a fact--that forecasts tend to understate swings whenever they occur. It doesn't matter which direction; they do it. Forecast revisions are serially correlated; that is a statistical fact. There are several reasons for that. I think it has to do with underestimation of multiplier/accelerator interactions. I think it also has to do with people always saying, "yes there are lags, yes, there are lags," but not really internalizing it in their thinking--at least not in a reasonably numerical way. And we all have this tendency to look out the window and see how things are and generalize from that. So changes are always underestimated. To me, that is the major factor suggesting there is a downside risk.

The other thing I would say, which is striking to me, is the conjunction--as Governor Yellen mentioned--between what I like to call the fundamentals and the tea leaves. The fundamentals--models, etc.--tell us that the monetary tightening should be just about hitting the economy late in 1994 and into early 1995. That is exactly when we start seeing the slowdown--almost too good to be true! We have no right to think that these models are that good on timing. Nonetheless, there are the fundamentals, and there are the tea leaves coming in right on schedule--which gives me a lot more confidence than I would have in either one in the absence of the other. At the same time, I think there are very few signs of real deterioration in the economy. When I say a downside risk, I do not mean a recession risk; it does not look that way at all. The data really say to me that we have a chance of achieving this soft landing. But I just want to remind everybody that the reason soft landings are rarely achieved has to do with what I was saying a moment ago about the downside risks. People understate swings, forget about lags, and underestimate multiplier/accelerator models. That is why we hardly ever achieve soft landings.

In sum, I can hardly imagine circumstances--echoing now both Ed Boehne and Janet Yellen--that argue more strongly that this is a good time to wait and see if this negative really is a true negative, as I guess it is. At this point it is only a guess. Thank you.

CHAIRMAN GREENSPAN. Let's move on to Don Kohn.

MR. KOHN. Thank you, Mr. Chairman. The first sentence of my briefing comes directly from Governor Blinder's comments. I expected coffee in between! [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Don, we have revisited periodically the issue of going back to some form of credit variable target to replace the funds rate target. You sort of dismissed that in your statement.

MR. KOHN. A credit variable or borrowing?

CHAIRMAN GREENSPAN. Either. I use the word credit in a generic sense so that it could be money, it could be borrowing, it could be a credit variable, it could be a non-interest-rate variable. Do you envisage that sort of target as even remotely realistic or are you going to forecast that we will be saddled--I use the word advisedly--with the federal funds rate, which I think everyone would agree is a less desirable target than something directly related to our central bank operations?

MR. KOHN. There are really two issues, Mr. Chairman, and I would like to subdivide my response accordingly. One is the issue of what Peter Fisher is looking at every day when he is adding or subtracting reserves. We used to have a borrowing objective that was really a proxy for what was going on in the money markets. It had a little more flexibility in it than direct funds targeting. Now, Peter really is keyed to the funds rate. When the Committee's target is at 6 percent he must react every time it is at 5-15/16--although that is not quite true. I think going back to targeting borrowing by depository institutions instead of the federal funds rate would be very difficult because the borrowing is very low, and the borrowing function itself has shifted around.

The other question that perhaps you are raising is how the Committee keys its decisions about changing the federal funds rate target that it gives to Peter. That is where the aggregates used to play a role in the sense that if they were running very high or very low relative to expectations or to the targets, they would weigh on the scale on the side of the Committee changing its instructions to the New York Fed. We have noted in the Bluebook the last several times that M2 demand seems to have become a little more consistent with our old models, although the whole level of M2 demand has shifted down. With regard to M2, even when it was on model, it only gave a broad longer-run perspective on policy. I think it would be much too early to say that it was going to stay in its old configuration with interest rates or opportunity costs and nominal income. M2 just keeps chugging along at 1 to 2 percent, and the model now is predicting 1 to 2 percent. It may be that as soon as the model predicts something else, M2 will just keep chugging along! I think we need much more information that somehow the innovations in financial markets--the availability of mutual funds and what not--have not altered fundamental asset decisions by households.

On the other variables, there may be a little information in the credit variables and even the broad money aggregates. Certainly, we look at credit conditions in the sense of trying to see how willing banks and other lenders are to make loans. This ought to show up in some of these flows. So, in terms of broad flows of credit through the economy, there might be something there that would provide a little extra information--in addition to the kinds of information we already have on spending and nominal income--that would give us a little sense of what was going on in the financial markets. But I would be very, very skeptical that we could ever put very much weight on those data compared to the other more direct measures of spending.

CHAIRMAN GREENSPAN. And certainly not abandon the funds rate target--

MR. KOHN. No, you couldn't really. There is no way of targeting those broad money or credit variables directly. It would all be through interest rates and nominal income.

CHAIRMAN GREENSPAN. Well, we used to.

MR. KOHN. The only thing we ever targeted directly, more or less, was M1. We did move reserves around to achieve M1 targets from 1979 to 1982.

CHAIRMAN GREENSPAN. When I first arrived on the scene in mid-1987, there were still remnants of different types of borrowing targets.

MR. KOHN. Yes, but the borrowing targets were really proxies for what was going on in reserve markets. They were not being changed in direct response to, say, M1 or M2. I think M2 played a role in changing the borrowing target, as indeed we could see in the 1989 episode, but there wasn't a direct tie between the borrowing and M2.

CHAIRMAN GREENSPAN. Other questions for Don?

MR. PARRY. Don, in your discussion of symmetry and asymmetry, you indicated that if the Committee were to favor asymmetry to the up side, it might be as a result of its concern about the path that inflation is expected to take over the longer term. In your discussion of symmetry, you talked about the Committee maybe concluding that the risks are roughly balanced. I assume that this primarily means risks in terms of economic growth. What do you think the Committee would be communicating in terms of its views about inflation if it were to favor a symmetric directive?

MR. KOHN. Obviously, it would depend on the Committee's outlook for inflation. If the Committee were concerned that inflation was more likely to rise than to fall and it wanted to resist that rise, the asymmetry would tend to convey that. If the Committee felt the risks on inflation were evenly balanced around the 3-1/4 percent core CPI projected in the Greenbook but did not like that outcome, then it seems to me the Committee also would want to tilt a little bit toward the tight side.

MR. PARRY. Thank you.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Don, in your discussion about inertia and what might or might not work, you did not mention the monetary base. Is that principally because of the currency component, especially the currency held abroad, or do you have something else in mind?

MR. KOHN. No. I think first of all that the growth of foreign holdings of our currency has distorted growth of the base substantially. We have only the roughest notion of what proportion of our currency is held overseas and how it changes month to month. We have a lot of work going on here at the Board trying to estimate that, and people are refining their estimates using all sorts of sophisticated econometric techniques--comparing seasonals and things like that. But in the end, we are still only part way toward knowing what those holdings are.

The other point I would make is that even ignoring the currency part, the reserves part of the base tracks M1; that is what it is. The velocity of M1 is extremely variable as we have seen. The Committee itself abandoned M1 targeting back in the early 1980s because M1 became very interest elastic once NOW accounts were introduced and depositors began shifting funds between NOW accounts and time deposits. That sort of thing also shows through to the base. So, I would not put a lot of weight on movements in the base. For the St. Louis conference on operating procedures a couple of years ago that Al Broaddus was involved with, we cranked McCallum's rule for the base through the MPS model. We found a distinct tendency for instrument instability. McCallum has his base rule being adaptive to changes in velocity, but even with the adaptation, we had huge swings in interest rates and no clear gain over looking at nominal income or other variables directly. We do have some work continuing on this and hopefully we can circulate it to the Committee pretty soon.

MR. STERN. Good.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. Don, am I right in thinking that one of the messages from your very interesting presentation is that we may have reached a point at which quarter point changes in the funds rates would be appropriate again? When we were going through the tightening exercise, we went 25, 25, 25, then a couple of 50s, then 75, then 50. If we are as balanced as you say we are, and based on your presentation, would you not feel that 25 basis point moves are quite appropriate now?

MR. KOHN. I think they would be more appropriate now, particularly if in order to make 50 basis point moves, the Committee felt it had to wait for more information. I thought the lesson of my sermon was that it is better to be a little flexible, and maybe even have to reverse after going in one direction or another, than to get stuck on a particular rate that gets harder to change the longer the Committee is stuck on it. One can see a little of this in Germany and Japan right now, I think.

CHAIRMAN GREENSPAN. Any further questions?

MS. MINEHAN. Don, do you also think that 25 basis point changes could be implemented, as they were in the beginning, decoupled from the discount rate?

MR. KOHN. Sure, but they would be announced.

MS. MINEHAN. Yes.

MR. KOHN. In fact, I saw a comment recently that suggested it might be wise, if the Fed is going to tighten, to do it with the funds rate rather than the discount rate.

MS. MINEHAN. Right.

MR. KOHN. I think it was in one of the incoming Reserve Bank letters on the discount rate. That would allow the spread to widen and make it easier to reverse, because if the Committee started to reverse in tentative steps, the discount rate would not have to be cut. Now that both discount rate changes and funds rate changes are announced, the difference between them has certainly narrowed. And since the Committee is going to announce any funds rate change, it would need to decide whether there is to be any distinction in the type of announcement it would make between a plain open market operations change and such a change accompanied by a discount rate change.

MR. BROADDUS. I have a lot of sympathy with what you are saying, Don, about the need to move the funds rate more flexibly. It gives me an opportunity to underline a point I have made before. If we just had some kind of clear long-term anchor, it would be a lot easier to do that. Certainly, one of the reasons we are reluctant to do that and one of the reasons the press focuses on it so much is that that is really the indicator that they can key on to see whether or not we are still moving in the long-term direction we say we are moving in. If we could solve the longer-term question, I think it would feed right into this kind of operating issue.

CHAIRMAN GREENSPAN. Further questions from anybody? If not, let me get started.

It is pretty obvious that the growth of the economy is moving down in the direction that we had hoped. Indeed, if the evidence did not show that, as I indicated at our last meeting, I think we would be facing severe difficulties at this stage with serious instability beginning to emerge. The extent of the weakness clearly is not pervasive; it is still relatively spotty. We see it, for example, in the interest-sensitive areas, as many of you have indicated. The longer-term buttress to the system clearly has not been undermined. The recent gains in backlogs of orders, for example, remain very solid. One of the reasons is that a gap has opened up between orders and shipments so that even when orders fluctuate a little, the gap is still there; the second difference of the change in unfilled orders is really not discernible on any particular charts. We are, however, seeing initial claims beginning to edge modestly higher. And I don't know whether it means anything, but C&I loans have flattened out in the last two weeks after spiking up for a considerable period.

The question has been raised as to whether there has been a change in the seasonals that explains why we are seeing weaker first quarters relative to fourth quarters than we used to see. I think this is a very questionable proposition in large part because it is tough to find a change in temperature degree-days nationwide. It is especially difficult, at least as best I can judge, to see a pattern in the southern areas of the United States--where one would presume that seasonality would be less of a factor--that differs from that nationwide. We still get a big surge in the fourth quarter and weakness in the first in that part of the country. Nonetheless, there are reasons to suspect that weaker growth may in fact be emerging this year, not because of seasonality but largely because of the operation of the business cycle.

Gary Stern has raised an interesting question with respect to inventories. It has always been the case that when business people comment that "my sales have not done as well as I expected," that is algebraically equivalent to "my inventories are higher than I planned." The question is how important is that development. I think it is important enough to raise the possibility that the second quarter is going to be slower than the consensus expectation. The Greenbook may be on track here. We probably have a mini inventory recession under way, though not one that I would consider to be any particular cause for concern. As I indicated at our last meeting, I don't think any measures of inventory levels are pointing to a large prospective overhang. Indeed, the inventory data have been revised down. I don't mean necessarily for the fourth quarter, but as I recall the annual revision for trade has actually brought the numbers down so that we are dealing with an inventory level situation that is very far from scary. Nonetheless, we do have a short-term inventory cycle tending to emerge. As a consequence of this, I think we are looking at the possibility that there is an element of euphoria about a soft landing that probably mitigates against it happening for the reasons that the Vice Chairman and a number of others have indicated.

I think the downside risks are basically coming from the possibility of significant increases in stock and bond prices. If you remember, some of our discussions about the necessity of moving in early 1994 recognized that we were beginning to get wealth effects that were unsustainable and potentially creating bubbles. Ironically, the real danger is that things may get too good. When things get too good, human beings behave awfully. I would be a little cautious about what stance we take. In retrospect, I would change that sentence in my Humphrey-Hawkins testimony where I stated hypothetically that we might be easing rates. The reason I would change it at this stage is not that I think the statement is incorrect. It is a correct statement of policy, but I underestimated the degree of credibility that the Federal Reserve has accumulated in the last year or so. As a result of this, as the Vice Chairman observed, the markets truly believe that we know what is going on in the economy to a degree that no one else really does. Therefore, we got the largest swing in 2-year to 10-year maturities that I can recall in a long time. That swing was basically the result of the disappearance from the markets of an expectation of significant further tightening. The argument was not that the Federal Reserve is wrong and we are going to have to tighten. Their money was on the fact that we were right and we would not have to tighten. Now, I worry about that, and I worry about that basically because we could be our own worst enemies in this regard.

I think that this raises an interesting question of policy, not about our fundamental policy but rather the symmetry/asymmetry issue about which I have mixed views. Let me tell you what I think is the relevant issue here. I think there is no alternative to "B" as the fundamental choice. In an odd way, if it were not for this credibility/noncredibility issue and the extent to which we are affecting markets and therefore having wealth effects in the economy, I would say this is a classic case of symmetry. It is very difficult looking at current conditions to see anything other than a balanced situation. I think, however, that the symmetry/asymmetry question is really more appropriately a loss function issue. In other words, it does not involve our best guess as to what we think the appropriate policy is, but rather what the consequences are of our taking a position on this matter, recognizing that it will be made public eight weeks from now. My concern is that after the mini inventory recession unfolds and what is still a relatively strong capital goods market starts to create incomes and consumption, we may find that we wish we had been somewhat tighter somewhere along the line. A change in our rhetoric including the use of asymmetry may be the desirable thing to do. I definitely do think we ought to change our rhetoric. I have no really strong feelings on whether we should be symmetric or asymmetric, and very honestly, I could go either way. My own marginal preference is to go asymmetric, but I would find it perfectly acceptable to use a symmetric directive here. One thing that concerns me about what I just said is that it is almost too cute. It is taking fine-tuning to the point of sharp pointedness that may be overdone. But I must say that I line up with the concerns that the Vice Chairman, Governor Kelley, and a few others have mentioned. I would be inclined in that direction, but I am interested in getting everyone else's view on this issue and call on the Vice Chairman first.

VICE CHAIRMAN MCDONOUGH. Thank you, Mr. Chairman. I find myself in the awkward position of advocating asymmetry as a signaling device, having spoken against the use of asymmetry for that purpose a number of times in the past. But at this particular time--although there is no question in my mind that "B" is correct, i.e., that we should not change interest rates at this meeting--to the degree we believe that our primary responsibility is price stability, I think the inflation forecast that most of us have discussed is such that we should be on record the Friday after the next meeting as having indicated a concern about the trend in prices even though the use of our directive for that purpose is a somewhat puny weapon. I think the fact that those minutes would indicate that the Committee had decided to maintain interest rates but had decided on an asymmetric directive toward tightening would have a reasonable amount of merit in enhancing our position as understanding our responsibility for price stability. Therefore, while it is hard for me to throw my Celtic enthusiasm fully into the ring for something that I usually think is not terribly important, I do feel rather strongly that an asymmetric directive is preferable.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. Thank you, Mr. Chairman. I thought Don Kohn's remarks were very useful concerning the problems we are going to be facing in making policy decisions. I also found very useful your remark right now on the interplay with the marketplace and the need to change the rhetoric. I don't know how it can be changed in a positive way. We almost need a heuristic model for the markets as well as an econometric model to figure out what is going on. The sort of things that you point to, these ideas about how we are seen as having some sort of knowledge that others don't have, has led me to the conclusion that at least for the time being it is impossible to say anything that is going to be interpreted the way we want it to be interpreted.

If I thought that the New York Fed forecast that Bill McDonough presented was correct about inflation in 1996--if I could be convinced of that and I hope he is wrong on that forecast--I would say that we ought to tighten policy now because inflation is definitely going in the wrong direction. I would agree with Governor Kelley that the risks in the forecast are more likely to be in the direction of more inflation rather than less. What I don't know how to assess, though, is an inventory forecast that is the inevitable mirror image of last year's inventory cycle. What we really are talking about here is that we are expecting sometime within 1995 to have inventory effects that are the opposite of those that we saw in 1994. We won't know and neither will the auto manufacturers nor all of these other people such as retailers know as things unfold whether it is the mirror image of last year or whether it is more of a cyclical development.

I guess I am not far away from the use of monetary aggregates. My own judgment is, as Don Kohn's remarks might suggest, that in principle excess demand for and excess supply of money balances can be translated into excess demand for and excess supply of output. The problem is, given the imprecision of the econometric models and all of that, that it requires a lot of judgment. We all have different judgments, so we may come to different conclusions. But what makes the current environment different for me is that we have had a prolonged period of very slow growth in the various monetary aggregates. We saw the narrow money measure not grow at all last year even though commercial loan demand was extremely strong and one would presume that compensating balances increased a lot. Leaving out the growth of currency mainly for foreign usage and making judgmental allowances for what might have happened to compensating balances on the corporate side, we have had very weak money growth and the Greenbook/Bluebook projections for 1995 imply to me that we are going to have a further absolute decline in desired money balances on the order of 5 or 6 percent or something like that.

I look at that and say that my main concern now is not that there will be too much growth of output. I really never worry very much about output and employment growing too fast, but rather about the growth of output and employment slowing too fast relative to the growth of demand. I come back to the issue of what is going to happen to spending in the economy, the demand problem, whether it is for current consumption purposes or for adding to capacity or improving productivity. As long as we can see that whatever framework we use tells us that we are getting a deceleration in the growth of demand, I think we probably are going to come out okay. So, at this point, I certainly would not be in favor of the "A" alternative. I think that it is premature to think about that alternative. I am not uncomfortable with no change, but because of perceptions on the outside I think that the bias in the directive has to be that, if or when we act, it is more likely to be to tighten than to ease.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Alan, in evaluating the current policy stance, as I think you all know, I tend to look at reserve measures and monetary aggregates. I think the current policy stance has a chance of capping the recent rise in inflation, albeit probably at a somewhat higher level than we are seeing right now. The decline in long-term bond yields gives me some confidence that we can afford to wait and watch for a while. As you notice, I said "chance." I am not convinced; I would count myself among the agnostics. Certainly, looking longer term, I am not at all sure that we have done enough to reduce the trend rate of inflation, and I clearly feel that this 3 to 4 percent inflation range that we may be able to settle for here is much too high.

With respect to the outlook for the economy, I personally would not put too much stock in the forecast of an imminent rapid slowdown. I think that we could well be surprised by the underlying strength. I would associate myself with what Bill McDonough said before in that it seems to me that financial market participants have all rushed to one side of the boat here, and I don't know to what extent comments by Fed officials have led to that. My feeling is that market participants are looking at a broad range of indicators and there is much more to their assessment than just Fed statements that have been made. In any event, it seems they have all rushed to one side of the boat. I think our focus in this Committee ought to be on long-term price stability, not short-run fine-tuning of the real economy. That is really what we ought to be thinking about--whether we are on a course that is really going to achieve price stability.

The other thing I would say, and there has been surprisingly little mention of it today at least in the context of the policy discussions, is that we have to continue to recognize the constraints put on policy by the weak dollar in foreign exchange markets. To the extent that market participants perceive that our actions are not consistent with long-term price stability, then we are courting the possibility of, I think, very severe financial repercussions. I have never believed that we ought to use policy to try to target a specific exchange rate for the dollar, but I do think we have to recognize at times like this that it can be a very significant constraint not only on what we say but particularly on what we do. As I say, I think our focus ought to be on long-term price stability.

With respect to the symmetry/asymmetry question, I don't have any strong views about that. If the message were that this is asymmetric toward tightening because we think it is more likely we are going to have to tighten more to achieve long-term price stability, I would clearly favor that. I could accept a symmetrical directive.

CHAIRMAN GREENSPAN. President Minehan.

MS. MINEHAN. Unlike, I think, many of the other people who have spoken already, I did not come to this meeting with a predisposition in favor of staying pat. Rather, most of the work we have done, and most of the people I have talked to, suggested that further interest rate increases were necessary to keep inflation in check and deal with the kind of capacity constraints, particularly on the labor market side, that are being forecast both by us and by private sector forecasters. My own bias would be to tighten sooner rather than later because I think that ends up making for a better situation overall. Increasing interest rates at this time does not seem to be the main thrust of the argument here. I can certainly buy into the argument that it doesn't matter whether we do it at this meeting, or at another meeting, or in between. My own preference, however, would be to indicate that the Committee would be more inclined to increase interest rates in the future rather than to leave them pat, or possibly decrease them, because I think that the trends in inflation over the longer run are not what I would prefer.

With that in mind, when we discussed our stance toward announcing decisions after meetings, we did discuss the possibility that when there was no change, we might want to communicate more than that we just left the room. That is a possibility that does not require us to wait eight weeks, although it does run the risk of what President Jordan referred to as the impossibility of saying anything right. But it is at least a possibility that we could mention something in our discussion of this meeting that was a little more explanatory or a little bit more on the side of being concerned about the upside potential for inflation in whatever we release after this meeting. After saying all that, I guess it should come as no surprise that I would be in favor of an asymmetric directive. I really do think that there is more room to move interest rates up before we stop doing so.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I think Don Kohn raised a couple of interesting points, and I would like to start with comments on those. I do think this problem of interest rate inertia is a real problem, potentially at least. It may be that what we are seeing in the financial markets now is a consequence of unsustainable euphoria for one reason or another. But it may be on the other hand that the markets are telling us something significant. I don't have a judgment about that, and I believe we should be careful about rushing to a conclusion about that. While it is not fully convincing, it is worth noting that some work that we have done suggests that the monetary base might be a useful indicator or maybe some sort of useful intermediate target, even recognizing the problems with the currency component. I think that is worth pursuing down the road.

With regard to the immediate situation, I certainly favor alternative B. I don't feel all that strongly about the question of symmetry versus asymmetry, but I come out on the side of favoring symmetry. Part of that is my usual reluctance to go to an asymmetric directive. In these circumstances, as I suggested already, we don't know a lot about what the markets are telling us about recent interest rate movements, at least I don't. But it is also true that the period between now and the next meeting is relatively long, and we are going to get a lot of incoming information. We don't meet again until fairly late in May if I have the calendar right. I don't have a feeling as to what the incoming information may tell us, and I would like to be in a position of simply judging it as it comes in. Beyond that, and maybe I am just being a little too cynical here, I am certainly not pleased by the performance of the dollar, but I don't think we ought to put ourselves in a position where we might want to react to that. I am not persuaded that that would be appropriate at this juncture or that it is something we can do very successfully. So, I would be reluctant to go to asymmetry.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, because I find the path for inflation in the baseline forecast unacceptable, my first preference would be for a small increase in rates. However, I could support alternative B because of the significant uncertainties that we see in the very short-term prospects for the economy. I also would strongly favor asymmetry toward tightening, given the expected unsatisfactory path for inflation for the next several years if the baseline policy assumptions are accepted.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, as I look at the situation, I think that the economy is in relatively good shape. Some might take the position that the dollar would argue against that, but generally speaking the economy looks good to me. We are getting some of the deceleration that we had anticipated from our earlier policy moves. I think policy has been very, very successful. It is true that this deceleration may be temporary; nobody is certain as to whether it is going to be permanent or not. Under these circumstances there is no question at all in my mind that alternative B is the right alternative to have at this time. With respect to symmetry or asymmetry, I don't feel very strongly about it. I do think that the risks are fairly well balanced, and so I would have some preference for symmetry. I also wonder what we gain by going to an asymmetric directive at this time because if the expansion does not slow down sufficiently between now and May 23, we will probably make the next move then, be it 25 or 50 basis points. The minutes for this meeting come out shortly after that meeting, so I don't really know what difference that makes. For those reasons, I would support a symmetric directive. But if I had a vote, I certainly would not vote against an asymmetric directive.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, given the data coming in, I can wait as you are suggesting. But as I said earlier, I am concerned about the upside risks especially for inflation, and I am concerned about the inertia Don was talking about that can take place. With that, I would very strongly support asymmetry toward tightening and would encourage us to move sooner rather than later.

CHAIRMAN GREENSPAN. President Moskow.

MR. MOSKOW. Mr. Chairman, I favor no change in the federal funds rate today. However, I do think that the risks are more on the up side than balanced at this point. In fact, our forecast for inflation for 1995 is closer to 3-1/2 percent than to the 3.2 percent in the Greenbook. It is appropriate to wait for more information on the economy in the coming weeks, but I think we clearly should remain open to further increases. It comes as no surprise that I favor the asymmetric directive as well, not only for the reasons that you gave, Mr. Chairman, but I think two of the points that Don Kohn made were very well-taken. He said that if we were not happy with the 3.2 percent inflation rate that is forecast in the Greenbook, that would be one argument for an asymmetric directive or if we thought the risks were higher on the up side rather than balanced, that would be another reason. I agree with both. So, clearly, I favor an asymmetric directive.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I support alternative B because this is a wait-and-see time, and I support an asymmetric directive for the reasons that were well articulated by Bill McDonough.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, in considering an asymmetric directive, I am reminded of the spring of 1993. I have been here so long that I am starting to look backward! In the spring of 1993, the fear of a bubble was mentioned at this table. We actually had a pretty good bubble develop in the bond market, and we paid a fairly significant price for it in financial market instability later. As you noted, that bubble gave an extra impetus to demand in late 1993 and early 1994. What we did, though, was to go asymmetric and then back off. I have to conclude that doing that, if anything, cemented the market's view that we were stuck at a particular rate. It only built the market's confidence that they could borrow at 3 percent and lend at 6 percent, which is literally what they were doing. I'll be happy to vote for whatever the Committee majority favors. But if what we fear is a bubble, we should not in my view go asymmetric unless we really expect to raise rates. If people do want to raise rates and want to send a signal that we might be doing so, I think a few dissents would be a much more appropriate way of sending that signal. Given what we did in 1993, going asymmetric and then backing off, I am afraid we would only strengthen the conviction of the market and maybe actually exacerbate the bubble. So I favor symmetric.

CHAIRMAN GREENSPAN. Governor Blinder.

MR. BLINDER. Mr. Chairman, I think your strong recommendation for alternative B, the fact that it is a crystal clear decision at this meeting, and the reasoning leading to that conclusion are all correct. I am happy to endorse them. On the asymmetry/symmetry issue, I am certain that I am not certain [Laughter] for the following reason. Before I was a member of the Federal Open Market Committee, I thought I knew what the difference between a symmetric and an asymmetric directive was. The longer I serve--and today certainly has added to this immensely--the less I know about what this distinction means. So, I actually would like to request, before we vote on this, a specification of what we are voting on. Let me elaborate on that slightly. If Bill McDonough and several of the others are correct in the sense that inflation is likely to be higher in 1997 than in 1994--and I think he probably is correct in that--and if we are adamantly opposed to that, this Committee should not be voting an asymmetric directive. We should be raising interest rates, probably by 100 basis points today. I do not advocate that policy, but I think that is the implication. That is not something that leads to an asymmetric directive. At the end of this, I am going to pose the question: What do we mean by an asymmetric directive?

On the signaling issue, I find that quite baffling. As I think Bob Forrestal just said, on May 23 we either will raise interest rates or we will do nothing. That will be major news. Three days later, the kind of directive we adopted on March 28 will be announced and nobody will notice it. So, I don't see that this has any signaling value as long as it is not leaked, and I certainly hope that it will not be leaked. Therefore, I raise the question of what symmetry vs. asymmetry means. I thought a symmetric directive meant a fairly strong conviction at this meeting that we would not be changing interest rates one way or the other until the next meeting--leaving, of course, the usual flexibility that something quite unusual could happen and we could change our minds. So it is not a lock-in, but it is a predisposition of the Committee to hold today's decision until the next meeting. If I am right about that, and at this point I am not sure that I am, I would strongly favor a symmetric directive.

CHAIRMAN GREENSPAN. I look at it as a question of probabilities. In other words, the question really amounts to: What is the probability in this long period that we will be moving rates up or moving them down? I would say that we are more likely to move them up, finding, for example, that the slowdowns we are seeing are partially false or reversed as has happened many times in the past. I find the probability that this slowing will cumulate into a significantly weak economy that would induce us to move rates down is very low. I think the major probability is that we will do nothing. Since I think the likelihood of moving them higher is sufficiently greater than moving them lower, I lean marginally, tentatively, unsurely toward asymmetry, which is really a reflection of the fact that I think the major probability is that we will do nothing. I read asymmetry not as an overwhelming probability that we will move, but merely a probability that one can basically identify.

MR. BLINDER. If I can clarify that: You are suggesting that there are three probabilities. The middle probability is doing nothing. If the up probability exceeds the down probability--

CHAIRMAN GREENSPAN. By a sufficient amount.

MR. BLINDER. Okay, I have it. Thank you.

CHAIRMAN GREENSPAN. And each of us has to determine what constitutes a sufficient amount.

MR. BLINDER. Okay, thank you.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, I certainly think there is every reason to "wait and see" today. I strongly support "B." I did speak earlier about my feeling that as of now the risks could be seen as skewed to the up side. My understanding of the use of an asymmetric or symmetric directive is exactly the same as you just articulated, Mr. Chairman. On that basis, it would seem to me that the likelihood of needing to go up further is strong enough that I would prefer an asymmetric directive. However, let me say that I think that the emergence of that upside potential, if it does develop, may well be a meeting or two out in front of us. So we may really want to wait and see today in the sense of adopting not only "B" but also a symmetric directive. I could support that, although I would prefer asymmetric.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. Let me first if I may, Mr. Chairman, associate myself with Gary Stern's comments about the monetary base. I think there is a lot to be gained by some additional research looking at the possibility of using the base or perhaps something similar to it in our operating procedures.

As far as policy is concerned, I can certainly accept not changing the rate today, but I have a relatively strong preference for asymmetry. As I said in my earlier statement, and I agree with a lot of folks here, I think that while the risks in the outlook are more balanced than they were earlier, they still are not fully balanced. I believe there continues to be a significant upside risk, so I think as a substantive matter asymmetry is a better statement. Also, I think Governor Blinder is right that the significance of our statement on symmetry as a signal can easily be over emphasized; I don't think it is zero. We have already gotten some relatively high numbers on the core CPI, for example, in the first couple of months of this year. If that continues, even if we were to move and certainly if we were not to move and let's say we were on the fence again at the next meeting, asymmetry would just be one additional piece of evidence as to the direction of our longer-term strategy and efforts. I don't think the signal value is zero, and I think that is another reason for going asymmetric.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. I agree with your recommendation for no change in the federal funds rate. I agree with your recommendation for an asymmetric directive, although I normally prefer symmetry, not only to signal our leaning in regard to inflation fighting but also in regard to the dollar.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Given the evidence on the slowdown, I agree that "B" is an appropriate directive--no change. I do think that it is possible that additional tightening is going to be needed if we are going to resume progress on reducing inflation. I have a slight preference for asymmetry toward tightening because I do think that there is some signaling value. But I would not vote against symmetry.

CHAIRMAN GREENSPAN. Governor Yellen.

MS. YELLEN. I agree with your proposal for alternative B for no change today. Although I could live with asymmetric, I would prefer symmetric for the reasons that have been explained by President Forrestal and Governor Blinder. At the moment, it seems to me that the economy, with some reasonable probability, is on track for a soft landing. There are all kinds of uncertainties in the outlook. Indeed, we may have a false negative; we may be learning that. There remains a risk that inflation may not come down in the way we would like. I certainly hold open the possibility that at some future point we may need to raise rates more. But over this next intermeeting period, when I think about what data are likely to come in, it seems to me that the risks are balanced and that tends to call for symmetry. Certainly, I agree with what Don said. We should not get stuck where we are. I have no objection whatsoever to intermeeting changes. The approach of possibly smaller changes, 25 basis points one way or another, has a great deal of appeal at this stage. It is simply that at this point, for the next month and a half, it seems to me that the risks and likely information indicate risks in both directions and that that calls for symmetry.

CHAIRMAN GREENSPAN. I think as I read the view of this Committee, we would be at alternative B and mildly asymmetric. Would you read the directive?

MR. BERNARD. The directive would read, and this is on page 14 of the Bluebook: "In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, somewhat greater reserve restraint would or slightly lesser reserve restraint might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate growth in M2 and M3 over coming months."

CHAIRMAN GREENSPAN. Call the roll.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman McDonough	Yes
Governor Blinder	Yes
President Hoenig	Yes
Governor Kelley	Yes
Governor Lindsey	Yes
President Melzer	Yes
President Minehan	Yes
President Moskow	Yes
Governor Phillips	Yes
Governor Yellen	Yes

CHAIRMAN GREENSPAN. Before we adjourn, Ted Truman has a very minor change to recommend in the minutes for our previous meeting. Ted, did you want to read it or shall I read it from here?

MR. TRUMAN. I apologize because I thought I had read the minutes earlier, but I had not. Out thinking at the time of the last meeting was that the Japanese earthquake would affect our imports but not our exports. The truth of the matter at this point is that we think the earthquake will affect neither. But that was where we were, so I would prefer to take out the phrase in paragraph 14 that says it will affect our exports. That shortens the sentence to the one fact that we know pretty certainly--that the Mexican situation will affect our exports.

CHAIRMAN GREENSPAN. Without objection. [Laughter] May 23 is our next meeting and we adjourn for lunch.

END OF MEETING