

Federal Open Market Committee
Conference Call
July 20, 1994

PRESENT: Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Blinder
Mr. Broaddus
Mr. Forrestal
Mr. Jordan
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. Parry

Messrs. Hoenig, Melzer, Ms. Minehan, and
Mr. Oltman, Alternate Members of the Federal
Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of
the Federal Reserve Banks of Philadelphia,
Dallas, and Minneapolis, respectively

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

Messrs. Beebe, Goodfriend, Promisel, and Siegman,
Associate Economists

Ms. Lovett, Manager for Domestic Operations,
System Open Market Account
Mr. Fisher, Manager for Foreign Operations,
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Mr. Ettin, Deputy Director, Division of Research
and Statistics, Board of Governors
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Ms. Browne, Messrs. T. Davis, Dewald, Lang,
Rosenblum, and Scheld, Senior Vice Presidents,
Federal Reserve Banks of Boston, Kansas City,
St. Louis, Philadelphia, Dallas, and Chicago,
respectively

Transcript of Federal Open Market Committee Conference Call of
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CHAIRMAN GREENSPAN. It probably would be useful to start this conference call by calling on Peter Fisher and then Joan Lovett for the usual reviews. Peter.

MR. FISHER. Thank you, Mr. Chairman. After the Committee's last meeting, the dollar came under a bit of pressure the following week after the G-7 Summit, and by the next Tuesday it dropped to below 1.52 against the mark and below 97 yen. There was much focus in the foreign exchange market at that time on the rapid sell-off after the President's comments during the Summit, implying a continued benign neglect policy as the market saw it. As soon as the dollar reached these low levels, however, it was widely recognized in the market that the dollar was rather oversold at the 1.52 level against the mark. By the end of last week, it had traded up quite a bit. In particular, by the middle of the week there was fairly widespread anticipation in the market that the Federal Reserve would be tightening by 50 basis points and the dollar jumped up toward the top end of what people perceived as a trading range of around 1.55 to the mark. Now, the exchange market surprised itself a bit by the dollar sustaining itself rather well at the higher levels. People who had missed the rapid downward movement and wanted to sell out of long dollar positions hesitated to do so at those levels. The market even moved higher as we came into this week. Now, people we talk to in the market tell us that things like rumors of action in North Korea and the performance of the long bond sparked the dollar's moving up. I would note, looking over the last couple of weeks, that the dollar has been getting the best of everything. If people expect interest rate hikes by the Fed, the dollar seems to go up; when the bond market rallies on the thought that the Fed won't be tightening, the dollar seems to get support out of that. This is all a rather long way of saying the dollar was a bit oversold, and shorts have been progressively squeezed out no matter what the news has been. But I would note that the dollar is really only back up to the levels that existed against the mark prior to the weekend of the G-7 Summit.

Ted will go over some of the recent events in Mexico in his report. I would note with respect to Canada that there is now a widespread expectation in the markets that in the next few days Quebec will be announcing elections to be held in September. While the Canadian long bond yields have come down a bit in the last several weeks, about 50 basis points, they have done so in sympathy with some of the other higher yielding G-10 long bonds--the UK and Italy--and thus events of the last few days may be more of a sympathetic reaction to all of that. The market is still quite concerned that simply the calling of an election in Quebec will lead to pressures for a further deterioration of the fiscal situation within the federal government. It will become harder for the federal government to turn off the fiscal spigot to all the provinces while there is an active election campaign under way in Quebec, perhaps leading up to a referendum in Quebec in the months ahead. That is the end of my report, Mr. Chairman. I'd be happy to answer any questions.

CHAIRMAN GREENSPAN. Any questions for Peter? If not, Joan Lovett would you go ahead?

MS. LOVETT. Thank you, Mr. Chairman. Yields today are quite close to the levels that were prevailing at the close of your July meeting two weeks ago, but they've been both higher and lower in the interim since. The June jobs reports gave the market a jolt just after the meeting, as the nonfarm payroll rise of 359,000, even after allowing for seasonal distortions, and the upward revisions for the prior two months led to a view in the market that some near-term System tightening was at hand. Yields rose across the yield curve by up to 20 basis points at that point, putting the 2-year note at 6-1/4 percent and the 30-year bond at 7-1/2 percent. Subsequent news since that time has caused a retreating in yield levels by about 20 to 30 basis points, as the markets deferred the timetable of a likely tightening move mostly to the August FOMC meeting at this point in time. The price data that came out following the jobs reports were within the range or better than expected; retail sales were a bit lower, and the inventory rise looked to be a possible harbinger of what lies ahead. The general view in the market seems to be for some slowing in the second half of the year, but there is skepticism about whether it's going to be enough to ease pressures on capacity, and so the risks of higher inflation and further Fed moves ahead are viewed as being there. Such moves are just thought to have been deferred in time and perhaps reduced in magnitude. At this point, the markets seem to be pricing in a federal funds rate of 5 percent at year-end. That would be roughly in the middle of the current range of market expectations of around 4-3/4 to 5-1/2 percent. Since a move by the Fed does not seem to be imminent, the market is generally comfortable with putting funds to work in various short-term trading strategies, and that has carried yields down a bit too low, and thus the market was ripe for some profit-taking, which has been occurring today. The market started to go down before the Chairman's Humphrey-Hawkins testimony today and it moved down further following his prepared remarks, as his observations in the question and answer portion of his testimony were not out of line with the market's own thinking about the future. It seems that the Chairman would have had to sound quite optimistic for the market to keep the rally going. At this juncture, the market sees his commentary as calling for mild caution, in line with participants' views about the future. I'd be happy to answer any questions.

CHAIRMAN GREENSPAN. Questions for Joan? If not, Mike Prell, would you like to bring us up to date?

MR. PRELL. Thank you, Mr. Chairman. Joan, I think, touched upon most of the incoming data, so I won't repeat all of that except to draw a couple of implications. The first is that in light, particularly, of the inventory investment numbers, it does seem to us more likely than not that the advance estimate of second-quarter GDP growth will exceed the 3-1/2 percent Greenbook forecast. It may come out around 4 percent or perhaps even a little higher if the Commerce Department decides that they want to fill in the missing data in such a way as to close a bit more of the apparent gap between the expenditures side and the income or labor market side of the current picture. Indeed, the labor market report that we got in June confirmed our expectations about the increase in private production worker hours. And with the slight changes in prior months and so on, this came out tilted more toward payroll increases, rather than the workweek, and thus it was an impressive set of numbers.

Looking at the near-term outlook, we are inclined not to view the very rapid accumulation of inventories as implying the need for any significant adjustment of orders and production. Inventory-sales ratios have not gotten far out of line and we hear no anecdotal evidence that there are major inventory imbalances. Indeed, I'd even be inclined to question whether we got quite the degree of inventory accumulation that is indicated by the current data, just as I might also be a little suspicious of the sluggishness of retail sales, at least to the degree that is in the data. Be that as it may, there is no evidence in the labor market at this point--for example, in the unemployment insurance data--that there's any production adjustment going on. And so, while the higher-than-expected level of inventory investment in the second quarter would seem to suggest that we're going to get a more negative swing in the third quarter than we anticipated in the last Greenbook, we'd expect to be making a rather moderate downward revision of our third-quarter GPD growth forecast at this point.

On the wage and price side, there hasn't been a great deal of news. Average hourly earnings certainly did not indicate any acceleration of wages. The incoming CPI data were, on balance, quite close to our expectations. So we don't see any major innovation there. The unemployment rate in June was lower than we anticipated, and in that sense the labor market looks perhaps a bit tighter and heightens the risks a little as we go forward. At the same time, though, our interpretation of those data in part is that the difference between the old and new surveys may not be even the third of a point that we had in the last Greenbook forecast. Where we're sitting relative to our central tendency of our NAIRU guesses is not appreciably different from what it was in the Greenbook. So, we're pretty much where we were before on the near-term inflation outlook.

CHAIRMAN GREENSPAN. Questions for Mike?

MR. BOEHNE. Mike, to pursue your thoughts on the inventory accumulation--whether it's planned or unplanned--where is the inventory buildup? Have you been able to get some insight as to which industries have had the buildup?

MR. PRELL. The wholesale inventory accumulation in May was very widespread across the durable goods sector, which at this point we wouldn't regard as very worrisome. Given the orders trends and backlogs that have been developing and so on, I don't think there is any indication that they've done anything more than move back into line after a period in which the inventory-sales ratio dipped for whatever reason. On the retail side, the accumulation in May was particularly marked outside of the auto sector; in general merchandise that could be connected to the sluggishness of retail sales. Again, though, I don't think the level of the inventory-sales ratio is particularly worrisome overall. But the general merchandise area does bear some watching as we get additional data for June.

CHAIRMAN GREENSPAN. I might say we've seen very little evidence of weakness in orders, which would be the first sign that the backup was having a significant spillover effect. It may be too early for that. Moreover, we're not clear at this stage what part of those inventories are imported goods, which is not irrelevant either.

MR. TRUMAN. In the trade data that were released yesterday, Mr. Chairman, there was some indication--we weren't terribly surprised --that the composition was a bit more tilted toward consumer goods than we had anticipated, which does provide some small accounting for the buildup in inventories.

CHAIRMAN GREENSPAN. Any other questions for Mike?

MR. PARRY. Mike, this is Bob Parry. There was a short discussion in the last Greenbook about the possible benchmark revisions and what they might imply for 1993--that is, what the implications are for slack, etc. Is there anything more that you know about this benchmark revision at this point?

MR. PRELL. Nothing of significance.

MR. PARRY. Thank you.

CHAIRMAN GREENSPAN. Any other questions for Mike?

MR. MCTEER. This is Bob McTeer in Dallas. I would like to ask Bob Parry what his latest thinking is on the natural rate of unemployment? [Laughter]

MR. PARRY. Why do you ask?

MR. MCTEER. I'll let the Chairman tell you.

CHAIRMAN GREENSPAN. I'm shy. Your name got used and quoted with a 6-1/2 percent NAIRU by, I think it was Senator Sarbanes, who I didn't think was wholly supportive of your position.

MR. MCTEER. As a matter of fact, the senator said he wanted to put Bob into the ranks of the unemployed! [Laughter]

MR. PARRY. That's interesting; I didn't hear anything about it.

CHAIRMAN GREENSPAN. That's just as well. Any further questions for Mike? If not, Don Kohn.

MR. KOHN. Mr. Chairman, growth of money and credit was pretty weak in June, but it is picking up in July and perhaps picking up a bit more than we had expected at the FOMC meeting. We're now looking at M2 and M3 of about 3 percent each in July, and that's about a percentage point or more stronger than we were projecting back then. Some of this we believe reflects continued runoffs of bond mutual funds, which we were not expecting. We have had a couple of weeks in a row now in which those funds have been declining, and we see this reflected in strength in the money market funds in M2, so people apparently are shifting to money funds. I'm not sure why this has started up again, but I think it's affecting our measured money growth. In addition, we've had some recent strength in bank credit. The bank credit data for June came in fairly damped, with about 3 percent growth in the total and 3 percent in loans, but the last part of June and the early part of July look much stronger. We have less data for bank credit than we do for money, but we saw strength in business loans and continued very strong consumer lending at the end

of June and early July. So, we'd be looking at much stronger bank credit in July if this trend continues.

CHAIRMAN GREENSPAN. Questions for Don? If not, let me say just a few preliminary words about how I thought the hearing went today. There was remarkably little in the way of surprise with the exception of a fairly broad interest in the dollar, more so than I recall at any time at any of those hearings. There was nothing terribly new in any of the questions except that I felt the best remark of the day was Kit Bond who after substantial opening comments said "I hope we can get to the Chairman before the markets close." Those comments went on for quite a while. There were 14 senators there, which is very extraordinary. They didn't all ask questions, but they all either made statements or said something, except for Senator Campbell; he was there but he didn't say anything. Aside from that, there was nothing that I particularly sensed that came as a surprise. I think I surprised them a little by indicating that we were open to the possibility of moving again. Aside from that, nothing unusual that I was aware of occurred. Any questions on this? If not, let me turn the session over to Ted Truman on the Mexican issue.

MR. TRUMAN. As the Committee knows, this has been a rough year for the Mexican financial markets. Until about a month ago, however, the situation had stabilized with the peso trading comfortably below its so-called ceiling against the dollar. Interest rates were down somewhat from their peaks in late April, and there was some recovery of the stock market. However, in late June pressures began to mount again. The Bank of Mexico has raised interest rates several times by a total of 100 to 200 basis points on peso-denominated assets in their auctions. It has sold about

and it has made substantial sales of dollar-denominated instruments. These trends are likely to continue for the next month or so. As you know from Peter Fisher's previous reports, we have been following this situation very closely, and we will be sending the Committee later today a staff paper on recent economic and financial developments in Mexico.

Two weeks ago Governor Mancera contacted Chairman Greenspan to discuss the situation in Mexico. At the same time, there were Mexican contacts with the U.S. Treasury. As a result of these conversations, it was decided to follow-up on one proposal from the Bank of Mexico, which was to explore with the other G-10 central banks and the BIS whether there would be any interest in reviving the contingency short-term financial support facility for Mexico that was constructed in November prior to the U.S. NAFTA vote. As you will recall, that facility was never announced or activated. Vice Chairman McDonough and Governor Blinder raised this matter with the other G-10 governors in Basle ten days ago and somewhat to our surprise got considerable expressions of willingness to consider this request positively. After further consultations with the Mexicans and the Treasury, it has been decided to try to put such an arrangement in place. The details of the proposed facility would match very closely what was done in November, and I'll go over them briefly.

First, there would be a \$12 billion facility; half would be provided by other central banks, in some cases with the backing of their governments through the BIS. And half would be provided by the

U.S. monetary authorities, split evenly between the Federal Reserve and the Treasury. Second, it would be up to the Mexican authorities whether they wanted to announce the existence or activation of the facility. This decision would depend on their judgement of the financial market conditions and whether such an announcement would be constructive. Once the announcement was made, Mexico could draw up to one-third--that would be \$4 billion--against the equivalent collateral of assets deposited at the Federal Reserve Bank of New York and at the BIS. The financial conditions associated with any additional drawings would have to be agreed upon before such drawings could be made. We would expect that these conditions would call for some form of similar collateral arrangements. Drawings could be made through September 30th, would be for 90 days, and all repayments would have to be completed by December 30th.

The Federal Reserve's participation would be through our existing \$3 billion swap line with the Bank of Mexico. No formal clearance from the Committee for the activation of the swap line is being requested today. Such a request would come only if the Bank of Mexico decides to announce the facility. Responses would be collected by Norm Bernard by telephone at that time. However, in order for us to go forward with this arrangement on a contingency basis, some sense of the sentiment of the FOMC is necessary.

One obvious concern in this proposal is the fact that the impending Mexican election on August 21st is clearly a factor affecting Mexican financial markets at this time. This involves to some extent concern over the outcome of the election and the electoral process. However, in my judgment the election date also provides a kind of date certain after which the present constraints on the Mexican exchange rate policy will be loosened somewhat, leading possibly to a devaluation of the peso. This suggests a second concern. What do we think about the Mexican exchange rate policy and how would the proposed facility interact with that policy? We have discussed this subject with the Mexican authorities as much as one can reasonably discuss a matter of this sort with another sovereign country. It is difficult to determine if a substantial change in Mexico's exchange rate regime is warranted on economic grounds. A reasonable case can be made either way. Nevertheless, I am convinced that the Mexican authorities will not endeavor to sustain the current exchange rate regime at all costs if extreme pressure on the peso develops. On the other hand, they are not convinced at this point that a devaluation will be necessary, and they see the proposed facility as possibly contributing to confidence. I'd be pleased to answer any questions.

CHAIRMAN GREENSPAN. Ted, do I gather correctly that in Basle there were some notions that desirability of this was the result of concerns about systemic contagion in Latin America in the event that this one sours?

MR. TRUMAN. Vice Chairman McDonough might want to speak to that point.

VICE CHAIRMAN MCDONOUGH. Thank you, Mr. Chairman. We did discuss that. For those unfamiliar with the Basle regime, there is a G-10 governors dinner on Sunday night, which was attended on this occasion by Alan Blinder and me. We used that occasion to mention

that the Mexican authorities were interested in the possibility of European support and, therefore, that we were bringing this desire on the part of the Mexicans to the attention of the other G-10 central bankers. If that sounds as if we were not selling the product, that's how you should interpret it. We were not advocating this as something that the United States wished the other central banks to do, but we were merely being to some degree a messenger for the Mexicans. The response was considerably more positive than I had thought it would be or I think that Ted Truman or Alan Blinder or Peter Fisher thought it would be. We had some question and still do about whether the Mexican authorities would find this in their interest, and that's, of course, why it's up to them to decide when and if to announce it. The support for the Mexican possibility of a request was quite strong, largely because of concern expressed particularly by

about possible systemic risks of an exchange rate crisis in Mexico spreading to other countries in Latin America, specifically including Argentina. There was a discussion also regarding the fact that such a facility should not be used in a way artificially to support an exchange rate that was no longer justified; I believe Ted has covered that concern quite fully in his remarks.

MR. BOEHNE. I have a question--I'm not sure for whom, perhaps Ted. Could you refresh my memory as to what existing arrangements the United States has with Mexico? Is it just the swap line or is there more? What's the status of existing arrangements?

MR. TRUMAN. As for the financial arrangements themselves, President Boehne, there is just our swap line of \$3 billion, which was approved on a permanent basis in April, and the Treasury has an equivalent swap line of \$3 billion. Those swap lines are used--and this may be what you're referring to--in connection with the so-called North American Financial Swap Facility that was announced in April. In this case, it would not be used in that framework, but in the broader BIS framework. The Canadians who are also a part of that North American agreement would be participating through the BIS.

MR. BOEHNE. So the essential difference with the proposal on the table is that there would be broader international support, and because of that broader support there would be more dollars. Is that correct?

MR. TRUMAN. That's correct. And it would involve--at least if it were announced--an activation of our swap line rather than the way we would treat it in the existing situation which requires our prior approval. So we would be in effect giving our approval to the drawing, assuming they wanted to draw.

MR. BOEHNE. I see.

MR. LINDSEY. Ted, I was very interested in your analysis about what might happen after the election. It would seem to me that the election is what is putting the pressure on the peso. Here we had a country that actually had enormous capital inflows and that not too long ago had to intervene in order to stay, depending on how you look at it, at the upper end of the value of the peso to protect it from going above its ceiling value. Why do we think the fundamentals are

such that once the political pressure is off we would see a possible devaluation?

MR. TRUMAN. I think the argument probably turns more on the political economy than the economy per se. You're absolutely right. In January and February, for example, the Mexicans took in \$5 billion or \$6 billion worth of reserves in an effort to prevent the peso from appreciating to the upper end of their band. And there is a strong body of opinion that once the election is over, and assuming it is relatively smooth, that that will repeat itself. The uncertainty will be removed. I do think that the other feature, however, is that Mexican growth this year has been a little slower than was hoped for. Interest rates on balance this year have been higher than they certainly were expected to be; they are double their lows of earlier in the year and Mexico's inflation rate actually has continued to come down. So I think one possibility in the interim between the election and the 1st of December--when the framework "pacto," as they call it, would have to be renegotiated by whoever wins the election--is that that might be taken as an opportunity to adjust the exchange rate policy. Now, there are a lot of things they could do, which might even include a decision actually to peg the rate. A small devaluation to peg the rate is one thing that has been suggested because if they do that now, they have paid the price in their interest rates of the possibility of an exchange rate depreciation.

MR. LINDSEY. Is your view informed by you or is it informed by your conversations with Governor Mancera and others?

MR. TRUMAN. Well, several of us have had conversations with various Mexicans. I think they have not laid out all their options. My sense from my own conversations, and from hearing about other peoples' conversations, is that they would consider the full range of options in this period when they would have some leeway to rethink what their policy was going to be. It might change. If indeed the peso appreciated, they might choose the option of a more normal peg, for example. I think that is a possibility that certainly some people within the Mexican government have favored in the past. Given that they have a current account deficit that is 7 percent of GDP, I personally would be a little worried about that. But I could imagine that they might do that if things calmed down. Another possibility would be that they would move the band. I think the cleanest thing to do--and it's an extension of the current policy--would be to transpose the band by 10 percent approximately, which would mean that in fact they wouldn't have to change the current market rates at all. It would be like a European revaluation devaluation, and it would essentially provide a bit more two-way risk in the market situation. And then to some extent as things unfolded, they would have some scope to see how matters develop. The most interesting thing is that they have had an 8 percent devaluation of the peso this year without any particular uptick in inflation. And one question is how that's going to feed through into the current account over the next several quarters.

MR. LINDSEY. Weighing on the other side of the calculus is, I would imagine, the view of foreign investors who would be seeing in effect with your proposal a 10 percent confiscation of value.

MR. TRUMAN. Well, not in terms of what they worry about. If the rate in fact stayed where it was, it wouldn't be any different than it is now. I would not say that it couldn't go up. They couldn't recoup what they've lost over the last four or five months.

MR. LINDSEY. Thank you.

MR. BROADDUS. Ted, this is Al Broaddus. Could you or maybe Bill McDonough elaborate a little on Bill's comment that there is a concern by _____ that problems with the peso might affect other Latin American countries? What's your sense of the systemic risk there?

CHAIRMAN GREENSPAN. Bill, do you want to answer that?

VICE CHAIRMAN MCDONOUGH. I think it would depend very much on what happened on the specifics. We've had clearly a very serious deterioration of the situation in Venezuela. That does not seem to have adversely affected the other Latin countries a great deal, although I'm sure it didn't help the Mexican situation. It doesn't seem to have created problems for the better performing countries like Argentina and Chile. I would think that if after the Mexican election there is a period of political uncertainty, which is not impossible, it could create problems in the Brady bond markets for some of the other countries. But I believe the general feeling here and at the Board is that the likelihood is that the market would continue to distinguish among the various Latin American countries as to their particular creditworthiness, so that there isn't a high risk of a contamination effect. At the same time, Mexico, Argentina, and Chile have been seen as the three top performers and, therefore, I think anything that affects one of those three does hold out at least some concern that it could affect the others as well.

MR. TRUMAN. I would just add two points. One is that we did see some of this in November when we had the prospect of a particularly Mexican event spilling over into some of the other financial markets. So there is some evidence of that. The other point I would make, adding to something you said before, President McDonough, is that

MR. BROADDUS. Thank you.

CHAIRMAN GREENSPAN. Further questions for Ted or Bill McDonough?

MR. LINDSEY. On non-Mexican issues?

CHAIRMAN GREENSPAN. We're still on the Mexican issue. Does anyone have any objections to our moving forward on this proposal?

MR. BROADDUS. Mr. Chairman, this is Al Broaddus. I'm not going to object in a formal way. If I could make a brief comment, I won't belabor this. The possibility of something like this arising is

one of the main reasons I've had a strong reservation, which I've expressed at earlier meetings, about our swap arrangements. Whatever the benefits of this particular operation may be, it seems to me that inevitably it's going to be seen by at least some people, and maybe a lot of people, as assisting the incumbent party in Mexico in the upcoming election. Indeed, I think a lot of people may perceive that as the principal underlying reason for the operation rather than concern about systemic risks in financial markets or with respect to a particular currency. So, it won't surprise you that I'm worried about the Fed being involved in something like this. It may not create any short-run problems for us, but over the long run I think there's a risk that at some point in the future people who are reviewing the historical record with a view to finding a justification for reducing our independence may cite this kind of operation as a case in point. Thank you for the opportunity to comment.

MS. MINEHAN. Chairman Greenspan, we would still be voting or expressing an opinion on actual usage of this line, wouldn't we?

CHAIRMAN GREENSPAN. That's correct.

MR. TRUMAN. At a later point, right.

MS. MINEHAN. All right.

CHAIRMAN GREENSPAN. Any further comments on this? If not, let me turn to Ted again on another matter with respect to the BIS.

MR. TRUMAN. Some of you are aware of this and some of you are not, and I thought that it was right that everybody be aware of it. The Federal Reserve for a long time has never taken up its seats on the board of directors of the Bank for International Settlements. We have been entitled to such seats since the Bank was founded in 1930. This matter has come up again in recent months, and the Board considered it a couple of months ago after consulting within the Administration and decided to go ahead. Next Monday the BIS will be announcing that we have reached this decision, that the Chairman would take up the ex-officio seat and that President McDonough would take up the other appointed seat as the second U.S. representative on the board. There would be a minor adjustment in the BIS charter, and at the same time it would be announced that the governors of the central banks of Canada and Japan, Mr. Thiesen and Mr. Mieno, had been elected to the BIS board of directors. That would mean with the inclusion of the United States that the board would consist of the G-10 countries, which is a step the BIS would like to take and which the Board of Governors has thought was sensible in terms of the future evolution of the BIS on a more global scope. So, as I said, the BIS intends to make this announcement on Monday, and I didn't want any of you to be surprised.

CHAIRMAN GREENSPAN. Let me just go back a bit on the history of this. Up until the Maastrich Treaty, our relationships with the BIS seemed to be appropriately constrained to our periodic visits over there to deal with the G-10 on a consultative basis and to be involved with a number of their committees, but to have no involvement at all with the actual management of the BIS. With the advent of the Maastrich Treaty and the development of the European Monetary Institute, the potential of the BIS being effectively neutered because

of the overlap in jurisdictions of the EMI and the BIS has led the BIS to move toward a much more global role, one that anticipates inviting a significant number of non-European members, 10 to 25 as I recall the range, to become members of the BIS. That would significantly alter its character from a largely though not exclusively European managed operation to one which is far more global in nature. It is possible, perhaps probable, that the BIS as a consequence will become a much larger player on the world scene. It was our judgment that it would be advisable for us to be involved in the managerial changes that are about to be initiated rather than to stay on the sidelines, as we chose to do through all those decades when we did not want to get involved with a European-type international organization. In contradistinction to that, we think it is important to be an active player in the development of this institution to make certain that we as the principal international financial player have a significant amount to say in the evolution of the institution. That's the basis upon which this decision has been made here at the Board, and it was one which we probably would not have addressed in any meaningful way had not the altered nature of the BIS itself become imminent.

MR. LAWARE. In your opinion, Mr. Chairman, is this changed character for the BIS a positive move or a negative move?

CHAIRMAN GREENSPAN. I would say from our point of view it's quite positive. From their point of view, it's clearly defensive.

MR. LAWARE. Most international organizations the broader their base of membership the less effective they become.

CHAIRMAN GREENSPAN. I don't know; is that generally true?

MR. LAWARE. Well, I don't know. Look at the United Nations or the League of Nations or the rest of the litany of organizations that have had terrible difficulty agreeing on anything.

MR. TRUMAN. I think the distinction here, and it's related to the other part, is that

CHAIRMAN GREENSPAN.

MR. TRUMAN. And the other central banks will come to the BIS and will participate more broadly in some of the activities.

MR. LAWARE. Well, I understand and I think that's the logical rationale for our taking a more active role. But I would predict that inevitably as more participants come in, there's going to be more clamor for broadening the board of directors to include more representatives from the other participants.

CHAIRMAN GREENSPAN. I think that's a legitimate concern. Once you raise the issue of the United Nations you win the case! [Laughter] Any further questions or discussion on this issue? If not, are there other issues anyone wishes to bring forward?

MR. LINDSEY. I'd like to ask Ted about the Super 301 story on Japan. Do we think that there is any credibility to that as a possibility by September 30th?

MR. TRUMAN. I hadn't heard anything, but I don't want to answer definitively. They have started a 301 process--maybe Governor Blinder knows more about this than I do, if he's allowed to use expertise from his previous incarnation.

MR. BLINDER. I think I am. I don't think I'm revealing any confidences by saying that there is considerable but not unanimous sentiment within the Administration to do something. The first something is likely to be the procurement agreement, which was postponed to the end of this month from the end of last month to get over the Summit. I'm pretty sure the further postponement is for another 60 days, which brings it exactly to the Super 301 deadline. There is a requirement to name specific country practices--

CHAIRMAN GREENSPAN. In the law.

MR. BLINDER. --in the law at that date, September 30th. Now, something may happen between now and September 30th. But if nothing happens, it would be a little surprising, given attitudes in the Administration and given pressure from Congress if there was no country named. The list could have nothing on it; that's a possibility. The President has to send the list; it could be blank. But I'd be surprised if the list were blank.

MR. LINDSEY. I guess this question would be for Peter Fisher or anyone: What would be the impact on the foreign exchange markets of naming Japan on the Super 301?

MR. FISHER. When 301 was announced, when Mr. Kantor announced that they were seeking the authority, we actually had a brief rise in the dollar the next day. There are some in the market who view anything that is done concretely on the trade side per se as a positive for the exchange market as it might reduce the risks of the exchange market club as the only weapon the Administration is using. There are others who will view it the other way--as negative for the dollar and negative for the tone of the trade talks. So, I think, based on what has happened the last couple of times, it's hard to predict. Sometimes it has a negative effect; sometimes it actually has had a positive effect.

MR. LINDSEY. Thank you.

CHAIRMAN GREENSPAN. Any further issues that anyone would like to bring to the meeting? If not, we wish you a pleasant day.

END OF SESSION