

Outline of remarks by Hugh D. Galusha Jr.
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Before the Graduate School of Banking
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at Madison

Independence
Federal Systems
12 independent corporations - 24 branches exists as a compromise
analogy to Const.
uniquely American
Meet FOMC
19 equals
1 President always member
4 Presidents rotate
6 Governors
1 Chairman
Organization of meeting
Foreign Mgr. officer of New York Fed.
Domestic desk Mgr. " " " " "
Domestic economy
B of P
Go Around
Directive

Ah, yes - the directive. Its critics have been many and harsh. Congressmen like all the rest of mankind, want to believe the unpredictable can be predictable, the uncertain can be made certain. They, like all of us, want some kind of binary logic applied to human decision making, with a language as simple and quantifiable as "stop/go".

The FOMC directive makes those Congressman who read it - and perhaps unfortunately an increasing number appear to do so - very uncomfortable. And no wonder - compared to some of our directives the most arcane sections of the JRC appear models of grammar and clarity. Critics - even friendly ones like members of my own research staff - have attempted to parse the sentences of the directive in an attempt to distill subjects, predicates and meaning.

But there is no help for them. We are dealing with judgements of
nineteen men about the most complicated society in every sense/^{man}has ever created.

These judgements are based upon data examinations which are available to us all. But - and this is the difference that makes all the difference - there are nineteen sieves through which the data must pass. I have enormous respect and affection for all my colleagues - but with a fine impartiality I differ on occasion with all of them - especially my colleague from St. Louis with whom I'll soon be on^a/fishing trip - a personal relationship only mutual affection and respect can produce.

Remember the managers of the two crucial desks have heard these judgement expressions. They are enormously capable men who can listen intelligently. The "color tone and feel" of the discussion - subjective - adjective which reduce those who yearn for quantifiable binary terms to ravening frustration, is carefully tucked away and evaluated.

Certainly there are targets in terms of money market variables - rates, reserves, the credit proxy - all of these are important.

However - the specifics of buying and selling government securities on an open market must be a day to day decision in an irrational environment, where a rumor of a letter from Ho Chi Minh, a peace rumor from Paris, or the fact the President woke up with the sniffles has an impact which must be weighed in the light of the response required that day to the tenor of the FOMC discussion of the previous meeting.

Small wonder the published directive is sometimes incomprehensible. Like the lady preacher Samuel Johnson commented about - it is not so much a matter of comment that it appears badly, but that it appears at all.

The decision to intervene or not in the money market is made each business day on a conference call among one President, member of the FOMC, a Governor (or the Board Staff) and the open market manager. This decision must be within the broad ^{parameters} ~~perimeters~~ of the directive - and with or against the broad streams of the market.

Assessment of the money market is as much of an art as assessment of the stock market. "The Money Game" by the latter day Adam Smith is extraordinarily perceptive of the process and I recommend it to you.

Sometime within the 3-4 week period between meetings the efforts of preparation for the next meeting commence and the process starts all over again.