Minutes of Quad. #19
Mem. Pres. Heller
Mostly BoP

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 30, 1962

MEMORANDUM FOR THE PRESIDENT'S FILES

Subject: Summary of the meeting of the "Quadriad," July 25, 1962

The following were present: The President, Chairman Martin, Secretary Dillon, Roosa, Director Bell, Turner, Chairman Heller, Tobin, and Ackley. The meeting began around 6:00 and lasted about an hour.

The President led off by asking about differences between CEA and the Fed on "hard money and soft money and all that." Heller responded that there were no differences in direction but only in degree. Short-term rates must be maintained higher than might otherwise be desirable, for balance of payments reasons, but they have recently been allowed to rise; moreover, the rise has spread to long-term rates. This seems particularly inappropriate in view of the weak state of the economy. We should keep our power (of higher rates) dry for possible use in event of a tax cut, when that might be appropriate. Even the balance of payments effect of short-term rate increases would be lost if it induced European central banks to raise their rates, as Germany has recently done.

Martin was asked by the President for comment. In his discussion he first said there had been no change in policy, just a technical "sopping up" of loose funds. There was certainly no danger that Europeans would match the very slight rate increases that had been permitted. But, asked by the President when the change in policy had occurred, he promptly replied "June 19." Asked why, he referred to European developments. Our policies were getting the worst press ever. Associated with this last week was the worst run yet on the dollar. The President's Telestar appearance, however, had completely reversed the picture. There was reference in this connection to the $50 million gold loss to England.

In response to the President's questions regarding this loss, Roosa explained the Bank of England's role in selling gold in the London Market to hold its price, and the mechanics of the operation. The actual loss by the British was $70 million, and although they were entitled under the agreement to take it all from us, they were taking only $50 million. Had the sales not been made, the price would have gone much higher and speculation might have been attracted which would have meant much larger losses. We were standing the entire loss because under the Consortium agreement we would do so when the raid was only against the dollar, not against other currencies. This was the case here. He implied that from now on all further losses would be shared, and we would only stand half, but this was not clear. It was agreed that all of the dollars sold came from Switzerland.

Roosa explained that it would not be possible to avoid publishing this loss (and others which would add up to $90 million) on Friday, but said it would be carefully explained that all this happened before the President's press conference comments, which had completely reversed the picture.

The President then asked Martin how domestic restriction would help the situation. Martin replied there was no real restriction. Its effect on the economy would be minor. In fact, money was going begging. The President then asked why if its domestic effect would be minor, its effect abroad would not also be minor. Dillon and Martin replied, "No, major." Tobin wondered why it would make any difference, since the loss was based on speculative movements. The reply referred to the European interpretation of our willingness to keep our house in order by drying up some of the money "sloshing around." It would also make it technically easier for us to act fast and dramatically if that were needed, e.g., through a rise in the discount rate, which would really show that we mean business. This might be necessary, although for the present the President's press conference had taken care of the situation. In the discussion it was brought out that the interest rate differential between UK and US had widened not because of a rate increase there but because improved confidence in the pound had reduced the cost of forward cover.

The President then asked Martin his view of the domestic economy. He admitted that the majority of his staff was bearish, based on the indicators, etc. But he was less so. Of course, July was the worst month to figure out. Dillon referred to encouraging news on retail sales.

In response to the President's question, Dillon reviewed the British progress since the IMF advance and associated actions. Net, they had gained about $600 million.

Reverting finally to the press and public opinion on the dollar there was discussion of the worst offenders and of ways to improve the situation. Tobin suggested a statement by Minister Giscard d'Estaing. Dillon said Giscard was very much encouraged by the President's statements and thought the problem was licked. He would certainly reassure the British, who -- if they wanted to -- could control their financial press. Regarding the Herald Tribune's role, the President asked Roosa to talk with McCloy, who might work on Whitney.

Walter W. Heller