TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE MEETING

April 18, 1978

Prefatory Note

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Staff Statements Appended to the Transcript

Mr. Pardee, Deputy Manager for Foreign Operations
Mr. Kichline, Associate Economist (2)
Mr. Zeisel, Associate Economist
Mr. Truman, Associate Economist
Mr. Sternlight, Deputy Manager for Domestic Operations

4/18/78

Meeting of Federal Open Market Committee

April 18, 1978

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, April 18, 1978, at 9:00 a.m.

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

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

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

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

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

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

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

Mr. Williams, First Vice President, Federal Reserve Bank of San Francisco

Messrs. Balbach, Parthemos, and Scheld, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Richmond, and Chicago, respectively

Messrs. Brandt, T. Davis, and Keran, Vice Presidents, Federal Reserve Banks of Atlanta, Kansas City, and San Francisco, respectively

Mr. McNees, Assistant Vice President, Federal Reserve Bank of Boston

Mr. Ozog, Manager, Securities Department, Federal Reserve Bank of New York

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April 18, 1978

CHAIRMAN MILLER. I do welcome all of our visitors again and we have a busy agenda. If we move along diligently, I think we can get through it in an appropriate time. I hope that the word has been passed that I would like, if it is convenient for each of you, to have the Presidents and the Governors and a few of the staff joining in for lunch upstairs as we did last time. That will be an occasion where we have a few things we just might informally bring to your attention. And if there is anything that any of you would like to bring up at that time, we would welcome that.

In preparing for the meeting today, there were some items that were pending that I just want to mention. One was the report on revisions to the procedural instructions for foreign currency operations, which Governor Wallich and the ad hoc committee have been considering. I understand that that is not ready for this meeting; it might be ready for June. I just wanted everybody to know [that work] is still under way and I don't think there is any pressure to get it done today. The second matter was a possible change in policy with respect to operations in Federal agency issues. Steve Axilrod and Peter Sternlight will have something on that for us, I believe, in May. Is that right, Steve?

MR. AXILROD. Yes, that is correct.

CHAIRMAN MILLER. So that was a pending item. Another item that was pending was to report to you on possible methods of settling our swap arrangement with the Bundesbank. Again, I don't think that we have made adequate progress from the recent visits of Alan Holmes and Henry Wallich, too. We may comment on this a little but I don't think we are ready to move ahead at this meeting. The meeting [agenda], as I say, is long but I will try to keep it going.

One thing I do have an obligation to tell you is that when I first took office and appeared on March 9 before the House Banking Committee, Chairman Reuss gave me a little static about the ranges on M3. He thought the dropping of the M3 ranges indicated a decision by the Federal Reserve to curtail the flow of funds into the housing market; he was concerned about that. Last Monday, a week ago, I had the second half of my appearance before that Committee. They didn't finish the first day so [Mr. Reuss] brought me back for a second day. On that occasion he again reminded me that I had an obligation to inform the FOMC of his concern about this. I am now so informing you so that you will all know he is concerned about why we want to handle M3 in that way and he wanted me to bring this to your attention with redoubled urgency. I have now done so.

Now we can proceed with the agenda. The first item is approval of the minutes of actions taken at the meeting of March 21. Are there any comments or questions or changes? Hearing no dissent, we will record those as approved. On foreign currency operations, Scott Pardee will report to us on operations since the last meeting.

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

CHAIRMAN MILLER. Any questions or comments? Phil.

MR. JACKSON. Our policy, as I understand it, is to counter disorder. It would appear that when the mark-dollar relationship goes adverse to the dollar, we buy $100 million. When it goes favorably to the dollar, we buy 5 or 10 million [marks]. Why the difference?

MR. PARDEE. Well, I haven't seen-- We had one day or two days on which the dollar rose. We do consider the disorder in the context of time. We have been discussing at the Desk--and I have discussed with members of the Committee--the possibility of our initiating a program of mark purchases. And this would be done in the context of a firming dollar. But I did not detect any evidence yesterday or Friday of a disorderly market as far as the dollar was concerned.

MR. PARTEE. Did you buy any in the last two days?

MR. PARDEE. We have been buying for correspondents and in fact one of the big orders that we had where there is a question of diversification was 250 [million] marks. We put half of that into the market and kept [half of] it. There is a judgment that we can make as far as correspondent businesses are concerned whether we put it into the market or not. We have not gone out into the marketplace and bid for marks. We have considered it. I was prepared to do it yesterday if the dollar had continued to rise--again, with the disorderly market consideration. It had risen at one stage by over a half percent from the fixing range, but things quieted down in the afternoon.

MR. JACKSON. Is there something fundamental that makes it disorderly when the dollar goes down but makes it orderly when the dollar goes up?

MR. PARDEE. Not in theory, but in the world that we are in right now there is a basic judgment on the part of the U.S. and German authorities that the dollar is oversold and undervalued--each individual country uses a different term--or that there has been a movement of the rate too far in one particular direction. So to the extent that the dollar rises, then this would be more consistent with underlying conditions. But I am prepared, if the dollar rise becomes too [sharp] and we have the kinds of conditions which are in the marketplace [unintelligible] I'll buy marks. We did on a number of occasions [unintelligible] but we are doing a two-way operation.

MR. PARTEE. Scott, it is not only that. You have $2 billion in debt to pay off.

CHAIRMAN MILLER. Well, I think we want to reverse these transactions when the opportunity presents itself. We have thin markets and we have to be careful and not get a little ahead of ourselves.

MR. PARDEE. Mr. Chairman, the paper characterized the market yesterday and on Friday as being broad. Now, perhaps the paper was incorrect. The foreign exchange market was strong and broad; there was active trading.

MR. WALLICH. Well, that is not disorderly.

VICE CHAIRMAN VOLCKER. Well, I don't think we have to be very--

MR. WALLICH. Narrowness or an absence of trading sometimes is orderly.

VICE CHAIRMAN VOLCKER. [Given] the period that we have gone through and the amount of treasure and sweat we have expended in trying to get a more stable tone in the market, I would be very cautious about giving the market the impression that we were ready to sit on any increases in rates of the very small magnitude that have so far occurred. You might get a market on a particular day that is going up in a kind of frantic and disorderly way so that it would be appropriate to purchase some securities. I don't think that was yesterday's market, and I think it would inflate it, giving a very unfortunate signal in terms of--

MR. PARTEE. I thought these were secret.

VICE CHAIRMAN VOLCKER. Well, they can't be completely secret when you are going into the market openly. That is why [the Desk] bought some [marks] from correspondents.

CHAIRMAN MILLER. I think Henry had something to say.

MR. WALLICH. Well, it is an old joke that disorder at the New York Desk occurs only on the way down, but I think Scott had a good point here. A broader definition of disorder means that once a currency has been going down and down, then the presumption when it jumps by some points if certain conditions occur is [unintelligible] when it recovers. I talked to the Bundesbank last night to see if they felt inclined to do any buying. They said yes, [they] could have done some; they didn't. If this recurred, [they] might. So the thought is in everybody's mind but I ought to stress Paul Volcker's point that you give a signal to the market that you are trying to hold the rate down if you appear visibly and very systematically. We would have to do it within Europe or we'd have to go through the BIS to be as invisible as possible.

CHAIRMAN MILLER. Bones, I think you had a--

MR. KIMBREL. Just simply a question: What is our potential for loss in this kind of operation in the current situation?

MR. PARDEE. We're still in losses. Our average rate on our swap drawings is 2.125 and the current rate in the exchange market is 2.05. That is one of the reasons why I am reluctant to buy heavily at this stage.

CHAIRMAN MILLER. Our aggregate paper losses now amount to how much, Ted?

MR. TRUMAN. Well, let's see--about $90 million.

CHAIRMAN MILLER. About $90 million of which half is ours, right? So you have potential losses now, Bones, of around $50 million for the Fed. Bob Mayo, you had a--

MR. MAYO. Yes, I just wanted to make [a comment that is] another way of saying Paul's point. The way I interpreted it, we are dealing with a market that has been going down, and disorder there I think has a different weighting in our purchases and sales as against a market that is going in the other direction. Once a real trend is discernable in a reversal of [the dollar's] basic movement, then I would expect the Desk to operate in the opposite way. Now, maybe they won't, but that would be at least an expectation. I think they have a duty here to perceive, as best as any of us can, the underlying trend of the market and in effect roll with that--not try to offset it. And if the underlying trend is in our favor then we can make hay, so to speak.

CHAIRMAN MILLER. We have a situation where I think you are saying, Scott, that the dollar has behaved better because of perception rather than reality. And I think that is a very tenuous market in which to expect you to do major reversals. We hope that that perception will be clarified by performance and if so, we will be able to reverse the entire amount. That would be ideal. And we wouldn't have to have Henry negotiate how we pay [the swap debt] off.

MR. WALLICH. Well, I do think it is important to contemplate this market euphoria [in the context of] what the Greenbook says. The staff is very pessimistic on the outlook for the dollar, and I find it very hard to square the behavior of the market [with] that. [That] the market has thought so far ahead that it is even discounting all the Greenbook states and is now looking beyond that valley is remotely possible, but [traders] haven't been distinguished by great foresight.

MR. PARDEE. I didn't say euphoria; I said that they are just less pessimistic than they were before. The exchange traders are still very bearish toward the dollar. They have the same kinds of analyses that are in the Greenbook. I feel rather surprised that this demand for dollars keeps coming out of the woodwork. And as I say, it is largely the leads and lags which are being unwound, which we may not see in the actual transactions. The transactions that are done before that would not appear in the market now.

CHAIRMAN MILLER. Phil.

MR. COLDWELL. Well, I think both groups have a clear point. We would like to have some improvement to pay off [our debt]. But I think there is a fundamental policy understanding here that if we are going to counter disorder on the downside, we ought to counter disorder on the upside too. I would be a bit reluctant if we are going to apply the disorder only on the downside risk.

MR. MAYO. But the upside really hasn't started yet, Phil.

MR. COLDWELL. I didn't say it had. I am merely saying that the policy of countering disorder ought to be uniformly applied.

CHAIRMAN MILLER. And judicially and prudently. We all agree with that. We might move on now and ask Henry Wallich if he would give us some comments. It says on my agenda "brief comments."

MR. WALLICH. Briefly, two things. In discussing the swap repayment with the Germans, we focused on what can be done to implement early repayment. We did not talk about the funding option because that exposes us to greater risk. It seems to be what they prefer. We discovered that they are quite willing to let us buy back in the market without fear of damaging what they hope will be the recovery of the dollar. And we ought to move somewhat in that direction. The ball is now in their court. They are discussing means of repayment with their directorate and will come back to us with a proposal. We have to agree in May to something in order to be able to have a proposal for the FOMC before the meeting.

CHAIRMAN MILLER. How much comes due in May?

MR. TRUMAN. It is a relatively small amount.

MR. PARDEE. $304 million.

MR. TRUMAN. I think we were talking about the whole $1.6 billion that was outstanding at the time of the March announcements.

MR. WALLICH. We have rolled over through June--

CHAIRMAN MILLER. That's right.

MR. PARDEE. The second renewals. But I have a list of first renewals that I still have to ask for here before we--

MR. WALLICH. One other thing, if I may. I found really a depressing degree of anti-Americanism as I have read the European press. They are very angry at us. I did not find this with the people I dealt with. And I had a number of public appearances with Emminger and Lambsdorff to show that there was no bad feeling and that we loved each other. But the press is very bitter about the United States, and this focuses largely on the dollar and what they perceive to be our hogging the supply of oil.

CHAIRMAN MILLER. Phil.

MR. COLDWELL. Scott, has the Treasury yet bought or sold any SDRs?

MR. PARDEE. Not yet. As I say, they came to the point where the next generation would have had to be SDRs. They began to buy some of the marks that we were picking up. So they have a cushion of $60 million worth of marks. They are not interested in making repayments at this stage but are rather eager also to start buying marks in the market. It's a first [unintelligible].

CHAIRMAN MILLER. Any other comments or questions of Henry? If not, the next order of business is an action to ratify the transactions since the previous meeting. I think we have had a report of those circulated. Is there any further question or is there any dissent from ratifying the transactions? Hearing [none], that is approved. The next item is consideration of the Manager's recommendations with respect to foreign currency operations. Scott.

MR. PARDEE. As Henry mentioned, we are awaiting specific proposals from the Bundesbank on the swap repayments, so I won't go into that. During the month of May, the System has nine maturing swap drawings on the Bundesbank totaling $304 million and four on the Swiss National Bank totaling $50 million. These are all first renewals. I recommend that the Committee approve that these swaps be renewed.

CHAIRMAN MILLER. Any discussion, questions? Is there any dissent? Then we will authorize the rollover. The next item is the proposal for 3-year target ranges for the monetary aggregates. We have had Ernie Baughman's letter in the past and we mentioned it at the last meeting. Since that time this has been considered by our [Subcommittee on the Directive.] Chuck, you are Chairman of that subcommittee, I understand, and I suggest perhaps that you lead off the discussion of this item, based on the report that has been circulated.

MR. PARTEE. All right, Mr. Chairman. We have a brief report here.

CHAIRMAN MILLER. Members of that subcommittee are you, Dave, and Paul.

MR. PARTEE. That is right. We have a brief report here and I'm sure everybody has read it, so I won't go into it in any detail except to say that, after meeting and giving a good deal of attention to the proposal from Ernie and also to the letter of endorsement from President Roos, the subcommittee still felt that it could not support the proposal mainly because of the dangers [we perceived. One was the danger] to the System in terms of a further loss of credibility if in fact we could not achieve a targeted level--presumably reductions--of growth in the aggregates. [Second was a] danger to the economy in the case where we felt that our credibility was so important that we had to succeed even in the face of economic pressures that would clearly indicate the need for more monetary growth.

I just might remind the Committee that our performance with respect to the 1-year ranges has not been particularly good. So one wonders whether the markets, seeing what that performance has been, would put a great deal of faith in a 3-year projection of our plans. And this business of the markets putting faith in the projection is terribly important because [without that] there is no chance whatsoever that in fact contracts would be written with a view toward less inflation and less monetary growth [or that] inflationary pressures originating from the cost side would be diminished unless the market did feel that we were going to do that. If we had a situation in which the contracts continued to be written on the presumption of cost-push pricing and of continued inflationary forces and we continued with our attempt to get the aggregates down, it seems to me that there is an obvious clash that could cause real difficulty for the economy. So we just think that the problems are too great to go ahead with this in any kind of an announcement or any kind of a position we would take publicly.

I might also mention that we are a little uncertain at this stage as to what the Humphrey-Hawkins bill will require. As it came out of the House there seems to be an inconsistency. That is, we are asked to report our 1-year targets and what those 1-year targets mean for a 5-year plan of the economic performance as issued by the Administration. In one version on the Senate side our requirement to link up with the 3rd, 4th, and 5th years of the [Administration's] plan has been dropped, but it is conceivable that it would go the other way and they would ask us also for a plan that would be consistent with the Administration's goals for a 5-year period. With the uncertainty as to what might develop in the Humphrey-Hawkins area and the obvious cosmetic character that probably will accompany much of that Humphrey-Hawkins material, we feel it might be embarrassing and dangerous also to have an independent 3-year plan that is being projected. So we can't support the Baughman proposal.

We would, however, stress that there probably does need to be more attention devoted to the question of the longer-term implications of the monetary policy that we are following than the Committee has given. So our proposal is that the staff emphasize more than before the possible scenarios--problematical and indefinite as they are--that might result from different monetary postures. Jim Kichline has a memo today to the Committee that extends [the outlook] over three years in something like the old fashion, but it is somewhat expanded from what it used to be. We think that ought to be continued and perhaps other scenarios presented also to the Committee for its consideration of the possible effects over the longer run of what it is doing right now. I think that completes my report, Mr. Chairman. Perhaps President Volcker and President Eastburn would like to add their own views.

VICE CHAIRMAN VOLCKER. Well, I have very little to add, Mr. Chairman. I agree with what the report said. I would only add that in thinking about this, I ran through the exercise in my own mind as to what kind of number you would put down if you wanted a 3-year target, and I found myself in the midst of a dilemma. If you make it too high, you are not doing much on inflationary expectations and you may be able to make it. If you make it too low, you have a real credibility problem. Therefore, my dilemma was consistent with the feeling that is expressed in the report. The possible exception is a situation in which there was a concerted long-run inflation plan on the part of the Administration that was also credible on its own terms in dealing with cost pressures and all the rest; then I could see where this might be reexamined. As it stands now, the Federal Reserve by itself, I can only second the comments that Chuck already made.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. Well, I would agree with that. It seems to me that if we lived in a different kind of world, maybe this would be a good way to go. If we lived in a world where we had been able to hold to our intentions and had the kind of credibility that we would like to have and had more knowledge of the future, I think this would be a good way to go. But that is not the world we live in at the moment.

CHAIRMAN MILLER. Ernie, would you like to comment on this?

MR. BAUGHMAN. Yes, Mr. Chairman.

CHAIRMAN MILLER. I think you ought to have a chance to defend your proposal.

MR. PARTEE. Equal time, at least, Ernie.

MR. BAUGHMAN. [I'd note] a couple of things, I guess. First, I had not contemplated that the Committee would unilaterally drop this on an unsuspecting world, but rather if the Committee saw some desirable feature of this approach to the problem--which I see largely as reestablishing credibility, and it seems to me that should be a very high priority for us at the present time--that there would be negotiations with the two Committees on Banking in the House and the Senate and with appropriate people in the Administration. [In those negotiations we'd say something] to the effect that it was the view of Federal Reserve officials that it was necessary in the interest of the long-term health of the economy that we move in this direction and that we felt so strongly about it that we were rather persuaded that we had to take a public position and that we were undertaking to get their concurrence and support before doing it. Also, this is a long-term approach within which there is obviously room for week-to-week and month-to-month deviations even of significant proportions. But still, the achievement of the long-term objective is a matter of high importance.

I wouldn't be able to forecast what kind of support one might get for taking such a posture before in fact taking it. Now, I had not contemplated when I sent out my little note the sequence of events that would transpire from that time to this. It seems to me, however, that the events that have transpired have given us a very favorable setting within which something like this could be picked up and carried forward. It seems to me that Mr. Strauss has really the last opportunity to rescue this economy from slipping into wage and price controls in a fairly comprehensive set of arrangements. Whether he will take full advantage of the opportunity and responsibility that is laid on him, I don't know. But it would seem to me that the Federal Reserve, as a part of the negotiations which must take place within the government and between the government and the leadership of various sectors of the economy, could through its spokesman--with a consensus view from this Committee--[suggest such a program]. If in those negotiations it proved desirable or beneficial or strengthened our negotiating hand to have something like this in our hip pocket to be revealed at the appropriate time--knowing that this Committee was of that view and was prepared to back up that posture--conceivably [it] could be very useful. That could be a very useful negotiating tool.

Therefore, Mr. Chairman, I would urge that the Committee not accept the report that has been circulated as the view of the Committee at this point in time on a proposal that the Federal Reserve establish some longer-term objectives in some [form]. My preference would be that the Committee go on record that it has substantial sympathy for that sort of view and that it would be prepared to support the Chairman if in the negotiations within government it seemed desirable that the Committee take such a public position. I would recommend that the proposal be referred back to the subcommittee for further study on three major points. One is that if we were to go this route, what should be the monetary or credit measures for which we would announce the longer-term objectives? Secondly, what kind of time dimensions would be hitched to it? [We'd have to decide] whether to use annual averages or year-end to year-end changes--that sort of thing. And then finally, the point that Mr. Volcker referred to, what kinds of magnitudes would be considered? It would seem to me that the only thing that is pretty much given--it is an integral part of the proposal--is that the magnitudes would have to become smaller from one year to the next if the whole process were to have any possibility of building our credibility with the public in terms of an effective anti-inflation program or attack on inflation.

CHAIRMAN MILLER. Ernie, if this kind of approach were taken, it seems inevitable that it would become repetitive. I don't think one can do it one time with the expectation that it would [not] be repeated; that would be my guess. How often would you see the revision? Would this be revised once a year?

MR. BAUGHMAN. I would see it revised on the occasion of some substantial external development.

CHAIRMAN MILLER. So, it would be on an irregular basis?

MR. BAUGHMAN. Yes. If, for example, the Arabs were to double the price of oil, then it seems to me the thing has to be opened up and reconsidered.

CHAIRMAN MILLER. But one of the elements of long-range planning of most kinds is the ability to revise, based upon circumstances. So one of the problems in terms of credibility is that if you put something out for three years, the probability of being at the right place three years from now is very low. That's unlikely for most long-range planning of any kind. But if you revise often enough to take account of changes and keep shifting your horizon and you do at least have a direction in which you are heading and you create a direction more consistent with your view point, you may have a different consequence than if it is frozen for three years. Very few of us can have a crystal ball shine enough to tell us what is going to happen in a little over three years.

MR. BAUGHMAN. Well, this raises a further question. I probably should have made a fourth point that needs exploration, and that would be the tone of the language in which the announcement is made--just how specific and unequivocal it should be and whether or not there would be any allusion to the circumstances under which we would contemplate that we would reconsider or revise [the target].

CHAIRMAN MILLER. Larry had his hand up first; then we will move to Henry Wallich, Phil Jackson, Phil Coldwell, and Frank Morris.

MR. ROOS. Mr. Chairman, I would like briefly to support Ernie's point of view just as strongly as I can. I am terribly distressed at the thought that if something is worth considering we summarily reject it because we don't have confidence in our own credibility. If our credibility is that bad, it is of our own doing, I believe. Perhaps our credibility is lacking, but if our credibility is lacking it is because of the charge--if I may put it in those terms--of trying to set federal funds rate targets and aggregates targets that we know are totally incompatible and totally inconsistent with each other. It seems to me that the purpose of monetary policy is to shape economic events and not to try to put together something that we think will conform with economic shocks and events that may occur in the future. And I think [the latter] is what we have been trying to do. I don't think that this necessarily has to be cast in stone for three years. There is no reason in the world why these targets could not be adjusted whenever events [militated] such an adjustment. On the other hand, Mr. Chairman, as part of your apparent policy of being open and candid to the world about what we are doing, I think here is an excellent opportunity to announce with proper care what our monetary aggregate policy is and to attempt to stick with it. If we don't do this now, sir, I think we should take the other step and that is just omit from our deliberations the setting of any aggregates targets and admit to the world that we are targeting solely on interest rates. But if we don't have credibility, we have lost credibility because of something that I think has been somewhat of a phony charade.

CHAIRMAN MILLER. Henry.

MR. WALLICH. Well, Ernie has made much of the point I wanted to make. I think we can say something in qualitative terms. It would be difficult to marry ourselves to a 3-year--even a variable 3-year--quantitative target. I am trying to put together some thoughts on how this Committee operates and targets things and I'll be in St. Louis giving a talk on this subject. You will hear more about it. It seems to me that the basic fact is that so long as we don't have full control, it is not very meaningful to set forth [a goal for] an instrument in the long term. That is why a money supply target or any other target can't be made to stick. You need many more controls over the economy than just that one in order to make it stick. So it will always have to be a variant.

CHAIRMAN MILLER. Phil Jackson.

MR. JACKSON. Thank you, Mr. Chairman. I think the first thing we ought to recognize is that we have already done what you have proposed, [Ernie], and we have done it repeatedly. We have not done it in the way that you propose it, but we made the fundamental step and have repeatedly announced to the Congress and to the public that the policy of the Federal Open Market Committee over time is to reduce the rates of growth of all the monetary aggregates as rapidly as underlying economic conditions will permit. We have so stated. I believe I am correct, am I [not]? And we have stated that repeatedly to the Congress. Now, I recognize that "as rapidly as the underlying economic conditions will permit" is not in accordance with perhaps the [program] that you propose--namely, that we would state targets and stick with them perhaps through thick or thin or whatever happens. Even if we have to airlift the economy in the free world, we will do it. That might be one judgment; it happens not to be mine. But that is something that each person could make up their own mind on. Second, I do think that over time, unfolding events in the real economy as well as unfolding financial events make the establishment of long-term mathematical targets impractical. For example, if the Board decides to implement automatic transfers, obviously it would have implications for rates of growth in M1 over a 3-year period.

MR. BAUGHMAN. I would think that would be another circumstance in which to reconsider--

MR. JACKSON. It strikes me that [there is a great deal of] unfolding financial technology in the present environment--whether it be interest on demand deposits, electronic funds transfers, or changed financial powers between one type of financial institution or another. It strikes me that the only concept of liquidity in the economy that would be appropriate would be so broad as to not be specifically or psychologically meaningful for the purposes that you propose.

CHAIRMAN MILLER. Phil Coldwell.

MR. COLDWELL. Mr. Chairman, I think the effort has been worthwhile, and I think Ernie has raised something [important] with us. But I happen to agree with the Subcommittee on the Directive that it would not be advisable to do this in a public setting at the moment. My personal preference would be that we do this on a semi-annual basis for a while--raise our horizons and look down the road 2-1/2 to 3 years and try to keep track of where we are coming out with regard to the longer-range picture. I don't think we can afford to put this out in the public arena with the indefiniteness of it. I can see why, perhaps in the current setting, it might not be too difficult. But perhaps in a setting where down the road in 1-1/2 to 2 years we are looking at a recession, the publication of a System document indicating that a recession is on its way would be a terribly difficult thing to agree on.

CHAIRMAN MILLER. On a one-year basis that is tough.

MR. COLDWELL. Yes, it is tough on a one-year basis. So I think the effort here is worthwhile. I agree with the idea of going ahead and having repetitive reports. I hope we do so on a semi-annual basis because I don't think there is any point in revising a 3-year goal on a quarterly or monthly basis.

CHAIRMAN MILLER. Frank Morris.

MR. MORRIS. Mr. Chairman, I support the subcommittee's view of this. I think it is just not a workable proposition. Let us say that we try to establish some ranges this morning for three years. If we assume that the economy is going to continue to expand for three years, with the present rate of wage trends, I don't think we can come out with anything very much different than the current ranges for the next three years. If we were to do that, it would have a negative public image. If we were to do something different on the assumption that Mr. Strauss is going to be able to somehow get the rate of wage advance down and we produce expectations that we can't deliver on, I think the credibility of this institution could be seriously damaged. Given the present state of our knowledge, I just don't think that we can produce a meaningful 3-year range. And to try to do it could damage our credibility.

CHAIRMAN MILLER. Bob Black has asked to be heard and Bob Mayo is next.

MR. BLACK. Mr. Chairman, I have a good deal of sympathy for what Ernie has proposed and yet at the present time, I would have to side with the Subcommittee on the Directive on this. I think what comes through on both sides is that we haven't done very well in hitting our 1-year targets. And I think that is the thing we really ought to zero in on at this particular point. My personal view is that we are never going to do that unless we widen the federal funds ranges or unless we adopt some kind of reserve operating target. I would like to see us focus more on that sort of thing and really do what we want to do. I think we were all fooled last year. We thought we were going to ease down the rate of growth in the aggregates and we got a faster rate of growth than the year before--and that year was faster than the previous year. This was a surprise to people who were genuinely trying to do something different. I just think our methods of operation really need a serious reappraisal.

CHAIRMAN MILLER. Bob.

MR. MAYO. Very simply, I would support wholeheartedly the view of the Subcommittee on the Directive. In fact, in a sense I think they have been overly polite towards Ernie's proposal as such. I have a basic agreement with Ernie on the desirability of what we are doing internally, but I find myself terribly resistant to the idea of exposing ourselves further in an area of trying to measure mechanically any goals that to me are not measurable mechanically. We can never improve our credibility in my book by succumbing to the desire to pinpoint many of these things. My fellow Chicagoan, Milton Friedman--I am sure his ears are burning at this point at the suggestion that we [adopt] a 3-year [projection]--would agree wholeheartedly if he were consulted on this. He would put us on automatic pilot. I think that is the inevitable result of this. If you go through what Paul was saying, what figures would be put down? What Frank was saying is that we will probably end up with the same targets. But I think it is unfair to suggest that this Committee targets just on the basis of interest rates. Indeed, we have such imperfect linkages in all of these things that we should be very careful that we don't get trapped further on the mechanical side. Even though, on balance, the resolution that is now law on 1-year targets has had a beneficial effect, I think there are some real negatives. [One is] trapping us to impugn our creditability in an area where we could never in the eyes of the students of monetary policy--much less the media and the general public--be credible because of factors that are completely outside of our control.

CHAIRMAN MILLER. Well, Ernie, it sounds like there is a consensus in favor of not moving along these lines at this time. So, since this is a democratic process, your job is to continue to revive it when you think you have more sales points to make. At this point I would suggest that--

MR. EASTBURN. Mr. Chairman, may I add one more thing? I think the Humphrey-Hawkins issue is very relevant to this. Maybe the Subcommittee on the Directive could simply monitor developments in that field, and if it appears that we are going to be back in that business because of Humphrey-Hawkins, bring it back up.

CHAIRMAN MILLER. I think at this point we can accept the subcommittee report and thank them and thank everyone for the discussion. No doubt we will hear again on the subject at least of establishing a philosophical base on where we all think we are going--whether it is quantitative or qualitative.

MR. COLDWELL. Mr. Chairman, does that mean we are accepting the final page of that report indicating a quarterly setting of targets in the 3-year period?

CHAIRMAN MILLER. Well, I think that we are planning to have the staff do more or less what has been done at this meeting--to continue to give us a longer horizon for us to look at.

MR. PARTEE. I think the scenario kind of thing that I was talking about, Phil, you wouldn't want to do every quarter.

MR. COLDWELL. No I think semi-annually. But I do think more could be done in the way of developing alternative possibilities over the longer run through scenario writing than the staff has done at this time. But that shouldn't be every quarter. Would you--

MR. ROOS. Mr. Chairman, would you be receptive to a report stressing the other side of this?

CHAIRMAN MILLER. Certainly.

MR. ROOS. An argument in writing?

CHAIRMAN MILLER. It seems to me that we have an overwhelming view that we are not [going to] take the proposal to indicate mechanical devices. I think there could be qualitative as well as quantitative looks. But I think the whole process of this Committee should be a living one. It seems to me that we should be open-minded and there should be different viewpoints we should listen to. We'll move on to the economic and financial situation and outlook--what we call the crystal ball report. Jim Kichline.

MESSRS. KICHLINE, ZEISEL, and TRUMAN. [Statements--see Appendix.] Mr. Zeisel will continue the presentation with a discussion of domestic economic prospects and likely price developments.

MR. KICHLINE. That completes our presentation, Mr. Chairman.

CHAIRMAN MILLER. Thank you very much Jim, Jerry, and Ted. At this time I would suggest a general discussion. And in case any of you are concerned as to whether we are going to repeat the exercise of your own projections for GNP, prices, and unemployment, I would suggest that our discussion now assume there is no change in them and we will discuss that matter later in connection with a presentation of the quantitative projections to the Congressional Committee. But I think now should be just a general discussion and question period. [Willis.]

MR. WINN. Mr. Chairman, I would like to ask a question with respect to the home component of [the staff's] presentation. To what extent have you factored in the multifamily developments, which are really quite spectacular, offsetting the single-family decline? [By that I mean] the changes that have taken place in the financing area, with the pension funds and insurance companies now doing the short-term financing as well as the long-term financing and with home prices going up and even apartment rent going up faster than inflation. But the multifamily construction is really quite a sensational development in the housing area.

MR. KICHLINE. Well, you are quite right in noting that the multifamily area is the one source of strength. The weakening that we have in prospect is essentially in the private sector--that is the single-family sector. You must note, however, that by the third or fourth quarter of this year we have multifamily starts at around 500,000, which would be down a bit from our expectation for the first half of the year. It is at about the same level as it appeared to be in the fourth quarter of [1977], so we don't have it as a growth sector. A major part of that multifamily [strength], by the way, is government supported through the Section 8 program. We have allowed, I think, something like 130,000 units in that program so we have not in the forecast assumed that this environment will continue to be conducive to a further rise in multifamily starts.

MR. WINN. The interesting thing is that with the increases in rents that are taking place, you change your calculations pretty fast. And even though there is increased cost in the multifamily area, the borrowing hasn't increased and there has been an increase in equity. I think some of these people are going to get disappointed in their returns, but it's kind of an interesting phenomenon.

The second factor that I'd mention is the warehousing area; you can't rent warehousing space anywhere. And if you get a buildup in inventories and that sort of thing over a period of time you've got a real push in construction. And the center city office building is a big phenomenon, so [the outlook] may be more optimistic than [the projection] indicates.

CHAIRMAN MILLER. In the housing area, Jim, you might mention--in case anyone missed it--that you have assumed an increase in the ceiling rates at what, midyear?

MR. KICHLINE. At midyear an increase of about 1/2 percentage point on longer-term time deposits.

CHAIRMAN MILLER. So that has been assumed in terms of the funds availability for housing. Bob Mayo.

MR. MAYO. Yes, following up on your last comment, Bill, I have a question for the staff. The deposit growth chart reflects what the Chairman just mentioned. If that does not take place, would you anticipate a deposit growth curve that went down to the level or below levels of '74--or have you attempted to work that out?

MR. KICHLINE. No, I wouldn't expect it to go below the levels of '74 for two reasons. One of the reasons is simply that interest crediting now adds about 6 percent to the rate of growth and that is about 1/2 or 3/4 percent more than three or four years back. So you have some built-in interest crediting in this. And, secondly, even though there are high maturities of longer-term accounts now coming along [the depository institutions] still have a good portion of their money locked in, so I wouldn't expect, even in the absence of the Q ceiling change, that we would go back to the 1974 rates [of growth].

CHAIRMAN MILLER. I might mention, in case you missed it, that the Federal Home Loan Bank has just reduced by 1/2 percent its liquidity requirements--I expect you all saw that--which releases about $1.7 or $1.8 billion in potential resources for housing.

MR. MAYO. Would it be appropriate to ask, Mr. Chairman, if any progress has been made in discussions with the Home Loan Bank Board on the question of ceiling revisions?

MR. PARTEE. Well, Phil and I had a general opening discussion with Home Loan Bank Board members just last week and I thought it was a very agreeable discussion. We didn't get down to specifics, but I think they recognized that they have a potential problem. And they are looking at options--at things that might be done to improve the attractiveness of savings and loan instruments that are offered. So I would say that the chances are not zero. They could be better than zero in the event that market interest rates rise considerably. Now, what happened there was that they got excited about it--as I did for that matter--in January and did some thinking about it but then short-term rates eased off in February and early March, so for the moment they've got it on the back burner.

CHAIRMAN MILLER. If any of you want 400 letters, testify before Congress that we might be raising the rate and you will get 400 letters!

MR. PARTEE. But I think [the discussion] was reasonably encouraging. Would you agree with that, Philip?

MR. JACKSON. Mr. Chairman, it was my judgment that it was a much more constructive discussion than we expected to have.

MR. MAYO. I have one other comment, if I may.

CHAIRMAN MILLER. Yes, Bob.

MR. MAYO. The staff forecast I think is excellent, as always. I have only one area where I think our people take a little different point of view and that is on the international side. We are not nearly as pessimistic as the staff is. Whereas the staff has something like a $37 billion trade deficit projected for 1978, we get something closer to $30 billion in our analysis. I won't pursue it at great length; I'd be glad to [initiate discussions] staff versus staff if you wish.

CHAIRMAN MILLER. I wish you would. That's an area of [unintelligible].

MR. MAYO. It's a big difference, Mr. Chairman, and I think it adds up to two things. First of all, there are certain temporary factors--let's just call them disorderly factors for the moment--that I think made the figures look much worse than they really were for the first part of this year. They relate to iron and steel imports and the reference price stuff that is coming along, the bulge in Japanese exports, the anticipated import restrictions from their standpoint and, of course, the coal strike. But on the more positive side, we see a little better outlook for oil imports, for what it is worth--a leveling off this year. We see better economic growth abroad than the staff does, although again this is pretty hard to document. We see a better agricultural trade balance than I think the staff has implicit in their forecast. We also have done some work that would seem to indicate not quite as great a lag as I see implicit in Ted's figures on the effect of the depreciation of the dollar. We, therefore, also disagree with the suggestion that there may be a further 5 percent decline in the trade-weighted value of the dollar. Again, this is a terribly speculative area, but not only does that point of view reflect our opinion of the trade deficit--that it may have been overestimated--but we think also that there is a better chance now than for some time that the capital flows should improve in our favor and that this will moderate, if not virtually eliminate, a lot of the other factors in the decline of the dollar. So, I will knock on wood, Mr. Chairman.

CHAIRMAN MILLER. Hope you are right. We have listed for comments: Phil Coldwell, Henry Wallich, Ernie Baughman, and David Eastburn. So we will start with Phil.

MR. COLDWELL. Mr. Chairman, I think the staff projection is again moderate, in line with what a few of us have been talking about for several months. I still think we have a little ways to go, Jim--maybe another 0.2 or 0.3 on the average annual rate of GNP. I think [your] pattern, too, is still a little bit flat, with not quite as much volatility as I still see in it. I think we are going to clear 7 percent in the second quarter; you are in the 6 range. Bob Mayo has given a good share of my comments concerning the international side; I think we perhaps overreacted to a bad set of figures in the early part here. I thought you were perhaps a bit optimistic a couple of months ago about improvement, but I think you are a bit pessimistic on the 5 percent depreciation now. Somewhere in the middle range, which I guess is zero--which is about where Bob came out--I believe. On the internal forecast here, I would suggest that you might want to take another look at housing starts. I doubt if they are going to hold up this high; these things have a cyclical life of their own and once that cyclical life starts it's a bit difficult to turn them around. I suspect we will get [greater] declines than we anticipate and we may get a little less strength out of the consumer expenditure side than you seem to be forecasting, particularly on the strength of the tax cut in the third quarter. All of this adds up, Mr. Chairman, to [my view that] we are still a bit more optimistic on total growth of GNP on the real side. I'd suggest that we are looking at something that might be termed a mini recession--I hope it's mini--by the latter part of this year.

MR. PARTEE. Starting in the latter part of this year?

CHAIRMAN MILLER. A mini growth recession?

MR. COLDWELL. That is exactly what I have written down.

CHAIRMAN MILLER. [Henry.]

MR. WALLICH. Well, I see us moving into a pattern that is quite traditional in business cycles. My question is how genuinely this pattern reflects past developments. We are approaching a high level of employment--I would call it getting close to full employment--and prices are beginning to rise. Now, ordinarily, I would associate these two things. There are always special reasons why prices may be rising that are not associated with the expansion of the economy in the latter phases of the business cycle. And I would like to get the staff's reaction to whether we are facing a traditional pattern where one would have to say this is in danger of getting out of hand. Or are there enough special circumstances so that one could hope the pressures would not be exacerbated unless monetary policy took action against it?

MR. KICHLINE. Well, certainly what has influenced our recent upward adjustment in inflation, current and expected, involves largely exogenous forces--namely food prices and, secondly, partially exogenous forces of the effects on domestic prices of the depreciation of the dollar. We have not seen an explosion in wage rates nor do we believe that is in prospect. Nevertheless, there are feedback effects of these higher prices into compensation.

Our view currently is that for l978 there may be spot shortages in some markets. One of the things we are aware of would be in building--particularly insulation and those sorts of things. But we see no generalized problem. When we get into l979, given the staff forecast, manufacturing capacity utilization gets up around 86 percent or so. It is not entirely clear what number in the aggregate would exert pressure, but I think that is getting close to a range where one would need to be concerned. On the labor side, our staff judgment I guess disagrees a bit with yours in that we do think that there is more labor slack and that this is not a full employment level yet. It is not entirely clear to us what such a number would be, but I think it's something closer to 5-1/2 than 6 percent.

MR. BAUGHMAN. Mr. Chairman, I have a couple of things. First, just a factual point: It's reported that steel for new high-rise office type structures in the Southwest currently costs $900 a ton. As recently as 90 days ago, the same builder contracted for the same kind of steel for the same types of structures and was buying it for $750.

CHAIRMAN MILLER. That is just the market--the supply and demand.

MR. BAUGHMAN. Well, I suspect it flows to an extent at least from what the government has done with respect to reference prices. And certainly the demand has been increasing, as has been suggested. In the projection, interest rates and the proportion of managed liabilities to earning assets in the commercial banks both are projected to move somewhat above the rates we had in the closing months of '74. Would you think that the credit market might have many of the other characteristics of late 1974, which as we recall was a crunch situation? If so, is there anything we could do now to help assure that Henry Wallich's advice that we condition our economy for a soft landing would be realized?

MR. KICHLINE. Well, you are quite correct that some of these ratios in managed liabilities by 1979 particularly are [projected to be] above that which we experienced in l974. At the same time, with regard to the general question and the other types of problems, there are difficulties interpreting the aggregate numbers and there may be disruption problems that we are not aware of. But in a variety of areas I would suspect that if this scenario indeed were to occur, it would be quite a bit different than 1973-74. In the housing area, for example, one is that you don't have massive speculation and the REIT problem, if you will, added to [the problems of] the bank holding companies. I think there is something to the notion that attitudes have changed and perhaps the attitudes will remain rather conservative in some respects, even in the environment we anticipate. With regard to banks, it's very clear to us that increasingly they are relying more on purchased money than they have in the past. A good deal of [what] is driving that, by the way, is RPs--interest free money. And there is clearly an incentive to do that in the kind of environment that we would be looking at. So, I think in general we have some characteristics that are the same but many of the problems we would not envisage being there.

MR. BAUGHMAN. I might mention just one other fact, Mr. Chairman. Large savings and loan associations in the Southwest, though a small number of them to be sure, have been advertising quite widely for 6-year money at 8-1/2 percent in large amounts--$l00,000 minimum. In part, this is probably anticipating what you are suggesting here in terms of the developments in financial markets.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. Thank you, Mr. Chairman. I would like to pick up a little bit on the comments about prices earlier--particularly Jim's comment about the exogenous nature of the food and dollar price increases. I remember last year, roughly about this time, a number of comments were made around the table with respect to policy that we were building in a pro-cyclical policy with the rates of expansion in the aggregates that we were seeing. And going back to February l977, the forecast at the time for price increases for the first half of this year was 5-1/4 percent annual rate and it is now 7.4 percent. This, I think, is very relevant to the issue of credibility that we discussed earlier. It seems to me that it's very easy to find specific reasons for price increases which appear to be exogenous. But it may be more difficult to see the connection between [price increases and] the growth in the aggregates with a lag--seeing that changes particular aspects of the price picture. Perhaps you would like to comment on this. Do you see a delayed impact of the earlier increases in money supply growth?

MR. KICHLINE. Well, we would judge from a model result that we'd have a small impact by now--that is, one year out. According to the Board's econometric model, the System model, it really is a matter of looking ahead two or three years. So I would think the results of having overshoots in l977 probably would have a very small impact today but it may be growing over time. One of the difficulties here in assessing the staff's forecast is that lots of things have changed in terms of fiscal policy and in terms of monetary policy. And the international situation has changed. So I find it very difficult to settle on M1 growth, for example, as being the causal factor. I think our recent changes in the forecast really have been driven by largely exogenous factors. But I would not disagree with your underlying point, which I guess is that [money growth] does matter. If we had had higher interest rates in l977 and lower rates of growth in the aggregates, we would probably be looking at somewhat lower rates of inflation and we would also have lower rates of real activity. So I think throughout you would be talking about a situation that is different today than it would have been with a different set of aggregates and interest rates.

CHAIRMAN MILLER. Mark.

MR. WILLES. Thank you, Mr. Chairman. I feel very comfortable with the staff forecast. The numbers are almost identical to the ones we have been using. To the extent that it is wrong--and we are wrong on the price side--I'd like to comment on a couple of things that I think are relevant. There is a growing acceptance of the notion that expectations of businessmen and consumers have a certain degree of self-fulfilling activity in them. People sign contracts and conduct behavior that in effect helps validate their expectations. In that regard, we had a group of former directors from throughout the District in our Bank last week, representing a large cross spectrum of activities in our District and I took a little poll as to what their expectations were for inflation. It was interesting to me that I found nobody below 7 percent. The vast majority thought that for l978 inflation would be above 7 percent and half of them were expecting double digit numbers in l979. And I thought I had a grim outlook! It was nothing compared to what they were [expecting]. Now, it doesn't make a whole lot of difference whether their expectations are soundly based or not, in the sense that if that is their expectation and they operate on that expectation, it has very serious implications both for inflation and, of course, for the kind of recession that would put in place.

The second reaction that we got from that group and from our own board was that in terms of labor negotiations going on in our District, people are not distinguishing between the coal settlement as being in one world and the other settlements being in a different world. The unions that are coming forward are saying that they got that kind of [wage package] in coal and we expect that kind of thing in our industry. At least in the preliminary posturing they are taking a very, very hard stand.

A third point is that the reaction in our District to the President's anti-inflation speech was really quite negative. The general response on the part of the business community and the financial community was that the inflation was primarily government-based and yet the President is telling the private sector that they are primarily the ones who have to solve the problem. As a result, it was almost counterproductive rather than helpful in terms of moderating people's expectations as to what the future holds. So if I had to make a guess, I would come out with the same numbers that the staff does. And to the extent that they are wrong, I think we are facing more significant inflationary pressures than any of us would like to believe.

CHAIRMAN MILLER. Thank you, Mark. Frank.

MR. MORRIS. Mr. Chairman, a month ago I argued that we ought to keep an open mind on the outlook because the statistics were muddy. I think in the past four weeks we have gotten data that are not muddy. It is very clear that we are coming out of the slowdown with a very strong economy--stronger, I think, in the second quarter than the staff is projecting. If we have the sort of slowdown in growth rates in the last half [that is projected]--or even Phil Coldwell's growth recession--that would be very constructive.

I ought to emphasize my support for Henry Wallich's position that we are getting close to capacity. I follow a couple of series on the labor force which I think are good measures in the sense that they reflect people who have good reason to believe they are permanently attached to the labor force, and those are the unemployment rates for heads of households and the unemployment rates for married men. Both of them are within 0.8 of their l973 peak levels. I think we should not have as a target getting back to that degree of utilization of the labor force because at that degree of labor force utilization our ability to stabilize the rate of inflation is going to be greatly impaired. So we are talking here about a margin of play of maybe 0.5 percent. That would mean an objective [for the unemployment rate] of maybe 5.7 percent or something like that overall. Given this fairly narrow tolerance in which we have to operate, I think there is a real risk of the economy moving too fast, and I think we ought to recognize that risk. It is not a projection, but the great vigor of the last four weeks suggests to me that it is now a substantial risk.

CHAIRMAN MILLER. Thank you, Frank. Chuck.

MR. PARTEE. I have something of the same feeling that Frank does. I can't find fault with the staff projections; indeed, they have moved most things the same way I would have moved them. Unfortunately, I would have put the inflation rate up, as they did; I would have recognized that the trade deficit is going to be bigger, as they did; and I would have tended to cut down the rate of real growth over the whole expansion period, as they did. I might not have reduced the trade-weighted exchange value of the dollar as far as Ted did because I think the financial flows are so important in determining that; it hasn't been all that closely associated with the trade experience in my view. So I would have moved in the same direction as the staff did in each case except that last one.

But I would put in the caveat--and maybe Frank meant it as a caveat--that it is possible that we are going to get a much stronger economy in the short run than is in the staff projections. There are dynamics in change and the change is very rapidly upward. It's partly catch-up, but it is still upward. I pointed out last month how strong our employment data were. We have added another month's data since then and that has come in even stronger--on the establishment series on employment. Of course that employment generates income, which generates sales, which leads to a demand for production. There is a circularity there that could give us more of a dynamic increase over this spring and summer than is in the staff projection. And we need to be concerned about that because it can be quite destabilizing at this point. I also have to say that it seems to me as I go through the year--the 5-quarter projection that the staff has--that the end point of the projection presents a situation of instability in every figure of importance. Now, I am not [inclined] to think that a 5.8 percent unemployment rate represents full employment, as Henry does and apparently as Frank does. But what I think [is] really so very important is an unemployment rate leveling off at 5.8 and tending to drift up as it does in the still longer-run model projection that Mr. Kichline presented in memo form. That is unacceptable to most people in Congress. It is unacceptable, I think, to the Administration. It is unacceptable to the drafters of the Humphrey-Hawkins bill and it is probably unacceptable to large segments of the population. So if that rate stops there or even starts to look as if it is going to go up, it is going to bring further action that we don't have in our staff projection and that we can't quite anticipate.

Likewise, I think a 7 to 7-1/2 percent rate of inflation, which is the projection for the first and second quarters of l979 is unstable. I agree with Mark that an intensification in the rate of inflation as the year goes on, as is projected here, will almost certainly bring larger wage gains and larger price increases as we get into l979. The Teamsters' contract is one of the first major ones up in l979; it's in March. And I believe the head of the Teamsters is already on record as saying that his objective is [to match] the coal miners' settlement. That is going to be the kind of labor environment I think we will have if we have this much inflation over the period. And I can't say that we won't, I am sorry to say. So I think on beyond maybe the very end of the projection stage we will probably have more inflation in prospect than seems implied by these figures, though I can't say that with certainty at this point.

Finally, I would say that the financial markets look [likely] to me to be more unstable by then than is suggested. We have in Jim's Chart Show presentation that chart on GNP and interest rates in which we have a level of bill rates that is about as high as it was at the peak in l974. In l974 the financial markets were certainly in turmoil. Now, maybe there is some adjustment to a higher level of rates as time goes on. Nevertheless, I would remind you that in l974 housing starts were 1 million and in l975 they were 1.15 million. That is the kind of market response we got from that level of interest rates then. Also, just looking at that relationship between GNP and M1 at the top of that chart, I'd say that the implied increase of velocity is very, very large. And I don't know whether, in fact, we would get that relationship with only a rise to the 8 percent rate levels that are projected. It might take more if in fact we are to have that M1 and GNP relationship. So, Mr. Chairman, my feeling is that the projection is okay as a statement of what is probable, at least in early l979, though there could be more strength in the interim than is projected. But we have a major problem developing in the economy on all fronts with regard to all components that are in the staff projections. I am in a quandary because I don't have any proposition to make to the Committee that would rectify this.

CHAIRMAN MILLER. I am a little disappointed. We know the problem, Chuck.

MR. PARTEE. I guess we had better work on that problem!

CHAIRMAN MILLER. Philip Jackson.

MR. JACKSON. I share generally the views that have been expressed by Chuck and Frank. I do think that our focus on the GNP concepts of the economy may be masking some of the factors simply because we get this rate-of-growth focus rather than some of the actual rates of current activities that are taking place. For example, we focus on housing starts and what we really ought to be thinking about is how much construction is being put in place as a consequence of what is going on. In my judgment we are likely to have a substantial carry-forward in l978 even if the rate of starts turns downward.

I happen to be closer to Henry Wallich's point of view about the concept of full employment. I think we are reaching full employment in many sectors of our labor force today. Even though the aggregate numbers of people unemployed may be socially unacceptable, I'm not sure that necessarily means that they are economically unacceptable. There is an important difference that we have not faced. I think the consequences of an increase in employment are going to be to sustain consumption. And it looks like the changes in our social fabric of who is employed will sustain much more expansion in consumer credit than we had previously expected ever to be sustainable. I realize that there are upper limits on that, but thus far it looks like they have not been reached.

I also think our prospects for fixed investment are going to be good. Unfortunately, I also share the judgment that our inflationary prospects are dim. I see a general unwillingness on the part of those people who [ought to] make some very nasty decisions in private and public sectors to make them. And I am not pointing the finger at any one group. I am pointing the finger at all of us maybe collectively when I say that I think the prospects of labor making those decisions of moderation are remote if not ridiculous; I think the prospects of price moderation on the part of the owners of enterprises that price their products and services slim; and I think the prospects of any elected official in either party making those nasty political decisions that cost votes in order to change structural inflation-producing governmental policies are beyond prospect. So, I too share the concern that we could get a serious pickup in inflation as a result of people's attitudes that nobody is going to do anything and therefore I had better get mine before it gets out of hand. And that will introduce the one element we have thus far not had and that is speculative activity, which is the most destabilizing of all.

CHAIRMAN MILLER. I can't say thank you to that one; I appreciate it. Bones.

MR. KIMBREL. Mr. Chairman, we are now very close to the staff's projections. Particularly this time with the reduced real GNP growth and the projected high inflation rates, we are getting very close to what my own staff has been trying to impose on me for some months now. Both the demand-pull and the cost-push forces, we think, are very much at work. Let me give a few examples [from] our recent visits with businessmen in our area and our directors. They [talked about business in terms such as] "extremely good" or "booming." Tourist business in our area is the best since l973. Offshore gas and oil business is booming. Office space in several areas is tight. Trucking in [unintelligible] the Teamsters; trucking can't handle the business. This is translating into enormous inflationary expectations in calculating the new decisions being made, and expectations, of course, are translating already into calculated high interest rates. If indeed there is a slowdown in the last quarter of this year, or even early next year, many of our people will have miscalculated that. We would have to associate ourselves on the side of [believing that] the risk of the economy moving too fast is very real.

CHAIRMAN MILLER. Thank you, Bones. Tom Williams, it's nice to have you with us.

MR. WILLIAMS. Our directors would agree with Mark Willes and Phil Jackson in that they are very concerned about inflation. They are very concerned about the large government deficit and the lack of concern of some in Washington about this deficit. Also, our staff would agree with Henry that the March 6.2 percent unemployment rate places us within the zone of a fully employed labor force, which I think is a little bit different from the staff [view]. I also want to ask a question about the unprecedented growth of consumer debt and whether this will have a dampening effect on consumer spending over the next few months.

MR. KICHLINE. I don't know about the next few months but I think that is a serious problem. In terms of looking at various sectors, I would rate the consumer area now as one that would have the most potential difficulty as we look ahead a year if economic activity slows. If you look at a repayment measure of debt burden, it is very high--at the high end of the range we have experienced in the last several years. Debt outstanding has continued to soar, particularly in recent months with the pickup in auto sales again. And looking ahead, we think that the current debt level, as well as some further drifting up of debt repayment burdens, will have a dampening influence on consumers' willingness to spend.

MR. WILLIAMS. Thank you.

CHAIRMAN MILLER. Paul, you have been very quiet.

VICE CHAIRMAN VOLCKER. And at this point there is nothing left to say, so I will just make a couple of very brief comments. The exchange rate forecast caught my eye, as it did some other people's here. I didn't like it much, both because I hope the forecast for the trade balance is too pessimistic and because I have substantial uncertainty as to how closely the exchange rate projection can be related to the trade balance at this stage, as has been mentioned. But I would just point out, if I read it correctly, what the projection implies about the rate of decline in the dollar against key currencies that we have had in the last six months. It depends upon how you weight it--what you assume has happened with the Canadian dollar and all the rest. I don't know what [the staff is] assuming but it strikes me that that kind of depreciation would present very serious problems of international financial stability. And if a projection of that sort did come about, I'd be a little concerned about it. I don't know how it is handled in these policy memoranda or whatever they call them in terms of staff projections. But that is the kind of sizable decline in the exchange rate that could have some self-fulfilling aspects to it.

MR. MORRIS. Paul, I would simply note that a year ago the staff projected a 3 percent appreciation in the dollar.

VICE CHAIRMAN VOLCKER. Well, I think the major burden here is that it is almost impossible to project anything very intelligently in this area. I wouldn't put any weight on any particular projection. So far as more general comments are concerned, I share the concern that has already been expressed about inflationary expectations in a sense hardening. I'll give you my own anecdote in that respect. I went out to hear Senator Proxmire give a speech to a group of businessmen in New Jersey the other day which he entitled "Things for the Future" or some such thing. He was making projections and the projection he seemed to feel most sure of and wanted to repeat most frequently was that the inflation rate was going to be 8 to 10 percent over the next three years. I am not sure that the audience thought that was an unreasonable projection. I do think the dilemmas have been very clearly spelled out for us. I don't think we have a problem that can be handled by monetary policy alone, to say the least. We do have many of the classic signs of a business cycle developing, as has been mentioned. The most serious part of that dilemma seems to be the inflationary hardening of the arteries of expectations.

MR. JACKSON. To rise to the defense of the staff, you may project the exchange rates intelligently; you just don't have to do it accurately. There is an important difference.

MR. TRUMAN. Could I just make one point?

CHAIRMAN MILLER. Don't be too defensive.

MR. TRUMAN. I'll try not to be too defensive. One of the reasons why we made the exchange rate forecast we did is that it is our belief that, for the market in general, expectations about the trade balance are similar to some of the views around this table if not [more optimistic], i.e., a smaller deficit. Therefore, to the extent the forecast of the trade balance is accurate, then that will force a very large division in expectations. The number, I think, is less important than the view that this forecast is very different from what is expected and, therefore, we are likely to get further pressure.

VICE CHAIRMAN VOLCKER. I would be the last to say that it is not going to happen. Who knows? If it does happen, it would be a very serious matter and I don't think it is at all certain at this point.

[CHAIRMAN MILLER]. I think some of the comments, Ted, were that if one looks short term, it seems that some factors may be distorting and [are being projected] further than they should. If that is true, then we come back in the cycle. Larry, I think you had [a comment].

MR. ROOS. Yes, sir. I can't add a great deal. We agree basically with the staff's position. We feel that average inflation for l978 will not be as high as the staff projects; however, we foresee a serious escalation in inflation as prices rise next year and the year after. I disagree, at the risk of making myself the most unpopular boy in the class, with some of the observations that were made. I do not believe that the responsibility for the predicament that we are in is necessarily attributable to the unions or to management, to the trade deficit or the depreciation of the dollar, or even to the Arabs. It doesn't accomplish anything to look at past procedures but I do think that monetary policy has to be filtered in as one of the elements of responsibility--or one of the elements of blame, if you want to put it that way--for where we are today. And I hope when we get to the next item on the agenda we will consider monetary policy and not--two years from now, as a result of an action we took today--blame [the consequences] on management or labor or the Arabs.

CHAIRMAN MILLER. Thank you. Let's see. We haven't heard Roger. Is there anything you would like to comment on?

MR. GUFFEY. I'd only say, Mr. Chairman, that our staff projections come very close to those presented by your staff here at the Board. There are a couple of areas that we have taken a look at that come out a little bit differently, and one is housing. We would agree with Phil Jackson that there may be a carryover through '78 and into early '79 that may add some real strength that is not evident in the staff's forecast. Secondly, we think the contribution of agricultural exports might be somewhat stronger. There has been an announcement that Red China is coming into our market for small grain, wheat principally. And if the attitude of that nation were such as to buy rather significant amounts in our markets, it could make a substantial difference in our trade balance.

In summary, I feel that the staff's forecast is reasonable to the extent that it goes. But contrary to Governor Coldwell's feeling, we think there may be strength that moves on into l979. And that is not terribly good because that level of economic activity, coupled with the inflationary pressures, is all going to come crashing together. And we should be mindful, as we set monetary policy for the period ahead, that a year ahead inflation is going to be a self-fulfilling prophecy in our part of the world.

CHAIRMAN MILLER. Bob Black, do you have anything to say?

MR. BLACK. I don't really have anything, Mr. Chairman. We are fairly close [to the staff's projection] except that we too believe, as Governor Coldwell suggested earlier, that there will be less regular increases and [perhaps] a little more inflation, but all these things have been mentioned.

CHAIRMAN MILLER. Well, tomorrow I complete six weeks in my new assignment and in that period of time it seems to me that inflation has risen in the visibility of people as an issue. It seems that underlying everything we are saying today [inflation] is what is behind the changes in projections and a lot of the comments here. There are factors that would indicate the possibility of sustained moderate growth in the economy. The inventory situation is in good shape. The ratios are good. Depending on how you look at it and where you go in the country, the capacity utilization does have some slack. Employment we can debate about but we shouldn't forget that we have a large number of people--almost a million--parked in public service jobs that might be flushed out into the other labor force if the economy needed them and there was a demand for them. And capital spending hasn't yet recovered in real terms to where it was before. So those are all factors that would allow for continued moderate growth without unusual pressure.

But contrary to that are the effects of inflation that would show up in interest rates and in housing--and therefore possibly a decline in housing. Capital spending may not ever get to be as well as we project if interest rates move ahead because businesses do act a little on their expectations of costs and prices; when they are uncertain, they hold back. And the international situation could be a destabilizing force for growth. So I think we have a mixed situation, with a possibility of continuing at moderate growth rates through the forecast period. And I would concur that those growth rates, short term, are going to be rather vigorous and may tempt us to believe that we have a very strong economy when I would see other factors moderating growth. I look at the slower growth rate absent the peculiar bulge of the second quarter, which [reflects] some activity shoved forward from the first quarter. I take that back out. As you know, last meeting and this meeting I have been looking myself at more moderate growth. I was under the projections of the staff last time in my own views and would still believe that we are looking, except for the second quarter situation, at a moderate outlook.

I would suggest that we take a coffee break and when we return we will turn to the question of do we believe in monetary policy.

[Coffee break]

CHAIRMAN MILLER. I would like to compliment the staff for the presentation this morning. I thought it was excellent; I could understand it, so obviously it was excellent! I usually come to these briefings and I don't understand them. It is nice to have it put in simple economics that I can understand. Thank you.

Now, as a prelude to considering the long-run ranges, I've asked Steve if he would give just a few of the pros and cons on some possibilities. As you know, in the Bluebook on page 5 some alternatives are presented.

MR. AXILROD. Thank you, Mr. Chairman. I might first make three small statistical points of background and then present some of the various arguments that the Committee might wish to consider on whether they wish to lower, raise, or maintain the existing long-run ranges for the aggregates. As background I might first mention that actual growth in the first quarter of l978 for M1 was at a 5.1 percent annual rate, around the middle of the range currently in place. Growth in that quarter in both M2 and M3 was near the lower limits of their ranges, however. For the year ending with the first quarter of l978, the year just past, growth of M2 and M3--because of this drop-off in the first quarter--was within the ranges applicable to that period, which had been established in April l977. M2 over this past year expanded 8.6 percent and M3 10.4 percent. The ranges had been 7 to 9-1/2 for M2 and 8-1/2 to 11 for M3. Growth in M1 in the year just past was at a 7 percent rate, which was somewhat above the 6-1/2 percent upper limit for that range that had been adopted earlier. Thus the slowing of growth in the first quarter is starting to bring growth of the aggregates back into their ranges. And M2 and M3 growth over the quarters ahead could even fall short of the present ranges if short-term market rates stay at or rise from the current levels. In light of that risk, the staff has built in upward adjustment in the Regulation Q ceiling rates sometime in the summer in the projections that are presented in the Bluebook.

I would like now to suggest some of the arguments for and against lowering or raising the existing M1 range. There are about three arguments for lowering the M1 range--three important ones. One is that it would add credibility to the Administration's determination to curb inflation. Second, of course, it would be in line with the Federal Reserve's effort to reduce monetary growth rates gradually to those consistent with reasonable price stability. And third, I believe a lowering of the range would enhance the international value of the dollar and to that degree would be anti-inflationary.

There are, however, also compelling arguments for raising the existing M1 range or its upper limit. Given upward cost pressures that are presently built into the economy, economic growth sufficient to reduce unemployment further may require expansion in M1 at or above the 6-1/2 percent upper limit. Secondly, if M1 growth is to be 6-1/2 percent or less over the next year and GNP expands by around 12-1/2 percent, as the staff projects, income velocity of M1 will have to rise by about 6 percent or more. However, the income velocity of M1 in the most recent two years of this expansion--that is, in the last two of the 3-year expansion--has increased only by 2-3/4 to 3 percent in each year. That was at the low end of the range of experience in similar stages of previous expansions. Thus, the recent shift toward less velocity growth suggests the need for additional money growth.

There are also arguments for maintaining the present M1 range, of course. An increase in the range, under current conditions, would erode the credibility of the Federal Reserve's determination to curb inflation and would not appear supportive of the President's anti-inflation program and it might increase inflationary expectations. On the other hand, a reduction in the range would not provide for adequate money growth to finance the desired expansion in real economic activity given built-in price pressures. Finally, on this point, I might mention that the present range does contemplate a slowing in actual M1 growth from the relatively rapid pace of l977. Such a slowing, if accomplished, will work against accelerating inflationary forces and lay the basis for a lessening of price pressures later. And of course, it is the actual behavior of M1 rather than the targeted behavior which does affect the market view.

Finally, I would like to make just three or four points, Mr. Chairman, with regard to M2 and M3. These ranges could be lowered slightly in adjustment to the continued relatively low growth in the interest-bearing deposit components of M2 and M3. A second point, on the other hand, is that a reduction in the ranges, especially for M3, would raise questions about the adequacy of credit to finance borrowers who rely on institutional sources [of funds]--particularly home buyers. The Committee may also wish to bear in mind that the midpoints of the current ranges, at 7-3/4 percent for M2 and 8-3/4 percent for M3, are well below average annual growth rates in these aggregates since l97l. In the case of M2, the growth rate is only about l/2 percentage point above its average annual rate of increase from l965 through l970, a period in which growth was sharply curtailed in the two credit crunch years of l966 and l969. Finally, the same point with regard to velocity of M1 also applies to the velocity of M2 and M3. Those are the considerations I had, Mr. Chairman.

CHAIRMAN MILLER. Well, gentlemen, normally I would like to add my analysis but Steve has said it well. My personal reaction is that, considering all the pluses and minuses, I believe it would be prudent to maintain the current ranges at the present time. That is my own reaction to the situation. There is one aspect I would call to your attention and that is that in the past we have been reporting these ranges to the Congress on M1, M2, and M3. In the Federal Reserve Reform Act there is reference to reporting on monetary and credit aggregates, so I think we would be wise to look at bank credit and make that a formal part of our proceedings. We could include that also and be more consistent with the language of the Act. Before the Federal Reserve Reform Act we were dealing with a resolution that did not have the effect of law. Now we are talking about the law and I think we ought to be more in compliance with it. As you know from the materials that were circulated, Senator Proxmire also wants us to deal with this debt proxy situation, which I am not all that excited about. But we are going to study it and at least get the analysis done. But I would feel that we should have four items for which to establish ranges: M1, M2, M3, and bank credit. Again, my suggestion would be that we live within the current ranges until the next quarterly meeting. Dave.

MR. EASTBURN. Time for discussion?

CHAIRMAN MILLER. Yes.

MR. EASTBURN. Well, I would like to support that, Mr. Chairman. I came prepared with that view and I think Steve's analysis was very helpful. It seems to me that some of the items that Steve presented were in the area of public policy and more of them were in the area of public psychology. We are dealing, it seems to me, with this credibility problem and we should concentrate our efforts on trying to get better performance with the targets than we have. Rather than aggravate our credibility, I think we ought to hold where we are on the targets and try to do better on the performance.

CHAIRMAN MILLER. Paul.

VICE CHAIRMAN VOLCKER. I would essentially support the same position, Mr. Chairman, particularly the point that David Eastburn just made. I think our priority at the moment is getting within the targets that we have instead of trying to play around with psychology in changing them. That has been the problem in the past year; in the past quarter we have been within them and I think we ought to try to extend that record. The only thing I would add, Mr. Chairman, is that I think there is a kind of economic logic for us to reduce the M3 range and I would be willing to do that if there is general support. I can also live with the present range so that you don't have to go through the torture of explaining all the implications of reducing the M3 target in this particular quarter. We might have to end up reducing it if this scenario is played out, but I would not be insistent upon it--although willing--at this time.

CHAIRMAN MILLER. I think intellectually one would want to see it lower but my feeling is that it is not worth the effort in terms of what we are trying to accomplish. Phil Coldwell.

MR. COLDWELL. Mr. Chairman, I have no real preference for movement. I came prepared to support a 4 to 6 percent range on M1 and 6 to 8-1/2 or 6-1/2 to 8-1/2 on M2 and I think those are the two principal items that we are looking at here anyway. We are playing a surface game in a sense, [in] that we are setting long-range targets and not meeting them. So I, too, am much more interested in the short-range side--the attitude and actions of the Committee--than I am the long-range side. So I don't really object to the status quo.

CHAIRMAN MILLER. Okay. Henry.

MR. WALLICH. I would be satisfied to stay with M1 as it is. I would, if possible, cut back M2 and M3 simply to accommodate to the degree of disintermediation. I don't think that means a great deal for the actual liquidity of the economy because the people who no longer hold M2 or M3 hold something else as a liquid asset. It does mean something for housing to us because it affects the flow into the institutions that finance housing. I agree that we ought to be concerned with getting within our targets; we have overshot each of the last five targets but one. We are outside all those except the most recent one and that shows that we have pumped quite a bit of money into the economy. I would recognize the argument that Steve put forward--that if nominal GNP rises, a constraint on money growth means something different in terms of financial pressures. One can't deny that. On the other hand, if one were to follow that thought out to its ultimate conclusion, one would always be accommodating inflation. And the higher inflation goes, the more money we need. That surely cannot be the policy that we want to follow. So as a practical matter, I would expect that if we stay with the existing M1 range we may find ourselves pushed toward the upper end of the band and maybe even above it, but we should at least make an effort to hold it there. Cyclically I think that is the right thing to do and I think it is also the right thing to do in terms of the considerations that Steve has mentioned on the side of either reducing or holding on to this level.

CHAIRMAN MILLER. Thank you. Bones.

MR. KIMBREL. Mr. Chairman, philosophically I'd like to see us reduce [the range]. Maybe your comment that it isn't worth the effort at the moment [is right], so as an alternative I would hope that our performance does indeed take us within the ranges and that we make an earnest effort to accomplish that. [Unintelligible] suggestion that some of your early comments might include with reference to the fact that we are going to make an added effort to keep within these ranges. With that I would be inclined to maintain them as they are.

CHAIRMAN MILLER. Chuck.

MR. PARTEE. Well, I would support leaving the ranges where they are, too. But I do want to point out that the implication of that is that we will have a good deal tighter money than we previously were thinking about because if everyone agrees--and I think virtually everyone did --that the inflation rate is likely to be higher, the chances are very strong that nominal GNP growth will be higher. If that is so, it is going to be very difficult in the case of M1 to stay within this 4 to 6-1/2 percent range. And it is going to imply very much higher interest rates as the spring and summer go on than we have had. Now, M2 I think we are safe enough in leaving where it is because I would point out again that there are quite a few time deposit components of M2 that are not subject to interest rate ceilings and they have been growing quite rapidly and will probably continue to grow quite rapidly. So that I think we can do. It probably would be theoretically most appropriate to cut M3 although we were told last week, Phillip, that the S&Ls are going to start to push--and the Home Loan Bank Board is going to encourage them to push--the sale of large CDs, which are also not subject to interest ceilings. So if they are successful in marketing these, that might mean that M3 will do a little better than the staff is expecting. So I think I would prefer to leave it and to fall low and to say afterwards that we fell low because the interest rates that were being paid by the thrifts were not high enough to be able to compete in the market circumstances. I would stay with [the current ranges] but I do want to point out that it means in all probability a very substantial rise in interest rates as the spring and summer go on.

CHAIRMAN MILLER. Phil Jackson.

MR. JACKSON. I would support leaving the ranges where they are and I do share the same conclusion Chuck did about the consequences of doing so. For that reason, as we convey these to the Congress I would hope that our message would emphasize what leaving them where they are [means] in light of current and prospective economic developments for prices, production, et cetera. Whether we do that in Arabic [numerals] or in English, in either case the consequences are for a substantially more restrictive monetary policy than has previously been the case--even with the same [numerical] expression of the long-term ranges. I think it is important that we convey that to the public at the time those ranges are put forward. I would like to ask just a factual question. I believe that projections of bank credit are important, but which number are we going to use--month-end or monthly average? Would somebody on the staff tell me which one we are focusing on?

MR. AXILROD. Well, we have been actually using the month-end in developing these. The monthly average is an average of Wednesday numbers at the moment and I don't think it makes any substantial difference over the 12-month period for those two measures. This is not the bank credit proxy, of course.

MR. JACKSON. Which one would you prefer we address ourselves to when we discuss the issue at the table?

MR. AXILROD. I think it is better to have the monthly average just to avoid the little blips.

MR. JACKSON. I just want to be sure.

MR. PARTEE. Is 7 to 10 percent what is being proposed here?

CHAIRMAN MILLER. Yes, 7 to 10 is what is being proposed.

MR. JACKSON. It strikes me, given our most recent experience, that this again is a pretty restrictive monetary policy. In fact, it might be more restrictive than all these others put together. If we are serious about that as a goal of policy, rather than just a fallout of the other policy--

MR. AXILROD. Our projection of what is consistent with the [unintelligible] at 6-1/2 percent M1. And the somewhat higher bank credit, at 7-1/2 to 10-1/2, is our projection of what would be consistent with the existing ranges.

MR. JACKSON. In that case, Mr. Chairman, I would think that we ought to try to make that consistent under the circumstances. It strikes me that if we are going to be serious about looking at bank credit as an object of policy, then we ought to at least, to the extent we know how, have a consistent set of numbers.

CHAIRMAN MILLER. Steve, how would that strike you?

MR. AXILROD. I would see no problem with that.

CHAIRMAN MILLER. We didn't report that last time around.

MR. AXILROD. No, that isn't what is in the testimony.

CHAIRMAN MILLER. So we don't have the same problem of change. I wouldn't object to that if--

MR. JACKSON. It strikes me that that would be a wiser choice.

MR. BROIDA. It is in the public record--in the policy record.

VICE CHAIRMAN VOLCKER. There is something screwy between that alternative B and--oh, I see, one is current.

CHAIRMAN MILLER. It is in the policy record so the question is: Do we want to show an increase at this point? I don't feel strongly about it because I don't think it is one that is focused on. And I could certainly live with making that 7-1/2 to 10-1/2.

MR. PARTEE. The fact is that we can't do much about it if it comes through higher, so perhaps we ought to try to put it where it is likely to be.

MR. COLDWELL. It is likely to be there only in the first few months and it is a long way for a year's operation. I am not sure that 7-1/2, 10-1/2, or 6-1/2--or whatever figure you want to pick--is adequate.

CHAIRMAN MILLER. Well, let's come back to that in a moment. Roger.

MR. GUFFEY. Mr. Chairman, I would have no problem with reestablishing the ranges at their current levels. I am attracted, however, by what has become almost a tradition with the Committee to continue to move these ranges to a lower level. And I would like to suggest, if that were the feeling within the Committee, that it could perhaps be done without any great disruption--in view of the fact that you don't have to testify very soon--by lowering the lower ends of both M2 and M3 by perhaps a half percentage point and leaving the tops of the ranges where they are now. I think it could be explained away in your testimony on the basis of an anticipation of increased inflation, higher interest rates, and that type of thing and not an attempt to really squeeze credit in those two areas.

CHAIRMAN MILLER. Bob Black.

MR. BLACK. Mr. Chairman, my intellectual preference would be to go right down the line on alternative B. It would seem to me that the reduction in the limits on M3 would be a logical fallout of the updrift in interest rates we are likely to have if we continue our program of gradually lowering the aggregate targets in the long run. And it serves as an important reminder that we are still interested in fighting inflation. But I [understand] the points that you and Paul Volcker made very well comparatively early in our discussion--that it probably isn't worth the hassle to lower M3 and that we can probably handle things with the current range--so I believe I would go ahead and stick with that. But I think we ought to recognize that these ranges are predicated on the assumption that there will be an increase in Reg. Q and if that doesn't happen, we may not have as much growth as we are saying here.

CHAIRMAN MILLER. Mark.

MR. WILLES. Thank you, Mr. Chairman. May I ask a question before I make a comment? When you present the Committee's view on these long-range targets, do you envision making explicitly a statement to the effect that they're not being lowered but one of the reasons is because we intend to be more diligent in trying to actually come [within] the ranges that we have set?

CHAIRMAN MILLER. I have already made that statement; I made it to the House Committee when they asked me. It seems to me that our policy should be to set ranges and to be within them. That is our purpose and I realize that if we stick with our current one that we do have to take some restraining measures to live within the M1 range. I realize that.

MR. WILLES. But you would envision stating that principle publicly in connection with presenting these ranges? I think that is fairly critical because that is one of the few restraining influences on inflationary expectations that is left. I think that will be an important message and will come across importantly.

CHAIRMAN MILLER. Mark, if we want to be safe, to live within them I think Steve is right that we should raise the upper limit of M1. But the trouble with that is that it works against our purpose--to fight inflation.

MR. WILLES. That is right. I agree with that. I would like to make just one comment on the credit thing. I agree that we ought to live within the law. I wonder if it would be worth considering the context in which we present whatever credit figures we present. We never use those in these discussions as targets. I don't know of a theory of credit determination--or of bank credit determination--of prices or anything else. And if we are going to pass those numbers on, I think somehow we ought to do it within a context that indicates how we actually use or do not use those numbers so that the public isn't misled.

MR. AXILROD. President Willes, we were tentatively thinking of suggesting that you use wording [such as]: "Given the ranges for M1, M2, and M3, the associated range for bank credit would be…" to give it that slight dimension of not quite the same importance.

CHAIRMAN MILLER. Mark, anything else? Thank you. Larry.

MR. ROOS. Mr. Chairman, if we're going to make a strenuous effort to stay within the range and toward the midpoint of the range, there really isn't much difference between alternative B and alternative C. I would prefer alternative C just for one reason. I am not trying to be mechanistic and I know that a half point doesn't make that much difference. I do know that the long-term trend rate of money over a 5-year period is about 6 percent and I think that all of us would agree that there is a relationship between prices after a lag and a long 5-year or 20-quarter trend rate in the growth of money. And if we really want to gradually crank this thing down, I don't really see the logic in having an upper range above 6-1/2 percent, above the trend rate of money, because mechanically--and I am probably being overly mechanistic--if we moved it up that high we would be doing exactly what we don't want to do. But I would [agree with] Mark Willes's point of view that the real key to this is the strenuous effort to stay as close to the midpoint of either "B" or "C" as possible and I would opt for "C" just to be cantankerous.

CHAIRMAN MILLER. Bob Mayo.

MR. MAYO. Mr. Chairman, thank you. I support your recommendation of 4 to 6-1/2 and the other ones that go with it on the current ranges, with 7-1/2 to 10-1/2 on bank credit. I think that is advisable. I don't feel that there should be any change in this [M1] range. I think our credibility is better served by our determination, which everyone seems to agree here, that we get by being within the [4 to] 6-1/2 percent range rather than by changing the range at this point. We'd just become less credible if we change it on either side. The low side doesn't mean anything; it seems symbolic. On the upper side it would mean something and I think it would act against our credibility. I would emphasize Chuck's point again--and I believe Phil said this as well--it is a restrictive monetary policy stance that we have taken. And I think it is appropriate.

In our own discussions of this within the Chicago Bank we have come to the conclusion--it is obviously a speculative conclusion--about the line labeled 5-1/4 percent M1 growth rate, which is the midpoint of the present range and the suggested range. The projections of selected economic and financial variables seem more comfortably associated with a 6 percent than a 5-1/4 percent [rate of growth in M1], as we look through all of these figures. So I am merely making perhaps an intellectual point that I approve the 4 to 6-1/2 range, with my interpretation that 6 percent is about as low as we can get and still maintain what I [believe] to be sound economic goals. But that is within the 4 to 6-1/2. It is merely a rationalization of my position and it need not be anything that is exposed to the [Banking] Committee. But I favor the 4 to 6-1/2.

CHAIRMAN MILLER. Thank you, Bob. Ernie. Before you speak, I want to welcome Steve Gardner, who has come in. I will tell you, Steve, that we are right in the midst of setting the long-term ranges and we were being very imaginative by trying to keep them where they are--which I might add will be very tough in terms of the current outlook for inflation.

MR. BAUGHMAN. Mr. Chairman, I came here with views very much like those Phil Coldwell has mentioned. But I agree that staying where we are--if we in fact do it--on the aggregates will probably give us a significant tightening of credit. The difference [relative to my view] will be very small, so I can ride with your proposal to keep the ranges that we now have.

CHAIRMAN MILLER. Thank you. Willis.

MR. WINN. Mr. Chairman, following upon Mark's question: Does [Congress] get you in any way into the short-term targets at the same time they are talking about the long-range targets?

CHAIRMAN MILLER. We have not discussed the short-range targets and we do not plan to do so because they are not released until three days after the next meeting. So the only thing they might discuss is why we had the short-term ranges from the March meeting. I might get questions but we would not normally be volunteering in our testimony any comments on the short-run ranges. And we will not discuss the ranges set today.

MR. WINN. It seems to me that that gets you quickly into Chuck's problem of suppose we have to very quickly--

CHAIRMAN MILLER. We have the Merrill case we have to worry about the same day; we may face it. In this go-around of testimony, we will not be addressing short-term ranges other than questions they might ask about the past.

MR. WINN. I concur with your [recommendation].

MR. WILLIAMS. Yes, we would advocate staying with the current ranges.

CHAIRMAN MILLER. All right. Frank, did you have anything to add?

MR. MORRIS. No, I support your recommendation.

CHAIRMAN MILLER. Steve, did you have any suggestions? We're talking about staying with the current ranges. I'll make a comment in just a moment about the bank credit part of it.

MR. GARDNER. No, I don't have any difficulties [with that].

CHAIRMAN MILLER. I think every member has been consistent with this except perhaps Henry. I am not sure how strongly you felt about reducing M2 and M3. My suggestion, to recap, would be to stay with the current ranges for M1, M2, and M3. And from Phil's comment, which I think is a good one, we'd set the bank credit at 7-1/2 to 10-1/2. Now, Henry, would you be able to vote for that?

MR. WALLICH. Yes, I can vote for that.

CHAIRMAN MILLER. Is there anyone who can't vote for that? Then we have a [unanimous] vote. Thank you very much. The next item of business is the continuing discussion of how we handle these quantitative expectations for real GNP, prices, and the unemployment rate, consistent with the long-run ranges for the monetary aggregates. We know we have some problems. If I were giving my personal view today, I think you all know the issue so I won't repeat it. We have had a couple of excellent letters which have been circulated. I appreciated those letters; they were helpful. If I were giving my own estimates for the second quarter of l978 to the second quarter of l979--that would be our first-quarter-to-first-quarter [figures], I would be looking at real GNP in the 4 to 4-3/4 percent range. That means fairly slow growth after the second quarter. I would look at unemployment as 5-3/4 to 6 and I would look at inflation as 6-3/4 to 7-1/4.

The question before the house is: Would it be your desire for us to seek a consensus of the FOMC and for me to report to the Congress on the consensus? That consensus might say that all or most of the members fell within these ranges, two members thought it should be higher, and one thought it should be lower. It would be that kind of comment, which opens up the possibility, particularly for Henry Reuss, [to say]: "Send me the names of the people who felt that way." That may be a good idea or a bad idea. He backed off that, however, in my recent testimony when I said that I thought that would be inappropriate because it would be impossible to get an open discussion if people thought they were going to be called before Congress to explain every little quiver and quake. The other alternative is for me to make these my own personal observations and report them accordingly. The other alternative, of course, is to consider this an official action--that is, as ranges of the Committee. What is your pleasure? I am looking for guidance.

MR. BLACK. Mr. Chairman, I would continue exactly as you have done in the past. I think they will try to play us off against each other.

CHAIRMAN MILLER. I understand. Philip Jackson.

MR. JACKSON. I think that is the only answer. I believe that ultimately washes out when you get through with it. I do think it is possible in our testimony to give descriptive phrases rather than arithmetic ranges that would indicate the substance of the discussion of the Committee--that the economic activity might be a little slower or that we see an acceleration of inflation or that production is likely to slow. And maybe we can even use adverbs to describe the verbs, if I can put it that way. But I think trying to get a consensus even on ranges puts us in an awful dilemma. Among other things, I would think that the consequences of such [a procedure] would be to impose on each of us the duty to make personal and private arithmetic projections.

CHAIRMAN MILLER. You'd rather me have that burden!

MR. JACKSON. I'd rather nobody do it, but considering the lesser of the evils, if I can put it that way, I think it certainly would be appropriate for you. If you feel that under the duties of your office you are going to be called on to make such [projections] you can be as extensively prepared and as meticulous as you wish to be even in the form of saying: "Mr. Chairman, I'll just submit this for the record. Here is my personal private projection of what I think the economy is going to do." I would not object to that if that is the way you prefer to do it. But I think it would be a mistake for the Committee to have either a consensus or [something else] that focuses on arithmetic projections.

CHAIRMAN MILLER. John.

MR. WILLIAMS. I don't think there is any big advantage one way or the other. However, monetary policy is a consensus of the Federal Open Market Committee and, therefore, we would urge the consensus view--provided you use the name Balles rather than Williams if they ask you the name!

CHAIRMAN MILLER. Of course, we do on the monetary side have the vote of the Committee; and it is only on GNP and inflation numbers [that we do not]. Mark.

MR. WILLES. I won't repeat anything I said in the letter; I would like to add two comments, if I may.

CHAIRMAN MILLER. I appreciated the letter; it was very helpful.

MR. WILLES. Thank you. First of all, I think we are accountable to the public for what we do. And if there is some fundamental thinking behind the policy positions that we take, somehow it seems right to me to put that out in the public domain. Second, many members of this Committee already put out forecasts of one kind or another in speeches they give or questions they ask and so on. So I have a feeling that we are not really giving away anything we don't give away anyway. Third and finally, I am a little perplexed by the argument that somehow if there were differences of opinion expressed that that can be used to divide us and be divisive and so on. The Supreme Court renders opinions without that problem and lots of other deliberative bodies do. I guess I just can't quite follow the logic which says that if we acknowledge what everybody knows privately--and that is that members of this Committee have different views--that somehow that can be used to either inhibit us or to damage the policy process. So I think there are some advantages to putting it out and I fail to see the disadvantages.

CHAIRMAN MILLER. Bob Mayo.

MR. MAYO. Well, I disagree with Mark on his last statement. I find that we live in a political world. And what I am willing to say informally in a speech in Chicago I am willing to say because I know that I don't have to make any formal justification of that to the Congress of the United States. I think I can give better speeches and I can [provide] more informal support for what we are trying to do in that way. I think it would be used against us. They love to play the figures game in various ways to try to bring out different points of view and so forth. Therefore, I enthusiastically support the idea of your giving your personal forecasts and giving them in writing and with whatever qualification you want to give.

CHAIRMAN MILLER. You all saw my last letter, I take it.

MR. MAYO. This may be unfair for one of us to say, but I think this is perhaps one of the burdens of being Chairman of this Committee. Someone has to speak for the Committee and I think doing it--

CHAIRMAN MILLER. Somebody has to be available to go to jail!

MR. MAYO. Well, sure. That's right. We have all been in that position in different parts of our life and no one has been to jail as far as I know.

CHAIRMAN MILLER. Thank you, Bob. Philip Coldwell.

MR. COLDWELL. Mr. Chairman, I think I would support the idea for you to continue to give your private thoughts and views on this. The harder and more formal these become I think the more the Committee is going to be forced into a position on this. We may end up quibbling among ourselves and having outliers. In just the figures you have named, for example, you said 5-3/4 to 6 percent for the unemployment rate and I would put a 6-1/4 [on the top] partly because I think you have your range too narrow. You might not want to be too tight on the package. These are quibbles. And maybe if we got down to the point of debating this around the table and going through the exercise we did last time, then we might come up with a reasonable consensus and those who were outliers would have to be outliers. But I do think that the more formal this becomes and the more it becomes a position that the Federal Reserve has a forecast--whether you put it out on your own or the public merely perceives it as the Federal Reserve's forecast--the more we have to be careful.

CHAIRMAN MILLER. Henry.

MR. WALLICH. I share Phil's views. I think it is not conducive to good policymaking to be put in a position of having this kind of forecast. It isn't quite clear to me whether it is a forecast or a target. Presumably, it would be the latter. I wouldn't want to have an unemployment target of 6 percent even though it might be my forecast. And I wouldn't want to have an inflation target of your numbers and my own [forecast] would be a little higher. So I think that the way you achieve agreement in this group is not to argue over the various real sector numbers which, of course, we could multiply very considerably; it is not only these three. We can agree on a proxy for what kind of policy we have in mind. That is what we are doing and that is what is relatively easy for a group to agree on--the aggregates or interest rates. So my inclination is to stay as far as we can from having either projections or targets of a quantitative kind and to make whatever you say as much yours as you can.

MR. COLDWELL. Can I mention one other thing? I don't remember exactly what your figures were that you surfaced to the [Banking] Committee last time.

CHAIRMAN MILLER. They were consistent with this except on inflation, which was 6-1/2 percent.

MR. COLDWELL. That was my recollection. That exactly portrays my point. These are going to have a track life of their own and you will have yourself in a ruler graph of the economy coming down the [pike].

CHAIRMAN MILLER. I feel comfortable in saying that I think inflation is worse now than it was three months ago and worse three months [ago] than it was before that. Your point is well taken. Paul.

VICE CHAIRMAN VOLCKER. I feel quite clear in my mind, Mr. Chairman, that we don't want a Committee forecast as such. We don't want to try to get a consensus and say that this is the official position of the Federal Open Market Committee. We probably couldn't do it anyway. I do think there are some pluses and minuses in giving a kind of informal analysis of the range of opinion in the Committee; I feel myself a little closer to John Williams and Mark Willes in that circumstance. Particularly, I think there is some strength in showing some diversity on the Committee in the outlook--a particular strength if they happen to agree on the policy despite some disagreement on the outlook. There is nothing more deflating to the politician who wants to attack you to say even the fellow that feels a little differently about the business outlook fully agrees with the policy that is being adopted in the short run. If he doesn't agree, it is on the record anyway so you have--

CHAIRMAN MILLER. We have twelve [differing views] on the outlook for the economy and a unanimous vote for monetary policy.

VICE CHAIRMAN VOLCKER. I can imagine that happening. I don't want to project today. I could imagine some difference in the rate of growth a year from now that isn't reflected in a difference of opinion on what we should be doing today. I would think that might happen quite frequently, as a matter of fact. But anyway, I think the right compromise is that you probably should emphasize your personal view but I wouldn't be allergic to indicating in an informal way that there is, in some cases, a range of opinion on the Committee. We do this now in the policy record or whatever we call it and I think extending that same kind of qualitative commentary occasionally to your testimony isn't going to hurt anything; it may help. But I'd keep it pretty informal.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. I would assume, Mr. Chairman, that if you felt that your testimony on the economy was way out of line with everybody else's view that you could put that in some kind of context.

CHAIRMAN MILLER. I will say that I will let you know each time what I am thinking. If you think it is way out of line, whistle. I don't think a quarter of a point is a big deal but if you really thought we [had big] differences I would like to debate it because I don't want to get at variance with a middle range.

MR. EASTBURN. Well, with that kind of assumption, it seems to be perfectly reasonable to continue with your own views.

CHAIRMAN MILLER. I think I will bring you in on what I am thinking each time. That way you won't be surprised and you will have a chance to suggest, as Phil did, that maybe I ought to widen a range. It won't be locked up until we prepare the testimony, so I am open to arguments or even persuasion. Chuck.

MR. PARTEE. I think I agree with Paul that the formal expression ought to be a personal view but that informally you can certainly indicate the range of diversity in the Committee or a general consensus of the Committee [if our views are] not far different. The reason I think the formal expression should be personal is that I think you will be better able on your own to handle the projection of recession that will eventually come than have it be a Committee vote, so to speak, that a recession is in prospect. [The latter] carries with it policy implications in the minds of many Congressmen. So I think there is great difficulty in that. I also don't think that we are a particularly good forecasting panel. So we shouldn't get into the business.

CHAIRMAN MILLER. Willis.

MR. WINN. Mr. Chairman, I think the statement you made earlier about your changed opinion in the last six weeks is essential, really, to a forecasting episode. The only way you can forecast successfully is to keep forecasting because the scenario changes on you and all of the underlying assumptions that you have made in the outline you have sketched for the year ahead can change very drastically in the period. I would keep it on a personal view with the thought that you are going to change your mind over time. If it becomes institutional--and nobody has a very good record on that sort of thing--you are going to find that policy then becomes a matter of Congressional concern because difference is what they are aiming at for the short term versus the long term. And I think you will get yourself involved in problems you really don't want to take on at this time.

CHAIRMAN MILLER. Steve.

MR. GARDNER. I will put it very simply. When you testify you will, I am sure, indicate that you have discussed all these measures with the Committee and, therefore--

CHAIRMAN MILLER. And having listened, I've come to this personal judgment.

MR. GARDNER. Yes, that whatever you've come to, you have talked it over with the FOMC. Now, that doesn't indicate exactly how far you would go in saying three members disagreed on the low side and two members were very much [higher]. I wouldn't do that. That is terribly dangerous. We will all be testifying on our own forecasts. Having expressed the projection, I think if you made it very clear that you talked with the full Committee and had gotten their views, then I would feel more comfortable about it.

CHAIRMAN MILLER. Thank you, Steve. Roger.

MR. GUFFEY. I would feel fairly strongly that it should be your personal views. I don't think much can be accomplished by way of expressing a "corporate" view. You are not going to satisfy Chairman Reuss or those like him. The next step would be to ask to come into this room and then participate. I think a line has to be drawn and your expressing your own views is as far as it should go.

CHAIRMAN MILLER. Bones.

MR. KIMBREL. I share, Mr. Chairman, the consensus that seems to be clear that the views expressed be yours. It would avoid the potential at least of having a Babel in the house.

CHAIRMAN MILLER. Frank.

MR. MORRIS. Mr. Chairman, I think if you can get away with the procedure you used last time of presenting your own personal view--and I like the idea of presenting a range rather than a point projection--fine.

CHAIRMAN MILLER. Really? I'll come back [to that].

MR. MORRIS. If you find that you can't, then I would be much less fearful than some of the others around here of the consequences of presenting to the Congress a consensus point of view and indicating that we have two members of the Committee who think it should be lower and three who think it should be higher. I think Arthur Burns had this feeling that the Federal Reserve always had to present a monolithic view to the Congress or all hell would break loose. I always thought that was quite unrealistic. I know that in the past few years there have been occasions when some of the Presidents were called up before Congress to testify. And the whole Board and the Board's staff--everybody around here--was absolutely terrified that they would say something that would somehow get the Chairman in hot water. That didn't happen. Even when we had a renegade from St. Louis in the group who said some things that made Mr. Burns unhappy, nothing really happened as a consequence of this.

MR. ROOS. Point of order, Mr. Chairman!

MR. MORRIS. So I have always thought that this idea that we had to present a monolithic view and that any differences--this whole idea of playing one against the other--is gravely overdrawn. If it should happen that sometime the Congress invites all the members of the Committee for, say, two or three days of hearings to hear everybody's view on the economy, I can guarantee it won't happen very often.

MR. MAYO. Only one Senator will show up!

CHAIRMAN MILLER. And he will be asleep!

MR. MORRIS. If they really push you hard, I don't think you need to fear horrendous consequences from displaying some diversity of viewpoints.

MR. PARTEE. I agree with that.

CHAIRMAN MILLER. With all the times we are invited to testify, maybe we better get the Presidents testifying more often so we can spend more time working at the Board. Well, Larry, you are entitled to a rebuttal if it is short. We are running out of time.

MR. ROOS. I'll surprise everybody by agreeing totally with Frank. I think you exceed [what is necessary] if you go the whole way right at the beginning. There is no retracing your steps. I don't see any danger or any harm in ultimately being forced into having diverse points of view expressed, but I would let them drag you to that situation instead of doing it immediately.

CHAIRMAN MILLER. Ernie, you are the last I believe. We have heard from everyone [else].

MR. BAUGHMAN. Mr. Chairman, I have already expressed my view with respect to the procedure. With respect to the specific ranges, they are acceptable to me. My expectation is that the real economy and the price movement may both be a little stronger than [you indicated] but I wouldn't suggest that you change them.

MR. COLDWELL. Mr. Chairman, I don't think we are making this decision forever anyway.

CHAIRMAN MILLER. I wanted a procedure with your permission. I don't hear anyone who is objecting to my making personal projections for the time being. I hear people who say they would be comfortable if [Congress] moves us more into [providing a consensus of] the Committee, but I see no pressure to do that. So with your permission, I'll proceed accordingly. You will get the testimony; you will see it, and we will discuss it from time to time. And we will see what happens. Is that agreeable? So we will proceed accordingly.

MR. JACKSON. With regard to what you just stated, I would urge that in the testimony what is presented on behalf of the Committee be in subjective terms to describe the [various] things that the Congress proposes. It is only how specific you are in the ranges--

CHAIRMAN MILLER. Well, our records show moderate growth [in] all those things, but it is a question of when you get the numbers. Now we come to what we have all morning been waiting for--what we do about all of this.

MR. COLDWELL. Excuse me, Mr. Chairman.

CHAIRMAN MILLER. Yes.

MR. COLDWELL. Are you going to handle the question that was raised by Mr. Proxmire? Are you going to assign that Kaufman proposal to the directive subcommittee or to somebody to review?

CHAIRMAN MILLER. Yes, to the Subcommittee [on the Directive].

MR. AXILROD. The staff of the subcommittee has work under way on that

CHAIRMAN MILLER. So that will come forth and we will discuss it at some point.

MR. COLDWELL. Okay.

CHAIRMAN MILLER. On the domestic open market operations, Peter Sternlight has been waiting patiently and is now going to tell us about the operations since the last meeting.

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

CHAIRMAN MILLER. Thank you, Peter. We need an action to ratify the transactions since the previous meeting. May I consider that a vote? Any objection? Hearing none, that is approved. Any questions or comments on Peter's report? Frank.

MR. MORRIS. Peter, I don't think you ought to apologize to the Committee for failing to keep the federal funds rate absolutely stable during the 4-week period. I think we would be better off if we could design a little more instability into the funds rate--create a little more uncertainty in the market as to precisely where policy is. It seems to me, even though it occurred against your wishes, that the [result] was highly desirable.

MR. STERNLIGHT. I would agree with that, President Morris. I didn't think I was apologizing but just explaining the rates as they were and the action we were taking under the circumstances.

VICE CHAIRMAN VOLCKER. He is happier that it was on the upside than on the downside, I guess, particularly--

CHAIRMAN MILLER. It is more comforting to have it that way.

MR. BAUGHMAN. It is a little disconcerting that the explanation is that there was a [shortage] of bills available.

CHAIRMAN MILLER. It is a conscious effort on our part that collateral [unintelligible]. Any other comments or questions? Steve, if you will report to us now.

MR. AXILROD. Mr. Chairman, in view of the hour I think I would just note that the--

CHAIRMAN MILLER. Does that mean you are hungry and you are ready to go or something like that?

MR. AXILROD. I was assuming that the Committee members might be. I would just note that the Bluebook simply indicates that we now expect M1 growth to accelerate. That is our projection. And the short-run range, particularly for M1, that you see is well above the long-run range that the Committee adopted. This again reflects our view that nominal GNP is expanding rapidly. I don't think I really need to add much more to that at this point.

CHAIRMAN MILLER. Thank you, Steve. I'd like to give you a personal proposition, not intending to constrict your views but just to give you something to shoot at as a possible idea. If we are going to have any chance of living within our long-run range, we are going to have to tighten up here a little bit. I would suggest, therefore, the following possibility: that we accept for the April-May period the ranges shown on page 8 in alternative C, which for M1 is 5-1/2 to 9-1/2 percent and for M2 6 to 10 percent, and that we set the federal funds range at 6-1/2 to 7-1/4 percent. And [I'd take the wording] on page 3 for the directive, lines 43 and 44, which states that in the judgment of the Committee such growth rates are likely to be associated with a weekly average federal funds rate close to or slightly above the current level. That would, of course, give the Desk some possibility for a move in the direction that I think we need to move in--to begin to accomplish that. That is a suggestion. I am open to your thoughts.

MR. BAUGHMAN. Mr. Chairman, do you care to suggest whether you prefer a monetary aggregates or a--

CHAIRMAN MILLER. Oh, I'm sorry. By saying on page 3, I meant to suggest using the monetary aggregates. I meant to say 5-1/2 to 9-1/2, 6 to 10, 6-1/2 to 7-1/4, and use "close to or slightly above" the current level. Paul, you have a comment?

VICE CHAIRMAN VOLCKER. Well, I fully accept the implication of the earlier conversation and what you have just said--that we have to move here to tighten some. I guess my reaction to what you [proposed] is that maybe we ought to tighten that down even further.

CHAIRMAN MILLER. Even further? Well,--

VICE CHAIRMAN VOLCKER. Not necessarily in the size of the move, but in the way we specify these things. We just did a lot of talking about keeping within the long-term ranges and not changing them. I would much prefer to see these ranges set to straddle--they would be wider presumably because we are in the short run--what we agreed should be the longer-term ranges. That brings me for M1 at least--I think the arithmetic and the statistical noise in the series suggest a 6-point range if we're going to have 4 points on the M2 range--something like 2 to 8 percent. That's the way the series is drifting; it is more volatile. And if we're going to straddle, something like 2 to 8 seems to me the right range. We had 6-point ranges for several months. The 5-1/2 to 9-1/2 for M1 looks a little high to me. We could go along too easily, I think, going above the long-term range. The 6 to 10 also looks a trifle high to me. I would rather see that at 5-1/2 to 9-1/2 or even 5 to 9 and then just pinning down the federal funds a little closer. A range that I had in mind was 6-3/4 to 7-1/4--cutting off 1/4 point from where you had it--and probably going up toward 7 percent by the end of this week in view of the Treasury financing. I'd be very reluctant to go above 7 percent but if the aggregates get high enough, I would go above 7, which suggests an aggregates directive with some sticking point at 7 before going above it.

CHAIRMAN MILLER. Okay. Phil Coldwell.

MR. COLDWELL. Mr. Chairman, I find myself very compatible with what Paul Volcker just said. The 2 to 8 range seems terribly wide to me for M1 but I like the upper limit; the lower limit seems a bit low to me.

CHAIRMAN MILLER. Where would you put the lower limit?

MR. COLDWELL. Oh, perhaps a range of 4 to 8 or 3-1/2 to 8--something like that. M2 at 5 to 9 I could live with. The combination of the two I think is reflecting a restrictive position, which will mean--if the staff figures are reasonably close on this--that we will be moving the federal funds rate fairly promptly. I am perfectly willing to live with Paul's 6-3/4 to 7-1/4 for that. I could have 6-1/2 to 7-1/2, with a 7 percent midpoint on the package, which is the same as the midpoint that Paul has in the narrower range. I think there is some advantage to having a wider range on these things, so I really prefer 6-1/2 to 7-1/2. I think what this is doing is perfectly compatible with what I was saying [regarding] my expectations for the economy--that we are going to attack this inflation rate promptly and are likely to slow down the economy in the latter part of this year.

CHAIRMAN MILLER. John Williams.

MR. WILLIAMS. I have a feeling that I may be getting in over my head, but we voted today to maintain the same long-run target ranges. M1 and M2 have been within those long-run targets and, therefore, I have trouble figuring out why we don't set the same short-run targets that we have for the long-run targets.

CHAIRMAN MILLER. Steve.

MR. AXILROD. Well, the aggregates do fluctuate quite substantially from month to month. In the Bluebook, of course, we are not setting targets; we are just trying to estimate what is likely to happen given a particular interest rate pattern. That is why I tried to make a point that what we think is going to happen, if we don't change interest rates, is growth above the target.

CHAIRMAN MILLER. It is [something] like 10 percent for the month of April, you see. Unless we do something, we are going to get outside of our ranges.

MR. AXILROD. In general, the Committee might want to consider short-run targets different from the long-run targets because there are often special factors one could point to that this month are affecting the money supply especially, which might lead to offsets later. In this particular case, they are not largely due to special factors.

CHAIRMAN MILLER. Bob Black.

MR. BLACK. Mr. Chairman, my governing principle is what we said earlier. In light of the consensus that we need to get back within the targets, I think we need to take some tightening action. I remember quite well last year that we were faced with a tremendous bulge in the aggregates in April and we thought it was temporary and would be washed out. It did not get washed out as well as we would have liked it to have been washed out. So when we ended the year, we had pumped out more money than any of us thought we really should have. I don't think that was appropriate last year and it would probably be even less appropriate this year. So, I come down on this a little bit harder than anyone has so far. I would set the specifications for M1 at 3 to 7 percent.

MR. PARTEE. [Unintelligible] if you got zero.

MR. BLACK. That involves, with an aggregates directive, our beginning to move up from the [6-3/4] percent. We think we are going to have a reversal in May, which we may not have, of course. On M2, I would want to go 4-1/2 to 8-1/2 and for the federal funds rate 6-1/2 to 7-1/2 with an asymmetrical midpoint of 6-3/4. We would strongly urge an aggregates directive. We wouldn't want to support a money market directive at this time and we don't think a half point spread is enough for an aggregates directive. These specifications, of course, are not anywhere near what the staff has come up with. But we think that ours, on balance, involve a lot less risk of a repeat of last year's performance. And if we are wrong, then we believe the error can be corrected pretty quickly and easily by retreating to a lower federal funds rate at the May meeting. If the staff is wrong, resulting in excess growth in the aggregates, it may be much harder to correct. On the other point that was made by the staff on the wording of the directive--on page 2 in that footnote--I think that would be a desirable change to make. The only thing I would suggest that is different would be to leave out the word "help" in the third line from the bottom.

MR. COLDWELL. We might just want to delete lines 20 to 24, too; it is not a full picture.

CHAIRMAN MILLER. Phil Jackson.

MR. JACKSON. Mr. Chairman, while the thrust of the policy that I would have in mind is not substantially different from comments that have been expressed, I have a concern about making dramatic moves based purely on expectations and projections. As much as I admire the work that our staffs do, I just don't think that the results have been sufficiently accurate consistently enough for us to move monetary policy that strongly as the consequence purely of a projection. If we look at the calendar, we see that the 9.9 percent is based on two weeks in April thus far. So I really hesitate to do that. At the same time, having said that, I would think that if those projections prove to be correct, we need to move against them. For that reason I would support 5 to 9 for M1, 6 to 10 for M2, and 6-3/4 to 7-1/4 for the federal funds range. And I'd have the Manager move to the midpoint by May 1. Am I missing the Treasury's date on that, Steve?

MR. AXILROD. It's April 26.

CHAIRMAN MILLER. The 26th is the Treasury [announcement].

MR. AXILROD. If you were planning to tighten, it might be advisable to get it in motion before the announcements so the markets have a chance to revise their expectations.

MR. JACKSON. I don't think 1/4 point is sufficiently critical, so I would go ahead to the midpoint now. In other words, I'd rather err on the side of an increase.

CHAIRMAN MILLER. With an aggregates directive.

MR. JACKSON. Aggregates directive.

MR. PARTEE. We could wait and see what this week's aggregates look like.

MR. JACKSON. Yes, I wouldn't object to waiting until after Thursday to see what this week looks like. A whole week won't--

CHAIRMAN MILLER. Bones.

MR. KIMBREL. As I expressed earlier, Mr. Chairman, I feel strongly that the economy is already rebounding. And with the Treasury likely to actually be paying off some debt, I believe the time [to tighten] is here. I would support a gradual firming during this period rather than an abrupt move later on. The numbers that seem to attract me are 4 to 8 for M1, 5-1/2 to 9-1/2 for M2, and for the funds rate 6-1/2 to 7-1/2. And I'd move pretty promptly to the midpoint, with a monetary aggregates directive.

CHAIRMAN MILLER. Ernie.

MR. BAUGHMAN. Mr. Chairman, I think we should have a monetary aggregates directive and along with it, a funds rate range which centers on 7 percent. Now, I can go with either 6-3/4 to 7-1/4 or 6-1/2 to 7-1/2. If we go to the wider range on the funds rate, then I'd go with the aggregates of alternative B; with a narrower range, I'd use the aggregates of alternative C. My inclination would be toward the latter.

CHAIRMAN MILLER. Would you say that again, Ernie?

MR. BAUGHMAN. The "C" aggregates with a federal funds range of 6-3/4 to 7-1/4.

CHAIRMAN MILLER. Yes, that's 5-1/2 to 9-1/2 and 6 to 10. Dave.

MR. EASTBURN. I think we are all heading in the same direction; it is only a question of the specifications. I also get the impression that there is a tendency to be bold with the aggregates and rather prudent with the funds rate. I think we should try to be reasonably consistent.

MR. BLACK. There is a psychiatrist with us!

CHAIRMAN MILLER. Old habits.

MR. EASTBURN. I'd resist the temptation to slash the aggregates specifications. That is, [I'd favor] perhaps cutting another 1/2 point off what you had, Mr. Chairman, and make it 5 to 9 or perhaps 5-1/2 to 9-1/2--within that area. But I like your specification for the funds rate because it accomplishes something that I think has been highly desirable for a long time--that is, it widens the range and also provides amplitude to move up if these aggregates do come in strong.

CHAIRMAN MILLER. I'd put my midpoint at 7 in my 6-1/2 to 7-1/4. It is a very good midpoint. Chuck.

MR. PARTEE. I, too, think that maybe the time has come to make a move. And I think we ought to take advantage of the probability that April will be a month of large growth in the aggregates to do that. We need to have an explanation and I think that provides us with the explanation. Also, in a way I agree with Dave that maybe we ought to be a little bolder on the funds rate than has been suggested. And I agree somewhat with Paul that we ought to have a somewhat wider range on M1, though I don't think I'd go all the way back to 6 points from 4 points. Therefore, what I would propose, within the context of a monetary aggregates directive, is that we take a range for M1 that cuts just a little bit from alternative C on the downside. I would say 4 to 9 percent. I don't want to go as far as some have suggested because it does look as if April is going to be a large month and it is not reasonable to have something that is just totally outside the [figures] that are possible. And I would take 5-1/2 to 9-1/2, a 4-point range for M2, which I think is consistent with the M1 numbers that I gave and would mean about the same kind of deposit expansion as in alternative C. On the funds rate, I would say 6-3/4 to 7-1/2. I don't really think we want a funds rate below 6-3/4 and I don't think there is any sense in having a range that [goes below] that. My midpoint would also be 7.

CHAIRMAN MILLER. Mathematically I think it just works out that way.

MR. PARTEE. On my 6-3/4 to 7-1/2 percent range, I would move to 7 if this week the aggregates tend to confirm that April expansion of 10 percent. One other change I think I would make, Mr. Chairman, is in the directive in lines 27 and 28. I think it is a good idea to reverse the order of the longer-term objectives that we have at this point. What I would say specifically is "foster bank reserve and other financial conditions that will resist inflationary pressures while encouraging continued gradual economic expansion and contributing to a sustainable pattern of international transactions."

CHAIRMAN MILLER. It is good.

MR. PARTEE. It rather shifts the emphasis and yet it leaves in gradual economic expansion as one of our objectives.

SPEAKER(?). Did you mention an aggregates or money market directive?

MR. PARTEE. A monetary aggregates rather than a money market directive.

CHAIRMAN MILLER. Larry.

MR. ROOS. Yes, sir. [I favor] for M1, 4 to 8; for M2, 5 to 9; for the fed funds rate, 6-1/2 to 7-1/2; and an aggregates directive. I interpret that as not being bold but being momentarily responsible.

CHAIRMAN MILLER. Frank Morris.

MR. MORRIS. Well, Mr. Chairman, I like the Partee specifications of 4 to 9 and 5-1/2 to 9-1/2. I like the idea of our moving in anticipation of the bulge. It is going to be for the first time, as far as I know. I'm not quite as bold as Mr. Partee. I think we ought to instruct the Manager to establish a 6-7/8 percent rate by this Friday and to move beyond that only if he finds evidence that [the aggregates] are about to exceed the established ranges.

MR. PARTEE. Well, of course, he can't do anything for about a week around that financing and the 6-7/8 is really very little change.

CHAIRMAN MILLER. Frank, anything else?

MR. MORRIS. No.

CHAIRMAN MILLER. Steve, would you have any comments?

MR. GARDNER. I'd only say that I have listened carefully to Chuck and am supportive of his statement.

CHAIRMAN MILLER. Henry.

MR. WALLICH. I want to commend the staff for narrowing the aggregates ranges [shown in the Bluebook]. At the same time, I don't think a range of 6 to l0 with a midpoint of 8 is a very good way of getting to a 5-1/4 percent 1-year target. So I think we should hold these down in any event or treat them simply as triggers and not as particular rates of growth in the money supply that we anticipate. I would say 4 to 8 [for M1] and for M2, 4-1/2 to 8-1/2 since that 1/2 point seems to be the spread now. On the funds rate, I wouldn't like to see it go below where it is in any event because of international implications. I would like to see it move up fairly promptly before the Treasury financing so that any damage that might result falls on the government rather than on the innocent buyer who might feel that he had been misled. And I would like an asymmetrical midpoint with the 6-3/4 to 7-1/2--a 7 percent midpoint--and an aggregates directive.

CHAIRMAN MILLER. Thank you. Mark.

MR. WILLES. Thank you, Mr. Chairman. This is a strange day for me. I find that I not only agree with the staff but I agree with Chuck Partee almost in total.

MR. PARTEE. You did last time, too!

MR. WILLES. I know it. It really has me worried; I've got to go back and rethink my position!

CHAIRMAN MILLER. There has been a lot of that going around.

MR. WILLES. The only modification I would make is that I would be slightly more aggressive than some--but I think with the majority--in having M1 at 4 to 8. That simply forces us to be a little more aggressive on the funds rate if April and May come in strong. I very much like the 6-3/4 to 7-1/2 federal funds range and moving very promptly on the first piece of that.

CHAIRMAN MILLER. Okay. Willis, you haven't given us your views yet.

MR. WINN. Well, we are pretty much in agreement. I think it is probably important that the top of the range be down more than the bottom in terms of imagery and determination. And I remind you that we don't have to freeze these in stone for the month. We can come back by telephone and other ways to make adjustments. I think we have to feel our way along. The 5 to 9 or 4 to 8 is a move that would be agreeable to me on M1, and perhaps 5-1/2 to 9-1/2 on M2. And I would buy the [funds] range of 6-3/4 to 7-1/2. I wouldn't want to do that too specifically in terms of a move that is in a sense determined. I think we will be faced with Reg. Q [constraints] very fast. I hope we don't get backed [against] the wall before we [enact] that relief because once you are up to that ceiling any time you raise it you are up to the other ceiling. And I think it is imperative that we move on track as [much as] we can as this [firming] move starts.

CHAIRMAN MILLER. John, did you have any specifics you would like to mention?

MR. WILLIAMS. No.

CHAIRMAN MILLER. Roger.

MR. GUFFEY. I would adopt Chuck Partee's proposal. I would also, however, align myself with what Frank Morris has suggested--to take a small bite now and go to 6-7/8 percent immediately but to wait and be fairly cautious about moving on to 7. And I assume that if the aggregates begin to come in very strongly, we would delay moving to 7 until after the Treasury financing has been completed, which would be just about before this Committee meets next month.

CHAIRMAN MILLER. Well, Bob Mayo, you are the last one and you can, therefore, sum it up and tell us what we are really going to adopt.

MR. MAYO. Well, I am prepared to come full circle, Mr. Chairman. I came in with figures jotted down here that happen to conform exactly to what you started this discussion with: 6-1/2 to 7-1/4 on the federal funds range, feeling that some tightening should take place and some of it immediately, [and] I would say 5-1/2 to 9-1/2 for M1 and 6 to 10 for M2. I feel that we are trying here to struggle for an element of consistency with our short-run versus our long-run [ranges]. It really shouldn't bother us that much at this point, especially since we have quite a bit of the period already behind us. I, too, have great problems, as everybody knows, with the staff projections and the seasonals, and so forth. But I think Steve's explanation is valid here. And if you combine that with the fact that even with all the work we put in on the seasonal adjustments, we are still not too sure of ourselves, I don't see any reason why we can't have a 2-month range that is seemingly inconsistent with our long-term projections or ranges, given the assumptions for these months that fit in with those projections. So I come out the same way as you did, Mr. Chairman, and with an aggregates directive.

CHAIRMAN MILLER. Well, thank you all very much. Let me see if I can synthesize this quickly. I don't think we have that much disagreement. On M1, we have 6-1/2 votes for something below 5, one of which is 2, and the rest of which are 4. Therefore, it would look pretty consistent to put the bottom at 4. On the upside we are kind of split between the 8 and 9. If 4 is on the bottom, I suspect that 8 or 8-1/2 on the top makes sense--4 to 8 maybe?

MR. PARTEE. No, I wouldn't. I think we ought to go to a 5-point range.

CHAIRMAN MILLER. Well, I think that it is split pretty evenly. I would see nothing wrong with putting 4 to 9. Excuse me, go ahead.

VICE CHAIRMAN VOLCKER. I am just afraid of that low point and that high point. You get too high an average. The low point is significant only if you get an average of 3.

CHAIRMAN MILLER. Let's put down 4 to 8 for the moment. It is just for seeing where we come out here. We have Partee with 4 to 9 and a couple of others on the Committee agreeing with that and quite a few agreeing with it among the Presidents. On M2 it looks like the 5-1/2s have it. In other words, 5-1/2 to 9-1/2 appears to be the range that mostly shows up here. It almost looks as if there is a fairly strong consensus on a federal funds range of 6-3/4 to 7-1/4.

MR. COLDWELL. 7-1/4 or 7-1/2?

CHAIRMAN MILLER. Well, there is 6-1/2 to 7-1/2 and 6-3/4 to 7-1/2. There are more that would be 6-3/4 to 7-1/2. I think everyone was for an aggregates directive, as I read it. If that is right, the biggest debate is whether we should have a wider range on M1. Chuck.

MR. PARTEE. I think that is somewhat tied with the funds rate range selection. If you have a 4 to 8, Paul, that means--if that 10 percent [M1 growth estimate] holds up for April--that 5 or 6 percent in May would touch off the full use of the range to 7-1/2 percent on fed funds. And I really think that is pretty precipitous. So my feeling, Mr. Chairman, is that if we had an 8 percent top, I would want to [cut] another 1/4 on the funds range; but if we had a 9 percent top, I would be prepared to go up to 7-1/2 on the fed funds range.

VICE CHAIRMAN VOLCKER. Excuse me. May I respond to that? I have more or less the same feeling that Chuck does, but what bothers me is that I think 7-1/2 percent would be a big move. And I am not at all sure the Committee is ready for that move. You can tell me. I myself don't feel that we ought to make that move from 7-1/4 to 7-1/2 on the basis of only 1 percentage point difference in a highly volatile series. That is almost meaningless. I would want to be pretty sure that if we get up in that area--maybe go to 7-1/4--that another 1 percentage point [in growth of M1] doesn't drive me to 7-1/2. That is my problem. So I would stick with the 8 and stick with the 7-1/4 top.

CHAIRMAN MILLER. Of the members of the Committee, how many would prefer an 8 top on M1 with a 4 bottom, considering all this discussion?

SPEAKER(?). Just members, Mr. Chairman, or everybody?

CHAIRMAN MILLER. This is just an indication. Assuming a 4 bottom, how many of you prefer 8 on the top side? Members only.

MR. BAUGHMAN. It seems to me, Mr. Chairman, that a key part of the consideration is what funds rate range you hitch with it.

CHAIRMAN MILLER. All right. Let's go backwards then. Let's settle the funds rate first. There seems to be more sympathy for a 6-3/4 to 7-1/2 percent funds range. Would any voting member of the Committee find himself unable to vote for that?

VICE CHAIRMAN VOLCKER. Close. [I'd be] unable to vote for it, depending upon the interpretation. If the Committee would go casually--is really ready to go to the 7-1/2--I find that very difficult. You are really saying that you're putting it down for form. If you put down 7-1/2 [and say as] last time that there is going to be great resistance at 7-1/4, I guess I would vote for it. In that case we might as well say 7-1/4.

MR. EASTBURN. Paul, one way to resolve that would be to ask for a wire vote or something like that.

MR. COLDWELL. If we want to go beyond 7-1/4.

MR. JACKSON. Mr. Chairman, I happen to share that judgment, primarily because so much of the final action would be based on a projection rather than actual experience. That is what makes me nervous--going 75 basis points between meetings as a consequence of only very little additional knowledge than we have today. That is what concerns me. The bulk of it would be based on the projections for the last three weeks of May.

MR. COLDWELL. Mr. Chairman, could I suggest an interpretation? I suggest that we move to the 7 percent and accept 7-1/4 but go beyond 7-1/4 only on consultation.

CHAIRMAN MILLER. Well, if it were stated that way--6-3/4 to 7-1/2, with no movement above 7-1/4 without consultation--how would that sit with the voting members? Okay, that is what it would be there. Now we can move to M2. There seems to be a kind of consensus around 5-1/2 to 9-1/2. There are some 6 to 10s and some 4-1/2 to 8s, but most are around there. What is the reaction of the voting members on that?

SEVERAL. 5-1/2 to 9-1/2 percent?

CHAIRMAN MILLER. All right, that's 5-1/2 to 9-1/2. Then we have the M1 question left. Let us put it in terms of having that range as our objective on federal funds, what do we think of a 4 to 9 percent M1 range? Would that be satisfactory to everyone? Mark.

MR. WILLES. If we have in effect made 7-1/4 the operational top, it seems to me that the 8 percent top would be satisfactory.

MR. COLDWELL. We could take 4 to 8-1/2 for a split.

CHAIRMAN MILLER. Yes, we could split it. I am afraid of getting caught [in terms of] what really happens in aggregates. I don't know. I am a little nervous that if we get it down to 4 and find ourselves--

MR. WALLICH. We have protected ourselves by that consultation at 7-1/4.

CHAIRMAN MILLER. Yes. Well, how about 4 to 8-1/2? Is that all right?

SEVERAL. Sure

CHAIRMAN MILLER. All right. We have, therefore, 7 as the midpoint and consultation above 7-1/4. On the directive itself we have a few suggestions. I would like to review them and see if we are all in agreement. One suggestion is that we actually cut out lines 20-24. I did not read them carefully. Does that do anything of detriment to the directive?

MR. PARTEE. Yes. Then there would be no M1 reference.

MR. COLDWELL. There is no M2 reference either; it is a very balanced paragraph.

MR. PARTEE. Well, I just don't think, I can't ever recall a directive that didn't refer to M1.

MR. COLDWELL. There are all sorts of [references to] M1 below that. This is just the historic past now.

MR. PARTEE. But I still don't--

CHAIRMAN MILLER. Yes, M2 is the second sentence, isn't it? What is the sentiment?

MR. PARTEE. I would be very much opposed to taking it out.

CHAIRMAN MILLER. Does anybody else want to take it out besides Phil? Then we will leave it in. Then on the lines beginning at 20--the footnote--we will do the switching around of the language that I think Chuck Partee [suggested]. Did everyone note that?

VICE CHAIRMAN VOLCKER. May I make a comment on that, please? As I heard it, Mr. Chairman, "gradual" to my ear just sounded very slow.

CHAIRMAN MILLER. Why don't we just strike the word "gradual" and say "while encouraging continued economic expansion"?

VICE CHAIRMAN VOLCKER. Well, I thought of the word "moderate" in there. It doesn't sound quite so slow as "gradual" to me.

CHAIRMAN MILLER. Is "moderate" acceptable? Then the figures we all discussed, and the other thing is to take the footnote on page 3. That one line, "the associated range for bank credit is 7-1/2 to 10-1/2 percent" we put up in the text. And we have line 43 saying "a federal funds rate close to or slightly above the current level." Do we have a directive?

MR. BLACK. Could I have one point of clarification? Is it understood that we would go promptly to 7 percent?

SPEAKER(?). Yes.

MR. JACKSON. I am not sure that is consistent with that sentence.

VICE CHAIRMAN VOLCKER. You could say “slightly above the [current level].”

MR. EASTBURN. Especially if you hit the 7-1/4.

CHAIRMAN MILLER. Well, all right. On the federal funds rate sentence strike out “close to or.” So it says “with the federal funds rate slightly above the current level.” How is that? And on page 2 somebody wanted one word in. What was it?

MR. BLACK. That was my suggestion, Mr. Chairman, but--

CHAIRMAN MILLER. Nobody minds one word. Well, you were marvelous today. You got through on time and everything. You are all invited to lunch and the next meeting is [May 16]. We had a vote, didn’t we? Is there any dissent? Hearing no dissent, we have voted on all those wonderful things unanimously. So that is confirmed. Thank you all. We will see you in the dining room.

END OF MEETING