TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE CONFERENCE CALL

May 5, 1978

Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Meeting of Federal Open Market Committee

May 5, 1978

A meeting of the Federal Open Market Committee was held on Friday, May 5, 1978, at 9:30 a.m. This was a telephone conference meeting, and each individual was in Washington, D. C., except as otherwise indicated in parentheses in the following list of those participating.

PARTICIPATING:	Mr. Miller	
	Mr. Baughman	(Dallas)
	Mr. Gardner	
	Mr, Jackson	
	Mr. Partee	
	Mr. Wallich	
	Mr. Willes	(Minneapolis)
	Mr. Winn	(Plattsburg, Missouri)
	Mr. Volcker	(New York)
	Mr. Black, Alternate for Mr. Eastburn	(Richmond)

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

Messrs. Burns (Dallas), R. Davis (New York), Kichline, Paulus (Minneapolis), and Truman, Associate Economists

Mr. Holmes, Manager for System Open Market Account (New York)

Mr. Pardee, Deputy Manager for Foreign Operations (New York)

Mr. Sternlight, Deputy Manager for Domestic Operations (New York)

Mr. Coyne, Assistant to the Board of Governors
Mrs. Deck, Staff Assistant, Open Market Secretariat, Board of Governors

Mr. Broaddus (Richmond), Vice President, Federal Reserve Bank of Richmond

Transcript of Federal Open Market Committee Conference Call of
May 5, 1978

[Secretary's note: This session began with a roll call to determine attendance at the Reserve Banks, followed by a statement by the Secretary indicating those present in the Board Room.]

CHAIRMAN MILLER. Gentlemen, the reason we have decided to have a conference meeting of the FOMC this morning is because of the aggregates that have been reported. As you know, at the last meeting we specified that we would operate with a federal funds range of [6-3/4] to 7-1/2 percent but that we would not go above 7-1/4 percent without consultation. Conditions are now such that we felt it would be well to have this discussion. Rather than use the procedure of sending everyone telegrams and just have you react to a message, it seemed better to me to have an opportunity for us to exchange views. That's why I thought it best to get us on the phone. I hope it isn't inconvenient to anyone. What I propose to do is to have some brief reports from the staff and then make a specific recommendation for your consideration and discussion. To start off, I would like to ask Steve Axilrod to report on the latest projections on the money aggregates and on what he sees [in the offing] for the April-May period.

MR. AXILROD. Thank you, Mr. Chairman. The data on M1 that came in for the week ending April 26 were somewhat stronger than we had been anticipating--on the order of about $1 billion stronger--and the very preliminary data we have for the week of May 3 suggest added strength. On the basis of those numbers, our estimate for the rate of growth in M1 in April, which last week had been 14-1/2 percent, is now, in round numbers, about 17 percent. And our estimate for the rate of growth in May, given the high starting point we now see around the May 3rd week, is up to around 8-3/4 percent. Thus the 2-month growth for [April and] May is running at around a 13 percent annual rate, well above the 8-1/2 percent upper end of the range decided on by the FOMC at the last meeting. M2, on the other hand, is not showing as much strength relative to its range. It is not above the top of its range as is M1. Time and savings deposits have been running a shade weaker than had been projected at the time of the FOMC meeting; thus the strength in M2 is purely the result of the strength in M1, which is approximately 3/7ths of M2 in weight. We now have an April estimate for M2 of 10.7 percent, a May estimate of 8.1 percent, and for the two months an estimate of around 9-1/2 percent, which is the upper limit of the range decided on by the FOMC.

I'd like to add two or three points to that, Mr. Chairman, if I may, to put it in a little perspective. For M1, that April growth rate would bring the growth from the fourth quarter average to April '78 to 6.9 percent at an annual rate. If our May estimate is correct, the growth from the fourth quarter average to May would be 7.2 percent, given the somewhat slower growth that we had, of course, in the first two or three months of the year. For M2, [comparable] numbers would be 7 and 7.3 percent. Thus, on that basis, M1 growth would be a shade above the upper end of the longer-run range and M2 growth would be well within the longer-run range from the fourth quarter to either the April or May dates. Secondly, we have made an effort to see what factors may be causing this very rapid growth in April. Perhaps the fundamental one we'd mention is the upward revision in nominal GNP growth for the second quarter, which now seems to be close to 17

percent at an annual rate, which Mr. Kichline will report on shortly. [With] such an annual rate of growth, of course, M1 is likely to grow quite rapidly.

A second point is that there has been in April a marked increase in the amount of [non-withheld] tax payments getting to the Treasury. In April of this year, [non-withheld] tax payments are over $21 billion. The average of such payments in the preceding three years was around $15-1/2 billion, so there is an overage on the order of $6 billion. To the extent people mobilize demand deposits in order to make these payments, that mobilization tends to raise the level of the money supply. Our seasonals wouldn't have caught up to the $6 billion overage; they would have allowed for the increasing amount last year and in the years before but not that big of an increase. To the extent that this is affecting money growth, it might add anywhere from 4 to 8 percentage points, in round terms, to the April rate of growth, which we really had not allowed for in setting up our estimates earlier.

[If that] explanation is correct, we would expect the level for May 3rd to have been coming back and it hasn't, so that [puts] some doubt on the explanation. But more than that, if the explanation is to be accurate and if the May 3rd level doesn't come back, surely for May 10th it would have to come back sharply--maybe with a drop on the order of $5 billion. We've allowed only about a $2 billion drop for that week in our projections, so there is some uncertainty in our minds as to what exactly will happen. If it comes back to the earlier levels we've been projecting, which would be a drop on the order of $4 or $5 billion, the May rate of growth would be substantially lower than 8 percent; it ought to be approaching 1 or 2 percent rather than 8 percent. So there is some question as to whether we do or don't have a temporary factor that's going to [reverse]. There is either going to be a sharp comeback or not.

The third special factor is the stock market, where activity rose radically in mid-month and has remained relatively high subsequently. We have not been able to find any relationship thus far between M1 growth and stock market activity in a sense of causation. I believe there probably is some effect from a special unexpected activity [but we've] not been able to quantify that or to find any consistent relationship in the past thus far. That's all I have, Mr. Chairman.

CHAIRMAN MILLER. Thank you, Steve. I would ask Alan Holmes, [who is] on the line at New York, if he would like to add anything at this point from his view or vantage point.

MR. HOLMES. Mr. Chairman, as the Committee knows we are having difficulty hearing--

CHAIRMAN MILLER. Alan, I think some are having difficulty hearing you. You might just get closer to your transmitter.

MR. HOLMES. As you know, the [Treasury] auctioned [unintelligible] on Tuesday and [unintelligible] bonds on Wednesday. Yesterday both of those turned in a very good report. The

[10-year] bonds were light and had premiums of 5/32 and the long bond was almost half a point while [unintelligible] rise. After the money supply figures were announced yesterday afternoon, however, those premiums dropped away and at mid-morning both of them are showing a discount to the issue [price]. Those are the most important things that have been happening in New York. Treasury markets are--

CHAIRMAN MILLER. Thank you, Alan. I'm going to ask Jim Kichline, who's with us here, to comment briefly on economic developments since our last meeting.

MR. KICHLINE. Since the last meeting of the Committee, preliminary data on GNP for the first quarter have become available. Real GNP is reported to have declined about 1/2 percent at an annual rate, a weaker performance than we had anticipated at the time of the meeting. Although there's reason to suspect some upward revision of these data in coming months, it is nevertheless clear that activity in the first quarter was poor. Much of the slowdown still appears attributable to transitory factors, including the adverse effects of the winter weather and the coal strike, as well as some special influences involved in the deterioration of the trade balance. Compensating for the weaker than expected first-quarter performance, it appears likely that the rebound in the current quarter will be very strong, with our tentative thinking pointing to real GNP growth of 8-1/2 percent or perhaps larger.

Statistics on the business situation in the second quarter are limited but support a picture of vigorous activity. Retail sales continued upward in April and [auto] sales especially have been strong. The employment figures for April, available this morning, show another sizable gain in employment, with nonfarm payroll employment rising over 465,000 strike-adjusted for the month. The labor force also rose considerably, but the unemployment rate declined by 0.2 to 6.0 percent. Industrial production data for April are not available. It appears, however, that the gains will be substantial but less than the exceptional increase in March. On the price side, the recently available consumer price index for March and the producer price index for April registered substantial increases. We believe the data are roughly consistent with our earlier forecast of inflation at around 7 percent this year.

In short, economic activity looks very strong this quarter. But when allowance is made for the transitory factors affecting the pattern of the first and second quarters, real activity in the first half is likely to be around 4 to 4-1/2 percent, annual rate, [about] the same as in the second half of last year. The information available has not led us to change our view that the pace of activity will slow appreciably from the pace in prospect for the current quarter.

CHAIRMAN MILLER. Thank you, Jim. I'd like now just to give you my viewpoint on the situation and what I think we might consider doing.

MR. WINN. Mr. Chairman, before you do that, could I ask Steve Axilrod if he adds M3 and M4 in there, will he get a different picture than from the M1/M2 picture?

MR. AXILROD. Well, I don't have current figures on M3 and M4, Willis. But the savings flows at thrifts have been running only a shade higher than they were in January and February, so I think M3 would be well within its long-run range, just like M2. Banks have continued to issue large amounts of negotiable CDs, so of all the Ms [have been strong]; M4 is the one that had been showing the most strength relative to its 1977 performance up until this recent behavior of M1 and I would think M4 would continue on that trend.

CHAIRMAN MILLER. Well, to go to my own observations, one is that I think what we have been doing recently in terms of monetary policy has been prudent and has been perceived to be rather decisive. The move up 1/2 percent in short order on the federal funds rate, as you know, has been interpreted as aggressive action but very much called for in the circumstances. It actually has been well received in the marketplace as positive evidence of our determination to take action to curb inflation and to be [responsive] to current conditions. So I think what we have done so far has gone down extremely well and has been effective. It has generated a good deal of credibility and a good deal of support for what we're trying to accomplish.

Now we come to these numbers. On a raw basis alone they would indicate the possibility of a further tightening, using our additional 1/4 point. The reason I think we might not want to do that is because, looking at the real economy and listening to what Jim has just said--that it appears we have a very high level of nominal activity in the second quarter, which is consistent with a push forward from the low activity in the first quarter--this [situation] may indeed be transitory. My first concern is that we [shouldn't] begin to take further action before we hardly let the other moves work their way through; that could be an over-stepping that we would regret later if in fact this is a transitory situation. Add to it the fact that we are not yet sure enough about whether there are or are not other extraneous factors, which Steve outlined. That makes me concerned that we don't become a little [impetuous]--moving in a knee jerk way instead of having a more steady hand and looking at a steady course.

I look at the other factors in the economy and I do not see evidence that at this point begins to concern me in terms of the relationship of money and the probabilities for real activity. I don't see inventories accumulating out of line. I don't see a rush of orders. I really see the first and second quarters as being averaged together and I begin to look at the money averages together. And then I consider some of these other factors and I feel we're far more on the track that we're seeking than it would appear from the raw data. Then I look at the other things we're trying to accomplish at the Federal Reserve, in terms of building a sense of steady, prudent, determined action, and I see that we might find ourselves less effective on some of our other objectives if we seem to be rather too quick on the trigger. I wish we could, therefore, look at a program where we would continue the federal funds rate in the neighborhood of 7-1/4 percent and where the Board might consider next

Thursday, when we would be free of the effects of the Treasury financing, an increase in the discount rate of 1/2 percentage point, and let that be our next statement of our determination. Then we'd get some more data on these [money] numbers before we begin to move too rapidly on a tightening. This is overly brief and I could elaborate and embellish, but that's the bottom [line] of how I see it. I might at this point run down the list and get the reaction of the members of the Committee. Paul, perhaps you would lead off and give us your reaction.

VICE CHAIRMAN VOLCKER. I don't know why we didn't [unintelligible] the need to express, Mr. Chairman. I do think the inflation numbers that were [released] for the first quarter and the more recent information [are higher] than I really anticipated. And that's an adverse sign. My own feeling is to stay at 7-1/4 percent but make sure the federal funds rate doesn't go below that. That might mean that on the average I'd rather have it come out a little higher than a little lower, but if it stays right at 7-1/4 percent that would be all right. I suppose the only difference I would have is that I'd like to see the discount rate [increase] before next Thursday to [indicate] our concern without too long a lag. But this general [approach of raising the discount rate] 1/2 point--coming in [with that] as our action before the next Committee meeting--I agree with.

CHAIRMAN MILLER. Well, that's a good point, let's come back to that later. I think it's something we'll want to discuss. Steve Gardner.

MR. GARDNER. Well, I think you've made a very modest request and I could go along with it without difficulty. The thing I think we should remember, because this is a political world, is that what we have done so far has been reasonably accepted and I think that will help us if we have to go further. But your request is quite reasonable and I would be able to support it.

CHAIRMAN MILLER. Thank you, Steve. Willis Winn.

MR. WINN. Mr. Chairman, thank you. I share Paul's feeling in that I'd like to see the discount rate as a response to these numbers and let market [rates go] up anyway. I don't need to hit too much on the problem of the Treasury. The longer we wait--and being advised in terms of the size of these numbers [unintelligible]--the opposition politically tends to build against the increased rate. If we go up [now], we could be able to increase the [unintelligible] approval rather than disapproval. But my guess is the market will turn on us because disintermediation, I suspect, will increase pretty much. So we've got a bigger personal problem along with [unintelligible]. I would be inclined to stay with the 7-1/4 percent funds rate but on the discount rate I couldn't possibly [disagree].

CHAIRMAN MILLER. Thank you very much, Willis. Mark Willes.

MR. WILLES. Thank you, Mr. Chairman. I guess I have a slightly different view than some of those enunciated so far. I suppose it hinges in part on the slightly different estimate as to how

much strength will stay in the numbers as we go down the road. I'm concerned primarily about two things. One is that I think the inflation outlook is a little bit worse. It seems to be getting a little worse each time we look at it. [Second], I think the argument that you made with regard to how the most recent policy actions have been received is right and I have the feeling that even some additional action, if necessary, will also be received in the same way. Therefore, I think it would be a plus not only in terms of inflation but in terms of our basic confidence in the economy. Third, it seems to me that if we're looking at nominal increases in GNP of the kind that Jim and Steve have talked about--[an expectation] we share by the way--the rates of growth in M1 and M2 will be under persistent upward pressure throughout the rest of the quarter. Therefore, we're going to have to move rates up rather significantly to try and keep those numbers in [line]. And finally, I just have the feeling that last year we tried to get a [unintelligible] through the last three quarters and we persistently overshot our objectives for the aggregates because of the special factors that we kept seeing. I'm very concerned about [having] that kind of performance again. So I would have a rather strong preference not only to raise the discount rate but to use the full range for the federal funds rate.

CHAIRMAN MILLER. Mark, thank you. Reminds me why I used to call it the annual non-recurring change. Last year it seemed that you had extraneous factors every month. Let's hope that that's not the experience this year. I might point out that one reason we have had good market reception to our [action] is that I think we stated our policy well and prepared the world to know what we were going to do. We may need a little more prep time for people to be convinced that some numbers have [come in] here that require the next step. I don't know but my [sense] is that we need just a little more prep time. Henry Wallich.

MR. WALLICH. Well, if somebody had told me at the last meeting what these numbers were going to turn out to be--and had I believed him--I would certainly have voted for [moving] more quickly and going this week to 7-1/2 percent on the funds rate. Now, we have some slight hope that the numbers will reverse themselves. They should have reversed themselves this week if the tax phenomenon was really the main cause and they haven't done so. So this is a somewhat weak hope. There is, of course, a question of whether our long-term targets are realistic and whether we can expect the velocity increases that [were implicit] in those. For that reason I'm not quite as worried as Mark Willes about longer-run overshoots. [I have a] concern that we will [be] giving a demonstration of no action in the face of these measures. I would have preferred, therefore, to move now on the discount rate increase; an early time is second best. I could find an argument in favor of putting it off--that we would like to have these data, if they are as bad as they appear now, in the open. I think that would give us a lot more support. But that is only a question of the week. I think it is likely that we're going to be under continuing pressure and my preference, therefore, would be to go to 7-1/2 percent.

CHAIRMAN MILLER. Thank you, Henry. Chuck Partee.

MR. PARTEE. Well, I would support your recommendation for waiting a week or two, Mr. Chairman. These are extraordinary April numbers and I have the impression that the week of May 3 that Steve was talking about, which is preliminary, could revise considerably. It sometimes has, either way, in the past. In addition, it does seem to me that the number is so high that it's giving us some kind of a false signal. Therefore, I'd like to see it settle down. But I must say that I don't think that really has to do with the question of moving on up in due course, because I think we're now facing a very real problem. I think the economy has a great deal of strength. When you [add] 460,000 to a nonfarm employment figure that, remember, was already increasing at a very rapid rate throughout the winter when production wasn't doing anything, I have the sense of a good deal more steam in the economy than we may be picking up in comments from businessmen at this point or seeing in the current statistics. Also, it seems to me that the inflation problem is much worse than we have previously recognized because I now am convinced in my own mind that food prices are going to be [rising at a] double-digit [pace] this year. And food prices I've always felt are far and away the most sensitive thing from the standpoint of touching off wage demands and--

CHAIRMAN MILLER. Chuck, there was a disconnect. Nobody has heard anything you've said. Are we all back on the line?

MR. BROIDA. The Board room is. Are all the Presidents on?

OPERATOR. All right, go ahead.

CHAIRMAN MILLER. I suppose no one heard what Chuck was saying.

SPEAKER(?). That is correct.

CHAIRMAN MILLER. Well, Chuck, that was a brilliant speech. Can you shorten it?

MR. PARTEE. You heard nothing at all! Well, I was just saying that I'm prepared to go along with the idea of waiting a week or two to move the funds rate to 7-1/2 percent but I think it is a question of waiting rather than not doing it. The money numbers [may quiet down]. I would expect them to quiet in time; they always do. Nevertheless, the average is going to be very high for the second quarter and I believe the economy has a great deal more strength than is now generally recognized. I also believe that inflation has a great deal more strength, particularly in food prices, which have such a sensitive effect on wage bargains and wage determinations. So it's really just a question of timing more than anything else. I like the idea of getting the discount rate [increase] in before we take a marked further upward movement in money rates. I think, Paul, what you were suggesting was what we used to call "err on the side of tightness." I would construe that to mean that we resist strongly a reduction in the funds rate below 7-1/4 percent and if it tends to drift up a little, we might let it go 5 or 10 basis points or even 1/8 point higher if the market is producing what I think it is quite possible that the market will produce, particularly after the discount rate is

moved. It may be that a week from now it will be quite easy to slip in the movement up to 7-1/2 percent. But I think even a week's time is a valuable thing to gain on the Washington scene and it does permit us to see--along the line of Steve's argument--whether or not we get a $5 billion downward revision in that May 3 preliminary number, which would make us look at April somewhat differently.

CHAIRMAN MILLER. Thank you, Chuck. Phil Jackson.

MR. JACKSON. I'd wait until the next FOMC meeting before we move further--to give us a chance to review the entire fiscal policy at that time, recognizing that our better knowledge just two days from now might well form a basis for doing something even beyond the 7-1/2 that is presently under discussion. If all the facts fit together, they would support that position. But it strikes me that [moving] more than 1/2 percentage point during the intermeeting period is not appropriate, given the basis of the knowledge that we have on which we would be acting.

CHAIRMAN MILLER. Thank you, Phil. Bob Black.

MR. BLACK. Mr. Chairman, I think you have made a good case, and Chuck has reinforced it. [Unintelligible] done the same thing, but it looks to me as if all these options that we face at this juncture are pretty risky. In view of the recent behavior of the price indexes, though, I really feel that failure to act pretty decisively in the face of growing evidence that the strength in the economy is burgeoning and that monetary growth rates and inflation are accelerating might be to some people the most dangerous [scourge] of all. Mark Willes stated my case and his position eloquently as well as [unintelligible]. I would be inclined to go ahead. I think there is a real incentive for banks to go out and [extend] credit on the basis of reserves that they didn't have expectations [unintelligible].

CHAIRMAN MILLER. Thank you, Bob. Ernie Baughman.

MR. BAUGHMAN. Mr. Chairman, I continue to hear reports around here of extremely strong [business activity] expressed generally across [a wide] spectrum [of industries]. The real estate area appears strong. I continue to hear reports also of a rising flow of foreign [unintelligible] in this part of the world. My preference would be to move the funds rate above 7-1/4 percent [unintelligible] at least show that if the market concludes that we are [unintelligible] at 7-1/4. With [respect to] the discount rate, I would think it timely to move whenever the Board is ready to approve the requests it has. [Unintelligible] increase when they meet next week.

CHAIRMAN MILLER. When is that meeting, Ernie?

MR. BAUGHMAN. On Thursday.

CHAIRMAN MILLER. Thursday. Thank you. I think that [covers] the comments of all the members. I'd like to ask Chuck if he would speak to the question of timing on the discount rate increase. Would it be all right if we kicked that around here and tried to look at the timing based upon moving the rate up to 7-1/4 and then holding it steady for the week during the financing and say we are prepared to move on it as soon thereafter as we felt it appropriate? I might add that we have one other piece of strategy in our thinking, which is that our [interagency] coordinating committee has been working on the problem of disintermediation and has some thoughts of what we might do there. It is unlikely that we can get that in place until next week. Wednesday or Thursday would be the most optimistic [estimate of when] we could accomplish that. Thursday would be optimistic even. That's another step that we might well want to be taking to provide for a continuing flow of funds to thrifts at a time when rates are getting to a point where we may have some disintermediation. That has been a [factor in] my thinking about moving the funds rate. I'd like to get in place a way to avoid disintermediation before we get these rates moving too rapidly. Chuck, on the question of timing, how do you see that?

MR. PARTEE. Well, I think probably Alan could answer the question of the dealer positions [better] than I can. I would like to give them another few days. Especially with the probability that we would move 1/2 point, I think we ought to give them just a little [time] to clear out their inventory. Therefore, I wouldn't move today and I wouldn't move Monday. Next Friday I don't like because that's a bad day from the standpoint of fairness because the news system is closed down essentially for the weekend. So that leaves Tuesday, Wednesday, and Thursday of next week. I might say that we could move as early as Tuesday, depending on what Alan says about the dealer positions, except for this question on the coordinating committee. I think we have a clear chance of being able to get them prepared to do something that will deal to some degree with our [disintermediation] problem. I know we can't get it done before Wednesday; in fact, I'm not sure we can get it done on Wednesday--perhaps Thursday or Friday but more likely the next week. I think it would be very good strategically if such an overt move as a sizable increase in the discount rate were either accompanied by or promptly followed by some special efforts to deal with the disintermediation problem. Therefore, I guess I lean toward Thursday with the possibility of Wednesday if we can get other things in place fast enough.

CHAIRMAN MILLER. Again, this is one of those questions where logic might say the sooner the better, but there may be something to be gained by [waiting] a couple of days to put in place some of the other actions we could take that I think will demonstrate a more concerted, positive, and coordinated effort. Alan, how do you see it?

MR. HOLMES. Mr. Chairman, I think the market is very [unintelligible] maybe a half or a little more than [unintelligible] but I don't think that is [unintelligible].

CHAIRMAN MILLER. So as far as you're concerned, there is no reason to delay unless getting the coordinating committee [action] in place would be helpful?

MR. HOLMES. That could be the [unintelligible].

CHAIRMAN MILLER. Well, just to focus on this action, by my count there are ten of us present. I believe we have one Governor who is not here and there is one vacancy on the Board. So we have eleven members and one is absent, which makes ten. I count 1, 2, 3, 4, 5, 6 who have indicated a concurrence with my recommendation. And I would say my recommendation should be interpreted as following the Volcker technique of handling the 7-1/4. I think Paul's statement of that was extremely wise under the circumstances and it would be consistent with my thinking. I count four voters who would prefer to move more rapidly. I catch a sentiment that the Governors should move as quickly as they can on the discount rate. I think the Governors will take that under advisement. Is there more to be said, or shall we consider this [completed]? Is this something that requires a vote?

VICE CHAIRMAN VOLCKER. With the coordinating committee, [unintelligible] going back further on the discount rate?

CHAIRMAN MILLER. Paul, it well could. I think that's something we'd better sit down and think about. Actually Alan is in a sense right. We have created an atmosphere now where the market anticipates everything. And the Wall Street Journal reported that we're obviously going up on the discount rate, so everything is now anticlimactic, I guess.

VICE CHAIRMAN VOLCKER. Ordinarily I would want to wait longer after a Treasury operation to review the discount rate but in this case given what the [unintelligible] the expectations, I'm a little afraid that if we wait too long it will be so anticlimactic it will--

CHAIRMAN MILLER. Yes, it could well be. I think the point is well taken, and the Governors can certainly take that into consideration.

MR. WALLICH. I would add that from the point of view of the exchange markets to delay both actions would be adverse. A discount rate action would indicate that we're responding in some way.

VICE CHAIRMAN VOLCKER. I think that's right. I agree with that.

MR. PARTEE. The exchange markets are doing pretty well, aren't they?

MR. WALLICH. They have been down [and then] a little up.

CHAIRMAN MILLER. Paul, we don't want [them] to get too far ahead of themselves. Well, our Secretary tells us that because of the instruction we may need a vote. Should we have a vote, Mr. Secretary?

MR. BROIDA. Mr. Chairman, this is a difficult one; it's a close call. And I'm not sure Tom O'Connell agrees with me that a vote is required.

CHAIRMAN MILLER. Well, when in doubt, vote. I would put before the Committee a proposition that we operate on the 7-1/4 between now and such other time as events cause us to consult again or until the next meeting, erring on the side of 7-1/4 being the bottom. And that I think is the only action of this Committee. The discount rate matter is one the Governors will take up separately and we appreciate your advice and counsel. Would you call the roll?

MR. BROIDA.

Chairman Miller	I vote for my own proposition, oddly enough
Vice Chairman Volcker	Yes
President Baughman	Yes
President Black	No
Governor Gardner	Yes
Governor Jackson	Yes
Governor Partee	Yes
Governor Wallich	[For] unity I vote yes
President Willes	No
President Winn	Yes

Now it's 8 to 2.

CHAIRMAN MILLER. Gentlemen, thank you very much. We'll be in touch if anything else is needed. Otherwise we will see you at the next meeting, about 10 days hence. Thank you. Bye.

END OF SESSION