

TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE CONFERENCE CALL

OCTOBER 22, 1979

Prefatory Note

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**FEDERAL OPEN MARKET COMMITTEE
CONFERENCE CALL
October 22, 1979**

PRESENT: Mr. Volcker, Chairman
Mr. Black
Mr. Coldwell
Mr. Partee
Mr. Rice
Mr. Schultz
Ms. Teeters

Messrs. Guffey, Morris, Roos, Timlen, and Winn, Alternate Members of the
Federal Open Market Committee

Messrs. Baughman, Eastburn, and Willes, Presidents of the Federal Reserve
Banks of Dallas, Philadelphia, and Minneapolis respectively

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Petersen, General Counsel
Mr. Mannion, Assistant General Counsel
Mr. Axilrod, Economist
Mr. Holmes, Adviser for Market Operations

Messrs. Ettin, Henry, Keir, Keran, Kichline, Scheld, and Truman,
Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account

Mr. Pardee, Manager for Foreign Operations, System Open Market Account

Mr. Coyne, Assistant to the Board, Office of Board Members, 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

Messrs. Doyle, Forrestal, Gainor, Smoot, and Williams, First Vice Presidents,
Federal Reserve Banks of Chicago, Atlanta, Minneapolis, Philadelphia,
and San Francisco respectively

Messrs. Boehne, Burns, Senior Vice Presidents, Federal Reserve Bank of Philadelphia and Dallas respectively

Messrs. Broaddus, Cacy, Cox, Danforth, Mac Donald, Vice Presidents, Federal Reserve Banks of Richmond, Kansas City, Atlanta, Minneapolis, and Cleveland respectively

Transcript of Federal Open Market Committee Conference Call of
October 22, 1979

[Secretary's note: At the beginning of this session, Mr. Altmann called the roll to verify attendance at the Reserve Banks.]

CHAIRMAN VOLCKER. Gentlemen, I think we'll proceed just by having Mr. Axilrod update us. And then Mr. Sternlight and Mr. Pardee can make any comments they think are appropriate.

MR. AXILROD. Mr. Chairman, since the Committee set its original objectives for the monetary aggregates [under the new program] at its previous meeting, the basic aggregates have been running very strong. That is, the Committee set an objective for [growth in] M1 from September to December on the order of 4-1/2 percent at an annual rate; and the accompanying M2 growth that would be the consistent with that was an annual rate of about 7-1/2 percent. Achievement of these objectives would be consistent, on our estimates, with growth in the monetary base over that period of about 8 percent, growth of total reserves of about 7 percent, and of nonborrowed reserves of around 5-3/4 percent. Based on data thus far in October-- that is, data through October 17, with the last week being preliminary--M1 looks as if it's on a path where its growth in October will be at an annual rate of about 14.3 percent and M2 looks as if it's growing at an annual rate of 13.6 percent. Growth in M3 is somewhat slower but still high, at an annual rate of 10.4 percent. Those deposit figures, if they don't change, would imply growth in the monetary base of something like 11.2 percent and growth in total reserves on the order of 20 percent.

In the face of that demand for reserves, therefore, to hold nonborrowed reserves down in the short run would require a substantial rise in borrowings from the levels that had prevailed early this month and even from the \$1-1/2 billion dollar level that the Committee had anticipated when it moved to this new program.

Mr. Chairman, I won't bother the Committee with the various technicalities that, of course, will be made clear in the Bluebook for the next meeting. I would just note that the implied level of borrowing over the balance of this month needed to hold growth in nonborrowed reserves for September to December down to a rate not far from the 6 percent or perhaps even less that the Committee desired would be on the order of \$2.5 to \$2.9 billion. That level of borrowing would depend on certain technical factors that we adjust for in the paths. We have moved some toward achieving that level of borrowing already, with borrowing on Friday for all member banks at \$3.1 billion. But, of course, that has been with a substantial rise in the federal funds rate--to around 15 percent on average on Friday, but with some trading at much higher rates. This morning, as Peter will undoubtedly note, the funds rate was much higher than 15 percent, opening in the 17 to 18 percent range. The implication of these figures, Mr. Chairman, is that it may be very difficult, if not impossible, to achieve the objectives in the very short run for the base and total reserves. It is more possible in the short run to achieve the objective for nonborrowed reserves. But these developments bring into question whether the informal 14-1/2 percent funds rate constraint or the more formal 15-1/2 percent upper limit

adopted by the Committee at its last meeting are viable in this situation.

CHAIRMAN VOLCKER. Mr. Sternlight.

MR. STERNLIGHT. Mr. Chairman, I thought I might fill in on Steve's comments just by giving you some [details] of the surrounding market developments and summarizing some of [the developments since] October 6. The market at that time reacted, as you know, with steep rate increases and close to disorderly conditions. Bill rates moved up 100 basis points and long bonds were up 50 basis points. By the Friday after the announcement, October 12, some stability was beginning to emerge and it gained some greater foundation by the following Wednesday, October 17, although the atmosphere was still fragile and uncertain. However, at that point we were not really getting the pressure on bank reserve positions we had been seeking. We had started, as you recall, with the idea that funds might trade in the area of 13 to 13-1/4 percent with borrowing of about \$1-1/2 billion. But after seeing new strength in the aggregates even before the further strength that Steve reported on--that is, even by October 12--we were thinking that we ought to be increasing the pressure on nonborrowed reserves such that borrowing would be pushed up to the \$1.8 billion area.

In the week ending last Wednesday, October 17, we did get a funds rate of about the 13-1/4 percent that we were seeking then and we got a bulge in borrowing on Wednesday that brought the weekly average up to \$1.5 billion. That was still somewhat under the average borrowing we wanted; and since it came [in the form of] a late Wednesday bulge, there was not really the sense of reserve pressure associated with it that we thought was needed. In the meantime, we began to get more data on the aggregates and they looked even stronger, as Steve has summarized. So then we thought that borrowing ought to be getting up to the \$2.5 to \$2.9 billion area. To apply this greater pressure on reserves, we sold some bills in the market on October 18. That did push up the funds rate to 14 percent by last Thursday afternoon and predominantly to 15 percent on Friday, with some trading in volume at 16 to 16-1/2 percent.

The market, which as I mentioned had begun to find some stability in the few preceding days, sold off sharply further on Thursday and Friday in a worsening atmosphere, as participants sensed a more restrictive Fed move and worried about the upcoming Treasury auctions. Three-month bill rates moved up another 70 basis points on Thursday and Friday and yields on long coupon issues were up about a quarter percentage point. In my judgment, the market was getting very close to the ragged edge, or maybe even over it, on Friday afternoon. There was a real question of auction coverage as we approached the Treasury financings for this week.

This morning the funds market opened at 16 percent but fairly early on went up to as high as 18 percent. Other market rates were pushing somewhat higher in very thin markets. There was almost no trading going on--just a few transactions--and the atmosphere was very poor. We went into the market at 9:45 a.m. and offered overnight repurchase agreements. At that point we didn't even have our reserve numbers. We did learn subsequently that reserves had fallen short of our estimates over the weekend by a sizable amount so that even though

borrowing rose to a little over \$3 billion on Friday, as Steve mentioned, we still think there is a need for reserves in this current week. So we felt that we could go ahead and do a sizable amount of overnight RPs and we did about \$3.7 billion of them. We're prepared to do more if the funds rate stays as high as the 17-1/2 percent [that prevailed] as we were [conducting our] RP transactions. My report just as this call [got under way] was that the funds rate was beginning to ease back from the 17-1/2 percent level to 17-1/4 percent, so we're staying our hand for just now. We'll watch that closely and be ready to go in again if we get a sense that the funds rate is remaining excessively high. In the meantime we stand with the question that Steve raised about the consistency of meeting our reserves objectives within the funds rate constraints that the Committee has set. That's all I have, Mr. Chairman.

CHAIRMAN VOLCKER. Mr. Pardee.

MR. PARDEE. Very briefly, the dollar continued steady against the German mark, on either side of 180 marks to the dollar, and against other European currencies. The yen is a bit weak but that is a separate case. We have not had to intervene in support of the dollar but neither has there been a reflux of funds into dollars following the heavy outflows of recent months. The oil price situation is a major concern and there's plenty of pessimism remaining about the political situation [in the United States] and U.S. economic policy generally. Market participants tell us that they are taking a wait and see attitude toward the Federal Reserve's new approach. And the higher cost of borrowing dollars is cited as deterring people from taking new short positions in dollars but it has not brought them to sell other currencies to come into dollars as yet. They say they are waiting for evidence that the money supply is, in fact, under control and that inflation rates here are declining. That's my report.

CHAIRMAN VOLCKER. Well, we have some obvious facts, the first one being that the money supply ran much higher in the last two weeks than we'd contemplated at the time of the [October 6] meeting. And that has had a predictable effect on the reserve base that is required during the current week and during the next week. It implies high borrowings in order to stay on the nonborrowed reserve track, as Steve suggested. One reason the money supply is so high may be that business [activity] is doing better than we contemplated, which gives us more demand for money than we were really counting on at this point. But those figures are high enough so that it does at least raise the question about the feasibility of our targets.

We have forced borrowing higher, as has been indicated. And on Friday we did have a sizable reserve miss, as Peter suggested, which meant that [the funds market] was even tighter than we had contemplated. It seems to me that under the Committee decision we may or may not face an inconsistency here shortly. With the reserve miss, it appears that we have more money to put into the market this week. And I would contemplate that that be done if the federal funds rate stays above the area that we were talking about--the 15-1/2 percent area or what Steve called the formal decision, which [in fact] was the formal decision. Whether we can expect the rate to go down to 14-1/2 percent I suppose is the operative question this morning, but we can always take a new decision on the upper limit. I would not contemplate that at this point. I think, at least for this week, we

cannot reasonably contemplate going down deliberately to 14-1/2 percent without perhaps undermining the efforts that we have been making.

So I would just leave this as a preliminary comment to which you can react: That we will not operate, at the moment anyway, on the 14-1/2 percent [informal] limit but will continue to operate in general terms at the 15-1/2 percent [formal limit]. That, as you recall, is not interpreted as a daily limit but there will be an effort to avoid something significantly higher than that for a week as a whole. And it will probably take us a couple of days at least to find out whether we do have an inconsistency problem or not for the week--for the current week, which will then be past. We could face the same problem for another week, given the strength of the money supply two weeks ago. Whether we are now passing through the peak I think depends greatly upon what happens to the money supply figures that we won't have until Thursday. We just have to wait and see on that. We will have a real problem, I think, if [money growth] remains high. If it begins coming down, [rates] will begin easing off, at least temporarily. That is where we stand.

Why don't I just let the rest of you comment, turning to the people here in Washington first. Governor Schultz indicates that he has no comments.

MR. COLDWELL. This is Phil Coldwell. It seems to me that we have a situation which we obviously hadn't contemplated. I think we could justify actions to moderate this under the "disorderly market" excuse. I agree with you, Paul, that the money supply [figures we get] on Thursday will be important to us. I don't happen to be in love with the Ms, so I'm not all that unhappy about this. I think we have a perception of tightness out there in the market, whether the Ms are going to show it immediately or not. Certainly the market is showing it. I would hate to undermine our effort by doing an extensive amount of RPs to bring [the funds rate] down to any predetermined level. On the other hand, I don't believe I want to tolerate a disorderly market in the general government securities area.

MR. PARTEE. I think it's important that we try to observe our nonborrowed target, and for that reason I think we should use the full funds rate range. I think the rate this week is unlikely to average above 15-1/2 percent since, after all, four days of the week are below that level. That won't necessarily put the money supply on track, of course, because the safety valve is borrowings and I should think borrowings would move up. My goodness, with a difference of this magnitude between [the cost of] borrowing in the market and borrowing at the window, I would certainly think that borrowing at the window will go up. So we will have to face that issue and, if [the recent trend] continues, the issue of further expansion in reserves and further expansion in the money numbers after we get them. But let's not give up the nonborrowed target we had.

MS. TEETERS. As I understand it, you are in a position to supply reserves and not miss the target this week. Is that right, Steve?

MR. AXILROD. Yes.

MR. STERNLIGHT. We were looking at a need for additional reserves. We did supply some by doing the \$3-3/4 billion of overnight RPs. I don't think we could continue doing that much overnight for the next two days; that would be overdoing it. I don't know that we would have to do that much again on Tuesday and Wednesday, but at the moment there is some room for additional day-to-day reserves.

MR. AXILROD. Governor Teeters, I might add that that relates to this week. Next week we might have to be absorbing reserves, depending on whose figures are right on what market factors are doing.

MS. TEETERS. I'm willing to face next week next week. I would say let's try to hit our nonborrowed reserves target and if the [funds] rate doesn't come down, we should confer again.

MR. RICE. I agree that we ought to stay with our present nonborrowed reserves target. I also feel that if this means that the rates have to stay above--

MR. STERNLIGHT. It's hard to hear you, Governor Rice.

MR. RICE. I would not worry myself if the federal funds rate stayed in the 15-1/2 percent area, either somewhat above or hopefully somewhat below. Also, I would want to wait for a few days, at least until Thursday, to have a better idea of what is happening.

CHAIRMAN VOLCKER. That completes everybody here. Oh, Frank Morris is sitting at this table, so we'll let him lead off as District number one anyway.

MR. MORRIS. Well, what has happened confirms my feeling that it's going to be very difficult for us to execute control of reserves with a lagged reserve system. I think we really ought to put our minds to eliminating what seems to me an obvious and big handicap to the successful operation of this new system. And we also need to figure out a greatly liberalized carry-over system to make the change palatable to the banks. It seems to me that reacting two weeks later and having our reserve levels determined by deposits two weeks earlier is continually just going to foul us up in this operation.

CHAIRMAN VOLCKER. If I may just interject a comment. We are looking at that. I'm not sure it makes quite that much difference, particularly if we have a big carry-over. The carry-over in effect is a substitute for this lag we're working with now. But I certainly agree that psychologically it looks awkward--always dealing with a reserve base that is predetermined from what happened to deposits two weeks earlier.

MR. PARTEE. It ought to show up in borrowings.

MR. MORRIS. Sure it will. That's true. The [point] is that to control the money supply ultimately we are going to have to control total reserves, and it's really not going to be all that helpful if we make our nonborrowed reserve target and end up with \$6 billion dollars going out through the discount window.

CHAIRMAN VOLCKER. It makes for an awful tight market when we do. Why don't we go through the Districts in order. We've had District 1; I don't know [who is representing] District 2.

MR. TIMLEN. District 2 is [covered by] Tom Timlen, who agrees with the Chairman's recommendation. I must say that I was surprised at the limited borrowing by clearing house banks here in New York City last Friday, but I suspect it will rise. In saying that I agree with the Chairman's recommendation, I would also add that it seems to me quite likely that the Desk will have trouble trying to get the funds rate down to 15-1/2 percent, [given the degree] of nervousness and caution among the people who are running the commercial bank money desks. So while I concur on the Chairman's recommendation, I wouldn't be surprised to see [fed funds trading at] rates beyond the [formal] range. That's all I have, Mr. Chairman.

CHAIRMAN VOLCKER. District 3.

MR. EASTBURN. I think we have somewhat of a credibility issue here. A lot of people are expecting more from us than we actually can [deliver], given a lot of the technicalities involved. Nevertheless, having launched on this course, I think it's important that we try to accomplish the results with the reserves and aggregates that we are aiming for. So I certainly would use the full range for the funds rate. I would also be tolerant of seeing the rate exceed the range for a substantial period and, if necessary, having as many conference calls as we have to in order to plot the way as we go.

CHAIRMAN VOLCKER. Thank you. District 4.

MR. WINN. Mr. Chairman, I share the feeling that we have got to show as firm a resolve as we can. As far as technical problems, is there a Treasury financing after this--?

CHAIRMAN VOLCKER. There is one announced for Wednesday; it's more than a little technical problem, I suspect.

MR. WINN. Okay. My feeling is that one way we can show our resolve is to increase the discount rate again--not to accomplish an increase in interest rates but just to keep it in line. Pressure at the window gets a message through to the banks that we mean business. I have no problem with rates fluctuating a little higher than we thought in order to try as hard as we can to meet our targets.

CHAIRMAN VOLCKER. District 5.

MR. BLACK. Mr. Chairman, Dave Eastburn came closer than anyone else to saying what I think is appropriate. We do have a major credibility factor on both the domestic and foreign sides if we don't hit our targets. I don't think many people realize that the figures that were published for the money supply for the week ending the 10th allowed us only the 9th and the 10th to work on them [under our new approach]. They think [those figures are] an indication of the failure of our policy. At some judicious time it might be wise to point that out to the market. I certainly wouldn't want to try to get the funds rate back down to 14-1/2 percent unless it just goes there of its own accord. I wouldn't want to abandon the reserve target even if the funds rate has to go above the 15-1/2 percent upper limit we

set at our last meeting. I would be prepared to go up to 16 or 17 percent if we had to. I think it's very crucial that we establish our credibility at this point.

CHAIRMAN VOLCKER. District 6.

MR. FORRESTAL. This is Forrestal substituting for Kimbrell. Mr. Chairman, given the growth in the money supply and in the economy in the third quarter, we think it's very important to follow through definitively with action [consistent with our decision on] October 6. We think our credibility is on the line and that we are going to lose impetus if we don't take follow-up action. So we would support using the full federal funds range and even exceeding it if necessary. And we certainly would agree with you that the rate ought not drop below 14-1/2 percent. And we, too, feel that some consideration should be given to an increase in the discount rate, as has been suggested.

CHAIRMAN VOLCKER. So what are we up to--District 7?

MR. DOYLE. This is Doyle substituting for Mayo. We support your recommendation, Mr. Chairman, feeling that it is far too early--despite the tenseness on the scene today--to do anything differently. We certainly would wait through at least this week.

CHAIRMAN VOLCKER. District 8.

MR. ROOS. We would support using the full fed funds range and exceeding it if need be. One of the problems that we sense is an uncertainty on the part of the markets--and probably more generally--as to exactly how we intend to achieve all our goals. I wonder if any thought has been given, or should some thought be given, to our announcing specifically the total reserves and base [levels] necessary to achieve our M1 target? I would think the more specific the information is that we give, the greater the degree of stability we might expect from the markets and the various forces involved.

CHAIRMAN VOLCKER. I will respond to that later. District 9.

MR. WILLES. Mr. Chairman, this is Mark Willes. Dave Eastburn expressed our views with regard to the federal funds [range]. Also, I'd like to agree very much with what Frank Morris said about lagged reserves. I think we are getting trapped by our own procedures here, making our life more difficult. It is my view, too, that we need to think through not only the question of the discount rate in this specific instance but what kind of procedures we are going to use on the discount rate. If the fed funds rate is going to bounce around, and it seems that it is, and if we are going to have borrowing numbers of the kind we've been talking about here, that raises some real questions in my mind, both about how we administer the rate and how we administer the window itself. Finally, I would like to say that the point that Larry Roos just made about announcing our targets and procedures is, in our judgment, absolutely fundamental. Markets really do work a lot better if they have more information and I think we are making our own situation substantially more difficult by creating additional uncertainty in the market and therefore aggravating some of the very things that we would like to see settle down. So I would hope that we give that very serious consideration. That's all I have.

CHAIRMAN VOLCKER. District 10.

MR. GUFFEY. I agree with all the statements with respect to credibility. I think it's absolutely essential that we come in at or near the target path for the fourth quarter, which also suggests that we should use the full [funds rate] range at this point, up to 15-1/2 percent. I would hope, however, that we would have another meeting before we'd allow the fed funds rate to remain above that 15-1/2 percent for a full weekly period. Lastly, I would say that there is some question in my mind as to whether or not the horizon that we are looking at for the fed funds rate on average--being one week--is the proper length of time or whether it ought to be a bit longer than that. But with those comments I fully endorse the position that you have set forth.

CHAIRMAN VOLCKER. Mr. Baughman.

MR. BAUGHMAN. We would concur with your recommendation, Mr. Chairman. I'm not sure if this is being different, but to pick up on Mr. Guffey's suggestion about going the full limit on the 15-1/2 percent, I agree that before running much above that for a week we might want to compare notes again. I think we probably should move up some on the discount rate, and I would share fully those comments that referred to credibility. It seems as if we are out there now and we must deliver.

CHAIRMAN VOLCKER. No. 12.

MR. WILLIAMS. We would certainly agree with the Chairman's recommendations. Dave Eastburn clearly set forth our views and we would support everything Dave said. We would also agree with Larry Roos about the announcement of targets.

CHAIRMAN VOLCKER. Well, let me make a few additional comments. First of all, I think we have not had a [formal] meeting here, as I understand it. We have had a consultation and the sense of the [discussion] is that the 15-1/2 percent [funds rate limit] still holds in the absence of a formal decision to overturn that. We may or may not have to consult further, depending upon what happens over the rest of this week. We have no guarantee that we will hit these [objectives] exactly, especially when we realize that [the funds rate] may be over [our range] on particular days and if those days come at the end of the week and the average is close to 15-1/2 percent, [the higher rate on] those days might carry it over. But I think that is implicit in our decision already. I suspect Governor Partee's comment that the rate was below 15-1/2 percent for the first four days of the week means that it's at least possible to get through this week without going over [the range on average] and without deviating, very sharply anyway, from our nonborrowed reserves path. I would remind you of what both Steve and Peter said: We are now a bit below it. Peter may not be able to do \$3-1/2 billion [of reserve-supplying operations] every day, but presumably if the numbers don't change, he can do something today and in the ensuing days. He can do something more today and have some [room] left over for the ensuing days and remain within the general paths that we set for ourselves.

So far as the discount rate comments are concerned, I recognize their relevance. I also recognize that if we raise the

discount rate right now, that would push market rates up further and I do not feel terribly [anxious to see] that right at the moment. It obviously has to be kept under review. But at a time when we are threatening to exceed the upper limit of the fed funds range--if that remains true without changing the upper limit--I'm not sure that a discount rate change would be helpful at the moment in reconciling our various objectives.

There have been a lot of comments about credibility, which I well recognize. I think we also have to recognize that market behavior, whether one looks at the stock market or the bond market, has not ignored short-term movements in the fed funds rate during this particular period. Any presumption that the whole market does not reflect day-to-day movements of the fed funds rate for this particular period is not very valid because I think we are in a learning period and all the markets have learned so far is that rates go up. They haven't had much experience on the down side as yet; presumably they will get some at some point. But it is those big money supply figures that we are fighting at the moment and perhaps for a week or so the markets won't have much experience--or at least very dramatic experience--on the down side. I do think that raises the possibility of overkill as well as credibility. We have to keep both sides of the equation in mind and it's a very difficult period to steer through.

Let me say something about discount window administration, too. There was a comment in the Wall Street Journal this morning which I think carried to the typical reader the implication that we've tightened up [at the window]. That is not my understanding of the situation at the moment. It should not be the situation. We are getting more borrowing than we've been used to. But I don't think we want to convey a message at the moment that the discount window is any more closed than it has been. Rather specifically, I think one or two or perhaps even three days of sizable borrowing is not something that should provoke a phone call [from us to the borrowing bank] under these particular circumstances. This is also something that we have to review, along with the discount rate, as we get into a little more normal period.

So far as the comments on giving the market more information are concerned, I am not quite sure what the implications of that are and what the meaning is. Part of the difficulty of our operations at the moment is that we have more targets than we can meet already. For instance, specifying a total reserve target or a total reserve base target, knowing that borrowings are an important variable here, may or may not lend a lot confidence to market participants. I would think there should be some sense in the market--and perhaps that can be encouraged--that nonborrowed reserves are an important variable. But even there it is very hard to specify a target because presumably we would want to be tighter, as was explained at the meeting on nonborrowed reserves, if borrowings were persistently high. So we are kind of caught between the devil and the deep blue sea on some of this. And at the moment at least, I cannot quite see myself sitting down and giving an explanation to the market that would be reassuring rather than disturbing, given that we are playing with at least three reserve variables. Although nonborrowed reserves are the immediate operating variable, that in itself is not a fixed target depending upon what else goes on. So I'm not sure we can provide a lot of reassurance beyond the kind of money supply figure that we've already

given them. It seems to me that a major source of uncertainty in the market is simply that the money supply is running so much above the more moderate rate of growth that we would like to see between now and the end of the year. That will cure itself or not, depending upon what the next few money supply figures are. At least that is my present view of this matter.

To summarize, we will be aiming--hopefully consistently--for the nonborrowed reserves path consistent with the money supply targets that we talked about. That leaves some leeway on the borrowing side. The fact that that path is so far below actuality is forcing a great deal of borrowing and forcing a lot of pressure on the market. We can stop this session on the hope that the upper limit of the funds range that the Committee decided upon will prove at least marginally consistent with that target [path] and we can consult again as necessary in a few days or a week if the inconsistency is more evident than it is this morning.

MR. BLACK. How about the idea of pointing out to the market that we really weren't [using the new approach] on those money supply figures but for two days?

CHAIRMAN VOLCKER. That I do agree with and it should have been indicated at the press conference in New York on Thursday. I thought it was but I agree that it wasn't picked up much. Was that point made at the press conference?

MR. STERNLIGHT. I understand that it was, Mr. Chairman, though I didn't see it picked up in the press. But our press officer told me that it was definitely pointed out at the briefing.

MR. BLACK. Well, it's a subtle point and even if pointed out at the meeting, people around here have not picked it up. I haven't seen any reference to it.

CHAIRMAN VOLCKER. Well, it's hard to make a special occasion to announce that. But I think all of us ought to have that in mind in whatever comments we make to people in the market or otherwise.

MR. PARTEE. What do we do if next week's money supply figure is strong?

MR. BLACK. I would think that's one reason rates are as high as they are.

CHAIRMAN VOLCKER. Well, I wouldn't exaggerate that too much. I think the fact that they are high and that it's hard to bend them down is the principal factor rather than that [the increase] took place on October 10. And we face the uncertainty that Governor Partee mentioned. He just said to me across the table: What do we do if the money supply figures are high in the next published week? I think two points can be made. The point that you made, Bob, can be mentioned in any contacts we have. And we ought to reiterate--as I have in my public appearances or when the question has arisen or when I jammed it into the conversation--that whatever the technique we use, these money supply figures don't respond automatically. There is leeway in the borrowing, and in the long run I think it's probably good for the

economy that there is a certain amount of slippage even though it's awkward to us at the moment.

Any other comments? Okay, thank you. We may be consulting again fairly shortly, but we'll see how the rest of this week goes.

END OF SESSION