

Meeting of the Federal Open Market Committee
November 17, 1992

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, November 17, 1992, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Hoenig
Mr. Jordan
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. Melzer
Mr. Mullins
Ms. Phillips
Mr. Syron

Messrs. Boehne, Keehn, McTeer, and Stern, Alternate
Members of the Federal Open Market Committee

Messrs. Black, Forrestal, and Parry, Presidents of
the Federal Reserve Banks of Richmond,
Atlanta, and San Francisco, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Patrikis, Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. J. Davis, R. Davis, T. Davis, Ms. Munnell,
Messrs. Lindsey, Promisel, Siegman, and
Stockton, Associate Economists

Mr. McDonough, Manager of the System Open Market
Account

Ms. Greene, Deputy Manager for Foreign
Operations

Ms. Lovett, Deputy Manager for Domestic
Operations

Mr. Ettin, Deputy Director, Division of Research
and Statistics, Board of Governors
Mr. Slifman, Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Wiles, Secretary, Office of the Secretary,
Board of Governors
Mr. Winn,¹/ Assistant to the Board, Office of Board
Members, Board of Governors
Mr. Porter,² Assistant Director, Division of
Monetary Affairs, Board of Governors
Mr. Siciliano,¹/ Senior Attorney, Legal Division,
Board of Governors
Mr. Feinman,²/ Economist, Division of Monetary Affairs,
Board of Governors
Mr. Moore,¹/ Special Assistant to the Board, Office of
Board Members, Board of Governors
Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of Governors

Messrs. Beebe, Broadus, Dewald, Lang, Rosenblum,
Scheld, and Ms. Tschinkel, Senior Vice Presidents,
Federal Reserve Banks of San Francisco, Richmond,
St. Louis, Philadelphia, Dallas, Chicago, and
Atlanta, respectively

Mr. Guentner, Assistant Vice President, Federal Reserve
Bank of New York

Mr. Weber, Senior Research Officer, Federal Reserve
Bank of Minneapolis

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1. Attended portion of meeting relating to Congressional request for more detailed and prompt reports of Committee deliberations.
 2. Attended portion of meeting pertaining to a review of the Committee's tentative ranges for monetary growth in 1993.

Transcript of Federal Open Market Committee Meeting of
November 17, 1992

CHAIRMAN GREENSPAN. Good morning, everybody. The first item of business is the recognition of the fact that this is Bob Black's last meeting. His first meeting was much closer to the 19th century than any of you would know: It was in 1960! That's really extraordinary. I wish to implore all of you that we not become unduly sloppy in our intellectual procedures with Bob leaving the group. In any event, we'll see a lot of you in the future, I presume, Bob. I tried to think of a few things to say about you; it's very difficult to add anything other than refer to the extraordinary esteem which all of your colleagues very clearly have shown to you through the years. And while I've heard a lot of nasty things about me and about other members of this FOMC, I can tell you that I never once have heard anyone say anything other than positive things about you. It goes without saying that we're going to miss you and miss you dearly for your wisdom and your extraordinary insights and experience. It's not going to be easy for us.

MR. BLACK. Thank you very much, Mr. Chairman. I'll be perfectly willing to send you a letter if I think you're going astray, and I hope you will heed that letter!

CHAIRMAN GREENSPAN. Why don't you fax it!

MR. MCTEER. He won't own a fax!

MR. BLACK. I don't have a fax machine but I'm thinking about getting one.

CHAIRMAN GREENSPAN. The second item on the agenda is an important announcement from the President of the Federal Reserve Bank of New York.

VICE CHAIRMAN CORRIGAN. Most of my colleagues have probably seen The New York Times this morning. There's an article of enormous consequence on the front page. For those who haven't seen it, I thought I should share it with you to make sure that these proceedings go forward on a liturgically sound basis. The article reports that for the first time in more than four centuries the Roman Catholic Church today issued a new universal catechism which, among other things, identifies a range of new sins that are the product of modern-day society. Among the sins defined in the new catechism are tax evasion, drug abuse, mistreatment of immigrants, abuse of the environment, artificial insemination, genetic engineering, and financial speculation. I don't know about the rest of you, but I've got to get me one of those! I can see it now: When Gretchen and Joan and Bill go to confession they're going to have to make sure that the confessor understands the difference between hedging and speculation.

CHAIRMAN GREENSPAN. With that I'm not sure I can get approval for the minutes because I'm not sure what we were doing back then! But I will request it in any event. Would somebody like to move the minutes of the last meeting?

SPEAKER(?). Move it.

VICE CHAIRMAN CORRIGAN. Second.

CHAIRMAN GREENSPAN. Without objection. Before Gretchen goes to confession she better report to us.

MS. GREENE. I'll try my best. Mr. Chairman, not to be too confessional. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Gretchen? If not, let's move on to Bill McDonough.

[Secretary's note: Mr. McDonough requested authorization to negotiate renewal of the System's swap lines for another year.]

CHAIRMAN GREENSPAN. Questions for Bill?

MR. JORDAN. How many countries do we have swap lines with?

MR. MCDONOUGH. Fourteen and the BIS.

MR. JORDAN. So, it's all of the European economies that are linked to the deutschemark?

MR. MCDONOUGH. Japan as well, and we also have a small swap line with Mexico.

MR. JORDAN. Well, I recall what we were doing when these swap lines were [activated] in the 1970s, but it's not clear to me these days when actions really involve the dollar, the deutschemark, and the yen why we would want a swap line with the Dutch for guilders for instance.

MR. MCDONOUGH. The most likely swap lines to be utilized are those with Japan and Germany. I think there are circumstances when, given the tie-ins of the EMS currencies, there could be a possibility --less likely I agree--of using the swap arrangements with some of the other central banks. You will recall that we owe the Committee a discussion of the general issues of our currency arrangements and our reserve holdings. This is part of that picture. I would prefer, and I recommend to the Committee, that we renew the lines and then revisit the issue when we have that later discussion and after we have a new Treasury team with whom to discuss their views.

CHAIRMAN GREENSPAN. Any other questions? Would somebody like to move Bill's recommendation?

VICE CHAIRMAN CORRIGAN. I move it.

MR. KELLEY. Second.

CHAIRMAN GREENSPAN. Without objection. Bill, do you want to continue with the report of the Domestic Desk?

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

CHAIRMAN GREENSPAN. Bill, do you have any evidence from those forward federal funds contracts or from short-term money market instruments that the near-term firming in federal funds futures, which

looks to be about 25 basis points, actually tilts over after the first of the year? Are we close enough yet to draw inferences as to whether that in fact is what the markets are saying?

MR. MCDONOUGH. Your [inference] is exactly right. We're just at the cusp of being able to see whether it's purely a year-end phenomenon or whether it goes past that. The rate structure in the market and perhaps even more our very active conversations with banks and the Wall Street firms do lead us to the conclusion that it's a year-end phenomenon.

CHAIRMAN GREENSPAN. Other questions for Bill? If not, would somebody like to move to ratify both the previous actions of the Desk and Bill's request for the intermeeting leeway change?

VICE CHAIRMAN CORRIGAN. I'll move them both.

MR. SYRON. Second.

CHAIRMAN GREENSPAN. Without objection. Let's now move on to Mike Prell.

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

CHAIRMAN GREENSPAN. Questions for Mike? If not, would somebody like to start the Committee go around?

MR. FORRESTAL. Thank you, Mr. Chairman. In the Sixth District we continue to see signs of improvement in economic activity but the pace is still very, very slow. We did a recent survey of manufacturing plants for October and that showed a leveling off of activity from the third quarter, but the respondents were optimistic about their prospects for the near term at least. In the housing sector, single-family home sales and construction remain fairly healthy. Multifamily activity, on the other hand, was still pretty poor but it does seem to have bottomed out during the summer. This also seems to be true for commercial construction, although the vacancy rates in the District are quite high; they are above the national average and considerably above in some of our key cities. Retail sales have improved and retailers are optimistic about holiday sales. However, because they placed their orders some months ago when they were in a more cautious mood, their inventories are quite lean, and it appears that discounts and promotions will probably be less a factor this year than they were in recent years. Output of goods and services has been expanding but employment growth is low. The unemployment rate is at its highest level in six years in the District, and major firms continue to announce layoffs. For example, Bell South announced 5,000 layoffs, I think. This, of course, is increasing uneasiness in the labor market generally. We continue to see better demand for goods related to housing and construction materials in light of the national level of activity but also because of the rebuilding going on as a result of hurricane Andrew. In connection with the hurricane I might add that insurance companies have raised their estimates of losses; and five insurers who represent about 60,000 policyholders in Florida have failed as a result of the hurricane. That's the situation in the District, Mr. Chairman; it's somewhat better than last time but still proceeding at a very slow pace.

With respect to the national outlook, our forecast is very similar to the one shown in the Greenbook. The profile over the next several quarters is somewhat different, but we come out in the same place. The only other difference is a marginal one in that our inflation forecast is perhaps a little higher than the Greenbook's. But it's a forecast that we would generally agree with and, especially with respect to 1994, I hope we can reach it.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, on balance conditions in the District have a somewhat better tone than was the case at the time of the last meeting. It is a little hard to back that up with statistical data. In fact, some of the data have gone the other way; for example, the Chicago purchasing managers survey for October went below 50 percent. Still, the steel business continues to be pretty good. The industry is currently operating at about an 80 percent rate, and that's a rate that will maintain inventories at a fairly stable level. Shipments this year are probably going to come in at about 82 million tons, which is a pretty good year, though I must say that pricing continues to be very tough. For 1993 the industry expects an increase in shipments to about 85 million tons. There is a wild card with regard to next year and that relates to the outcome of trade suits that have been filed. The early outlook on these suits is favorable and, if they prevail, that should be helpful both to volume and also to prices.

Aided by strong light truck and van sales, the motor vehicle sales levels have improved. Sales this year will probably come in at about 13 million units and the industry is expecting an increase to about 13-1/2 million units next year. Based on these higher expectations, one manufacturer has set first-quarter production schedules 15 percent over the first quarter of last year. I was talking to representatives of one major automotive manufacturer last week and was trying to convince them that at 13 million units this has been a pretty good year; they didn't buy it a bit. They reminded me that the industry's base year, in their view at least, is 15-1/2 million units; and with operating results running very firmly in the red it's very difficult for them to view this as a good year. The heavy truck business also is better. Sales of the Class 8 units this year are about 25 percent over last year and the industry expects continued improvement next year--perhaps another 20 percent increase. But I must say that even at these higher levels sales are well under the very much higher levels that existed in the mid-1980s.

Retail sales in the District are showing some improvement. I think consumer confidence is back a bit and the early outlook for Christmas is a little more positive than previously expected. But the consumer continues to be very price conscious and it does take price discounts to produce sales. In line with that comment, the price and inflation news in the District continues to be very positive. Price pressures really just aren't there.

Offsetting the good news, the agricultural equipment business is just terrible, with no signs of improvement. One major manufacturer just finished its fiscal year and large tractor sales in that fiscal year were down by some 40 percent from the year before. They are continuing to reduce production schedules and to lay off

employees. Also disturbing is the continuing drumbeat of layoff notices in the District. Just in the last few weeks we've had another 8 or 10 companies announce layoffs. Some of them are small--180 to 200 employees--but others are much larger. And this constant announcement of layoffs does cast something of a pall over the employment outlook.

We had something of a milestone in Chicago last week. There was a large reception commemorating the completion of the last major office building in downtown Chicago. No one has projects underway and we now have a vacancy rate in the downtown area of about 23 percent. At current absorption levels, it is going to take about 10 years to work through that inventory and there is a gloomy prediction out there that we won't see another big project until the next century.

In a national context, while the outlook may be showing at least some signs of improvement, the improvement seems to be very modest. I continue to think that we have a very fragile situation on our hands and that the risks continue to be on the down side. If the staff forecast is right--and ours is quite close to it so I don't think it's worth spending time discussing the differences--the issue really is whether this is an outlook that will be acceptable and whether it will produce the kinds of employment gains necessary to sustain the recovery over a reasonable period of time. That to me is the issue that in a monetary policy context would be the important question. Thank you.

VICE CHAIRMAN CORRIGAN. May I ask: Do you have any particular insights you can share with regard to the intermediate-term situation at General Motors? We are now getting a sense that at least some of the financial people are going through a very fundamental reappraisal of the prospects for General Motors over time. I don't know whether there's anything to that other than people just going through the exercise. The other question I wanted to raise is: Do you see from your vantage point any near-term possibility that GM or GMAC could start to run into problems in terms of rolling over the tremendous amount of commercial paper they have out in the marketplace?

MR. KEEHN. Jerry, on the first question, there are frankly questions of viability about GM; that has been true not just recently but going back a few months. I talked to

just felt that the troubles were much bigger than were fully understood by the market, and this goes back three or four months. So, everything that has come out tends to confirm what he was saying. The most recent numbers [coming out] in the last few days are really very much on the serious side. So, that is certainly an open question. In terms of your second question, if in fact this does evolve in a way that suggests there are questions as to GM's viability, it's only a matter of time until the market will pick that up and make the rollover of paper a very difficult issue. So, this is a very significant concern in more than just a District context.

VICE CHAIRMAN CORRIGAN. Between GM and GMAC what do they have--something like \$20 billion of commercial paper outstanding?

MR. KEEHN. I don't know if it is that large; it is huge.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, conditions in the Twelfth District are little changed from our last meeting, with continued weakness in California offsetting modest growth in the other District states. District-wide employment in September fell at a 1.1 percent annual rate, led by weakness in California. California employment by itself fell at a 3.8 percent annual rate in September and 2.1 percent in October; that brings the state's employment to a new cyclical low. I might also point out that there's a consensus among forecasters that the actual level of employment is 100,000 less than is being reported in the survey. Last year there was a similar view that employment was being exaggerated, and revised figures certainly confirmed that.

Outside of California, District employment expanded at a 3.3 percent annual rate in September. The contacts we have in Alaska, Arizona, Idaho, Nevada, Oregon and Utah report fairly favorable conditions. But California is weak; in Washington conditions are flat due to production cutbacks in aerospace; and Hawaii is affected by slumping tourism. The weakness that we're seeing in California certainly is a concern. Already announced cutbacks in aerospace, defense, and state and local governments, together with an overhang in commercial real estate, have led forecasters to project that we're going to see continued job losses in the state of California through the end of 1993. This weak projected economic performance threatens California with yet another state budget shortfall of at least \$4 billion through the end of the next fiscal year, which is 1993-94. Reflecting this ongoing weakness, lending continued to decline in October at large District banks. Commercial, consumer, and real estate loan volumes are down from their year-earlier levels.

Turning to the national economy, our outlook is similar to that of the Greenbook if we assume no change in monetary policy through the end of that period. The modest 2-1/4 percent growth that we anticipate, again assuming no further easing, is down 1/2 percent from what we expected at the time of the October meeting. That's mainly a result of the higher value of the dollar and prospects for slower economic growth abroad. Consistent with sluggish growth in output, we expect to see only small declines in the unemployment rate over the next year or so and thus continued downward pressure on underlying inflation. Our view is that the CPI will come in at around 2-3/4 percent in '93 and a bit lower than that in '94. Thank you.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, we come out very close to the staff projections on the real side of the economy, and they in turn are generally in line with what most private forecasters are saying in that they call for a gradual recovery. Our guess is that the risk has now shifted to the [up side]. For the first time I think we see some signs that the economy may really be beginning to move a bit. For example, a substantial portion of the latest data, both nonfinancial as well as financial, has been at least somewhat stronger than expected. Prospects for consumer spending in particular look much better than I thought they would look; they strike us as really rather bright when coupled with the apparent upswing in consumer confidence

as reported in the Michigan Survey for early November. And the apparent acceleration in commercial lending at banks is another favorable financial sign. Also, the anecdotal information that we've been picking up around our District has been considerably more upbeat lately than it had been for a couple of months. Our directors' comments in particular have been better for two successive months than they were before that. And their comments for the last couple of years have been pretty darn good leading indicators. Somehow or other this group we have now has been better able to call the movements in the economy than almost any group of directors we've had in the past. And this is what they're telling us. Now, we're all aware, of course, that these developments can prove to be pretty transitory. We have had a lot of fits and starts in this frustrating recovery period that we've been through. Nevertheless, I believe [the improvement] may be real this time.

Let me make just one final comment about the inflation projections that the staff has made. Over the last several years, I've often been accused of being much too optimistic about inflation. A lot of that stems from my deep faith in the wisdom of this Committee to do what needs to be done. I think our policy has been excellent for many years now. Now I think we're seeing some evidence that my optimism about inflation is beginning to be realized. We've made tremendous progress. If you look at the staff projection of 2 percent inflation in the CPI for '94, for example, I think we've gotten very close to what really amounts to zero inflation, taking into account the errors of measurement in that measure. And I express one parting hope: That the Committee will continue to behave as it has in the past. If you do, my fellow pensioners and I will forever be grateful to you for your fine work!

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Thank you, Mr. Chairman. In the District, things seem to have taken a distinct turn for the better. I say "seem to" because that comment is based mostly on anecdotal reports I've picked up in the last month or two. Those really have had a very positive tone. I mention that, of course, against a background in which [economic activity in] the District probably has been advancing modestly throughout this period. Objectively, if you look at employment, which has continued to grow, and unemployment rates, which are almost uniformly low in the District, I think the numbers suggest a reasonably decent economic performance. The anecdotes are also for the most part on the positive side, although I should acknowledge a couple that are not. It looks as if has serious financial problems; how much longer it's going to stay out of Chapter 11 remains to be seen. As for nonresidential construction, major projects in the Twin Cities at least are about to come to a halt, I think. But aside from that, the reports we get with regard to much of the agriculture in the District, housing starts and sales, retail sales so far, and tourism activity--which apparently is spilling over into Montana at least with an inrush of Hollywood types and even some Easterners--have been pretty healthy. I must say that on Saturday afternoon I heard something I didn't expect to hear and haven't heard before--I'm sure you're all on the edge of your seats--about the latest progress of the Mall of America, our so-called mega mall: On the radio on Saturday they were basically telling people to stay away because the crowds were so big!

MR. LAWARE. Were they buying anything?

MR. STERN. Well, I don't know that the mall's developers are making any money--that's a different matter--but [sales] apparently are running well ahead of expectations. Of course, the developers had to offer such attractive deals to get the stores in that I suspect they aren't seeing much of this. But the numbers apparently are very good, and it's not particularly at the expense of the other major shopping centers in the Twin Cities, if you believe what you hear. The people at the mall have done a very good job of promoting it; they're bringing groups in from all over, domestic as well as international, and that's apparently translating into real spending. Help wanted signs are popping up everywhere; a lot of that is seasonal, of course, but it's not confined just to retailers and fast food operations where one would expect to see it. And it is consistent with reports of tight labor market conditions in the Twin Cities and in other metropolitan areas in the District. So at least at the moment, based on the latest anecdotal reports, things seem to be moving along.

With regard to the national outlook, I have no real disagreement at all with the Greenbook forecast. I don't have the sense at this juncture that the expansion is all that fragile, but I must say I don't have any particular sense that it's about to take off on the high side either. Coupled with the headwinds discussions that we've had in the past and a close look at demographics and related factors, it may just be that this is going to be a prolonged period of slow growth relative to what we have experienced in most of the postwar period and perhaps relative to what we had earlier expected. On the margin, I'm not sure there's a lot to be done about it.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Eleventh District business conditions and prospects appear to be stronger this time than at the time of our last meeting. I base that on discussions with our directors and other business people in the community, our Beigebook respondents, my own visits to local malls, and my inability to get a parking place at the airport yesterday. [Laughter]

MR. KELLEY. Everybody's leaving!

MR. MCTEER. We had a flat second quarter and the third quarter seems much improved. Most of the indicators show that; the leading indicators are even stronger than the coincident indicators. We have a Texas leading index. It was flat in the second quarter and much stronger in the third quarter. Texas and New Mexico seem to be doing better in terms of employment than Louisiana despite some recent improvement in the natural gas industry. Natural gas prices are about 30 percent higher than they were this time last year.

I probably should mention something on Eleventh District banking since it has been in the news recently. As you all know, First City expired a couple of weeks ago. That organization had 20 banks; they were closed in what was referred to locally as a "Hollywood ambush." That raised the District's bank failures year-to-date from 9 to 29. The First City organization had shrunk down to about \$8.8 billion. It's probably the first major bank and perhaps

the first bank of any size to require a second assisted resolution; the FDIC assisted it in 1988. It never fully recovered and the person who took it over made some new errors, so it has been crippled since then. It's the largest bank, I believe, to involve a significant haircut to non-insured depositors. Among the twenty banks, the four largest took a 20 percent haircut on their uninsured deposits. Those were in Houston, Dallas, San Antonio, and Austin. The feeling in the community over this development is one of sadness because First City was making a valiant effort to deal with the problems on its own. And there's a great deal of resentment toward the regulators first for the timing, which was the weekend before the election in the President's home town, and for the feeling that bank management was misled into thinking they had the support of the regulators in the bank's efforts to deal with the problem and effect a resolution without help. Incidentally, none of the First City banks was borrowing at the discount window and they all expired with positive reserve balances. I guess the economic implications of this are that it takes a long time to recover from a banking collapse. As you know, we've lost local control of 9 of the 10 largest banks in Texas. But as someone said yesterday, the pig is now through the python. That was the last major problem bank left in the Eleventh District. Measures of banking health are now good in Texas and in the Eleventh District. Banks still are not making net new loans; there remain too many incentives against lending as opposed to investing in Treasury securities.

On the national economy, I read the same newspapers and Greenbook as the rest of you and I don't really have any new insights to add. I have noticed that the press seems less eager to put a negative spin on the good news than before. So, one gets the impression from listening to the news that the economy and the prospects for the economy are now better than they've been in quite a while and considerably more positive than at the time of our last meeting.

CHAIRMAN GREENSPAN. Bob, I noticed that there are reports of improved drilling rig activity. How significant is that and what do you make of it?

MR. MCTEER. Well, they were at all time lows and with hurricane Andrew natural gas prices went up; the price for natural gas is about 30 percent above what it was before. So there has been some renewed activity there. It's helpful, but the long-term prospects are very negative, I think.

CHAIRMAN GREENSPAN. Do you really sense any carry-through off the rebound of the gas prices?

MR. MCTEER. I don't think so, although the feeling is that oil prices also will rise in the coming few months, especially if we have a cold winter.

CHAIRMAN GREENSPAN. And especially if we don't, we are not going to get it.

MR. PRELL. Mr. Chairman, I might note that I heard an oil company economist last week cite figures that ran something like this: About a year ago, there was a mix of oil rigs in the mid-400s and gas rigs in the mid-300s; now that has flipped. So it's about the same

overall level but the mix has shifted toward gas with those firmer prices.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. Economic activity in the mid-Atlantic states continues to be slow and uneven. There is modest growth in retail sales and, while retailers are not overly optimistic, there is some hopeful sentiment about the holiday season. Manufacturing appears to have picked up some during the past month after a couple months of downturn. There is some growth in residential construction. The nonresidential side is weak. Loan data, when you cut through them, show some hint of better loan demand but the hard numbers grossly overstate the improvement. Looking at our District loan growth, it shows an increase in C&I loans. That's really because one bank in Delaware decided to book some loans in the District rather than someplace else. If we factor that out, we really see a continuation of declining loan demand. However, anecdotally one does get the feeling that loan officers feel a little better. The real weakness is in the labor market. For example, we've just done a survey of our manufacturers and, while it shows a pickup in activity, it continues to indicate that manufacturers are cutting their payrolls. That seems to be true even in areas where we're seeing some improvement [in activity].

On the national side, I sense a better tone from the same data that other people read. The issue is one of sustainability: Is it for real or is it another false start? Basically, we don't know. I think it's one of those times when we have to watch the data and keep an ear to the ground anecdotally.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Well, Mr. Chairman, there have not been great changes in the New England region since the last meeting, contrary to some of the stories around here. There does seem to be some slight feeling of improvement, at least in mood, since the last meeting. However, and this is consistent with what Ed Boehne just said, one thing that I'm rather struck by is that when we call around and talk to manufacturers--for example, which is seeing improvement in some lines--they tell us that they are still planning on continued restructuring in employment. There just is no one talking about anticipating increases in hiring, including those in the health care sector. The manufacturing sector has become slightly more pessimistic because of the export side, with many of our high-tech companies seeing a slowdown in their sales both to Asia and to Europe. Retailers are somewhat more optimistic; it has to do with where they started out, I think. But there is also a lot of discussion about additional sale days before Christmas this year. Consistent with the question that Jerry Corrigan raised on the auto side, autos have seen some general improvement, but in talking to in New England he expressed real concern. He had seen a lull in sales since all this news about GM came out. He said they did have people coming into the show room now expressing concern about where they were going to be able to get car service in the future, that sort of thing. As for the real estate market, on the residential side prices do seem to have bottomed out now; on the commercial side they're still softening but

probably are fairly close to a bottom. Banks see very little good loan demand. We still get a lot of complaints about the credit crunch.

On the national scene, I don't have any real disagreement with the Greenbook based on its assumptions, and I think it makes assumptions that it has to make in terms of fiscal policy because we have to consider what we're doing ourselves. The only issue I would raise--and I guess we'll hear about this later--is on the export side: That issue is whether there's any reason, given the further strengthening of the dollar and the weakness that we've seen in forecasts for Europe and Japan, to expect some further decline there. My main concern, as in the past, is that we have had somewhat of a serial optimism in our forecasts over time. I'm not quite so sure that's true this time. But even if one looked at this as being a balanced forecast in terms of risks, which is about what I think it is, we have a fair amount of room given the excess capacity in the economy [regarding] which direction we might want to make a mistake. I also think that at this stage we can't be overly influenced by what we think fiscal policy is going to be because there are too many unknowns; we just don't know what it will be or when it is going to come into effect. I think things do look a little better but as always there is a concern about whether this is just another false [start] or something that is going to be self-sustaining.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, our District continues to show some modest improvement and considerably more optimism looking forward. Our agricultural sector is really trading off between improvement in our livestock business and some deterioration in our grain business, so that overall we have flat prospects for that sector this year and into next year. The manufacturing sector is a bit mixed. Our aircraft manufacturers are still weak. The auto sector is mixed because production at our GM plant is still very slow whereas Ford is going to be investing significantly in its plant in Kansas City, which I think will bring in some jobs. Other than that, activity in our nondurable goods area is "decent," as they say, looking forward. The rise in natural gas prices has spurred drilling activity in the District; the third quarter was up over 20 percent from the second quarter, although that doesn't bring it back to anywhere near what it was a little more than a year ago. But we are seeing some pretty robust [growth in] activity there right now. Our construction area is still doing pretty well. That is particularly so in the Denver region where economic activity is coming back rather strongly right now. In fact, for the region construction activity is up fairly dramatically over a year ago, well over 10 percent. Our employment levels are up over last year--our estimate is about 0.6 percent--and the anecdotal reports we're getting from our directors are uniformly positive in terms of their reading of the environment and their own attitudes. The banking industry in our region, with a couple of notable exceptions, is really quite strong; earnings are strong across the region, and I think there's a little more of an attitude of making an effort to get into the lending business again, although [bankers] are keeping the lessons of their past experience close [to mind]. Overall, I see some general improvement in our region.

As far as the national outlook, as we look over two quarters ahead our view is very similar to the Greenbook on average although our timing is somewhat different, which I don't think is significant. We're looking for inflation to be in the 3 percent range. So, we are fairly comfortable with the Greenbook projections as we look at the national economy. Thank you.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, I saw a good advertisement last night; unfortunately it was [unintelligible] and I don't know what company it was for. But I do remember the scene. It was something about predicting the future. In walked two scruffy characters who looked like Attila the Hun and the witch doctor. They dumped a bunch of bones on the table out of their bag and made some appropriate grunts. I must say, having seen the economic indicators go up a little and go down a little, I feel a bit like one of those two gentlemen.

CHAIRMAN GREENSPAN. Which one? [Laughter]

MR. LINDSEY. The good-looking one! I share very much the attitudes that have been expressed in that I think the tone of the data looks a little better than last time. But what has really changed are attitudes; attitudes are much better. Here is where I get nervous because of the old saying "once burned, twice shy;" this might be the third time we've been burned. The first time was the Saddam Hussein defeat when we had a big boost in attitudes. The second time was after our rate cut last December when there was a big improvement in attitudes. And now we have a new President and a big improvement in attitudes. I don't know whether attitudes are going to translate into real changes. If I have a disagreement with the staff forecast, it has to do with what I expect to occur in the early part of next year, particularly with regard to fiscal policy. I remember the 1981 tax cut from being inside [the Administration]. I think what is being proposed today is not that dissimilar. Essentially, the big proposal earlier was an acceleration of depreciation deductions rather than an increase in the investment tax credit. The present value of the tax incentive, though, is roughly the same. Three events resulted from that [earlier tax cut] that we should keep in mind. The first is that the first relative price change you induce when you impose an ITC is that you lower the price of old capital relative to new capital, i.e. the stock market declines. The second factor to remember is that there is a delay before investment picks up. There was a very substantial delay in 1982; we waited almost 12 months to see an investment pickup after the new depreciation deductions came into play. I think that's very consistent with the econometric evidence. But the expectations in the market are that the investment will happen almost immediately and therefore we will see a rise in near-term and intermediate-term interest rates well before investment picks up. And the third factor to keep in mind is that tax bills never get through quickly even when it looks as if the President has a mandate as he did in 1980 and as he does this time. Everyone promises that things are going to be speedy. It's worth remembering that the 1981 bill almost passed and then got bogged down; it actually got new impetus only after the President was shot and, therefore, a "second honeymoon" occurred. I don't expect that to happen this time but, again, it

takes a major, major amount of movement to change tax legislation; that shouldn't be underestimated.

There are, in fact, two worse situations this time with regard to what is likely to happen. The first is that we do not have safe harbor leasing in the current proposal. The safe harbor leasing allowed loss-making or non tax-paying firms to be able to get tax advantages. That will not be the case this time. Secondly, we have a much tougher minimum tax in place which, in fact, is proposed to be increased under "putting people first." Those companies paying the minimum tax are essentially investment intensive firms. Therefore, that's a further complication. Where I think that would play out is not in what will happen after the bill is passed but in delaying the passage of the bill. The Chairman of the House Ways and Means Committee has particular industries he is concerned about; the various power players have particular industries; and right now every Big Eight accounting firm is doing very good business with clients to calculate exactly what the changes in the tax law have to be in order to encourage investment in that firm. I would say: Don't expect anything quickly.

So, I'm more pessimistic about the start of the year. I think what we're going to see is a stock market decline, a rise in intermediate-term interest rates, and no fiscal stimulus. I think that's going to lead to a sense of disappointment. We're going to see the continuing layoffs that people mentioned. GM is on the line. And, Jerry, I would ask the same question about IBM. I notice [its stock price] is now down to 65; the last time I looked it was at 85. We're going to see continuing weakness abroad. We have the possibility of collapse in Russia this winter. And we always have the Middle East. So, to [abuse] a phrase, maybe what we're seeing is "deja voodoo," in line with Attila the Hun and the witch doctor. We've been here twice before and I would not be overly optimistic since all we're seeing, really, is an improvement in attitudes.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. On a District basis I don't have anything new to report. The statistics or anecdotal information we have suggest that the Eighth District is growing modestly more rapidly than the rest of the country, but there are no really dramatic changes.

On the national front, I would have two brief comments. One is--and I think Mike Prell allowed for this in commenting on the forecast--that I personally wouldn't be nearly as sanguine about the long-run inflation outlook as the forecast is with an assumption of an unchanged funds rate. I'm talking about looking out a couple of years. I have trouble with that working out that way. Secondly--and this is by no means a criticism of the staff's efforts to forecast because I think the staff is among the best in terms of that job, but it's a very difficult job--the third quarter served as a reminder to me of the questionability, if you will, of short-run fine-tuning monetary policy based on economic forecasts. As good as that process may be, it's a very, very difficult thing to do. We essentially are looking at a rate of growth in GDP that is probably twice what we thought a couple of FOMC meetings ago. If you look back over time, I think that pattern repeats itself. So, I was reminded of that and thought I'd share that.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. Well, to follow on Tom's line of thought, the smoke has cleared. We have three quarters in the books and the average growth for the first three quarters of 1992 is a shade under 2-1/2 percent. And we've learned that the third quarter may be revised up to 3 percent, which would put us right at 2-1/2 percent.

CHAIRMAN GREENSPAN. Or more.

MR. MULLINS. Or more. I would submit that this is better than most economists expected at the beginning of the year. It's certainly in line with our Humphrey-Hawkins forecasts and exceeds my Humphrey-Hawkins forecast. It's also certainly better than the recent performance of other G-7 countries that are going through this adjustment period. Indeed, 2-1/2 percent growth is even marginally better than potential. It may be very depressing to the electorate to think about 2-1/2 percent growth, but over the long term perhaps we can raise the potential. But [we can] point out that at least it's at that level. Unemployment is down about 1/2 percentage point, although that has been pretty flaky and, of course, the performance is moribund compared with a traditional recovery. I think it's because the underlying structural dynamics are far different and it's not especially valid to compare it to a traditional cyclical episode and inventory cycle. This is simply a slower balance sheet adjustment process. We've made measurable progress, as we've talked about, on that adjustment process but it's probably not yet completed. As a result, I would agree that the immediate outlook is for slow growth. We've had this lurching pattern between 1-1/2 percent and 3 percent quarterly growth. Several weeks ago I would have thought the next lurching would be down toward the lower end of that range--at about 1-1/2 percent. The data we've talked about here--the wide ranging data from retail sales to confidence numbers to industrial production--all suggest a bit more near-term strength than I would have expected a few weeks ago. There's also this notion of a post-election upturn in confidence. I would agree with Governor Lindsey in that I'm not confident that that's going to have much of an effect. We saw in the UK that even with their post-election euphoria, which did lift the markets, consumers found they couldn't pay down their excess debt with confidence. So, in general, I wouldn't argue with the Greenbook forecast of 2 percent for the fourth quarter, although I think it may be a bit stronger if anything. Despite this ratcheting pattern, I think we are gradually, painstakingly, building a base of higher growth and are slowly emerging from this economic lethargy.

The financial data in my view are consistent with this conclusion. The firming of credit demands one can only call marginal, but at least it's there. Consumer installment credit increased for the first time in my recent short memory. And domestic nonfinancial debt, excluding the U.S. government, has accelerated from growth under 2 percent a month on an annual basis to a bit over 3 percent. That's nothing to write home about. Short- and intermediate-term business credit has shown some strength as well. That is in keeping with this slow, gradual pattern. And M2 growth continues its gradual strengthening. In the last three months it has grown at a rate above 4 percent; for the year its growth is only marginally below the low end of the range. If one were to adjust it for the yield curve effect of flows to bond funds, it would be within the range; but then I

wouldn't know exactly what that would mean. One could say the velocity increase is better established now and I'm equally confused about what that means. Of course, we have no shortage of liquidity. M1 growth has been 20 percent the past two months and 14 percent for the year. I think both the economy and M2 may take another swoon especially with long rates up 30 to 50 basis points since September, the dollar higher, and the outlook for foreign economies much weaker than it was several months ago. Of course, then there's the uncertainty associated with the fiscal stimulus. This is likely to mean higher interest rates in the near term and maybe a slowing of the adjustment process and then, followed with a considerable lag, the fiscal stimulus. Still, I think the prospects remain favorable for gradual improvement even in this uneven pattern.

I thought it might be useful to look at where we are on inflation because I'm a bit concerned that we're likely to hear a lot about the drag on the economy that comes from the shift to a low inflation environment or low inflation regime. I hear a lot of this in international discussions as well. Despite last month's disappointing CPI, we've made very notable progress. Core CPI has decelerated from 5-1/2 percent in the late '90 to early '91 period down to about 3 percent. We've have commensurate reductions in the PPI and ECI; commodity prices are soft. And if there's measurement bias in the CPI, actual inflation could well be in the 2 percent range. So, on actual measured inflation, we seem to be relatively close to closing in on price stability. The prospects for continued progress also look good on all measures, whether you talk about slack or money growth.

Unfortunately, the Chairman has defined price stability for us as a condition in which inflation is not an important factor in economic decisions, and I think that's a correct definition. But in economic decisions it's not always actual measured inflation that is important; it's inflationary expectations that feed into investment decisions, into the long rate, into labor negotiations and the like. How have we done on inflationary expectations? Not well. In the Michigan Consumer Survey, consumer inflation expectations for 5- to 10-year horizons have held steady like a rock at roughly 5 percent during this period. Not only has it not come down appreciably but the level is probably double the level of recently measured inflation. The resiliency of inflationary expectations also is apparent from the still relatively high level of long rates, which includes a premium that I think is above recently measured inflation and the outlook for future inflation. I think this is understandable. We've had 4 to 5 percent inflation since 1983; it's deeply imbedded in expectations; it will probably take more than a few good quarters to get it out of there. So, despite the progress in reducing inflation, we haven't made much progress on inflationary expectations yet and that's necessary to achieve the benefits. Moreover, I believe the dissonance between actual inflation and expectations creates difficulties of adjustment which affect the real economy. I was at Tom's board meeting and one of the business people said--he put together a couple of comments--in effect that the employees base wage demands on inflationary expectations and he didn't feel he could pass [the higher wages] through [to prices]. Businesses have to pay higher long-term rates. Consumers, watching their home prices fall and their net worth fall with them, are not enamored of disinflation which they may view as deflation.

So, the frictions associated with adjustment to the low inflation regime are in part responsible for the recent increase in criticism of price stability as the appropriate goal of monetary policy. It was very popular in the 1980s when the economy was growing and after [the rapid inflation of] the '70s. Now, we hear a lot of talk that a little inflation is not only not bad but beneficial. I hear this talk around town from noted economists looking for jobs! We've seen recent articles questioning price stability in Business Week and the Economist, and I noticed in today's New York Times an article talking about the evils of deflation. It's also apparent that it's under some threat. Inherent in the gravitational pull of expectations is the risk of reverting to the 4 percent inflation that we've experienced for almost a decade. That would be unfortunate since we've paid much of the price to get inflation down and many of the benefits are ahead of us, secured only with inflationary expectations. In my view we're facing the critical period here with an improving economy, the prospect of fiscal stimulus, and very rapid growth in M1 which could turn into rapid growth in M2 and credit. And I think we're entering a period of tension, a battle between actual inflation and expectations, with pressure to revert to 4 to 5 percent inflation and fulfill those expectations.

So, near term I think it's important to be vigilant and guard against another swoon in M2 growth. But we also need to be wary of the risks on the other side. When this does turn around, it could turn around quickly and we could risk losing the hard-won gains we've achieved and we could be back at ground zero very quickly. In particular, in terms of the upside risks, one can posit a scenario with the economy gradually improving to the 3 percent level next year, with the headwinds diminishing, with years of pent-up demand coming into play, and with a large fiscal stimulus that I think this Administration was elected to do. I think the stimulus package will be augmented by pent-up demand in Congress. That's likely to hit in late 1993 on top of an economy at 3 percent growth with credit demands picking up, turning narrow money into broad money and credit growth. And it's not inconceivable to me that in late 1993 into 1994 we could have an unsustainably strong upturn that could pretty quickly eat away our sense of slack. I view that as the medium-term problem, not the near-term problem. I still would acknowledge in the higher long rates, the higher dollar, and the weakened world economy the downside risks in the current environment. But we may soon be moving into the position where the upside risks could become paramount. It does concern me that the new Administration and Congress still view this economy as one that is in recession, as if we had negative GDP growth. It is important for us to keep in mind that we're at a 2-1/2 percent growth level and I think that argues for caution at this juncture.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. From the District perspective, things are continuing to move forward in a general way. We have some pockets of considerable strength. There is an area called the golden triangle down around Cincinnati to Lexington and over into Tom's Melzer's District in Louisville that is very strong, with very low unemployment. They talk about labor shortages and attracting people from other areas. Around Columbus, Ohio, business conditions are very strong. Even in the areas where we still have notable layoffs--300 people, 500 people--we still see some [overall] growth in employment.

There are other non-notable increases, the non-headline catching kind of things, that are producing jobs to offset the contractions we are continuing to see at big firms.

In talking with small business people around the District, I have noted a general improvement in their tone. Their exports are doing well and they feel their order books are solid. When I ask them about inflation expectations, that group consistently tells me that they see no inflation in their businesses, and that's reflected in their wage packages. They're talking about 2 and 3 percent increases in [total] compensation, matched they hope by productivity because there is no price increase factored in. When I talk to the banking community, though, the talk is consistently about pay increases in the 4 to 5 percent range, reflecting their view that inflation is going to stay in the 4 to 5 percent range. And I think the difference between the inflation rate people are basing their actions on and what we are seeing in the numbers is the critical challenge for the period ahead.

We're getting pretty good retail sales numbers not only in the District but from all those major companies headquartered in the District; the latter reported very strong numbers in October as we now see in the national statistics. They also report improving optimism about Christmas. There was a recent slump in retail sales, though. In the first 10 days of November there was a surprisingly strong and uniform drop in retail sales; no one has much confidence in saying whether it was a temporary thing or something more serious. We are continuing to get pretty good housing activity around the District. So, overall, the tone has generally been pretty good.

Turning to the national side, I'm not sure I have anything to say about the future because I'm still struggling to understand the past--the last year and a half or so at least--both in terms of what is perceived in the economics profession and especially by the incoming Administration and the new Congress about what the role of fiscal policy has been and what the role of monetary policy has been and, therefore, the conclusions they come to on what policy should be in the future. The discussion about fiscal drag has been interesting, that is, the deficit problem and how it has retarded economic activity through various channels that have affected overall aggregate demand and maybe certain sectors or regions. Now, the idea is that there's going to be some type of fiscal stimulus. Especially if it's viewed as aggregate demand--increasing total spending in the economy rather than affecting a specific region or sector or target industry, which it certainly could do--I'm not sure in my own mind how that will come out and [what its implications are for] monetary policy.

The monetary [side] is much more intriguing for us in that since the ending of the Gulf War there seem to have been two major rival conjectures about what the economy otherwise would have done and what the role of monetary policy has been. One of them is that the economy was poised for a cyclical recovery and a normal kind of expansion after the Gulf War and was held back, especially by a monetary policy that was not sufficiently accommodative. That is the [conjecture of] people who had the view that a broad measure of money --M2, M3, or something--retarded total spending. The alternative conjecture is that the economy was subjected to a number of very major depressing forces, including possibly fiscal policy--the unwinding of the defense buildup of the '80s--the winding down of commercial

construction employment on the two coasts in particular, and the balance sheet adjustments going on in business and households alike. In that view monetary policy was actually quite expansionary to prevent an even more severe contraction [which would have occurred] had monetary policy not been cushioning these down-draft effects. That suggests either that monetary policy is best summarized simply by how far short-term interest rates have dropped or by how rapid growth in the narrower measures of money growth has been. If this latter view is correct, then the critical thing for us is to ascertain when these depressing forces are starting to attenuate so that we know when is the right time to pull back on this massive amount of monetary stimulus that that hypothesis implies. Whereas if the former [view is correct]--that the broader measures best summarize the thrust of monetary policy actions in regard to the retarded economic activity--then the challenge still is to get within our target range so that we're not a negative force affecting the economy. Some think that those are [ir]reconcilable, but I think our challenge now is to reconcile them and to set our objectives for '93 in some clear fashion, based on which of those views we believe.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. I don't have a lot to add to what has been said around the table. I think things do feel a little better, as most have observed. I would side with those who also have observed that it's probably a little premature to declare victory. But certainly both the performance [of the economy] and the outlook are better than many had expected a couple of months ago. There are, as Governor Mullins and others have noted, some scattered signs of pickup in commercial loan demand, which is something we haven't seen for a long, long time. Going back to the Ninth Federal Reserve District, I can confirm that there will be at least one housing start in Montana in November because I caused it. All in all, my observations and sentiments are pretty much in line with what has been said around the table.

The point that Dave [Mullins] was making regarding attitudes about inflation and price stability having changed is very interesting. We had our academic panel into the Bank a couple of weeks ago. This is a pretty good group of people and a good cross section in terms of philosophies and ideologies. There was just no sympathy at all from any of those people for doing anything to try to drive the core inflation rate down from a 3 percent level. That didn't surprise me coming from some of the fellows in Mr. Syron's neck of the woods, but there were among this group a couple of real old line, very conservative monetarists--people like Phil Cagan for example--and even he didn't want to hear it. And that is a change in attitude. Now, fortunately, these people aren't the only arbiters in this area, but it is interesting, given where we are today, that the perceptions about the costs of trying to engineer further reductions in the core inflation rate are clearly viewed a little differently today than they were several years ago.

The only other thing I wanted to mention, Mr. Chairman--and maybe Ted Truman could help me out here--is that my assessment of the outlook in Germany and Japan over the next three to six quarters is really pretty grim. It's not at all inconceivable to me that performance in both of those countries could be distinctly south of

the current IMF or OECD forecasts. That possibility has obvious implications for our economy in terms of the outlook for both exports and imports, but it also seems to me to raise some second-level dangers, including those on the financial side and perhaps especially on the trade side. Ted, I wonder if you would share with me and the others your sense as to whether that admittedly quite pessimistic possibility is something that we should be worried about.

MR. TRUMAN. Well, I don't think one can exclude it. Our outlook has been decidedly less optimistic than the IMF's or the OECD's for that matter. Certainly in the case of Japan we see essentially no growth--a bit above zero--through the middle of next year. For Germany we are a little more optimistic than some of the forecasts we now see coming out of Germany itself, though it may be that we have assumed that the Bundesbank might do a bit more in the meantime. But I think [the possibility] is difficult to dismiss; a one standard deviation in the negative direction gives you a quite gloomy outlook in this situation. We obviously don't have a lot of positive information suggesting that a turn is coming, and I think you're absolutely right that the feedback effects of a period of European stagnation on top of what they've just gone through in terms of trade relations and so forth could be quite disruptive not directly to economic activity but to the [economic] environment and, therefore, real activity. Japan, of course, continues to be a question mark. The Nikkei came down below 16,000 though it's back into that range, which makes things a little dicey. They seem not to be making much progress.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, when David Mullins was speaking just a minute ago he was referring to several noted economists who think that maybe a little inflation wouldn't be such a bad idea after all. It occurred to me when he said that that maybe a definition of a noted economist is one who abhors [monetarism]. I have been thinking a bit like Jerry Jordan, reflecting on the flow of events of the last couple years. Someone wrote that history is a river; it flows out of the past and into the present and on to the future.

Last meeting and before then I guess, Mr. Chairman, you said that you saw us as being poised between one of two models of the economy: Either it is in a process of refreshing and rebuilding or else it is going to seize up. I have to say I am becoming more optimistic all the time. It seems to me that if the economy were going to seize up, it certainly has had every chance to do it. The most amazing thing is that it has not seized up, given what is happening; I think it indicates an underlying strength in the economy that is just remarkable. If you'll forgive me for running this litany that you're all familiar with, just consider the things that have happened in the last several years and are still happening. None of these things has gone away; all of the drags [on economic activity] are still in place and are still playing through: the de-leveraging phenomenon [goes] all the way through the different layers of the economy; the restructuring [continues], with the attendant heavy job losses and the heavy burden that has been on confidence [unintelligible]; and absolute depression [persists] in the construction and real estate business--a very big industry--with all the implications there. One of the throw-offs has been consumer

confidence, a decline in confidence through the wealth effect on home values. We have been through a banking trauma which in an earlier era would have caused what would have been described as a "crash," I'm sure, and we'd still be deep into it just on that alone. We're going through a defense slowdown, another big industry; that industry is absolutely in decline but even more than that its composition is shifting with various displacements going on which I think in the short term are every bit as much of a drag as the actual decrease in volume. A newer factor, of course, is this world economic slowdown that is going on, weakening our exports which had been helping us in earlier years. Now, that's a lot of stress on an economy. And every one of those factors is still there; they are still dragging on the economy and they've all been at work for a long time except that last one, which may be just coming into its own.

So, where are we? What has in fact been happening? Well, in the last nine quarters the first three of them were negative on GDP and the last six have been positive. Two of the last three quarters were +2.9 percent and we have what now may be 3 percent or more GDP growth in the most recent quarter. We're probably going to have 2.3 percent or more growth in GDP for the year, and that's not too shabby. We are now on new high ground; we're not in a recovery anymore, we're nearing an expansion as of the numbers of the third quarter. Our financial structure as a nation is strengthening in both the financial and the nonfinancial sectors as a result of the hesitancy in the banking industry and the de-leveraging. I think one would have to say that our competitiveness and our productivity are going up largely through this restructuring process. The banking system has certainly been battered but it's in place and hopefully wiser; it's certainly more fully regulated, heaven knows! And it is earning record profits right now. Inflation is coming down and it's into the range where we're beginning to talk about having achieved price level stability. On balance most of us here around the table this morning consider the latest news to be upbeat. I'm sure the economy could still seize up; I don't want to suggest that there's no reason for concern. But the longer we have the kind of results we're seeing, the less likely that is and the more it seems that we are indeed in a refreshing [stage of] rebuilding that I think displays an amazing underlying strength in this economy and one we can depend on as we look into the future.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Mr. Chairman, it seems to me increasingly evident that the economy continues to be moving in a positive direction, albeit at a very moderate pace, which looks to be consistent with further progress toward price stability. My impression is that the election has probably had a favorable effect on consumer confidence due in part to the intense media attention to expected stimulative actions on the part of the new Administration and an almost magical disappearance of the media's former obsession with unemployment and layoff announcements. Nonetheless, corporate restructuring, and particularly debt reduction and administrative staff reductions, will continue. I believe that spells out the [basis for] longer-range improvement in U.S. competitiveness. Many of the indicators are on a more favorable trend line. Corporate profits, while spotty, are generally better. The banking system is in better shape as measured both by its balance sheet values and by banking profits, which are probably at the best levels in more than two

decades. Having said that, we certainly have not yet seen the full impact of the slowdown in California reflected in the banks that have a heavy stake there. The general tone of the financial markets I believe is resilient, and those markets have weathered a lot of the things that Mike Kelley was just talking about. To be sure, higher dollar exchange rates and softer economies among our major trading partners don't indicate a major boom for the export sector. It seems to me that the Greenbook forecast is on the money, if that's not an improper usage [of that expression]--

VICE CHAIRMAN CORRIGAN. Hardly a venial sin! [Laughter]

MR. LAWARE. --and consistent with my own analysis and the anecdotal input that I've been hearing. However, consistent with the suggestion of Don Kohn's recent memo, I will not further telegraph my [policy] views!

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. We have had a rather sustained six quarters of doom and gloom and yet the economy has continued to move along at an average rate of 2-1/4 percent over that six quarters. In spite of all the talk about forward and back and double dip or triple dip, we really have not had as much variability in real GDP as normally occurs. So, the economy in some sense is doing pretty well given these conditions. As for the downside risk, I share the view that Jerry Corrigan has mentioned. It does seem to me that the pace of developments--not only monetary policy but other policies and outcomes --in the United States is somewhat out of step compared to developments in Europe and Japan. While commodity prices seem to be very subdued in dollar terms--in fact to some extent one might say they are still on a very slight downward trend, with a decline of maybe 1-1/2 percent at an annual rate over the last four years-- nevertheless, wholesale prices in the United States are not responding nearly as well as one would expect under those conditions. That is, the rate of change in our finished goods wholesale prices year-over-year has been stuck in the 1-1/2 to 1-3/4 percent range for some time. In contrast, even though they have much higher wage and price inflexibility, the year-over-year rate of change in wholesale prices in Germany is -1.6 percent and in Japan -1.3 percent. And the Bundesbank is very upset about a 3-1/2 percent inflation rate as measured by their year-over-year CPI. Yet, somehow or other, we are at 3.2 percent and maybe that's [viewed as] okay.

I'm wondering with this GATT round--and we all seem to dispute where it [stands]--how much danger we're in with regard to a continuing rollback of trade openness. With this kind of slow growth that the world is experiencing--and I think that's reflected in commodity prices--I'm wondering whether or not we really are on a much more dismal path toward protectionism than we may believe. I'm wondering if Europe and Japan may be closer to zero in their real growth. I'm wondering what that means for world capital markets if the United States is able to achieve 3 or 3-1/2 or possibly 4 percent real GDP growth. It seems to me rather unlikely that we could get up to that level of GDP growth with [the economies of] Europe and Japan as slow as they are. But I think there is considerable risk that the capital markets, and indeed politicians here, may not be willing to accept a rising trade deficit for the United States. If under those

circumstances we have a restrained U.S. trade position, and if the GATT round does not get done in the next two or three weeks, we could be in a very, very difficult [situation]. I also wonder about world competitiveness under conditions in which many countries continue to have an industrial policy. And there are those in the United States who I think are somewhat more inclined in that direction. What happens to capital markets and what happens to profit margins when we have these kinds of competitive conditions worldwide? Do we find other industries falling [to] the same world profitability level that we've seen at times in steel and coal and ore? Are our airline profitability rates in significant danger of being repeated [in] automobiles? How long can we go on with Boeing and McConnell Douglas and other aircraft manufacturers being in somewhat of an up stage while we're watching these airlines and the major leasing firms have their difficulties? So, I'm not worried as much about a double dip or triple dip as I am about an expansion in the United States that is in some sense unsustainable given world conditions. It seems to me we might have to ask questions about a true recovery, a true expansion, but one that is not sustainable in a world undergoing severe trade restraint. So, I continue to find things to worry about.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Well, perhaps echoing a lot of the comments that have been made around the table, I think we're certainly entering what I call a crucial time to assess a potential shift in direction. We've all been very cheered by some of the recent positive, although tentative, reports. I think many of these positive reports are due to the accommodative monetary stance that we have been in over the last several years. Some of that is beginning to pay off, certainly in the GDP; and we're starting to see life in M2 and even some loan activity, although some of that is anecdotal at this point. Consumer confidence appears to have turned around and certainly the inflationary situation at least [in terms of] current inflation is much improved, although, as David notes, this dichotomy between inflation expectations and current inflation continues to be troubling.

In spite of this generally improved atmosphere in tone, there's still considerable room for caution. I continue to be troubled by the labor market situation. Although we've seen some improvement in the unemployment rate, we are still seeing declines in aggregate employment. We are still seeing major restructuring in a number of industries, with permanent job losses which are being reflected to some extent in real disposable personal income. Although we've seen improvement recently in industrial production, it has not improved in the aggregate over the last few months. While the banking situation has improved--maybe somewhere between "somewhat" and "considerably"--there is still some fragility to the banking situation, and we are going to have to watch that very carefully. It's not clear when this restructuring process that we've all talked about is going to wind down. There is still considerable room for restructuring in the defense industry and in some of the major, Blue Chip companies. We mentioned GM around the table today but other major corporations are going through restructuring, and that probably is going to continue to hit the headlines.

The export situation is also a source of potential concern. Japan and Germany have been mentioned and the German question could

probably be broadened to more of Europe. While our export situation may not have been saved, it has not been as bad as it otherwise would have been because of the improvement in some of the underdeveloped countries. It's not clear how much more some of those underdeveloped countries can continue to expand. In summary, while I'm cheered by the improvement, I think we have to question whether it is a sustainable start or whether we are heading for another potential swoon. I do think we will have a fiscal package; it's only a question of size and shape, but it is coming. If the economy is continuing to improve, I would think the new President is going to want to get out ahead of that and be able to take some credit for it. So, we're likely to see a stronger situation in the medium term. The short term, though, I think still remains at question.

CHAIRMAN GREENSPAN. Thank you, Governor. Coffee is available for us.

[Coffee break]

CHAIRMAN GREENSPAN. Unless somebody has an objection, [I assume] it is acceptable to continue on and complete the short-term issues before we go to the ranges for 1993. So, I would conclude that unless I hear an objection.

MR. LINDSEY. Mr. Chairman, I think the issues are linked.

CHAIRMAN GREENSPAN. They are, but the question is which do you want to do first?

MR. LINDSEY. Can they be discussed simultaneously?

CHAIRMAN GREENSPAN. Do you want to say something, [Don]?

MR. KOHN. I couldn't hear what Governor Lindsey said.

MR. LINDSEY. It is my view that the issue of the ranges for next year and the short-term decision with regard to fed funds are linked issues. I was wondering if it were possible to discuss them simultaneously.

CHAIRMAN GREENSPAN. Well, the answer is yes we can, but if we're going to do that, I think it would be appropriate to stay with the schedule that we have here and basically to deal now with the ranges or at least the [briefing by] Don Kohn. I'm a little concerned about all this since there is a technical problem about trying to merge these into a single discussion. I'm not sure that it will work. I'm willing to try, but I'm not convinced it's a good idea. Why don't we try it your way and go forward. We may find that it will require us at some point--I reserve the right as Chairman--to alter the procedure in mid-course if it will speed up the work.

MR. LINDSEY. Okay.

MR. KOHN. We're going to start with the long run, then?

CHAIRMAN GREENSPAN. Yes, why don't you start with the long run and raise the issues. Then we'll try to integrate them [and] see

if we can conclude the short term and then go to the long term for a final decision.

MR. KOHN. I actually have two briefings here on this. One possibility, Mr. Chairman--if the Committee has the patience, since it will take about 15, 16, 17 minutes combined--is that I could read them both.

CHAIRMAN GREENSPAN. I would suggest that that's the ideal procedure.

MR. KOHN. Okay, hang on. Here we go. [Laughter] Everyone has had coffee, so we may be able to make it through! I'll start with the long-run ranges. [Statements--see Appendix.]

CHAIRMAN GREENSPAN. I'll try to cover both aspects myself; I frankly don't tie the short-term decision and the long-run ranges together, but some of you may. In that respect we'll see how things materialize.

I must say that my impression with respect to the ranges is [along the lines of] what we suspected we might have to do back in July but we were not sufficiently cognizant of the forces that were driving money at that time, which we are today. If one looks at the old opportunity cost relationships and the sharp divergences that have occurred between velocity and our old opportunity costs, it's fairly obvious from the patterns that have emerged in the most recent period that had we known back in July what we know now we would implicitly have factored in a significant rise in velocity and, accordingly, we would have had a much lower range of M2 consistent with the nominal GDP numbers that in fact have pretty much materialized as expected. So, the question of whether we should revise our ranges down in my judgment is not really a choice between whether we should or shouldn't but by how much and when. I myself am inclined to be a little more cautious than the projected alternative II of 1-1/2 to 5-1/2 percent on M2; I'd much prefer 2 to 6 percent myself, but it's obviously not a big deal one way or the other. I think the more interesting and difficult decision is when.

Obviously, if we do it now, we can phrase it for what it is: namely, a technical adjustment we should have made back in July. But as we said then, we felt we needed more information and we said we would respond at a later time. Indeed, we could do that now. The disadvantage of doing it now is that it is [more] difficult to get the message out that this is really a technical adjustment than it is if we do it in Congressional testimony in February under the usual procedures. If I were sure that we could get the message out now in a form that I think is necessary, I frankly would be inclined to do it now. But I'm not sure that that's feasible, and I'd be most curious to get everyone else's view with respect to this question. But I do think it would be difficult not to lower the ranges after the Feinman and Porter study and after what we indicated was the nature of our discussions in July and the considerations that we had. My recollection is that what we stipulated back in July almost requires us to lower the ranges at this stage, granted the type of velocity changes that we were contemplating at the time. But I don't tie what we will do with respect to the ranges in any way to what I think our short-term considerations are today with respect to policy because I

don't think it's a monetary policy question. I believe it's strictly a technical question, and I myself would like to handle it in that way if we could.

With respect to short-term policy, you may recall that we came out of the last meeting with [a directive that incorporated] hard asymmetry toward ease, with the basic presumption that the Desk would ease in the intermeeting period unless the economy showed significant improvement. I mentioned at the time certain key developments. Specifically, as I recall, the one that had been worrying me the most at the time of the last meeting was initial claims, which had been moving up and suggesting that the economy was in fact beginning to go into a cumulative erosion. If that were occurring, we would have expected claims to move up to the area of 500,000 weekly, adjusted for emergency unemployment claims, and perhaps penetrating above that. In the event and almost immediately, initial claims turned in exactly the opposite direction--and I might say in a rather credible form in the sense that the level came down successively week-by-week and it was matched by levels of insured unemployment that also were exhibiting that same phenomenon. We were also looking in the same context at other elements underneath those data which certainly were indicative of apparent changes in the labor market, as reflected in the income and product accounts and in [other] broad measures of economic activity that we generally watch. It was fairly apparent that the motor vehicle sales numbers were impressive. The retail sales figures--granted they could very readily get revised again and again--were capturing a [more positive] tone. And, unless we are reading into our various District reports the actual biases coming from the national retail sales figures, I must say the reports we heard today from the Districts are quite consistent with the data that we're seeing on the national level; there does not appear to be an inconsistency. And the evidence of shortfalls in inventories in the retail area prior to the Christmas season is giving a general tone of much lower levels of discounts than we saw last year. That is as good a measure as one can get about the tone of the Christmas selling season.

The general short-term outlook strikes me as clearly [pointing to] a modest upward momentum. I don't think we have seen any evidence of this economy seizing up, as Governor Kelley indicated. I'm not saying that it is moving forward at an accelerating pace, but it seems to be gathering modest domestic support. I would point out that there are several characteristics of this [situation] that do create risks on the up side. The first is the old, classic inventory lead-time relationship. Remember that lead times on deliveries of materials are very short and that backlogs as a percent of shipments have been coming down; this is increasingly a just-in-time type of economy. If we get any pressure on that system, it means that minor bottlenecks begin to occur. That very easily can happen in the United States where the travel distances are so great as distinct from Japan where just-in-time means people just throw it over the wall because everything is close together. That's not true here. It is not inconceivable that with all the computer technology we could still get modest pressures, which would start to move lead times out. Once lead times start to lengthen, purchasing managers start to order further in advance and that's the old classic inventory cycle which opens up profit margins, engenders increased capital investment, and creates the type of environment which historically always looks after the fact

as if it were unforeseeable. In other words, we sit here now and say that nothing is really moving except a little in housing and a little in retail sales, but [the improvement] is offset by weakness in exports. I've been through many of those cycles; in fact a lot of you here whose hair is as grey as mine--and maybe some of you have more of it--have lived through the same phenomenon. It's very difficult to see that phenomenon in advance. It comes on fairly quickly and it is not easily foreseeable.

Superimposed on that is the virtual inevitability of an investment tax credit. The Clinton people have committed themselves to it not as a short-term device, but as a permanent long-term vehicle. I forget who mentioned this earlier, but once tax hearings start things begin to get very interesting. I don't think we fully understand the extent to which there are pent-up constituency pressures in the budget process which are really going to be unleashed once the Congress is [in session] and everything is in play. The belief that President Clinton is going to be able to constrain that phenomenon is not well based in history. [Laughter] And the issue of effectively putting President Clinton in a position where he may well end up vetoing everything in sight for a period of time is not a scenario we can just discard because he is going to have to impose himself on that process or it is "deuces wild" as we used to say, and things could really begin to move. That clearly is not something we all are looking at with any degree of benevolence.

Having said that, there nonetheless are quite significant negatives in the world economy. No disinflation is occurring out there, but we see the makings of a world economy being on the edge of deflation. As Jerry pointed out, the Japanese and German economies are in much less viable shape than is suggested by the conventional wisdom. There are very significant downside risks if for no other reason than that [the existence of those risks] is not the conventional wisdom in those countries and I don't think they are in control of how they would react psychologically if everything began to come up short. There's unquestionably a convergence of the [unintelligible] process in the European Community that is involved, and it is important to recognize that the endeavor to converge the EC [economies] has all the aspects of constraints of one form or another, which can have a major impact over there. The spillover effects into the United States are very difficult to [ascertain], but we are seeing clear evidences, mainly in the last several weeks, that the European/Japanese [unintelligible] system is really weakening. I would only [point to] two specific indicators, which we don't [usually] look at all that much: the commodity price trends, specifically in metals in the last number of weeks, and the price of gold, which we very rarely take into consideration. But when we remember that gold is and probably always will be a true measure of the sense of people's view of paper currencies, then we get gold prices under pressure at the same time that commodity prices are moving. Granted, it is less in non-dollar terms [but] it is suggestive of the fact that there's a psychology that is consistent with an EC convergence. And the restrained attitudes in Japan about expanding are rather graphic. When Ted Truman and I were over there a while back, I was impressed by the extent of the optimism that pervaded in spite of all the awful numbers we were seeing. I must say that made me uncomfortable because there were no countervailing forces out there. It's always dangerous to have optimism if it doesn't work.

The issue I find the most difficult to deal with is the one that David raised: namely, the question of short-term non-inflation but longer-term inflationary expectations still embodied [in interest rates]. One would think we could arbitrage this in some way, but it doesn't work. We've seen that in the past. Remember how long it took in 1979 when inflationary pressures were really roaring away and the rates on long-term U.S. Treasuries just kept sitting close to the 6 percent area?

MR. ANGELL. 9 percent.

CHAIRMAN GREENSPAN. No, I'm talking about earlier on.

MR. ANGELL. 1979?

CHAIRMAN GREENSPAN. Yes.

MR. ANGELL. I think they were pretty well stuck at 9 percent in '79.

CHAIRMAN GREENSPAN. Well, maybe I'm thinking of slightly earlier.

MR. MULLINS. In the mid-'70s. For 10 years they had underestimated inflation.

CHAIRMAN GREENSPAN. Yes, and then all of a sudden--I think it was from mid-1979 for the next six or eight months--long-term yields went up 400 basis points or something like that.

SPEAKER(?). That's right.

CHAIRMAN GREENSPAN. What that told us is that these things don't happen slowly; they break. I have a suspicion that what we have here is the reverse: namely, that at some point if short-term inflationary pressures stay down, this is going to break and hopefully it could break in a positive direction. But as a consequence of all of this, we have a very unusual situation where the United States economy does seem to be crippled in the short term; I don't believe we have the characteristics of a double or triple dip; I don't think we're seeing that. While we saw shortfalls in growth before, that was in a context of very severe debt repayment and debt pressures; while they're still going on, I think they're going on to a lesser extent. And the stirrings in the bank loan markets are suggestive of this particular process. Clearly, while we have great qualms about the money supply data indicating very much of anything, they are nonetheless suggesting, if not clearly, that the balance sheet [adjustment] processes are reasonably completed at banks.

In summary, as I indicated before, I would look at the ranges independently. I would prefer, although I don't feel strongly about it, going with 2 to 6 percent [for M2] and I would be slightly inclined to wait until February rather than to try to do something now, but I don't feel strongly about that either. Looking at the short-term outlook and listening to the general discussion, I would say that we should hold policy steady. I would be somewhere between asymmetric--not the hard asymmetric that we were on last time--and

symmetric, but I think the range here probably isn't very wide. I'd be somewhere in that particular area. President Parry.

MR. PARRY. What precisely do we owe the Banking Committee?

CHAIRMAN GREENSPAN. We don't owe them. The reason we are discussing this today is that it was part of an agreement reached within this Committee.

MR. PARRY. But didn't you tell them that?

CHAIRMAN GREENSPAN. We said "we might."

MR. KOHN. Yes.

CHAIRMAN GREENSPAN. We didn't promise.

MR. KOHN. The particular wording in the testimony was "no later than next February."

CHAIRMAN GREENSPAN. We suggested that we might review it before but we never made a particular promise. The only promise we made was to ourselves to review.

MR. PARRY. Okay.

MR. KOHN. And Chairman Greenspan sent the Feinman-Porter study to the Committee chairman.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Mr. Chairman on my preference for the short-run specifications, I agree not only with your analysis but also with your policy, although for me it's a preference for "B" symmetric under the conditions that you outlined. As you described the risks, it seems to me that the risks are pretty balanced. So, I think symmetric language really is more apt to describe where we are.

In regard to the ranges for 1993, I agree with you that the technical conditions have changed. Unfortunately, we stopped the policy of [making yearly] 1/2 point declines in the ranges that we had been doing a while back. I would prefer that we go all the way to 1-1/2 to 5-1/2 percent. Let me tell you why. It seems to me that, when we have a forecast calling for 2 percent M2 growth for 1993, starting in with a forecast right [near] the bottom of the range doesn't give us much [room] for errors. V2 could be slightly stronger than we expect as well as slightly weaker. Under those circumstances I'd hate for us to run the risk of being below the target range when the economy might be performing in such a manner that we believe we're on target in regard to the economic performance, including price level stability. The second reason I would favor the 1-1/2 to 5-1/2 percent range is that I don't think it's going to be easy for us any time to make downward changes in the ranges. So it seems to me that when we're making a downward change, we might as well make it what we need to make it at the time rather than be faced with having to do it later on. The third reason that I prefer the 1-1/2 to 5-1/2 percent range is that it gives us a midpoint of 3 percent. And if Mike Prell's forecast on inflation is correct, then that 3 percent midpoint might

blend in to a long-term stable condition that would be conducive to this alteration of expectations. I agree with you that a break in expectations that would get long-term rates to move down--think about what the 30-year bond at 6-1/2 or 6 or even possibly 5-1/2 percent would do for us in regard to growth--is very, very important. The fourth reason that I favor 1-1/2 to 5-1/2 percent is that what you said about inventories is certainly very applicable. If we get an investment tax credit, if we get inventories moving, and the economy turns out to be a little stronger than it needs to be, and we have V2 where we think V2 will be, then we might find ourselves in the position of needing to tighten. And I don't think that would be a good idea. I would prefer when we need to tighten to have a possibility of [M2 growth] being at least in the upper half of the range. So, the 1-1/2 to 5-1/2 percent range gives us that advantage.

As for timing, with a new Administration coming in I think there's a real advantage to them in regard to their planning process to know what we know: On the basis of this study that we now have available, we do not think of this as a monetary policy [issue] as much as we think of it as a technical adjustment to the changing way that M2 works and responds to short-run opportunity costs that we control. So, I think it's very important that we provide the information when we know it and give ample time. I agree that there's a slight disadvantage in not having the testimony immediately. [But] the members of the Banking Committees and their staffs will have good memories and will give you ample opportunity to be heard on this question come February. When I envision your answering their questions at that time, I see it as easier for you to be answering them saying: "Well, this is what we told you as soon as we had the study in on what we knew and this is what we told you as soon as we knew about the third-quarter GDP and third-quarter V2." So, to me, it's easier if we do it now.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. First, I thought the Feinman-Porter study was very, very good. It serves the Committee very well, giving us good input. Also, in terms of the broader discussion, I am very happy you are making the study public because a lot of the issues [of concern] in the profession will be helped along by having it available, and that's very constructive. I'd like to ask a couple of questions. Have you tried to simulate the Greenbook expectations about longer-term interest rates and what it would imply for monetary growth?

MR. KOHN. Yes, we have. I think it was indicated in a footnote in the cover memo, although I guess that was for the last Greenbook. Under the current Greenbook assumptions of nominal GDP and short- and long-term interest rates, depending on whether we use the narrow or the broad model, we get about 2-1/4 percent M2 growth for 1993; [it's] 2-3/4 percent M2 growth under all the Greenbook assumptions using the Feinman-Porter model.

MR. JORDAN. So, you get 1/2 or 3/4 of a percentage point--

MR. KOHN. I'd say an average of 1/2 point. But one reason we [projected M2 growth] below that was because that model does not take into account some things coming into play like the FDICIA

[provisions] and the RTC and whatnot. So we put in a slightly [larger] velocity increase for 1993.

MR. JORDAN. I'd like to ask Bill McDonough about views in the markets. At the time of the last meeting longer-term rates were well along the way in the direction of moving down as the Greenbook has been suggesting, consistent with the idea that inflation expectations were coming down with observed lower inflation rates. Since then we've had some backing up in rates explained as fiscal fears which somehow feed into bond markets. That's one version of the explanation. I'd be very curious as to what you think the people out there dealing in the markets are thinking. One version is that the fiscal package per se is somehow inflationary so people build that into bond yields. Another is that the fiscal environment causes monetary policy to be more expansionary and more inflationary and that gets built into the bond market. Another version--a few people have been commenting in this vein--is that longer-term prospects for real growth are improved, so with increasing real incomes and real productive capital there will actually be an increase in real rates, in which case we shouldn't expect to see them coming back down. Finally, there is the "tomato" theory of the bond market: that the increased supply of the new crop of bonds coming with bigger deficits will depress prices, and because this bigger deficit has to be funded we will have higher interest rates. Would you comment on which among those [explanations] you think dominates?

MR. MCDONOUGH. I think the mass of market opinion is somewhere between your possibilities one and two or a combination of those. The single greatest driver to the backup in rates across the yield curve was initially the view that, whoever won the election, there would be a fiscal package early in 1993. I don't think the markets have the benefit of Governor Lindsey's memory of the fact that it [usually] takes a while. They think it will happen like that. There is, I'd say, a [less prominent] view in the market that the Federal Reserve would go along and monetize this increase in fiscal spending. I do think that's [held by] a rather definite minority; most bond market participants feel that the Fed is dedicated to the notion of working toward greater price stability. I think some of the articles you're reading are meant to throw hand grenades in our path so that the Committee will be tempted to think that continuing the drive toward a reduction in inflation will involve too high a price. That's in a way a compliment; [it supports] the view that the Committee, left to its own devices, will continue its anti-inflationary efforts. These articles are trying to increase the political, psychological--or whatever the right adjective is--[cost of disinflation]. There's very little market [support for] your third possibility and some for the "tomato" theory, your fourth one. But mainly the view is that a fiscal package is likely and that the fiscal package will automatically be inflationary.

MR. JORDAN. Given that view, then, the only thing that can help bring those expectations down is first to see the fiscal package and then to see that inflation doesn't pick up, which means we can do very little but wait for it. I imagine if there were immediate action by the Committee on rates right now, it would be a surprise to the market and have a subtle effect of some type.

MR. MCDONOUGH. Yes.

MR. JORDAN. On the other hand and separately, if there were a decision by the Committee to lower the target ranges for next year, by itself that might have very little, if any, positive effect and maybe none at all. If the two were coupled, would that tend to have any kind of neutralizing effect? Would the potential negative effect of lowering the target range, with perceptions of more restrictive policy, [be offset by] the "lump of sugar" of near-term easing action and make [action to lower the targets] more acceptable in the Street?

MR. MCDONOUGH. I think the near-term easing action would get about 95 percent of the Street's attention. And there could be a rather unkind view of why you coupled the two, i.e. that you were trying to fly the anti-inflationary flag and to couple it with the decrease in order to--going back to the theological discussion early in the meeting--have sin and virtue combined.

MR. JORDAN. Well, I think the range should be lowered to 1-1/2 to 5-1/2 percent for next year but I think the center should be 3-1/2 percent instead of Wayne's 3 percent.

MR. ANGELL. Well, I'm certainly agreeable to that!

MR. JORDAN. But a large part of [my reasoning] is that I think that's where the range should have been this year and that we would have been subjected to at least somewhat less criticism because M2 growth would have fallen within that range on the low end. I would like very, very much to see us within our announced target range next year, so we should choose a range for next year that we think M2 is going to be within. Clearly from what we've heard so far, it's a little more certain that we'd be within a 1-1/2 to 5-1/2 percent range than within a 2 to 6 or 2-1/2 to 6-1/2 percent range. Yet, on the shorter-term policy, I'm still partial to the idea of trying to [achieve] the target for this year to show that we have the resolve to stay within the upper and lower bounds of our ranges. And since we're below the target range for 1992, that justifies immediate action by the Committee coupled with lowering the range for next year.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. With regard to the long-run target ranges, I thought in July that it would be best to lower the [M2] range and I feel that way this time as well. It seems to me that the additional information we got from the study suggests that a cut in the range would be appropriate. And the staff projection of 2 percent certainly would support that as well. So, to me it would make some sense to cut it, and I don't see any harm in doing it now. I disagree with something a few people have said, particularly what Governor Angell said if I interpreted him correctly, that we could get some additional benefit as far as inflationary expectations are concerned by taking action now. I would say that would only happen if we didn't explain that it was based on technical adjustments. If we did say it was based on technical adjustments and people believed that, then we would not get any impact on inflationary expectations. So, my counsel would be to change it and not say a heck of a lot about it if we really want to get some effect as far as inflationary expectations are concerned.

MR. ANGELL. I don't disagree with that.

MR. PARRY. On the short-term policy, this has been another very interesting meeting. We've seen a dramatic change; there are many more people who now see a pickup or at least somewhat improved prospects in their Districts. Another thing I find very interesting is that very few people said they have changed their nationwide forecast. In fact, many went on to say that things have picked up but that their forecast is very similar to that in the Greenbook, with the notable exception, I think, of the Chairman who seemed to imply that he was a little more optimistic based upon his fiscal assumptions. If the forecast that most people agree upon is that of the Greenbook or close to it, which is not very much different in terms of real growth from what it was the last time and has been characterized in the past as being sluggish, perhaps too sluggish, what has changed? Unless we're going to make policy decisions on the basis of what happened to the economy in the last three or four weeks--if we're going to look instead at the longer term--what has changed? If nothing has changed, it seems to me that the case some of us made for a slight easing at the previous meeting is just as strong today as it was before.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. With respect to the long-term ranges, given the forecast for M2 and velocity that we have, I think there probably is a good case to be made for lowering the ranges. My preference would be not to be so dramatic as to go a full percentage point but rather a half point [on the M2 range]; that would mean a lower bound of 2 percent. The timing issue is of much greater moment to me. I agree with you, Mr. Chairman, that it is a technical matter; in fact, I would add that it's probably as much a political matter as a technical one. And I think it would be very difficult at this time to get the market to understand what the technical issue is. Moreover, in my judgment, it would be sending a signal that the Federal Reserve is going to be tolerant of monetary growth insufficient to support continued momentum in the economy. Now, the offset to that, of course, is that we might attempt to lower inflationary expectations. I really don't find the case very persuasive to deviate from our normal procedure, and [I'd] wait until February. The other advantage of [waiting] is that we wouldn't be sending a signal at this point. We're still in a period of uncertainty with respect to the economy. And even with the Feinman-Porter study, there is the chance that we might learn more about the monetary aggregates over the next two or three months. So, I think we would be better served by waiting and taking action at that time.

With respect to short-term policy, I think [economic conditions] have improved. Certainly, I see it in my District; and listening to the comments around the table, there is a much more optimistic view than before. But in my judgment, notwithstanding the fact that I haven't changed my forecast or I don't deviate very much from the Greenbook's forecast, the risks are on the down side. I say that primarily because of the international situation--the risks that you and others have pointed to with respect to the situation in Europe and Japan, which is fraught with some danger for us. For that reason, I would like to suggest that there be no change in policy at this point but that we have an asymmetric directive so that we can move in case that becomes necessary for international reasons or perhaps for domestic reasons as well, because I'm not convinced that what we've

seen recently is sufficient to cause us to claim that we're on the road to complete recovery.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Mr. Chairman, I'd like to associate myself with all the comments of my colleague, Mr. Angell, with one exception. In other words, I favor "B" symmetric and 1-1/2 to 5-1/2 percent on the range for 1993, but if I were in your shoes I would feel more comfortable with the February explication of that move rather than dropping it in here in the middle of an interregnum between one Administration and another.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, I have a strong preference for lowering the ranges by a full percentage point, although I don't think your suggestion of 2 to 6 percent would be all that bad. I don't think this is a purely technical issue, though. I think this [affects] our credibility. Governor Angell and I argued unsuccessfully for such a move back in 1991. In 1992 I did not argue for it because I thought we were clearly in a recession and it would look bad at that point. But I do think we would have done better if we had moved it back at that time. Now, the technical case is very strong. Don and his colleagues, Messrs. Feinman and Porter, have done a great job in showing that 1-1/2 to 5-1/2 percent is technically a very good place for the range to be. But that gives us just a little bit of margin. We would be just above the 1-1/2 percent lower limit if they're right in their assumption that 2 percent growth in M2 is what we would get and that velocity would behave as they suspect. But the 5-1/2 percent on the up side gives us a lot of room for movement in case the economy turns out to be stronger than they have assumed, and I believe that is one of the more likely outcomes. As far as the timing is concerned, it would look unnecessarily provocative if we did this now unless we were also to ease our short-term [policy] just a little and couple the two actions. I would prefer to wait until February to do it. I think we would experience less political flak if we did that.

So, I feel pretty strongly that we ought to go with "B," and I would like to see the directive made symmetric. If we do decide, though, to change the federal funds rate today and lower it a little, then I think we ought to go ahead and couple that with a lowered long-term range. I'm not as skeptical as Bill McDonough is about how the markets would accept this. I think there are a lot of people out there who would find that somewhat acceptable. But if we lower the federal funds rate, I think we definitely should lower that longer-run range or else we'll be perceived as having thrown in the towel on inflation. I guess I end up about where Governor LaWare and Governor Angell did on that.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. I'd like to start with the interest rate issue. I wasn't going to originally, but I was interested in Bill McDonough's comments and I don't mean to dispute them. The entire yield curve bottomed out on the day of the last FOMC meeting. Since then three-month bill rates are up 30 basis points; one-year rates are up 51

points; three-year rates are up 73 points; five-year rates are up 65 basis points; and ten-year rates are up 56 basis points. The headline in The Wall Street Journal, Section C, on October 7th said: "Treasury prices fall sharply on failure of Fed to cut rates and worries about new supply." On October 8th the headline was: "Treasury prices plunge on continued failure of Fed to ease, hedging of unsold corporates." Then we got a little rally on the 8th and the headline on the 9th was: "Bond prices finished higher on stronger dollar and renewed hopes for Fed interest rate cut." Then October 13th, that fine weekend that we all remember, started with Friday's headline about your talk in Virginia, Mr. Chairman: "Treasuries climb as Greenspan leaves door open for pre-auction easing." On the 15th it said: "Treasuries are mixed amid disappointment over economic reports and lack of Fed move." Now, as a Republican, I'd love to blame it all on Bill Clinton, but I can't. I have five headlines that tell me the opposite. Now, maybe they don't know what they're talking about but--

MR. MULLINS. Media bias.

MR. LINDSEY. Media bias in this case, okay. My first thought is about the direction of what the market is expecting. I will give a copy of the articles to those who want them. My mind was on headlines. So, Mr. Chairman, when you were making your proposal, I jotted down a few headlines [that might be used] if we were to cut the ranges and not cut the fed funds rate. I started first thinking about John Berry's piece--I don't know where he got it--about "The Fed gives Clinton the green light." Well, since The Washington Post is always right, they would have to change it to "Fed changes signal from green to red." For the Daily News, in honor of New York, I had a more provocative headline--I don't think Mort Zuckerman's ownership will change things--"Fed gives Clinton the finger." Then, in Section C of The Wall Street Journal the headline of these stories would be "Fed changes range to match policy miss" and the first sentence would be "Having failed to achieve its monetary policy targets during a recession year, the Federal Reserve today announced that it would change its targets rather than change its policy." I could imagine how the rest of the story would go.

I am very persuaded that the right thing to do here is to send the right long-term signal and send the right short-term signal as well. The story I would like to see is the green light. We should accommodate what the Administration wants to do and that is to give the economy a kick to get going. But that should be followed with "but we will not let it get out of hand." And that is exactly what a cut in the funds rate coupled with a cut in the target range signals.

The final issue is whether to do it now or in February. I hear the comments about it being less politically risky to do it in February when Congress is back. Frankly, that doesn't make a lot of sense to me. If we were to announce a cut in the target range in February just after President Clinton has made his speech to Congress or perhaps just after one of the houses of Congress has passed a fiscal stimulus package, I think The Washington Post might even pick up the Daily News headline. I think it would be that provocative. So, if we're going to do anything, I would do it now. What I would do is give the markets the right long-term signal and coat it with a little sugar to give the Administration the right short-term signal.

MR. ANGELL. You favor 1-1/2 to 5-1/2 percent? I didn't hear.

MR. LINDSEY. I'm for a cut in the range.

CHAIRMAN GREENSPAN. But to 1-1/2 to 5-1/2 percent?

MR. LINDSEY. I'm willing to be persuaded either way.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. I half agree with Governor Angell, but I want to tell you which half I agree with: It's not the short run. I listened to Mike Kelley's list and I must say it was an ample and fairly complete list; but there are a whole lot of negatives out there. One reaction I have is that it is a bit like what is going on in New England: It's amazing that anyone is still standing! It shows the resilience the economy has, but it still tells me that there are a lot of factors imposing a drag. We have seen some movement forward in the last month. But coming back to what Bob Parry talked about with respect to the forecast in the Greenbook--I know it does not assume anything on fiscal policy and I think we have to act on that basis because we don't know when it's going to come and we should do what's right for monetary policy instead of trying to game that--I don't consider the Greenbook outcome an adequate one. Particularly, I don't think we're going to see any sustainable, comfortable momentum in the economy going forward until we see some improvement in employment. That's as much because of people's concerns about their employment prospects and the insecurity that casts over many people as it is the data themselves. Beyond that, with this Greenbook [forecast], even the period going out as long as seven quarters is not really satisfactory. A lot of concerns have been raised here about the overseas situation. That is one new piece of information that came up at this meeting. I must say--and this may be where some of these issues come together--that in this particular case given the [unintelligible] I am somewhat attracted to Jerry Jordan's suggestion of making a rate cut now. I prefer it on the basis of the real economy alone. But a cut now also [may help us] get M2 growth within its range; after all, we've said that we're going to try to [have M2 growth] come within that range. To announce a cut now in the ranges without having done something to try to bring growth up into the range this year would look as if we were just making an excuse for why we didn't do that. I think we are going to have to cut the range and I would favor a cut of a full point. Though it's strictly a judgmental issue, my feeling is that it's probably better to do it in February for two reasons. One is that we're going to have more of an opportunity to explain it fully at that time. The other is that if we really believe the general tone of the meeting, which is that the economy is going to be a fair bit better in February than it is right now, it's better to make [the reduction in the range] in that context.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I mostly agree with where Governor Angell comes out on both these issues. Looking back, there was a good case for easing [last] time but I think that time has passed for now. To ease into a better tone of statistics would be counterproductive. I think

the risks are more symmetrical than they have been for several months. So, my preference for the short run is "B" symmetrical.

On the long-term ranges, Wayne's logic was especially persuasive. First of all, I really don't think we have a choice; we need to cut the range. And we ought to be very careful to underscore the fact that this is a technical cut. So, if we are going to do it, I would do a whole point rather than a half point. It would give us some additional margin for error. It's difficult enough to do and it's not going to cost much more to reduce it a whole point rather than a half point. But I think it is important to emphasize the technical part.

As to now versus February, I can't believe that a February climate would be better. If you just want to look at it from a political point of view, we will have a new Administration with a new [fiscal] proposal, a new Congress, and lots of energy. I think in that context it would be more difficult to do. We've done a study, we have some good reasons, and we can explain our action in a letter. In the letter I would emphasize the technical aspects; I would say we believe that this is a technical adjustment and that the 1-1/2 to 5-1/2 percent range is consistent with growth without giving up on the inflation [goals]. There is no foolproof way to do this; there are risks in doing it. But I suspect that the political fallout would be less if we did it now rather than wait.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. With regard to the short run, I favor alternative B with a symmetric directive. I don't see a case for a change in policy immediately or for biasing the directive one way or the other. That still gives us lots of flexibility if the evidence comes in on one side or the other and a decision is made to move. But to me the circumstances we currently confront suggest no immediate change.

With regard to the long-run ranges, I have a slightly different take on that. It's really the upper end of the M2 range that concerns me. It concerns me because, given what we think we know about the outlook for nominal GDP and about the velocity of M2 over the next couple of years, that upper end of the range is clearly too high. So, I would favor a new range of something like 2-1/2 to 5-1/2 percent. I don't see any real need to reduce the lower end. In fact, longer-run considerations, with trend growth in the economy of maybe 2 or 3 percent and assuming that M2 velocity ultimately returns to its stable, trendless state and price stability--whether inflation is actually zero or something above that given measurement problems and so forth or given what it takes to get expectations of inflation out of people's decisionmaking thoughts--suggest to me that we don't need to change the lower end of the range. On the other hand, the upper end is too high, especially in an environment where I think we want to consolidate the gains we have made in bringing down the core rate of inflation and perhaps send a signal that that's our intent along the way here.

With regard to timing, it's not an overwhelming preference, but I would agree with those who would prefer to do it now. In February, as many have observed, there will be a lot of proposals out there and a lot of things on the agenda and we really could look like

we were snubbing, or worse, all sorts of proposals by deciding to lower the range at that point.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, with regard to the long-term ranges I would prefer not to take any action at this time. My impression was that our discussion basically related to your commitment to Congress to study this and report back, and it does seem to me that the paper and the discussion deal with that commitment. The paper does add a lot of knowledge to this question. It seems to me that there is enough uncertainty remaining that to make a change implies some degree of precision that I just don't have the confidence is really there. Therefore, I wouldn't to make a change, particularly at this time when there is a signal effect that I find a bit awkward. As a technical point, I assume if we were to make a change in the ranges as provisionally set, that we are not talking about making final changes to the ranges for next year.

CHAIRMAN GREENSPAN. We still can do that in February.

MR. KEEHN. So, if we make a change now, it is a provisional range and we will leave it as a subject for next February and we would so state that?

CHAIRMAN GREENSPAN. Yes, that's correct.

MR. KEEHN. Separately and apart from that, I'd prefer not to make a change. With regard to the short-term policy, I must say that at the time of the last meeting I would have favored a change. I was disappointed that it did not evolve. Therefore, I came to this meeting in favor of either alternative A or alternative B with hard asymmetric language. I must say I'm very surprised by the change in the tone of the reports. It's the most significant shift between two meetings that I can remember. While the data are a bit more positive, I have a feeling that the [anecdotal] reports are a little ahead of that. It may be that good news is slow to reach our part of the Midwest. Nevertheless, at this point I'd be in favor of alternative B with at least some bias or asymmetry toward ease.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, as far as the short-term policy goes, it seems to me that the outlook is stronger both in terms of the data that we're receiving and also the tone, particularly [as reported] here this morning. We probably would all agree that it's very likely that we're going to get some type of [fiscal policy] program from the new President; he almost has to do that. Taking these two factors together leads me to a strong preference for "B" symmetrical.

As far as the ranges go, I would certainly concur that they need to come down. I'm open as to exactly where. I suppose that puts me in the alternative II case. As far as the timing goes, if we were to ease today, then I would agree with Governor Lindsey that we should lower the ranges today in order to get those signals straight. I hope that we are not going to do that. And if we're not, then I would prefer to see us wait for a couple of reasons. First of all, it's

clearly a technical matter and [unintelligible]. And, obviously, if we did it today, it would be very out of sequence with the usual pattern that people expect from the Federal Reserve. We're in this interregnum period right now and we're in somewhat of a news vacuum where the media is just [looking] for anything they can talk about. There will be an awful lot of punditry if we move now and go public with it. They are almost certain to get it wrong; they'll make too much of it and they'll make the wrong [inferences]. It's very likely that they would opine that we've gone back to reemphasizing M2 well beyond the true posture of this Committee. If they see that we do that based on this study, which is superb, they will think that we are saying "Eureka! We've found it. This is the answer and we're going to settle down right here on the basis of this new information." That could cause some out-of-focus speculation in the marketplace and some out-of-focus perceptions of what [is important to] the FOMC. So, I would prefer to stay in sequence and treat [the decision] as business as usual, as a calm and normal considered judgment when the February timeframe arrives.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. I agree with Governor Kelley on all those points. On the question of headlines, currently markets are no longer expecting an easing as they were at the time of our last meeting. And rather than mixing sin and virtue or sugar and vinegar, I'd suggest that we avoid either right now. I'd take a "B" symmetric directive and wait until later to decide how much to lower the ranges, and I'd wait until February to go public with it.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. On the ranges, I would prefer a cut [in the M2 range] to 2 to 6 percent, with a 4 percent midpoint. I don't view that as the ending point in this long process. I view it as where we are in the process now. With a midpoint of 4 percent I'm thinking of inflation in the 1-1/2 to 2 percent range and real potential in the 2 to 2-1/2 percent range. A midpoint of 4 percent looks appropriate, given where we are in this process of moving toward price stability. I know we may have a little trouble hitting it, but I think we should manage policy to try to hit the range rather than vice versa and I think we'd be pushing it a little if we went beyond that. I like the orderly process.

In terms of when to cut, I think the appropriate time to cut was last July. That was the routine time. The Fed cut [the M2 range] for the following year in the summer of '88 and in the summer of '90; and the summer of '92 was the time to cut it again. We didn't cut it because of uncertainty about M2. It seems to me that [M2] is better understood now; I feel more comfortable with a decision to cut. I don't think we're going to learn anything more. I view it as more than technical. The disinflation trend is much better established now than it was in July in my view, despite the recent CPI; and I think it's time to confirm that disinflation trend, secure it, and lock it in. I do think it would add to our credibility if we were to go through another period of faltering M2 and cut rates if the economy should deteriorate. There are a lot of political judgments with regard to the timing. Some might view it as a bit sneaky to do it after the election with Congress out of town. It might be more

orderly to do it in February. If we do it in February, it will come in the face of the new Administration and its proposals on fiscal policy and might be viewed as a signal that we plan to offset those. But my overall view is that this is a long-term range and a long-term strategy and it ought to be done above the fray; I like the strict rationale we used last July that then was the time to cut except for the uncertainty about M2. I view this as cleaning up old business, so I would have some preference for doing it now.

As for the near term, the coordinated cut has some appeal, although it's not clear to me that the assessment of the economy I've heard around here gives a consensus for a reduction in the federal funds rate. Still, I would prefer the asymmetric language. The near-term negatives in my view are still quite pronounced and I think we ought to hold steady. When we went to symmetric language in the spring of this year, I don't think we looked very good when second-quarter growth was decelerating from 2.9 to 1.5 percent. I don't like the sense of flip-flopping, and it seems to me the upside risks further down the road have increased. We've been through this increase in long rates and have seen the impact a number of times before and I think the very near-term risks, moving into the first half of next year, suggest that we not flip-flop at this time. So, I'm for 2 to 6 percent and "B" asymmetric.

There is an argument on the width of the range that Gary Stern raised. My view is that we've had trouble enough with this and that there may be an argument for widening the range.

CHAIRMAN GREENSPAN. I agree with Gary and could argue for widening the range myself. Governor Phillips.

MS. PHILLIPS. Let me do the ranges first. I thought that the Feinman-Porter study was immensely helpful and added to our understanding of what was going on. Having said that, I was on the bus that wanted to lower the ranges in July, so it'll come as no surprise that I continue to want to lower the ranges. I don't see it as just a technical matter. I think the study did identify some substantive, real kinds of effects. It also seems to me that lowering the ranges now is consistent with the testimony that was given in July that we were continuing to study it and would be back when we knew something. It's certainly a consistent story, so I'd prefer to lower the ranges now. I will say that with respect to the amount, I could go with either one half or a full percentage point reduction because I think the message of continuing to want to move toward price stability is the important thing.

With respect to the short-term directive, I'm also persuaded by the argument for an immediate coupling. I'd prefer to go with an immediate easing because I think there's still considerable room for improvement in this economy. I do think we're going to have some kind of fiscal stimulus package, and I'd prefer to see a more balanced approach to a fiscal package when the time comes for that debate. Having said that, I could live with "B" asymmetric toward ease but I'd prefer to ease.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I would favor reducing the ranges now and I think a range of 2 to 6 percent is probably right. I could live with 1-1/2 to 5-1/2 percent. A case can be made for either one. With respect to the timing, I feel the case is there now and we ought to go ahead and get it done. As a lot of people said, we don't know in what climate we would be trying to do this some months down the road. I would go somewhat beyond making the argument just a technical one because I think we're trying in some sense to consolidate the progress we've already made toward price stability. In terms of impacting expectations, that could be a part of it without implying that we're rattling the saber; it would have to be done artfully. The other thing to think about, which you mentioned, is the communications problem. I guess there really isn't an opportunity to arrange some sort of forum. Congress is not going to be in session for the balance of the year, is that right?

CHAIRMAN GREENSPAN. That's correct. They will convene January 3, but then they may technically adjourn again.

MR. MELZER. You might want to consider ways to take the initiative here--in a speech or something--so that you could get the message out with your spin on it rather than responding to, say, Mr. Gonzalez, or somebody in the press teeing off on it. If we were going to do it now, we'd have to think about ways to communicate it to the public on our terms, not in response to somebody else's.

With respect to short-term policy, I strongly favor "B" symmetric. There's a possibility I might even be leaning toward a nonexistent "C." The way I feel about this is that we've had a relatively smooth adjustment in financial markets to a significant change in perceptions about the thrust of monetary policy. I don't believe for one minute that what we've seen in intermediate-term rates is a response to what our economy needs. I think it reflects a lot of other factors with respect to expectations about inflation and the real economy. So, if we were to ease now, I don't think those rates would retrace their runup; I don't know to what extent they'd even come down. I realize every cycle is different, but in general I think this is the time when the Fed typically makes mistakes because we sit here and we're uncertain about the speed of the recovery. We all probably know, or I at least feel, that we're pegging short-term rates at a level that is not sustainable in an economy with any kind of upward momentum. I think we have to be very sensitive to a situation where short-term market rates move up as we peg the funds rate to fixed levels. This is obviously not a new concept; we've talked about it before. But the net result is that to keep that administered rate where it is we have to provide reserves at a very rapid rate, and we're doing that. There are certainly some technical factors one can point to in that regard, but I suspect there may be more to it than that. So, I think we have to be very sensitive to not oversteering [ease]. Finally, I think a symmetrical directive gives us plenty of flexibility to respond in either direction.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Let me talk about the short-term issues first. The economy is showing strength--more strength than I saw last time--and I think it is real. There is a fair amount of liquidity in the system to accommodate future growth should that continue, so I don't

think we would be hurting things by staying where we are. So, I am inclined towards alternative B. As for asymmetry or symmetry, I'm inclined at this stage to go with symmetrical language partly because we meet again fairly soon and partly because I think the economy is fundamentally stronger. Even though I recognize the downside risks from the trade situation and all these other factors that we have talked about, I think we do have a fundamentally better economy.

As for the long-term ranges, I think they should be lowered, and my preference is for 2 to 6 percent [for M2]. I believe that's orderly and consistent with what we may see going forward. As to when to announce it, I don't have a strong preference. It's something that takes explanation, though, and if we try to put it in a letter we won't have the opportunity to explain it, which is so important. We need to weigh that against what may be bad timing next February. But we have to do something next February, and that is the normal timing. So, I guess I lean toward doing it later in the [usual] form.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. With regard to current policy, my preference is for "B" symmetric, but I think something has changed. Over the summer months, getting back to my own example, I was fearful that we were looking at a 1-1/2 percent or worse economy and now I feel a good deal more comfortable that we're looking at a 2-1/2 percent economy. But I've always felt in this transition period that that was acceptable. Now, having said that, I prefer "B" symmetric; I could live with asymmetric because of my own anxieties about the international side. There is an extra margin of vulnerability there, and for that reason alone I could live with an asymmetric "B."

The long-run ranges present a much more difficult problem. There's a logical conundrum here: If one took the position that this is totally or largely a technical phenomenon, then I don't think it matters a whole lot whether we cut the ranges now or in February. And if it's technical, it's technical. Some members are essentially arguing that it is technical; others are arguing that it's quasi-technical; and still others are arguing that it's substantive. That is the logical dilemma. I think an awful lot depends, Mr. Chairman, upon how you feel as Chairman you want to play this.

CHAIRMAN GREENSPAN. I personally feel very strongly that it's best politically and otherwise to [view] it as technical.

VICE CHAIRMAN CORRIGAN. Well, I tend to agree with that. And if one agrees with that, then it follows almost as a matter of logical necessity that it's probably better to do it in February. That is in part because of Mike Kelley's argument that if we do it before February, nobody--the markets, the press, or anybody else--is going to get it right. And then we would have lost our moment. In addition, I did find persuasive a number of comments that members made about the way this plays into the setting of a new Administration, a new fiscal program, and all the rest of it. But again, if you fundamentally view it as technical, it seems to me that the weight of that argument is dissipated as well. Finally, apropos Bob Parry's comment, if you fundamentally view it as technical, don't kid yourself, you're not going to buy anything in terms of inflationary expectations or anything else. You can't have it both ways. But

because I do view it perhaps not quite exclusively but largely as technical, I would lean toward doing it in February. As far as the amount is concerned, I can't get excited about 1/2 points one way or the other on this. I certainly could live with 2 to 6 percent but I could also live with 1-1/2 to 5-1/2 percent; I'm not sufficiently comfortable with my knowledge to be able to get excited one way or another about that half point [difference]. Again, from a logical point of view, the issue is whether it is technical or substantive. If it's technical, then, I think the February timing falls out [as logical].

CHAIRMAN GREENSPAN. It has been a very interesting discussion, and I think Governor Lindsey was right. This coordinated approach [in our discussion] has certainly helped to bring out issues which wouldn't have been brought out otherwise.

MR. SYRON. Could I just ask a question? It's along the lines of something that Tom Melzer mentioned and it has to do with the timing, though I favor February myself. Are there opportunities between now and then to send the study--the study that was released--up to the Congress with letters to the staff, and beyond that to make statements yourself to begin to educate people to the technical aspects of this so that it doesn't become as much of an event? I think it is very much technical, and it's something that we'd like to do and not have anyone really notice.

CHAIRMAN GREENSPAN. Well, that's in fact what my suggestion was essentially going to be. We're going to have to send a detailed letter up to the Hill with the Feinman-Porter study. I would suggest that as part of the letter it would be useful to do precisely as you suggest: To indicate that if anything, as David has said, our nominal GDP has been doing better. And since we have been getting the nominal GDP that we were presuming we'd get with the current ranges, in that sense we have a very strong case to say that we have succeeded. The mistake was not on the GDP side; the mistake was on the indicator, which is the money supply. And I think that can be done.

Frankly, I think Mike Kelley made a very important point when he raised the issue of this period being a media vacuum. He probably didn't emphasize that enough. The ridiculous stories that are coming out about the Federal Reserve tilting toward Clinton, not doing this, or doing that, are all absolute fluff. The one thing I'm pleased about is that it essentially has been all soft stuff. There was a story in this morning's Wall Street Journal which has us as a group opposed to Paul Volcker as Secretary of the Treasury! Now, how bizarre can they get? I frankly agree with Mike, but I had not thought about it in those terms until he mentioned it, that there really is a very significant danger [of media invention], which is a reason for proceeding the way Dick Syron suggested and then essentially burying [the decision] in the February testimony with a lot of technical discussion. That will work if the economy is up. If the economy is up, this issue is absolutely irrelevant. The question of M2 as a problem is gone; it becomes [unintelligible] for a few of our friends. If the economy is in the soup, this issue is not going to be our major problem. I must say that I came into this meeting not quite sure where I stood but, having heard all of the discussion, I'm pretty well convinced that the approach we ought to take is the one

that Dick was [suggesting]. We have not released this study yet, is that right?

MR. KOHN. Well, we have, Mr. Chairman, assuming you signed the letters last week.

CHAIRMAN GREENSPAN. Oh, yes.

MR. KOHN. The study has gone up to the Hill.

CHAIRMAN GREENSPAN. We've sent it up to the Hill but we haven't--

MR. COYNE. It has been released to three reporters, one of whom used it.

CHAIRMAN GREENSPAN. Is that right?

MR. COYNE. Market News Service used it last week; we had a few requests--

CHAIRMAN GREENSPAN. Well, it's so complex that unless we do it--

MR. KOHN. There is another opportunity. We have a letter in the house from Mr. Gonzalez.

CHAIRMAN GREENSPAN. That's what I was thinking.

MR. KOHN. And we could use that as a vehicle. He asks why we let M2 growth fall below the range. Assuming we get to 4-1/2 percent GDP growth this year, I think the question--

CHAIRMAN GREENSPAN. Yes, I was thinking of that.

MR. KOHN. We could use that as an opportunity.

CHAIRMAN GREENSPAN. I also think we probably would be better off with a range of 2 to 6 percent if for no other reason than it's a smaller change, although I think the points that Governor Angell made are certainly [relevant]. My only problem with Governor Angell's [position] is not his insight but his confidence in the forecast of M2, which I don't share.

MR. ANGELL. I agree it could very well be off 2 percentage points or 4 percentage points either way!

CHAIRMAN GREENSPAN. That's exactly the reason why.

MR. ANGELL. But I would prefer to have [the projected rate of growth] closer to the middle [of the range].

CHAIRMAN GREENSPAN. I don't disagree with that as a general view. Let me go on to say further that, after listening to the [discussion], once we take one of the votes--however we vote--I'd like to go around [the table] again on the other because there are views that could conceivably change.

MR. MELZER. I don't mean to interrupt, but if we're not going to do anything now--if there's a sense of the meeting not to do anything--do we really have to vote on it?

MR. MULLINS. We shouldn't vote it down.

MR. MELZER. If we're just leaving the ranges the same--

MR. KOHN. If you're postponing your decision on that second [vote]--

CHAIRMAN GREENSPAN. I think the answer is that we would only vote if we came to a conclusion that we were going to do something now.

MR. MULLINS. We could vote to consider it.

CHAIRMAN GREENSPAN. Vote to consider it? What does that mean?

VICE CHAIRMAN CORRIGAN. We could have an understanding among the Committee members.

CHAIRMAN GREENSPAN. Yes.

VICE CHAIRMAN CORRIGAN. [We could agree] that in response to the Gonzalez letter the study would be sent up to the Hill with a very strong suggestion in [our cover] letter to the effect that the ranges for 1993 will be cut in February by some unspecified amount.

CHAIRMAN GREENSPAN. I must say I would frankly prefer that. From the point of view of the political sensitivities that we're going through now, that strikes me as the way to [do this] with the least fallout. If it weren't for the media vacuum, I would opt to do it right now and get it out of the way. I'm not sure we have that capability. I'm not sure we can do it, and I think the risks of missing are too large.

MR. ANGELL. Saying that we expect to make a cut in February is really a good two-stage approach to that--

CHAIRMAN GREENSPAN. Yes, I'm much more comfortable with that.

MR. ANGELL. --because, after all, we're only dealing with a tentative choice now anyway.

CHAIRMAN GREENSPAN. That's correct.

MR. ANGELL. We still have to make the choice in February.

CHAIRMAN GREENSPAN. Is that something that we could accept? Would everyone be willing to do that?

MR. ANGELL. So, there's a consensus, then.

CHAIRMAN GREENSPAN. Yes.

MR. ANGELL. The minutes would read that there was a consensus?

MS. PHILLIPS. You are going to say that we're going to cut the ranges in February?

CHAIRMAN GREENSPAN. We would say that there are technical reasons that are coming out of the Feinman-Porter study which clearly suggest [that the ranges should be cut]. I would even say that we ought to indicate that our hypotheses of last July are in fact being confirmed by later studies. That would be the general thrust of our approach. We would put it in a technical context as a two-stage activity. Then, when [the time comes for] the Humphrey-Hawkins testimony in February, [we will cut the ranges], assuming the economy is doing as we expect. And if the economy does something different, it's even better this way.

MR. ANGELL. And the Gonzalez letter is the vehicle for doing it?

CHAIRMAN GREENSPAN. Yes.

MR. BLACK. Mr. Chairman, I know you prefer to explain it as a technical move, but do you think it's purely technical?

MR. ANGELL. Sure.

MR. BLACK. I don't.

MR. ANGELL. It's purely technical. It would be a policy move for us not to make the technical move.

CHAIRMAN GREENSPAN. That's correct.

MR. SYRON. That's right.

CHAIRMAN GREENSPAN. Let me put it to you this way. If you ask whether we are confirming our view to contain the success that we've had to date on inflation, the answer is "yes." I think that policy is implicit among the members of this Committee, and the specific instruments that we may be using or not using are really a quite secondary question. As I read it, there is no debate within this Committee to abandon our view that a non-inflationary environment is best for this country over the longer term. Everything else, once we've said that, becomes technical questions. I would say in that context that on the basis of the studies, we have seen that to drive nominal GDP, let's assume at 4-1/2 percent, in our old philosophy we would have said that [requires] a 4-1/2 percent growth in M2. In today's analysis, we would say it's significantly less than that. I'm basically arguing that we are really in a sense using [unintelligible] a nominal GDP goal of which the money supply relationships are technical mechanisms to achieve that. And I don't see any change in our view.

MR. BLACK. Well, the technical argument is very strong, but I think there are some people who still entertain doubts about how serious we are about achieving price stability, and I think they will

take this as a concrete sign that we may be more serious than they thought before.

CHAIRMAN GREENSPAN. That we're not serious? I'd say at this stage that we have achieved a very substantial amount of credibility.

MR. BLACK. More than we've ever had; I wouldn't argue that.

CHAIRMAN GREENSPAN. I sense no evidence that any member of this Committee has indicated second thoughts on that question nor has anyone gone public with second thoughts or indicated any fundamental change in their individual philosophies. Bob, I'm not really concerned about that.

MR. BLACK. I agree that that's exactly the position of everybody in this room, but I'm not sure that the public is completely convinced at this point. But I don't want to let this--

CHAIRMAN GREENSPAN. That may be. They will be convinced only after a period of time; and we will know they are convinced when we see the 30-year Treasury at 5-1/2 percent.

MR. BLACK. That's right. And since that yield sits up there where it does, I think that is some evidence.

CHAIRMAN GREENSPAN. When you look at the decomposition of the [30-year] coupon into its short-term cohorts, say, one-year maturities of futures, it's very clear that the substantial part of the inflationary expectations is five years out and forward.

MR. BLACK. That's right.

CHAIRMAN GREENSPAN. I don't think that is a monetary policy response. I think that's a fiscal policy, global/American economic policy response and does not reflect on the Federal Reserve.

MR. BLACK. I don't think it reflects entirely, but some part of it--

CHAIRMAN GREENSPAN. Well, it's conceivable that part of that is an accommodation of the markets on our part. But we're going to change that only with time; we're not going to change it through playing around with words or charts or ranges. It's going to come only from what we actually do. Anyway, can I then assume that we will proceed in that direction and hopefully be able to pull it off with a minimum of problems?

Listening to the comments on the short term, especially if we [include] the three members of the Committee who are significantly desirous of easing now, it's fairly clear that we have a central tendency toward asymmetry. I would describe it as normal or even slightly soft rather than the hard asymmetry that we used last time. So, even though I am aware that one can't mix this in the way in which I'm trying to mix it without breaking some crockery here, as I read it we would be close the average [view] of this Committee if we voted "B" asymmetric toward ease, and I would propose that to the Committee.

MR. ANGELL. How do we make it soft asymmetric? I counted six who preferred symmetric and then you said either way.

CHAIRMAN GREENSPAN. No, that's not the way I got it.

MR. ANGELL. I've got Corrigan--

CHAIRMAN GREENSPAN. Corrigan is either way.

MR. ANGELL. He said symmetric but he could accept.

VICE CHAIRMAN CORRIGAN. I would accept asymmetric because of my concern about the international side.

MR. ANGELL. Right, you said symmetric but could accept asymmetric.

MR. KELLEY. You might take a poll.

CHAIRMAN GREENSPAN. That's the simple way. Why don't we just poll the members?

MR. SYRON. Go around.

MR. ANGELL. Sure.

CHAIRMAN GREENSPAN. Let me just say what I have. I've got Corrigan either way.

VICE CHAIRMAN CORRIGAN. What I specifically said was that my preference was symmetric, but in view of my own concerns about the weight of the international side I would accept asymmetric.

MR. ANGELL. Right.

CHAIRMAN GREENSPAN. So, I took that as a Corriganesque--

MR. BLACK. You think you have an ally and so does Governor Angell!

CHAIRMAN GREENSPAN. Angell I have as symmetric; Hoenig as symmetric but could accept asymmetric.

MR. HOENIG. Yes.

CHAIRMAN GREENSPAN. I have: Jordan ease; Kelley symmetric; LaWare symmetric; Lindsey ease; Melzer symmetric; Mullins asymmetric; Phillips prefer ease but could accept asymmetric; and Syron ease.

MR. SYRON. No, I'm ease, but could accept asymmetric.

MR. ANGELL. I would admit that it's 6 to 6. I think the Chairman can decide!

CHAIRMAN GREENSPAN. I think the particular choice of words is really far less important than what it is we would do under various conditions. [The wording] almost doesn't matter. Clearly, if the economy continues to show the signs [of improvement] that it has been

showing--remembering that our next meeting is only five weeks away--we will probably sit tight. It would require a really important, surprising turnaround in a relatively short period of time to initiate action under this type of directive. The only reason I would argue myself for asymmetric is that I don't like switching back and forth. If the next trend is toward expansion, if we wait until December to go to symmetric or do something else, I don't think that matters much. If, however, we switch prematurely, it will look a little unstable. I must say I am personally somewhat inclined in that direction not because I think it's a major policy issue but because I think it's a--

MR. ANGELL. Well, it really is a moot point; when the fed funds rate is on top of the discount rate it is a moot point.

CHAIRMAN GREENSPAN. Especially when it's five weeks until the next meeting.

MR. ANGELL. So, I'm not going to vote "no" either way--

MR. KELLEY. I'm going with you.

MR. ANGELL. --because it's not that big a deal.

MR. BERNARD. "In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint might or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from September through December at annual rates of about 3-1/2 and 1 percent, respectively."

CHAIRMAN GREENSPAN. Call the roll.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman Corrigan	Yes
Governor Angell	Yes
President Hoenig	Yes
President Jordan	No
Governor Kelley	Yes
Governor LaWare	No
Governor Lindsey	Yes
President Melzer	No
Governor Mullins	Yes
Governor Phillips	Yes
President Syron	Yes

CHAIRMAN GREENSPAN. Okay, I think we ought to take a short luncheon break and then proceed to our next agenda topic.

[Lunch recess]

CHAIRMAN GREENSPAN. Our meeting went into recess and we are now back in the official meeting for our final topic on which I request Don Kohn to edify us.

MR. KOHN. Edify you? [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Mr. Winn.

MR. WINN. [Unintelligible] only from Mr. Gonzalez and only from his staff or Mr. Auerbach. We don't know what the new subcommittee chairman's agenda may be. A footnote: Steve Neal is still trying to keep [the chairmanship of] both the financial institutions and the monetary policy [subcommittees]. But whether that will work out or not remains to be seen. I would note that back in 1977--

CHAIRMAN GREENSPAN. We have a fundamental problem. The problem essentially is that we are a public institution and that unless we have reasons to withhold, we really are obligated to make available whatever information we have on what we do. So, the question that we have to [consider involves] the efficiency of the discussion and the deliberative process and the elements that contribute to that. There isn't any question, at least in my mind, that if we were to have television cameras parked all over the place and this meeting were "live," we would have a wholly different discussion. I must tell you about experiences that I have had under the Sunshine Act. For example, when I was Chairman of the Social Security Commission, which was subject to the Act, it turns out that the lawyers indicated that we did not have to have public representation at lunch and dinner. And lo and behold, all of the politicians--and these were the senior members of the Senate and the senior members of the House of both parties--negotiated like mad at lunch and dinner and the public sessions were absolutely sterile; nothing happened at them. On the Financial Economic Commission, which was a bipartisan commission also loaded with members of Congress on both sides of the aisle, I understand from a statement publicly made by Bob Strauss, the co-chairman, that in order to come to conclusions they had to go off in the corner and negotiate.

The problem essentially is that there is a presumption that somehow we can be a deliberative body in the Sunshine on very sensitive issues. But the Congress, when it gets involved in that kind of situation, knows better; they're trying to repeal human nature and it doesn't seem to work. I think we have to try to remember that we're obligated not to start with the proposition that everything is secret unless we want to let it out. We have to start in the other direction. We're obligated when we seriously believe that the efficiency of our deliberations would be sufficiently undercut by various forms of disclosure to define why and to make that notion available to the Congress either through testimony, or written material, or through responses that we would make to Mr. Gonzalez's questions. But it is important that we define what it is we're doing. The trouble, unfortunately, is that there is a large element of hypocrisy involved, which is very difficult to deal with. In other words, we can't give examples to the people who are telling us to go in the open [showing that] when they are [deliberating] they don't [do it in the open]. Regrettably, that's not the appropriate response to this. And it is very difficult to communicate to people because Mr.

Gonzalez has said publicly that he thinks our meetings would become far more productive if conducted in the open. Now, the chances of that are zero. I don't mean 1 percent or 2 percent; I said zero. And I'd use a lower number if they would let me! But we have to be able to define a rational position because we do have the very difficult problem of being a central bank in a democratic society. That's not an easy job. If it weren't for the hypocrisies involved in a lot of this, it would be relatively easy to do. So, what I'm really asking of you in this meeting is: (1) your views as to what you as a group would feel comfortable disclosing and at what particular time; and (2) where you think we have to be very careful. There is a tradeoff here basically between the efficiency of our deliberative process, which is very crucial to the country, and the public's need to know. They do have a need to know and they have a right to know. Vice Chairman Corrigan.

VICE CHAIRMAN CORRIGAN. Let me start with either the television or the literal verbatim transcript. It does seem to me that--

CHAIRMAN GREENSPAN. May I just ask: Do we have people who are transcribing this and taking this down?

MR. BERNARD. Yes.

CHAIRMAN GREENSPAN. This is going to be a meeting from which we will try to obtain the best set of arguments and the best conclusions that will apply, so I want to make sure that we will have a record of what is said.

MR. BERNARD. Yes.

CHAIRMAN GREENSPAN. I'm sorry. Go ahead.

VICE CHAIRMAN CORRIGAN. Speaking first to the issue of live television and verbatim transcripts: It seems to me that we can make a very, very compelling case that in the normal course of this Committee's deliberations there are frequent occasions on which matters pertaining to individual companies--say, General Motors or IBM--come up in discussion in a way that, if it were on television, would be very damaging. The result, of course, would be that they wouldn't come up. Much more importantly, there are often discussions about individual financial institutions; but still more importantly, there are often discussions centering around information that is provided to one or more of us by central bank governors and other governmental officials abroad, and those people would be absolutely enraged if that kind of information were part of any public discussion. So, it does seem to me that just on those grounds alone we can make a very powerful, entirely credible argument against live television or verbatim minutes. My guess is that if we could get that off the table, then it might be a little easier for the Committee to wrestle with the question of some kind of [record such as the old memoranda of discussion]. I might add--I don't know if you knew this, Ted--just looking at these memoranda of discussion for 1974, these published minutes include the write-ups of the Basle governors' meetings. They include write-ups of visits of individual Board members to other countries and other central banks. People might have agreed to that in 1974, but today, no way.

MR. TRUMAN. They included some of those, but in the public versions some parts of those reports were edited down.

VICE CHAIRMAN CORRIGAN. There's some pretty lively stuff in here, though, from those BIS meetings.

MR. TRUMAN. Well, the Secretary of the FOMC made us hew to a [strict] standard about what we left in and what we left out. But you're right, there was still some lively material.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, I think there are two issues here. One is the deliberative process and the other is timeliness. I think the deliberative process has to be preserved at all cost because otherwise there's just no way we're going to come to a candid decision. Looking at other situations, I think the public mood is that people like timeliness of information. For example, the Bundesbank holds a public hearing right after their meeting. Or when a Congressman comes to meet the President in the Oval Office or the Cabinet Room, the press is there at the very start and everyone is sitting around joking. The press leaves; they do their deliberations; and then afterwards they hold a press conference. That way the public has the sense that they have timely information on what was decided but the deliberative process isn't compromised. So, in reaching our decision right now maybe we have a problem in that we're providing no deliberativeness and no timeliness. We are somewhat subject to criticism on timeliness because our decision "dribbles out" and creates the appearance that there are unfair advantages. Maybe what we should do is move to the timeliness option.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. I don't disagree with what Don Winn said about the role of a dedicated staff person, but I think that at most is a necessary and not a sufficient condition for what we see going on. I think these things need to be cyclically adjusted. The difference between our situation and that of the Bundesbank is that they enjoy very wide general public support as well as political support for their objectives. So there's not the same degree of interest or curiosity in the method by which they achieve them. Whenever the Hill or the media or others are dissatisfied with the results, however much they understand the forces at work, they're going to be more interested in knowing what the inputs were rather than being satisfied with the output. Our focus still needs to be on the results and the objectives and to get their attention off the process. I did not disagree with what Jerry Corrigan was saying about the negatives; I certainly agree with what he said about the way it would change the meeting in ways that, in effect, would destroy the process. But I don't like to play defense. I'm always in the mood whenever possible to play offense because I think that is a good defense; so I'd move in the direction of turning the discussion to the objectives of monetary policy and away from the process by which we get there. Their interest should not be in our discussions but in our decisions. And if we have more complete and timely release of information about our decisions, then I think we can take the focus away from the discussions that went into producing those decisions.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. In terms of what Mr. Gonzalez is asking for--and that is a detailed record of some kind as well as timeliness--as Jerry said, to have cameras in here or to have an immediate release of a detailed transcript or memorandum of discussion would inhibit the process under all these circumstances. Going back to your issue that the public has a right to know at some point, I think we have had in the past, as I've read this material, a position that says, yes, we would be willing to accommodate them with a detailed memorandum of discussion again if we could have some assurances that there wouldn't be premature release of that material to the public through a FOI request. That issue still stands and we can be consistent with protecting the deliberative process and making [a detailed transcript] available if they're willing to protect that over time. And, as we apparently did in the past, we can make some compromise in terms of what others are talking about here--releasing the results in a more timely way than we do now, which is waiting until after the next meeting. That may be of more value in essence to the public than having the TV cameras in here.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. I'm in general agreement with what the last three people have said on this. I was also going to ask Don Winn a question about how wide the interest was in the memoranda of discussion as compared to early release of the directive. I think the Chairman's point is absolutely right. We have to assume that things are going to be released unless we can make a strong case not to release them. And unless we show that there's damage to the deliberative process, which is Larry's Lindsey's point, I think we would get early release of the entire discussion. Pretty clearly, we all agree to that. But unless we can show that there's that kind of damage, we have a very, very thin reed to lean on. So, I just wonder if we went more in the direction of an earlier release of the directive in a broad form whether we could reduce a lot of the interest there is in this.

MR. WINN. Dick, if I go back to this survey that Steve Neal did in 1976, I'm afraid I don't have a very good answer for you because he didn't put the question in those terms. Although there were a number of respondents who in reacting and addressing the issue of verbatim transcripts or memoranda of discussion said such things as "but I also favor an immediate release of the policy directive," that wasn't really the issue on the table. Obviously, immediate release of FOMC decisions is the issue in the Hamilton-Dorgan Bill. Clearly, there are some members of Congress who are interested in that, but we don't know how many. That has not moved along in the Congress, but obviously some members are interested in that.

MR. SYRON. I'm going to make an unfair request in terms of asking you to make a guess. Think of the members of both Committees, the Senate Committee and the House Committee; if you were to ask them whether they would rather have a complete release of a memorandum of discussion with some significant lag or early release of the directive, what do you think the response would be?

MR. WINN. Well, I would guess that the members of Congress are more interested in knowing the results and knowing the results

quickly than in having a detailed record that comes out in three to five years. So, if you put it to a vote, it would probably go that way. On these public disclosure issues--the Freedom of Information and Government in the Sunshine Acts--the record of Congress is that whenever those kinds of bills are put before them, it is very hard not to vote for them. So, if you put the issue on the floor of the House this minute "Is the House of Representatives in favor of immediate disclosure or not?" there's a political bias toward immediate release of information. On the other hand, the fact that legislation like that hasn't really moved along in the Congress makes one question how much real interest there is in the subject. I don't know if that's responsive to your question, but that's the best I can do.

MR. SYRON. But the fact that legislation might pass very quickly might argue for our doing something ourselves before something else comes along and is a fait accompli.

MR. WINN. We cannot deal with this long-term disclosure of verbatim minutes ourselves because of the Freedom of Information Act problem. The only thing that we have any control over is release of the policy directive.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. One of the things we ought to focus on also is this issue of accountability and the assertion that individually we're not accountable. I don't agree with that. I'm not an expert on the Supreme Court by any means, but there may be a helpful precedent there in terms of the concept of a majority opinion and then minority opinions. I'm not sure, for example, what discussions and negotiations go on in the Supreme Court to get the majority to sign off on a majority opinion. But I suspect that such discussions don't take place in the Sunshine. And I think the same principle probably applies here. An important starting point for this is asserting that we are accountable and--this may sound strange coming from me--that this is a consensus oriented body. When one ultimately signs off on the policy record, one has implicitly bought into the view that is stated [in that document] or if one has dissented, the record states why. Through that vehicle, for starters, I think everybody is accountable. I can appreciate what a benefit a more detailed record might be to historians and others later, but the problem I have is that it comes at considerable administrative cost. Let's say we did the memoranda of discussion; I suspect that participants would come in to the meeting and say "I have my written statement that I'm going to come in and read." There would be more of that rather than people reacting to the discussion at hand or a combination of each of us presenting [views] that we had in mind coming into the meeting and reacting to the discussion that goes on. We'd have to get advice from the lawyers on this, but I worry about going down that path. If in effect we say we're willing to do this--to create a memorandum of discussion if Congress gives us this protection--it would be very easy to lose whatever protection we need under FOI, yet we'd be stuck in terms of saying it would be acceptable to us to do this. I think the end result would be, first of all, that we'd have a much more cumbersome process and secondly, that we'd very likely end up releasing the memoranda a lot sooner than we'd like to.

The final point I would make is this: I've been intrigued with this idea of whether we can cut the legs out from under some of this argument by releasing more promptly something very simple after each meeting regarding the decision that was made. Did the Committee decide to tighten, ease, or maintain the same degree of reserve restraint? But to the extent that we go down that path--a number of people have mentioned this--we really have to think about that very carefully in that it starts to raise questions of whether we include the asymmetry of the [directive] language in [what we release]. Think about what the markets would have done after the last meeting if we had released the directive with asymmetry toward ease and then never acted. And what do we do about decisions in between meetings? Are those disclosed on a real-time basis or are those disclosed at the next meeting? I suspect that we could get trapped into what more and more would become a very complicated web. It's seductive in a way because I think all of us probably believe that the information on our actions is in the market right away; generally speaking, the problem is not that the markets do not know where the Fed is at a point in time. But there's this perception of secrecy. So, it's very seductive to think we can cut the legs out from under that. But if we go down that path, we really have to think through all the ramifications.

CHAIRMAN GREENSPAN. I think you raise an important issue regarding the distinction between actions we have taken and are historically ended at that point [and those that are not]. Let us say, for example, that we eased today. We did something; it's a fact. That's differentiated from indicating our intentions of what we might do, which would induce the markets to discount that, in part. And then it would whipsaw the markets.

MR. MELZER. Right.

CHAIRMAN GREENSPAN. And we would lose freedom of action because if we get caught in a situation where the markets have assumed we're going to act in a certain way, it's very difficult for us to pull back. It's the disclosure of the potential alternate policy moves of the Committee between meetings that is the sensitive issue because [disclosure of that information] creates market changes which make it more difficult for us to take an intermeeting action that we perceive we need to take. I personally see no problem in announcing decisions after the fact. We cut the discount rate, we announce it; we move the funds rate, we announce it. That frankly doesn't bother me very much. What does bother me is putting on the table and in the public our deliberations about potential future [actions] and our inclinations and the conditions that would drive [such actions]. That would then, by interacting with the market, alter our decisionmaking process and create a significant loss of flexibility in the actions that we might have undertaken.

MR. MELZER. When I go full circle on this issue, where I come out is that if it's defensible, what we're doing right now is probably about right, subject to thinking about something along the lines that you just described.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. We really have two requests from Mr. Gonzalez, isn't that correct? The one that came to you mentioned the memoranda of discussion and videotaping. The one that came to the presidents was a bit different. I interpreted the question that came to the presidents, although Mr. Gonzalez used the word "minutes," as referring to the record of policy actions. Is it possible that we presidents could answer that question--and maybe we should even have the presidents provide a group answer--and not even refer to memoranda of discussion or videotaping? What could be given up in terms of the record of policy actions is that conceivably it could be provided sooner than 6 to 8 weeks--maybe a month or whatever time it takes for drafting and reviewing and revising those minutes. Would that buy us anything? Would he find that acceptable?

CHAIRMAN GREENSPAN. Frankly, if you want my impression, nothing will buy us anything. We have to decide what we think is the right thing to do, acknowledging that we are a public institution and that we have an obligation to make available anything other than that which inhibits due deliberation on our part. If we try to play offense or defense, as Jerry says, that's fine if they let us carry the ball. But they own the ball, and they're not going to lend it to us. If we do something thinking it will change how they behave, I'm not sure in which direction it would be. We have to make a decision based on what we think is the right thing to do, give our explanation to Congress and the new Administration to an extent, and if some legal authorities decide we have to do it in a different way, that's their responsibility. I don't think we can buy a bushel of corn. That's probably the wrong analogy. Ed Boehne.

MR. BOEHNE. I think the distinction between the deliberative process and the timeliness is a useful distinction. What we need to preserve is the deliberative process. If we go to detailed minutes or videotapes or that sort of thing, we will basically destroy or greatly undermine the process that we have. Timeliness, however, is an area on which I think we are on the weakest ground. And there is a carryover affecting this issue of accountability. For example, how many times has the Board of Governors been asked for detailed minutes of discount rate decisions? How many times have you had a request for a videotape of discount rate deliberations? That [doesn't happen] because you basically have a free discussion and you issue a statement and that's the end of it. Those statements don't talk about the future; they simply talk about what decision has been made. My sense is that if we could somehow speed up the process of releasing the information, we would convey a greater sense of openness and accountability; and doing so would enable us to make a stronger case for protecting the deliberative side of it. Where I come out, bottom line, is that we really ought to fight and resist anything that cuts away or undermines the deliberative process. But I for one am willing to talk about how we might improve the timeliness because I'd rather do that ourselves than have it forced upon us and in the process compromise the deliberative process.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I agree with what Ed just said, and I might elaborate a little. It seems to me that there may be an organizing principle or continuum here; I don't know how far it gets us. I

personally don't see any problem with a memorandum of discussion-- after all, these meetings are being held--and we used to do it. But I do think there's a critical issue with regard to the process and how soon the memoranda are released. Putting aside questions about what kind of protection we can get because of the Freedom of Information Act, it seems to me that we ought to be willing to release increasingly greater amounts of information with a longer lag. The reason is, of course, that some things that are very sensitive at the moment may be considerably less sensitive or without consequence two, three, or more years down the road. So, I personally don't see any problem with that. If we go in the other direction, [looking at] the things we could release immediately, I think we do have to be more concerned about what's there. Given that I feel an obligation to be forthcoming when we can be, I guess we should look at other ways--in terms of timeliness, in terms of content, or in terms of completeness --to enhance what we're doing to deal with some of the issues that are coming at us from the Congress.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. I agree completely with that. What we have to try to do is to protect the deliberative process. Forgetting about which letter has to be responded to, it seems to me that there are four broad alternatives on the table. One is to acquiesce to the television and verbatim minutes. That to me is a non-starter. I think that destroys the deliberative process and on top of that has the other problem that I mentioned before about confidentiality and all the rest. The second alternative is something like the memoranda of discussion with a lag of a year or two or three. My own hunch is that we could probably live with that, but it's a helluva lot of work.

CHAIRMAN GREENSPAN. Huge. Imagine circulating this document to get an okay from all the people around here!

VICE CHAIRMAN CORRIGAN. But in an edited version with a long enough lag, I think it probably isn't fatal to the deliberative process. The third alternative is Mr. Melzer's and that is just to say that what we're doing is the best arrangement, which is where I would actually come out. The fourth alternative is the one several have suggested and that is to try to speed up some part of the release process. I could probably associate myself with the kind of thing that you suggested where in addition to what we now release right away we would make [any action we take] official; Mr. Coyne would put out a statement when Mr. McDonough lowers the federal funds rate confirming that it has been done and maybe even put in a sentence or two explaining why it was done. But from my point of view releasing something like the current policy directive at any stretch in an intermeeting period--whether it's two weeks, four weeks or the day after the meeting--I think is going to compromise the deliberative process irreparably. I'd much rather do this.

CHAIRMAN GREENSPAN. That is the problem I mentioned.

VICE CHAIRMAN CORRIGAN. Yes, that's the killer.

CHAIRMAN GREENSPAN. Markets would respond and affect how we function.

VICE CHAIRMAN CORRIGAN. What would happen because of that is that all these Solomon-like decisions we make about asymmetry, symmetry, and the ability for the Chairman to act in intermeeting intervals would be shot. We would be sitting here until midnight at every meeting trying to figure out how to get a true consensus. So, one way or another, it would damage the process. Either the process would stop working as it now works or we would get market whiplash effects. Either way, it's a loser. I just don't see how we can truly preserve the deliberative process as we know it in a context in which we would release the policy record as we now do it at any point in an intermeeting interval. I'd rather do a memorandum of discussion than that. But I could associate myself with the suggestion that you made. I'm inclined to think--Don Winn would know better than most of us--that that might in fact be seen as a significant gesture on our part.

MR. WINN. Jerry, I'm not sure that I heard all you said.

VICE CHAIRMAN CORRIGAN. What I'm saying is that to release the policy record as it now exists at any point in an intermeeting interval--it doesn't matter whether it's a day, a week, two weeks, three weeks [after a meeting]--will in my judgment compromise the process.

MR. WINN. Right, but what were you proposing? You were asking me--

VICE CHAIRMAN CORRIGAN. The Chairman made the proposal. What I think I heard him say was that as things stand now: When the Board cuts the discount rate, it [announces] it; when it changes reserve requirements, it [announces] it. If the Chairman or the Committee made a decision between meetings to lower the funds rate, we would put out a statement that morning saying the Federal Reserve today eased reserve conditions and as a consequence of this the federal funds rate went down.

MR. MULLINS. What is the benefit from that?

VICE CHAIRMAN CORRIGAN. No, that's the wrong question. The question ought to be: What is the cost?

MR. SYRON. It has no cost.

VICE CHAIRMAN CORRIGAN. That's the issue. There's a benefit too, Dave. The benefit is that it takes away this perception that it's the Wall Street insiders who benefit from their Fed watching activities to the exclusion of other segments of society. That's the benefit.

MR. BOEHNE. Suppose the Committee decided--it would be a rare, shocking event--to move the funds rate at a meeting. Would we announce it that day or when would that be announced?

VICE CHAIRMAN CORRIGAN. I would do the same thing--the next morning, though.

MR. KOHN. So, all you're doing basically is speeding up the announcement process by two or three hours. Right now it comes out at 11:30 a.m. the next day, and you want to do it at 9:00 a.m.

VICE CHAIRMAN CORRIGAN. It's not always clear.

MR. MCDONOUGH. It doesn't in fact come out. We let the market assume that we've eased. I think there would be an additional benefit because sometimes it isn't altogether clear how much we've eased and it takes us a day or two of fiddling around with repos and matched-sales in order to convince the market what exactly was done. To the degree that there's a benefit in not confusing markets, I think we would actually get a plus from this approach.

MR. PARRY. And there have been periods when it has been misinterpreted.

MR. MCDONOUGH. Yes.

MR. MELZER. I'm not sure we'd want to disclose it so soon.

MR. BOEHNE. You go into the market at something like 11:30 a.m., don't you?

MR. MCDONOUGH. Yes.

MR. BOEHNE. So, it would work something like this: When you go into the market, essentially simultaneously there would be an announcement made by the Fed that the Desk has now eased or tightened reserve conditions and we expect the federal funds rate to trade at a certain level. That's the proposal?

MR. MCDONOUGH. As I understand it, yes.

CHAIRMAN GREENSPAN. It doesn't have to be at the same time. Governor Angell.

MR. ANGELL. I don't view the idea of protecting individual confidentiality in a discussion as being uniquely different for the Federal Reserve than for other groups. I do believe we have a basis that we can argue is unique to the Federal Reserve, and that is that it's really group confidentiality we're trying to protect, not individual confidentiality. It seems to me that we have to distinguish very carefully between the discount rate, which does have a clear announcement, and open market operations, which under different procedures really are perceived quite differently. That is, it's important for us to preserve the flexibility for open market operations [in cases where] we're not pursuing fed funds targeting. For us to say once and for all that fed funds targeting is the real way to [conduct] open market operations ignores the possibility that at some future date some monetary aggregate or some reserve measure, borrowed or nonborrowed, might behave in such a way that we would follow that; and we would once again be in a period in which market forces would be moving the fed funds rate rather than our doing it deliberately as a part of our policy. So, I believe we ought not to make announcements about fed funds rate movements; to me that would take away the emphasis of the announcement effect of a discount rate [change]. I agree that maybe we ought to move the discount rate more often and thereby make more announcements. We could try to lean more toward doing that and not go the long periods as we sometimes do because of our hesitancy to [move] the discount rate.

I also believe there's another important point in the Gonzalez letter to the Reserve Bank Presidents that needs to be addressed. His request that the position of nonvoting presidents be ascertained and recorded is one that we ought to resist with emphasis. The reason we ought to resist it is that recording the position of the nonvoting members then could have us in the confusing position of announcing that the majority of the members voted one way and the majority of the 19 participants voted another way. By doing that we would in effect be overriding the Congressional intent when [the Banking] Act of 1935 [established] a Federal Open Market Committee made up of the seven members of the Board of Governors and five presidents. We ought not to fall into that trap of those [nonmembers] being recorded.

Now, I do agree with Ed Boehne and others who think that we ought to ask ourselves whether all the delays are necessary. I wonder whether or not the delay in the release of the [policy record] for the Federal Open Market Committee meeting until three days after the next meeting could be [shortened to] four weeks after the meeting; if there's a tilt on policy and we haven't moved in the direction of the tilt, then it seems to me there's not much revelation after three or four weeks. I don't know how much we really gain by waiting through the last part of the [intermeeting] period. I would not want to take away the flexibility that exists by making an earlier announcement than that.

CHAIRMAN GREENSPAN. I frankly think that would get us nothing.

MR. ANGELL. But the question is not for us to try to buy something; the question is for us to ask if we are doing what we're doing in such a way that we can defend it. I don't know how we can particularly defend waiting quite as long as we wait on the release of those FOMC policy directives.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. May I ask on what basis we close the meetings now?

MR. KOHN. Speculation in the market and things like that.

MS. PHILLIPS. Is there something in the Federal Reserve Act that allows us to close monetary--

MR. MATTINGLY. This Committee is not subject to the Sunshine Act.

MS. PHILLIPS. We're not subject to it at all?

MR. MATTINGLY. Not subject to it at all.

MS. PHILLIPS. Why not?

MR. MATTINGLY. There are exemptions. The FOMC is exempt.

MS. PHILLIPS. It's just exempt completely from the Sunshine Act?

MR. MATTINGLY. Yes.

MS. PHILLIPS. What about the Board of Governors?

MR. MATTINGLY. The Board of Governors is subject to the Sunshine Act; therefore, we have an obligation to open the meetings to the public unless we find some exemption.

MS. PHILLIPS. But discount rate meetings aren't open.

MR. MATTINGLY. The discount rate is the responsibility of the Board of Governors and we have to go through the procedures of Government in the Sunshine, but we close the meeting.

MS. PHILLIPS. On what basis?

MR. MATTINGLY. Financial speculation.

MS. PHILLIPS. Financial speculation!

CHAIRMAN GREENSPAN. I think that our General Counsel ought to write an op-ed piece in which he quotes both sources of information today and then asks the obvious questions!

MR. BLACK. What you really want to ask is how we were able to exclude this before we found out it was a sin!

MS. PHILLIPS. Right, right! Having found that out, the one thing that does seem unique in the FOMC compared to other regulatory bodies that do come under Government in the Sunshine is that we have a situation where 12 presidents come in from all over the country and the first part of the meeting is truly deliberative; and a lot of views aren't set until we go through that discussion process. I think that's the uniqueness of the Federal Reserve that we need somehow to try to preserve, if that can be separated out.

CHAIRMAN GREENSPAN. Would you take the first part of the policy record, which is an evaluation of what is going on, and release that more promptly?

MS. PHILLIPS. I think they're separable. When you come down to the vote time under normal Government in the Sunshine procedures, that's the kind of thing that you'd have to record.

CHAIRMAN GREENSPAN. The only thing that we really have to protect is our tilts [in the directive] and our contingencies and anything that relates to actions we have not taken but might take. That's where the real issue arises.

MS. PHILLIPS. Well, if we go to some kind of fairly quick disclosure, there's not going to be any more asymmetric anything. We're just going to have to go to a straight vote, announce it, and that's it.

MR. ANGELL. Why? We have tilts on which we don't act and we have tilts on which we do act.

MR. MELZER. We can just disclose actions taken.

MS. PHILLIPS. That's right.

MR. KELLEY. That's the key.

CHAIRMAN GREENSPAN. After the fact.

MS. PHILLIPS. Right.

MR. MELZER. Yes.

CHAIRMAN GREENSPAN. Well, why do you say that we have to do it the way you suggest?

MS. PHILLIPS. Well, if we announce that a vote has been taken and that it's going to be asymmetric--

CHAIRMAN GREENSPAN. Oh, I agree with that.

MS. PHILLIPS. I think that would be limiting. In my understanding of Government in the Sunshine, though, there are ways to protect deliberative processes. That seems to me something that could be pursued because I think other government agencies do differentiate between staff papers and a deliberative process leading up to a vote. It's the final decision that has to be made public.

CHAIRMAN GREENSPAN. Did the CFTC deliberate in closed--?

MS. PHILLIPS. Yes, we had closed meetings. The basis on which we could close them included market-specific information, firm information, the IBM kind of information. There are clear bases on which to close meetings. And generally, unless you're subpoenaed, you can protect the deliberative process.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. I think we've got to preserve the deliberative nature of this body and if Governor Phillips is suggesting that we open the question of [our being subject to the] Government in the Sunshine Act, I would certainly not support that. I would not be opposed to a memorandum of discussion [released] with a lag of three or four years, or something like that. Nor would I be opposed to a more timely release even of the directive and the policy record. But there's a more fundamental issue here that we need to be careful about. We're having this discussion, it seems to me, because of one Congressman. Mr. Gonzalez has precipitated this in a letter to the presidents and a letter to the Chairman about videotaping. Now, I realize that we have Messrs. Hamilton and Dorgan and people like that [also interested in these issues] but I think we have to be very careful that we don't change the institutional nature of this body simply to accommodate a Congressman. He represents San Antonio; he doesn't represent [all the] people of the United States. I don't think whatever we do [in response to] Mr. Gonzalez is going to satisfy him, whether we say we're going to give him a memorandum of discussion or an earlier release of the policy record. He wants to politicize the Federal Reserve. And I'm glad we're not on videotape at this moment when I'm saying that! So, I think we really ought to resist responding to him. Now, I realize he's the chairman of the committee and if it looks as if he's gaining support, then of course we have to

try to be more offensive--in both senses of that term!--and try to fashion any legislation that we think might come along. But if he doesn't have support.... We don't know what is going to happen in the new Congress. Is he going to have this kind of support?

Also, I happen to think that we are accountable. We probably disclose more than other central banks, and I think we can defend what we're doing right now. I don't think we ought to be in a position at this moment of taking some kind of preemptive strike just to get something from Mr. Gonzalez. If the Congress wants to pass legislation, that's fine; but I don't think we ought to change on the basis of one Congressman. And I might just add that I think it goes beyond this issue; it goes to other issues as well.

MR. SYRON. Bob, I agree with you on this point, but we can't afford to bury our heads in the sand either.

MR. FORRESTAL. No, I'm not suggesting that.

MR. SYRON. There are sensible things that have been talked about that could be done here that would really be an improvement. We talked about announcing what we're doing so there isn't this confusion of "did they or didn't they?" in the market. And people seem to think that's an advantage. If there are things we can do that improve communications and we're not doing them strictly to respond to this but [also because] they have the ancillary benefit to which we are responding as well, I think we ought to do those things. I don't think we ought to stand up and, for lack of a better word, try to be overly "macho" or independent and just say because [Mr. Gonzalez has] raised it we're not going to do it. I am afraid this is a perilous year for us, and we could get into a situation of this escalating further and further.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Bob Forrestal already made the point that I was going to make. I certainly agree with those who have said that any further specific detail or attribution of individual comments would be very destructive of the [deliberative] process. But this is a question, frankly, that I don't think Mr. Gonzalez wrote; some curious staffer way down the line wrote it. And for us to respond by making a change at this point would be a very big mistake. I think we ought to go back and say that we thought about it carefully and that the process we're currently using seems appropriate to us. We're always open to thinking about it further, but we don't see any reason to make a change at this time. I think they're just fishing and if we give them something now, that's just going to encourage them to try to get more.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, I agree with Bob Forrestal. I think that Mr. Gonzalez's purpose really is to politicize the Federal Reserve, and he hopes to do that by exposing our deliberations. So, I think he's not really asking for [earlier release of] our actions. He knows those fairly soon, although one could argue that we could make them available a little sooner. What he wants to know is the deliberations. I was around here when we gave up the memoranda of

discussion; I hated to see it [discontinued], although I understood the reason why the Committee did it. I chatted with Chairman Burns about it at the time and he said he too hated to see them go because they do have valuable information for scholars--admittedly only a few [of them are interested]--but the memoranda do have some valid information for those inside and outside the System. I think we would be wise to resume preparing them. I doubt that would inhibit our discussions and deliberations at all if they were released, say, three years or even two years later. And we would be responding to a point you made which I think is very real: That maybe we do have a responsibility for making available to the public something more than we are now doing. And I don't think that would inhibit our discussions. For example, would you mind tomorrow if someone told people what you had said two years ago at an FOMC meeting? My view is "no."

CHAIRMAN GREENSPAN. The problem, unfortunately, is that under the Freedom of Information Act, we need a statute to protect us. In other words, if we were to start to make [detailed] minutes right now, they would be subject to a Freedom of Information suit.

MR. PARRY. That's what they would try.

MR. LAWARE. I thought we were exempt.

MS. PHILLIPS. From Sunshine, [not FOIA].

SPEAKER(?). That's why we gave it up in 1976.

MR. BLACK. Well, you mean they would get out sooner than the lag we would set?

SPEAKER(?). Yes.

MR. BLACK. Well, it takes a while to write them! It's one heck of a job. Norm will tell you that. And I may have lost a friend!

MR. ANGELL. But I presume we have some exposure in regard to the tapes; it's just that we think we reduce the time scale of danger, isn't it? Aren't the tapes subject to a FOIA request?

CHAIRMAN GREENSPAN. I don't know. General Counsel, what is the--

MR. MATTINGLY. I think the tape of this meeting is destroyed as soon as the--

MR. BERNARD. That's right. The Committee has had a policy since the early '70s that once the policy record is released to the public, the tape is erased.

MR. MATTINGLY. Legally if someone asked for the tape before it's destroyed, we'd have to go through the tape and we could delete the recommendations and opinions. We'd have to turn over the segregable facts.

MR. ANGELL. Yes, but I'm saying we do have a period of vulnerability in regard to the tape.

MR. MATTINGLY. No question.

MR. ANGELL. I think we have to keep that in mind.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. Well, I'm pretty much opposed to everything! In my opinion, it ain't broke, so I agree with Tom and Si and Bob. I think the memorandum of discussion would be a good idea, but I don't see how we could keep it from FOIA or keep it from Congress if Congress requested it. We somehow can't resist giving [bank] exam data or anything else. So, even if they said it was going to be [released with a lag of] five years, I wouldn't believe them. I do think it's an attempt to politicize the process--to identify and hold responsible those who have "politically incorrect" views.

There is this notion of openness and the public's right to know. There is this bias and voyeurism, which is becoming a constant in popular culture by a self-serving media as well as Congress. But the notion of protecting the deliberative process is in the Sunshine Act; it's in FOIA. When I was at Treasury, deliberative papers were exempt from the process. When the President meets with his advisors on foreign policy or on economic policy, those deliberations are done in private. And as you pointed out, Congress [conducts] its caucuses and negotiations [in private]. I think one can see the difference in open versus closed Board meetings. The quality of discussion and decisionmaking, because of the sensitivity of issues and market sensitivity, is far different when we have an open meeting versus a closed meeting. So, I think this is entirely defensible under existing concepts, again against their bias.

On the issue of early release, first, I'm also very skeptical of the notion that this would blunt political criticism. We have a new Congress and a new Administration, and I don't like sending the signal that we're in the mood for change and that we're malleable. I think we're in a pretty strong position starting out with those people. It's a particularly poor idea to do something unilaterally--to volunteer to turn ourselves in or to plead guilty. At least we ought to make them work for it a bit! And it's too early in the season for gift-giving. [Laughter] Releasing the policy record early I think would rob us of the asymmetric option. There may be an argument that we've overused the asymmetric option, but that ought to be confronted directly.

I also don't like the idea of announcing a federal funds rate change. I don't like making announcements. We're not good at making announcements. First we have to be good at making the right decision and then we have to be good at PR. The last time we really tried this was with the discount rate cut last December. We said that it was going to be the last cut and that it was enough to sustain the recovery. Since then we've cut the federal funds rate 100 basis points and the discount rate 50 basis points, and I don't think that added to our credibility. The Bank of Japan always does this and they're ridiculed for it. We have moved the federal funds rate a lot more than we've moved the discount rate. I think one of the reasons

is because we make an announcement with the discount rate. When we move the fed funds rate, it ends up on the financial pages; when we move the discount rate, it ends up on the front pages. I agree with Governor Angell that we ought to keep our options open. I would like to see more flexibility in the federal funds rate. I don't know exactly why it is that making an announcement would reduce the frequency [of such actions], but I feel the evidence is pretty clear that it would. So, my sense is that the process works pretty well. We have a pretty good record of accountability, and I think that's why we receive so little criticism and why this has not been coming up as a big issue. And it's not really just one Congressman. To a large extent it is one staffer resurrected from that era in which this was an issue. So, I think the right approach to take is to try to figure out what is best and not try to respond to pressure. My view is that the current process works well.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, the day is getting on here and it's just about all been said, I'm sure, but let me try to make one thing explicit that I think has been implicit in much of what has run through [the discussion]. What is in the public interest? That's what we're talking about. I think there are two components of that. We have two public interest objectives here, but they're not of equal weight. One public interest objective is the best possible public policy. That's essential and that can't be compromised. The other public policy interest is that there be timely disclosure; that's one of the basics of the political process of the country. That's desirable. The one is essential; the other is desirable when it does not compromise that which is essential. The essential part--the best public policy part--I think is most closely associated with the issue of the deliberative process. In my view, that's what we have to protect at virtually any cost. The desirable public interest part is more closely associated with the timeliness issue. So, it seems to me that we might be able to take a look and do some careful thinking about meeting that desirable public policy objective of disclosure a little more fully than we have today. But I would not want to do anything that would impinge upon the essential part of this, which is the creation of public policy in a deliberative manner. So, what we might do, Mr. Chairman, on another occasion with a little more time and maybe a staff paper to go into it, is to take a look at the alternatives that would speak to timeliness but be prepared to take a very hard line on anything that impinged upon deliberativeness.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Just a very quick comment on earlier release of the policy record. A couple of people said they weren't sure that we could defend what we're doing now. I would just say that it would be normal in a body like this in effect to review the minutes of the [previous] meeting when the body gets together again, because there's always the possibility that somebody who reads that last revision has a problem with it and we're all together and can resolve that and close out that issue. Whereas if we're reviewing the minutes in effect through a series of independent calls, we would never have that opportunity. And I think we could defend it on that basis.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I just wanted to make the point that I don't see this as an issue between federal funds rate targeting or aggregate targeting. It seems to me we could have more timely release of both; I don't see that it's a tradeoff or that it in any way compromises the future decision that we might want to go to some aggregate [target].

CHAIRMAN GREENSPAN. Any further comments anyone wants to make? This has been a useful discussion, and I think we've pretty much gotten everybody's point of view. Let me suggest the following: I'd like to sit down with a summary of these comments, think about it, discuss it with some of you perhaps, have a telephone conference within 10 days or two weeks or so and report to you what I've concluded from this and possibly make recommendations--one recommendation being to do nothing--and suggest how we ought to proceed from there. In the interim, I will write a letter to Mr. Gonzalez indicating that this meeting took place, that we had a considerable discussion, and that we will be proceeding on it shortly.

MS. PHILLIPS. May I ask that we follow up on Jerry's suggestion about trying to get at least a little blurb on what other central banks do?

MR. TRUMAN. It just so happens that we actually have two documents--a summary and a background document--that we did several years ago. With one exception, I think it's mostly current. It may not answer all your questions but it will give you quite a lot of background on what other central banks do; I'll distribute that after the meeting is over.

CHAIRMAN GREENSPAN. Are you sending copies to everybody? We have them.

MR. TRUMAN. I would have given them to you but I didn't want to disrupt the meeting.

MR. BOEHNE. Implicit in your comment is that we're going to have one Committee reply to Mr. Gonzalez?

CHAIRMAN GREENSPAN. I should think so. Our position is very clear. There is important agreement in this group on the principles of what it is we're doing. The crucial issue is the deliberative process and how to protect that process. That's the [unintelligible] of these issues.

Okay, I think that concludes the meeting. May I just add quickly before you go, first of all, that needless to say this [discussion] is confidential in all respects as are all meetings but especially this one. And secondly, we are scheduled to meet on December the 21st; that's a Monday. The question before the group is: Should we meet in the morning or would you rather meet in the afternoon?

SPEAKER(?). Morning.

SPEAKER(?). Afternoon.

SPEAKER(?). It doesn't matter.

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CHAIRMAN GREENSPAN. Is morning acceptable to everybody?

MR. PARRY. The presidents are coming in for dinner Sunday night.

CHAIRMAN GREENSPAN. You are coming in Sunday night?

MR. PARRY. Yes, we are.

CHAIRMAN GREENSPAN. Then Monday morning it is. Okay, thank you very much, everybody.

END OF MEETING