

**Federal Open Market Committee
Conference Call
September 13, 2001**

A telephone conference meeting of the Federal Open Market Committee was held on Thursday, September 13, 2001 at 5:00 p.m.

Present:

Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Ferguson
Mr. Hoenig
Mr. Kelley
Mr. Meyer
Ms. Minehan
Mr. Moskow
Mr. Poole

Messrs. Jordan, McTeer, Santomero, and Stern, Alternate Members
of the Federal Open Market Committee

Messrs. Guynn and Parry, Presidents of the Federal Reserve Banks of
Atlanta and San Francisco respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Ms. Fox, Assistant Secretary
Mr. Gillum, Assistant Secretary
Ms. K. Johnson, Economist
Mr. Reinhart, Economist
Mr. Stockton, Economist

Messrs. Fuhrer, Hakkio, Howard, Lindsey, Rasche, Slifman, and
Wilcox, Associate Economists

Ms. J. Johnson, Secretary, Office of the Secretary, Board of
Governors

Ms. Smith and Mr. Winn, Assistants to the Board, Office of Board
Members, Board of Governors

Messrs. Ettin and Madigan, Deputy Directors, Divisions of Research and Statistics and Monetary Affairs respectively, Board of Governors

Messrs. Connors and Struckmeyer, Associate Directors, Divisions of International Finance and Research and Statistics respectively, Board of Governors

Mr. Whitesell, Assistant Director, Division of Monetary Affairs, Board of Governors

Mr. Frierson, Associate Secretary, Office of the Secretary, Board of Governors

Mr. Skidmore, Special Assistant to the Board, Office of Board Members, Board of Governors

Mr. Kumasaka, Assistant Economist, Division of Monetary Affairs, Board of Governors

Mr. Barron, Meses. Holcomb and Pianalto, and Mr. Rasdall, First Vice Presidents, Federal Reserve Banks of Atlanta, Dallas, Cleveland, and Kansas City respectively

Ms. Browne, Executive Vice President, Federal Reserve Bank of Boston

Ms. Mester, and Messrs. Rolnick and Sniderman, Senior Vice Presidents, Federal Reserve Banks of Philadelphia, Minneapolis, and Cleveland respectively

Messrs. Altig and Bryan, Vice Presidents, Federal Reserve Bank of Cleveland

Mr. Cunningham, Vice President, Federal Reserve Bank of Atlanta

Mr. Stevens, Senior Consultant and Economist, Federal Reserve Bank of Cleveland

Transcript of Federal Open Market Committee Conference Call of
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CHAIRMAN GREENSPAN. In view of the circumstances of the last few days, I think it's worthwhile for us to review where we are because events are occurring at a fairly significant pace and the situation is changing. Just to set the context, the data bearing on the economic outlook up to Tuesday continued to be mixed. The orders pattern in the capital goods area remained weak. The production figures suggested continued, or even accelerating, rates of inventory liquidation. The general level of consumer expenditures seemed to be holding up, I suspect in large part because of capital gains in homes, both realized and otherwise. The data on consumption expenditures through the first part of September actually are still not bad. Indeed, our review of motor vehicle sales for the first 10 days suggests numbers that are fairly close to those in the previous month. So the presumed further erosion, at least so far as the major motor vehicles producers are concerned, does not seem to be evident in their sales data.

We did have, as I'm sure a number of you noticed, a fairly pronounced decline in consumer confidence in the second half of August as reflected by inference in the Michigan survey--comparing the preliminary numbers and the numbers for the end of the month. ABC/Money Magazine survey data also got considerably weaker in the second half of the month. So even though we apparently have had a fairly pronounced degree of decline in consumer confidence--of course, we're going to find out tomorrow whether the early data coming from the Michigan survey are confirmed--there is as yet no real evidence that it has spilled over into consumption expenditures. In sum, as we stood in

the early days of September prior to the crisis, we were still in that very precarious balance with regard to which way the economy was going to go.

The shock event of this past week is clearly a negative one. It is negative in the most important sense that it presumably increases the real risk premium for long-term capital investment, for fairly obvious reasons. That is, the longer-term environment for which capital investment decisions currently are being made must be perceived to be less certain and potentially of considerably more concern than one would have felt earlier. How significant that deterioration is I think is exceptionally difficult to judge. Indeed, one can envision a scenario--it's a low probability scenario but scarcely zero--that this tragic event could create a fairly pronounced and significant shift in the political structure in the world and that as a consequence, the areas that in the last several decades have been of longer-term concern, mainly those relating to the availability of crude oil, could conceivably change. The widespread shock effect and some of the implications of the current politics could get a lot of people turned around, including those in moderate Arab states. Indeed, I just received a fax about half an hour ago expressing condolences to the American people from the head of the central bank of the United Arab Emirates. Clearly, that is a moderate Saudi-type regime, but there is the possibility that at the end of the day some positive effects could come from all of this. I want to emphasize, however, that that is a low probability outcome, and I think we have to be careful not to get taken in by the way in which the reactions to these types of events usually evolve. There is a shock; the shock wears off; there is a period of mild euphoria as the shock wears off; and then there's a secondary negative effect. With this extraordinary outpouring of activity

favorable to the United States position, we may well be looking at part of the euphoria phase.

I was listening to the official English language German broadcast service late last night--Deutsche Welle, for those of you who turn on the short wave radio and like to listen to these types of broadcasts--and I must say that the German support for us was really quite remarkable. The support was not only at the political level. In fact Mr. Fischer, the head of the Green Party, which is a tremendously pacifist and scarcely a pro-United States organization, was very supportive of the United States, as indeed was the German government. But more importantly there was apparently a lot of activity among the rank and file voters--and presumably non-voters--with candlelight parades in support of the United States and in opposition to this act of barbarism against civilized society.

So there are the makings of an element of euphoria that could arise. But it doesn't strike me as something that we ought to take all that seriously because after a surge of that type of sentiment, it usually starts to dissipate gradually. Then the political wrangling that normally goes on in a democratic society is likely to reemerge, which is the reason why Winston Churchill made his very famous remark about democracy. Furthermore, the net effect from this tragic event, any way one can cut it, has to be negative. Whether it's sufficiently negative to create a significant downside potential for the economy, we don't know.

While the economy in our country seemed to be stabilizing, though precariously so, Japan's has been deteriorating. There is very little positive news coming out of Japan. There had been some modest indications that Europe was perhaps stabilizing, at least in part, prior to the event. But, as you know, we've seen problems in

Argentina, Brazil, and East Asia. So, the rest of the world has not been a particularly happy place. This event came at a most inopportune time if one really wants to look at it purely from an economic forecaster's point of view.

I think it's much too soon to make judgments about how this will ultimately come out, but that it is a significant negative has to be the case. Indeed, Dave Wilcox was indicating to me a few minutes ago that the staff was getting evidence about the infrastructure breakdowns that are in the process of occurring. Remember, the government has shut down American airspace, and a considerable amount of just-in-time inventory is moved by airfreight. The downside of our high-tech just-in-time inventory system is that it is clearly vulnerable to disruption. It's rare that we get disruptions of sufficient magnitude to have an impact, but there is that possibility here. I gather that announced shutdowns--

MR. WILCOX. I don't think they've announced further shutdowns.

CHAIRMAN GREENSPAN. I saw that in the newspaper.

MR. WILCOX. They shut down their plants on Tuesday and Wednesday. There were additional curtailments of production after that and those are expected to persist perhaps until Monday. I don't know the extent to which those further shutdowns have been made public. The initial closings were related simply to the shock of the event itself. Their persistence I think inability to supply its plants sufficiently with parts and so forth.

CHAIRMAN GREENSPAN. Thank you. Don, could you give us a quick rundown on how you see the events of this week in terms of the impact they are having on the financial system?

MR. KOHN. Mr. Chairman, the Presidents and Roger Ferguson have been discussing a lot of the infrastructure issues. It's a little hard to tell how all this is going to turn out. One thing that is clear in terms of the equity markets, for example, is that there has been quite a bit of disruption. Bill McDonough can probably fill us in on that. The payments and settlements systems are still creaking along at best. Perhaps we can discuss this in a bit more detail after we're finished the economics discussion. There has been a huge rally in the government securities markets and the markets have built in at least 50 basis points of easing, and perhaps more, by early October. So I think people have interpreted this event in much the way Chairman Greenspan was saying. That is, we had a weak economic situation to start with, one that perhaps a lot of people saw as deteriorating before Tuesday's terrorist attack, and then this shock was piled onto it. The stock market had been declining; profits had been generally disappointing; and, of course, the employment report was much weaker than people had expected. So the markets had already been building in some odds of an intermeeting move or a 50 basis point move at the October 2 FOMC meeting. Since the attack, we've had a considerable rally in the fixed income markets, building in further Federal Reserve ease. The structure of the financial markets is still very shaky and improving only gradually. The price movements in those markets, as best one can determine in very choppy trading, are consistent with expectations that the events of this week will be a negative shock and that the Federal Reserve will have to ease policy somewhat further.

CHAIRMAN GREENSPAN. Do you know what has happened to corporate yields--to Baa yields, for example?

MR. KOHN. I don't know.

CHAIRMAN GREENSPAN. There's a question of the flight to quality, which is crucially determined by what is happening in that market.

MR. KOHN. Right.

MR. REINHART. The market is just not functioning particularly well, Mr. Chairman. We can get some readings on swap rates. Swap contracts were traded in London yesterday. Those spreads widened out considerably yesterday and they've narrowed today. On net they are higher. I don't think we're going to have reliable readings on corporate rates for a while.

CHAIRMAN GREENSPAN. The implication is that corporate yields may have eased slightly but nowhere near the extent to which government yields have.

MR. REINHART. Yes, Don was talking about the steepening of the term structure. The declines at the short end are in the neighborhood of 1/2 percentage point and the long end is down only a couple basis points. Those are on-the-run Treasury issues, which are pretty much the only securities that are being traded. So, I really couldn't tell you what the underlying term structure is.

CHAIRMAN GREENSPAN. Bill McDonough?

VICE CHAIRMAN MCDONOUGH. Yes.

CHAIRMAN GREENSPAN. Could you bring us up-to-date on the most recent events? I know that the Presidents have been meeting by phone over the last few days, but there are new events today, which I think would be worthwhile putting on the table.

VICE CHAIRMAN MCDONOUGH. Thank you, Mr. Chairman. We had several meetings in New York today. The first of those was with the heads of the New

York Stock Exchange and the NASDAQ and with senior people from the public sector. Harvey Pitt represented the SEC, Peter Fisher represented the U.S. Treasury, and I the Federal Reserve. People from the telephone company, Verizon, and from the electric utility company, Con Ed--which actually supplies electricity, steam, and gas--were also present because the issue was to try to determine when the New York Stock Exchange and the NASDAQ could be reopened. That to a very large degree is a question of infrastructure. The major parts of lower Manhattan, both east and west of Broadway, are now without full power and full telephone service. The exchanges themselves do not have anywhere near normal telephone service. At the New York Fed, which is of course in that general area, we can make outgoing calls but can't take incoming calls. The hope expressed by the telephone company people was that by Monday morning they would be able to supply to the area east of Broadway--that is the area away from the disaster--about 90 percent of the normal capacity of telephone service. Of course, the other side of that equation is the demand. The typical demand at the exchanges, even on a day of fairly heavy trading, would be around 75 to 83 percent of the telephone service capacity. Therefore, if in fact Verizon has capacity up to 90 percent by Monday morning, then from that point of view the exchanges should be able to be open.

Restoring the electric service is, if anything, more difficult because many of the main transmission locations were destroyed. The seaport is the area from which most of the power is distributed to the exchanges and to the key recovery area east of Broadway, and the seaport facility has lost most of its capacity. As you know, most of the electricity distribution network in New York and Manhattan is underground. There is, of course, no way in the world in which the capacity can be restored by digging up the

streets. So, Con Ed will be stringing heavy cables. Heavily coated wires will just be strung along the streets against the curbs and protected. Where those wires have to cross a street, little tunnels of, say, six inches to a foot will be constructed. To very sophisticated users it will look a bit like a Third World solution. But Con Ed officials expressed a high degree of confidence that they will be able to do that and that it will work.

A major problem, which has been driving everybody a bit crazy today, is the questioning about the structural stability of a building called One Liberty Plaza. It is at the corner of Liberty Street--the street on which the New York Fed is located--and Broadway. So it's not very far from our building. There is a very significant danger involved because, if the building should collapse, there is no way one can tell in advance how it will happen or in which direction the building will fall. The reason the Trade Center buildings imploded is because the airplanes had so much fuel on them that in effect they were bombs. The structural steel in the building reached a temperature above that it was constructed to tolerate. So in effect the steel vaporized and then the buildings just imploded. That might not be the case with this particular building. If it should fall as opposed to implode, and if it should fall due south toward Trinity Church, it would fall on top of two very old buildings and there would be a monumental asbestos problem. It would create a very severe hazard of airborne asbestos. That would place in very big doubt the ability of the exchanges to reopen. Three times in the last 24 hours there have been rumors that the building was about to fall, and structural engineers were sent in both by the owners of the building and by the City of New York. The engineers came out and said that the building was structurally sound even though its outward appearance, which

is somewhat distorted at the top, would make a non-structural engineer wonder about that. At any rate, that is the building that is the main source of concern.

A later meeting today involved the same participants I mentioned earlier plus the heads of the major financial institutions in New York. The decision was made, a purely private sector decision, that the stock exchanges would not seek to reopen tomorrow, Friday, but would undergo a capacity test. That is a normal test conducted periodically to see if their systems are functioning. It will be done at 10:00 a.m. New York time on Saturday. If that test proves positive, the New York Stock Exchange and the NASDAQ will be open for business at 9:30 on Monday morning. Three of the major firms most affected by the tragedy, because their offices were in the buildings that were destroyed, are Morgan Stanley, Merrill Lynch, and Lehman Brothers. The heads of all three of those firms were at our meeting this afternoon and they committed themselves to being prepared to participate and function in the markets on Monday. They have offsite facilities that are going to make that possible for them. Obviously, those firms are three very big market makers, so their presence is very important to the basic liquidity in the market.

So, Mr. Chairman, I think the main concern at the moment is that building near ours. Somebody is going to have to figure out once and for all whether the building is really likely to fall or not. In that regard let me say that the head of the City of New York's emergency efforts is a very sensible fellow. He thinks that as vast amounts of rubble are removed from the site of the tragedy there is a shifting and, of course, when many, many tons of material shift that causes a tremendous noise. Anybody nearby who has been traumatized by the events of early this week immediately thinks that yet another

building is falling and people go racing into the streets. In this situation nobody is quite sure whether people are just traumatized and overreacting or whether something is really wrong. So we're living in a very surreal environment.

I think that's where things stand. In addition, Jamie Stewart and my other colleagues have been working with the major two clearing banks. As you well know from earlier calls this week, there was a small problem with Chase on Tuesday that worked itself out. The Bank of New York has been a considerable problem. I had a conversation with the two top executives at Chase and with Tom Renyi, the CEO of Bank of New York, after the breakup of the larger meeting I described. Based on these discussions, Chase is quite certain it can function well. The general feeling about BONY is that the situation is improving from a low base. There is no question by now that we have the full attention of BONY management, as do their customers and their counterparties. The bank is hoping to be able to complete its processing on a more normal basis this evening--but we've heard these hopes from them before--and to come up fully operational tomorrow morning.

SPEAKER (?). Bill, along that line, did you know that we have three of our people at the BONY backup site here in New Jersey? As it happens, their report of an hour ago was optimistic. They were looking over the operations and thought BONY was making excellent progress. They felt BONY's view of being able to close around 8:30 p.m. tonight was probably a good estimate.

VICE CHAIRMAN MCDONOUGH. I think that's the view from New York, Mr. Chairman.

CHAIRMAN GREENSPAN. Thank you. As part of the 1987 stock market episode, if I may use that term, we developed a pro forma Dow Jones Industrial average from the overnight price quotations. This was well before we had futures and all the rest. Dave Wilcox took a shot at seeing what the European markets implied about the 30 stocks in the Dow, at least the first day. I don't know whether you did it for the second day. Would you take just a minute to review your findings?

MR. WILCOX. On the first day there was some trading in German markets and we were able to get quotes for all 30 stocks represented in the Dow. I would emphasize that the calculation was pretty rough, but we took prices that were quoted in euro terms and adjusted them for the decline in the dollar against the euro. We calculated that the drop in the synthetic Dow was about 300 points. I must say that that struck me as a rather small figure compared to what else had gone on around the world. And the same thought apparently crossed the mind of a market analyst in London whose name I don't recall. He calculated, according to the wire that I saw, a decline in the Dow of about 800 points. I'm not quite sure that I wouldn't trust his calculation more than mine, but we double-checked our figures and that 300 number was what we got.

CHAIRMAN GREENSPAN. Did you do one for today?

MR. WILCOX. I haven't done it for today and there wasn't any trading in U.S. securities yesterday.

MR. POOLE. Dave, this is Bill Poole. How much of that was the currency effect and how much of it the price in euros?

MR. WILCOX. The currency effect, if I have the sign correct, actually alleviated the decline in the Dow on a dollar basis because the dollar weakened against

the euro by 1.8 percent. So what that means is that the euro-based decline in the Dow was something on the order of roughly 5 percent, offset by a 1.8--or call it 2--percent weakening in the dollar, leaving something like a 3 percent decline in the synthetic Dow in dollar price terms.

CHAIRMAN GREENSPAN. So we'll find out on Monday morning.

VICE CHAIRMAN MCDONOUGH. Yes, that's when we will really know, after the markets have a chance to put buyers and sellers together for a while.

CHAIRMAN GREENSPAN. Right, we'll get some real numbers. That's what we know from here. I realize that there's going to be a technical meeting chaired by Roger Ferguson directly after this, but I'm curious to get the views of other members of the Committee on economic issues and other issues. Would anyone like to start?

MR. POOLE. Well, Mr. Chairman, this is Bill Poole. Everyone seems to be bashful, so maybe I'll pipe up if that's all right.

CHAIRMAN GREENSPAN. By all means!

MR. POOLE. Okay. First of all, clearly we may be faced with events that we can't predict, so it's going to be very important to be ready to move. And obviously, it may be necessary for you and the Board to make on-the-spot decisions. We may not be able to convene a phone call fast enough for all of us to be involved. So I want to emphasize that point first.

Secondly, the provision of liquidity to the market is obviously the most important immediate need and we're doing that in spades, which I think is completely appropriate. Moreover, I think any beneficial effects that might come from reducing the federal funds rate target are going to be in terms of reassurance and the psychological

aspects rather than that a reduction of a certain number of basis points will make an enormous direct contribution. That doesn't say that I rule out a funds rate move by any means; I think being ready to make a move could be very important. My instinct, from what I know, is that such an adjustment is not necessary or required at this point. But I'm sure that you know a lot more than I can see out here in St. Louis. If a step looks advisable, I certainly don't rule out a cut of 50 basis points, although from a reassurance point of view it seems to me that 25 basis points would perhaps be enough. Of course, I say that with the understanding that it would be easy to do another 25 basis points either very quickly thereafter or on October 2 at our regularly scheduled meeting. That summarizes my view, but I feel very strongly that it is critical that we be ready to respond to events almost hour by hour. And I would support whatever decision might have to be made under the present circumstances.

MR. PARRY. Mr. Chairman, this is Bob Parry.

CHAIRMAN GREENSPAN. Yes, Bob.

MR. PARRY. It seemed to me that in the days leading up to Tuesday the economic situation was looking weaker, and the information we've received from the Michigan survey would certainly suggest that as well. As a result of what has happened, I must admit that at least over the short to intermediate term I can't find anything that would be of a positive nature. And I can identify many potentially negative developments, including the impacts on air travel and the airlines themselves, plans for recreation or vacations, and things of that sort. So it seems to me that many of the risks to economic growth that we talked about at our previous meetings have become, if anything, more visible and concrete. That would suggest to me that a move on the funds

rate would be called for, although I'm not saying today is the day. Nevertheless, I would favor a move soon, whenever you feel the proper day would be, and I would not favor a 25 basis point move. I think it would be appropriate to do something of a more substantive nature, certainly something that would at least be in accord with what seems to be reflected in the futures market. Thank you.

MR. MOSKOW. Mr. Chairman, let me mention first that in the events leading up to this Tuesday, our assessment in the Seventh District was that the manufacturing sector was clearly weak but was not getting worse. That view was generally confirmed by conversations with some of our business contacts who had been much more pessimistic two, three, four weeks earlier. But it seemed clear to us that consumer spending was soft and getting softer, and a number of people seemed to feel that way. Small and mid-size businesses also appeared to be slowing down.

We had a conference call with our directors today and let me report some one- or two-day numbers they provided. Sears reported that its sales were down 50 percent on Tuesday from the same day last year but were down only 10 percent on Wednesday, which surprised them. On the other hand, one of the major catalogue retailers, Lands End, said that their calls were off 75 percent on Tuesday and 60 percent on Wednesday, which is obviously not surprising. One of our directors whose firm is a major supplier to the auto industry indicated that the number of plants he is supplying goes up and down because of the shortages of parts, as you noted earlier.

In terms of what we should be doing going forward, obviously this is an unprecedented situation and my instincts would be to move sooner rather than later. I also think that 50 basis points is the appropriate magnitude.

MR. STERN. Mr. Chairman, this is Gary Stern. It seems to me that the incoming economic data are going to be overwhelmed by what has happened in the last several days. From that perspective I think, as somebody has already mentioned, that it's mostly a matter of psychology and trying to sustain confidence to the extent that we can on the margin. For that reason I, too, would favor moving sooner rather than later. And if it turns out with the benefit of hindsight that such an action proves to have been unnecessary, looking back at the situation a month or two from now, we can always reverse it. Obviously, I don't know how all this is going to play out. But most people who have commented believe that once things sort themselves out a bit, the effects will be negative. That seems to me the likely outcome as well.

MR. HOENIG. Mr. Chairman, this is Tom Hoenig. I would say that before the events on Tuesday the situation here was generally continuing as it had been, with manufacturing slow and no signs whatsoever of any improvement in business fixed investment. I think these events have changed that whole outlook. I believe, as Gary Stern and others have said, that we are dealing with a psychological factor. We have put enormous amounts of liquidity into the market, and that's what we should continue to do. If we gather information tomorrow and into Monday as the markets open and decide that we should do something on the funds rate, I think 50 basis points would be the appropriate amount because of the circumstances. I would have no problem with that. I don't know that we have to rush to do it today or tomorrow, but I think we have to be ready to act. And if we are going to make a move, in my view it should be a fairly significant move. Thank you.

MR. SANTOMERO. Mr. Chairman, this is Tony Santomero from Philadelphia. On Monday, President Poole and I were actually in the World Trade Center talking about the economy, and I expressed my concern about the data being somewhat on the weaker side. In light of that and in light of the new circumstances, I think a move is appropriate. I'm not talking in terms of "if we were to move;" I think we should move. And further to the point, I believe we should move before the markets open rather than wait for the markets to demonstrate their opening weakness and then respond to that. My own sense is that a 50 basis point move would be appropriate at this time, and doing so before the market opens would be a recognition that we saw the circumstances as they are, as truly unusual circumstances. To the extent that the economy actually does prove to be somewhat strong down the line, I would be more than happy to back away from the level of the fed funds rate at that point. Thank you.

MR. BROADDUS. Mr. Chairman, this is Al Broaddus. Similar to what Michael Moskow said about his District, before we got into the crisis situation we were getting at least a little positive information on manufacturing. Though "turning around" would be too strong a term, it seemed that conditions in that sector were beginning to stabilize a bit. But we also had a telephone conference with our board this morning, and the information we heard about that sector today was much less favorable and more bearish. Many of the other comments we heard from our directors--and I'm hearing similar remarks from other sources--reinforce what others have said to the effect that psychology, now that we are in this crisis, is really the key issue. I personally believe that we need to move on the funds rate. We don't need to move precipitously, but I think we need to move fairly soon. I believe there's a fine line here. I don't think 1/4

percentage point is enough; I agree with those who would oppose that. In my view 50 basis points is the right move. I do believe, however, that it would be unwise--or at least something we should think about very carefully--to move by more than 50 basis points. I think the risk in going beyond 50 basis points is that it might express a degree of concern on our part that could cause more problems than it would solve. I also agree with Gary that if we take this action and we later get information that suggests we need to reverse course, we have to be prepared to do that expeditiously as well.

MS. MINEHAN. Mr. Chairman, this is Cathy Minehan. I must say, going into this week, that I was becoming a bit more optimistic about the possibility that manufacturing might be bottoming out. Now, of course, after the crisis much has changed, certainly with regard to where the consumer might stand. The numbers for the Michigan survey were very sobering in my view. The discussion that we had with our directors this morning was sobering as well. We don't have any representatives from heavy manufacturers per se on our board, though we have some from consumer-oriented manufacturing. They and the representatives from small banks were saying that demand had just dried up. People were not buying and in fact were not showing up in stores. That's not hard to understand. The question is how long that behavior will last and what the feedback will be to an already weak situation in manufacturing. Our directors did make a recommendation to lower the discount rate at our meeting. It was made in view of their concern about the message that we send. The message needs to be one of calm, appropriate and measured action, perhaps sooner rather than later. By that I mean moving at this time and then having the October meeting available to move again, setting a steady pattern rather than changing the pattern that we've been in. That was in part my

recommendation. I think we should move if a move is needed. I don't think we necessarily have to do it sooner rather than later, but certainly we should move before the next meeting and perhaps early next week. I would be marginally in favor of the smaller 25 basis point move rather than 50, but I could go along with 50 as well.

MR. GUYNN. Mr. Chairman, this is Jack in Atlanta. My views are probably closest to those Cathy Minehan just expressed. We, too, had a meeting of our directors this morning. It was really hard to separate the underlying situation in terms of what was going on before Tuesday's events from the overwhelming reaction to developments since then. My sense from the directors' comments was that even before the events of Tuesday there was a growing concern that not only were we not seeing a turnaround but that perhaps some areas were experiencing even more weakness than we had seen earlier. We, too, talked--both with the directors and among our staff here--about the wisdom of moving and about how quickly we should move. I think the flip side of the argument that Tony made for moving before Monday would perhaps bear some thought. If we make a move, especially a large move of 50 basis points before the week is out, and the markets open and are really volatile on Monday, we may feel that we need to do more. And we may have fired all of our shots before we had to do so. That's why I say I'm more in Cathy's camp. If we're going to move, I'd make a more measured move now and leave ourselves some room to respond to developments that we may feel we need to deal with even more decisively after things unfold in the early part of next week. Thank you.

MR. MCTEER. Mr. Chairman, Bob McTeer. I don't really think there's any need to separate "before Tuesday" and "after Tuesday." It's clearly after Tuesday. We're in an emergency situation. I think 50 basis points is the right amount. And if I

were choosing the time, I'd do it around 9:00 on Monday morning. I think making a move today or tomorrow would give its impact a chance to dissipate over the weekend. So I would do it shortly before the markets open on Monday.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, obviously in the Second District, as my earlier remarks would indicate, we're living very much in the world of Tuesday and since Tuesday. It's clear that our District is going to experience a devastating weakness in its economy. These events will greatly affect the lives of the people in the District. I won't comment on either the timing or size of a move by the Federal Reserve because this is an information meeting and by the time we really want to discuss those issues I think I'll have a firmer feeling on what would be the right thing to do.

I would like if I may, Mr. Chairman, to share with the group part of the discussion at the afternoon meeting I described here in New York with the heads of the exchanges, the SEC, and the most important financial firms. There is a general feeling that what we have to do is to try as much as possible to return to normalcy. One of the subjects that we specifically discussed was the use of Fed facilities. Of course, as we all know, the discount window is being used very actively. The normal way of supplying funds to most of the American economy really ends up occurring through the banking system using our discount window and through the repo market, which involves not just banks. Even though the Federal Reserve Act provides that other institutions can have access to the discount window under certain circumstances, I suggested to the people at that meeting that in light of our overall desire to return to normalcy that is not something we would wish to see happen. That's because if we had a lot of borrowers using the

discount window who usually didn't, it would be an indication of very large overall weakness or it would identify the parts of the economy that were in the walking wounded category or worse if they were singled out. There was a very strong view among the market participants that that is the right way to go and that we want be seen as functioning normally in the economy as much as possible. All of us are very concerned with the credibility of the Federal Reserve. It would be very difficult to imagine in general a central bank having more credibility than we do. But I think it's very interesting that some fairly traumatized people, even though they try to appear very cool as the heads of major institutions, believe that the confidence they have in the Federal Reserve is a very important asset our country has at the moment. The reason I bring up this discussion of the use of Fed facilities is that having tried out this idea on some fairly sophisticated people, it worked extraordinarily well. I suggest that others might wish to pick up the same theme if the opportunity should arise. Thank you.

MR. JORDAN. Mr. Chairman, this is Jerry Jordan in Cleveland. As we demonstrated yesterday, our ability to inject liquidity into the system as needed is very, very large. It appears to me--with the combination of discount window borrowing yesterday, RPs, overnight overdrafts, and the Fed float--that we've added about \$100 billion worth of liquidity. So it would be hard to imagine the availability of liquidity as an issue. And for the sophisticated people in the financial industry, I think that has already had a very calming effect. I think anything that the FOMC might do with regard to rates would be mainly with a mind to sending a message to Main Street, if that is deemed necessary. But I doubt very much that it's needed for Wall Street.

CHAIRMAN GREENSPAN. Anyone else? This has been a very useful meeting. We'll be watching the data tomorrow and we'll have to review where we're going from there. Thank you very much, everybody.

END OF SESSION