

From the desk of . . .

7/16/66

GARDNER ACKLEY, Chairman
Council of Economic Advisers

The President --

Joe Califano
asked me last
night to work
with Joe Fowler to
head off a discount
rate rise.

We had already
done it.

GA

7-16-66
12:50p

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

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12:45 p.m., Saturday
July 16, 1966

FOR THE PRESIDENT

FROM Joe Califano

jc

At my request, Gardner sent you a memorandum this morning stating that the Board of Governors yesterday rejected a rise in the discount rate, apparently unanimously.

In view of this and in view of the fact that either Ackley or Fowler, or both, have talked to Robertson, Brimmer, Maisel and Daane within the past few days, we all recommend that they not talk to them again at this time. We would like to hold their credit for the days and weeks ahead when the issue is bound to come up again.

If you approve, I would like to tell them that they do not have to see them within the next couple of days.

Approve _____ Disapprove _____

EXECUTIVE
FIB
FG11-5

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

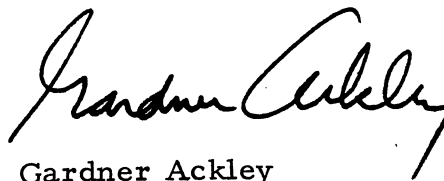
July 16, 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Monetary Policy and the Federal Reserve

1. The Board of Governors yesterday rejected a rise in the discount rate.
 - . After Governor Robertson informed Joe Fowler and me on Thursday of the Board's thinking, Joe or I or both of us talked with Governors Daane, Brimmer, Maisel, and again with Robertson, urging that they not move on the discount rate at this time.
 - . Apparently, yesterday's action was formally unanimous.
2. However, the issue is not dead, because
 - several members are still not convinced;
 - we don't know how Martin and Mitchell will vote when they return;
 - if the market is not convinced that a discount rise is a dead issue, market developments could almost force them to move.
3. Robertson promises that he will talk with us in advance before the issue comes up again.
4. Nevertheless, even if the discount rate is held, there is no assurance that interest rates won't continue to rise. Almost all members of the Board think that a still tighter reserve policy is appropriate.

- . In their open market operations over the coming months they are likely to tighten reserve positions further, leading to higher rates on bonds, bills, and bank loans.
 - . However, they traditionally do not "rock the boat" during periods of Treasury financing. Since the Treasury will be in the market for the next few weeks, this may hold things even for a while.
5. I will send you a memo later today explaining the actions the Fed announced yesterday.



Gardner Ackley