THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

CONFIDENTIAL

March 2, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: An Itchy Trigger Finger on Interest Rates

1. Ackley, Lewis, and I had one of our periodic luncheon meetings with Bill Martin on Friday -- cordial and pleasant, as always.

2. Bill Martin's fears of prospective inflation seem to be mounting to a fever pitch (though he has expressed these fears to us many times since our arrival in early 1961, they are now at a new high):

   a. He expects a great investment boom.

   b. He believes that a drop of the unemployment rate to 3 percent within a year "is a real possibility." (We don't agree, of course, and we are sure the Fed staff doesn't either.)

   c. He believes action against inflation should be taken well in advance of its actual appearance.

3. The British bank rate increase also points toward a policy of "slowing down the increase in the money supply." Yet, like Doug Dillon, Martin does not seem to expect any real outflow to be touched off by the bank rate rise.

4. In spite of his inflation fears and his "finger-on-the-trigger" attitude, he indicated that he does not expect any tightening move to be made tomorrow at the Fed's Open Market Committee meeting.

5. But we think it might be a different matter three weeks from now, when the Open Market group meets again.

6. In the light of all this -- plus the fact that it's time for a new round-up on the balance-of-payments front -- I think another meeting of the "Quadriad" group on monetary policy is in order.

7. Perhaps the best time for such a meeting is just a few days before the next Open Market meeting, in other words, sometime in the week of March 15-21. March 17 or 18 might be good.

Walter

Walter W. Heller