TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE MEETING

March 20, 1979

Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Staff Statements Appended to the Transcript

Mr. Pardee, Deputy Manager for Foreign Operations
Mr. Sternlight, Deputy Manager for Domestic Operations
Mr. Kichline, Economist
Mr. Holmes, Manager, System Open Market Account

Meeting of Federal Open Market Committee

March 20, 1979

MINUTES OF ACTIONS

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, March 20, 1979, beginning at 9:30 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Balles
Mr. Black
Mr. Coldwell
Mr. Kimbrel
Mr. Mayo
Mr. Partee
Mrs. Teeters
Mr. Wallich

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

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

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Mannion, Assistant General Counsel
Mr. Axilrod, Economist

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

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

Mr. Sternlight, Deputy Manager for Domestic Operations

Mr. Coyne, Assistant to the Board of Governors
Mr. Kalchbrenner, Associate Director, Division of Research and Statistics, Board of Governors
Ms. Farar, Economist, Open Market Secretariat, Board of Governors
Mrs. Deck, Staff Assistant, Open Market Secretariat, Board of Governors

Messrs. Gainor and McIntosh, First Vice Presidents, Federal Reserve Banks of Minneapolis and Boston, respectively

Messrs. Balbach, J. Davis, and Eisenmenger, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Cleveland, and Boston, respectively

Messrs. Broaddus, Burns, Danforth, T. Davis, Fousek, and Mullineaux, Vice Presidents, Federal Reserve Banks of Richmond, Dallas, Minneapolis, Kansas City, New York, and Philadelphia, respectively

Ms. Clarkin, Securities Trading Officer, Federal Reserve Bank of New York

Transcript of Federal Open Market Committee Meeting of
March 20, 1979

CHAIRMAN MILLER. Good morning, ladies and gentlemen. The time has arrived for our annual meeting. This is a special meeting because it completes the 12-month cycle [for Reserve Bank Presidents to serve as voting members]. Spring comes and the FOMC is reconstituted. I don't know if that is supposed to be a coincidence, but we are one day ahead of time, aren't we? Tomorrow is the first day of spring. I guess we don't need to pursue that.

So, the first order of business, at least from my point of view, is to welcome the new voting members. I believe you have all been elected to your new responsibilities without too many dissents. Paul Volcker, you were re-elected. Well, thank goodness! Bob Black, Bob Mayo, Bones Kimbrel, and John Balles will serve as members, with your alternates in line. I don't think that requires action, but we do note it.

The first item on the regular [agenda] is to approve the election of officers. For that purpose I will turn over the meeting to Henry Wallich to see if he has any suggestions for Chairman or Vice Chairman. I hope he has the right ones!

MR. WALLICH. I would propose [William Miller as Chairman and Paul Volcker as Vice Chairman].

CHAIRMAN MILLER. Could you elicit a second, Henry?

MR. COLDWELL. I second.

CHAIRMAN MILLER. I think you need to get a vote.

MR. WALLICH. Would you like to approve the slate as proposed? Any objections?

CHAIRMAN MILLER. No objections? The way you put the question the answer is "no" they wouldn't like to but "yes" they would! Now we will get down to something serious, the other officers. Do you all have a list before you? No? I do. All right, I will ask the Secretary to read the list of proposed officers.

MR. ALTMANN.
Secretary, Murray Altmann;
Assistant Secretary, Normand Bernard;
General Counsel, Neil Peterson;
Deputy General Counsel, James Oltman;
Assistant General Counsel, Robert Mannion;
Economist, Steve Axilrod;

Associate Economists from the Board:
Edward Ettin;
George Henry;
Peter Keir;
James Kichline;
Edwin Truman; and
Joseph Zeisel.

Associate Economists from the Banks:
Harry Brandt from Atlanta;
Richard Davis from New York;
Michael Keran from San Francisco;
James Parthemos from Richmond; and
Karl Scheld from Chicago.

CHAIRMAN MILLER. Are there any other suggestions or qualifications? All those in favor say "Aye."

SEVERAL. Aye.

CHAIRMAN MILLER. Opposed? So voted. Now, before the meeting, a number of items were sent to you that involve the continuation of various authorities [in their existing form], with the request that you indicate to us if you wished any of these to be placed on the agenda. We received no such indication and, unless I hear a contrary view, we will assume that those items have been approved. Does anybody have any problem with any of those items? Hearing none, we will proceed to item 2 on your printed agenda, which is the selection of a Federal Reserve Bank to execute transactions for the System Open Market Account. This has been and is proposed to be the Federal Reserve Bank of New York. Is there any dissent from that? Hearing none, that will be approved.

Next is the selection of the Manager of the System Open Market Account, the Deputy Manager for Domestic Operations, and the Deputy Manager for Foreign Operations. We are proposing for those positions Alan Holmes, Peter Sternlight, and Scott Pardee, respectively. Are those acceptable to the Committee? Hearing no dissent, we will approve those.

Next is the approval of the minutes of the meeting on February 6 and of the telephone meeting on March 2, which have been circulated to you. [Secretary's note: No transcript of the telephone conference of March 2 exists in the Committee's files.] Any comments, corrections, or suggestions? Hearing none, we will report those as approved and move to foreign currency operations with a report from Scott Pardee.

MR. PARDEE. Thank you, Mr. Chairman. [Statement--see Appendix.]

CHAIRMAN MILLER. Thank you, Scott. I should have mentioned at the outset, and will now, that we are pleased to have you here, Tom Gainor, for Mark Willes. I hope you will join in at any time in the discussion. At this point are there any questions or comments on Scott's report? Henry.

MR. WALLICH. Scott, you mentioned the reaction that if the dollar goes down, the Fed steps in and if the dollar goes up, the Bundesbank steps in. Do you think the market views the rate as pegged in some sense? Are expectations built on that?

MR. PARDEE. I don't think there is any sense that the market feels we have fixed rates. There is a sense in the market that at current levels there is a great deal of resistance. I haven't heard anybody saying "pegged" as such. They just notice that if the rate [moves] 50 points, there is considerable resistance--quite often not by the central bank--and shortly thereafter the central bank might be in. But I don't hear anybody complaining that we are pegging at the moment.

MR. WALLICH. Do you think they perceive this as a conflict among the national policies?

MR. PARDEE. Some people feel there is, yes.

MR. WALLICH. Thank you.

CHAIRMAN MILLER. Any other comments or questions? Thank you, Scott. We need a vote to ratify the transactions since the previous meeting. I understand [reports] have been circulated or are available. Is there any question? If there is no dissent, we will record the ratification of those transactions and move on to the domestic open market operations and a report from Peter Sternlight.

MR. STERNLIGHT. Thank you, Mr. Chairman. [Statement--see Appendix.]

CHAIRMAN MILLER. Thank you, Peter. Any questions or comments? Yes, Chuck.

MR. PARTEE. Peter, the funds rate did average 10.21 percent in the week of March 14, according to the Bluebook. So do you think the market now perceives that as just an erroneously high number and is thinking of a 10 percent rate as again being the level--?

MR. STERNLIGHT. I would say that the thinking is back to 10 percent to slightly higher.

MR. PARTEE. Right where it was before. You [at the Desk] have overcome this entirely.

MR. STERNLIGHT. I think we have, yes.

CHAIRMAN MILLER. Any other comments? We also need to ratify the transactions on the domestic side since the last meeting. The reports have been circulated. Any questions or comments? Hearing no dissent, we will record them as approved.

Now, in December the procedure we followed worked extremely well and I thought we might try it again today. In the intervening meeting we had the more complicated issue of setting long-run ranges; today we are dealing [only] with the directive. I am going to suggest that we try the system where we ask Jim Kichline to make his report on the economic situation and then get comments on policy from Steve Axilrod. Then we'll do a go-around to get the comments from each of you on your views of the economy and your feelings as to the policy implications. I'm looking not necessarily for quantitative but qualitative views on where monetary policy should be going in the intermeeting period. Then after the break we can get down to the specifics of the directive. I think that worked extremely well before and we will try it again if you are agreeable. So, we will start off with Jim's report.

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

CHAIRMAN MILLER. Thank you very much, Jim. Are there questions of Jim before we turn to Steve?

MR. PARTEE. May I ask just one, Mr. Chairman? Jim, you mentioned the decline in contract awards. I presume you mean nonresidential.

MR. KICHLINE. That's right.

MR. PARTEE. Is it considerable and what kind is it? Is it in some [particular] kind of building? There is an offsetting development in the strength of durable goods orders. That's why I wanted to pursue it a bit.

MR. KICHLINE. Yes. It's quite widespread. As you know, the series is highly erratic; it sometimes shows 50 percent increases or 40 percent declines. We had a 3 percent decline in December and a further 3 percent decline in January. And the fourth quarter in total in current dollars was only up 4 percent. So in real terms it--

MR. PARTEE. It's drifting off.

MR. KICHLINE. --has been drifting down. In general we have no [firm] idea of whether or not this reflects temporary developments, but it is something that we are paying attention to. We are quite cautious about the [outlook in the] general structures area which, as you know, had been coming along.

MR. PARTEE. It is in the structures area, not in electric generating or something like that in the nonbuilding area.

MR. KICHLINE. No, it's in industrial structures. It's not the shopping centers.

CHAIRMAN MILLER. Other questions? Let's turn to Steve.

MR. AXILROD. Thank you, Mr. Chairman. I thought it might be useful for the Committee's discussion to analyze a little more closely recent developments in the money supply and bank credit. Basically, they appear to be giving somewhat conflicting signals. Growth in all the aggregates has slowed considerably--[the levels have] actually declined--in the first quarter, and bank credit has accelerated. To set the stage a bit--and focusing on M1 for convenience--M1 growth for the third quarter was about 8 percent and for the fourth quarter it was 4-1/2 percent on a quarterly average basis. And in the first quarter the figure is probably going to be something like minus 2 percent with January and February showing a decline on average of a little over 4 percent. Bank credit, on the other hand, had grown at a 9.8 percent annual rate in the third quarter and dropped off to a rate of 7.3 percent in the fourth quarter. In the first quarter it will probably be back up to about a 9.7 percent annual rate, with January and February growing at rates averaging a little over 12 percent. So its growth has been very rapid, with loan growth picking up some. Unfortunately, neither of these aggregates is an [unequivocal] indicator for policy--in the case of the money aggregates to ease, or in the case of bank credit to tighten.

I think it is very important to adjust the slow growth in M1, and even that of the broader aggregates, for the demand shift that we believe is occurring in the public's willingness to hold money. If you will pardon a technical expression, we think a lot of the behavior reflects not the fact that interest rates are rising and therefore that people are willing to hold less cash and moving along a demand curve but that the whole demand curve for money is shifting at given interest rates and people are willing to finance their transactions with less money. There are two ways to look at this. One is to look at the alternative assets to money to see if there is any unusual behavior in those assets that people may be holding. John Paulus and I made some estimates on that in '75 and '76 and the staff has reviewed them recently, bringing them up to date. The second way is to look at what is technically called the residual in our equation in the quarterly model, which tracks the demand for money against GNP and interest rates. Both [approaches] have their dangers, but putting the two together may give us some idea of the extent of the shift that is occurring.

In terms of other closely related assets, we've estimated, of course, that the ATS effect will add about 3 percentage points to M1 growth in the first quarter. We then made estimates of that portion of the increase in money market funds and RPs that might have come from demand deposits, placing that arbitrarily at around 25 percent. In the case of money market funds we believe the bulk of the increase was coming from savings deposits and in the case of RPs from other market instruments. I would add about another 2 percentage points at an annual rate. So that would raise M1 growth in the first quarter from minus 2 to around plus 3 percent. It also raises growth in the fourth quarter from around 4-1/2 to around 7 percent. If you look at the residuals in the models of the growth rate for M1--if you take those literally, and I don't believe you should over a short period--the model has been overpredicting M1 growth by a large amount in both the fourth quarter and the first quarter. The amount of overprediction, setting aside or allowing for ATS, is about 2 percentage points in the fourth quarter and 6-1/2 percentage points in the first quarter. As I say, I wouldn't advocate adding in that 6-1/2 percentage points and taking that as fact because, after all, it's an error in the model that we are using to indicate something. But if we took that 6-1/2 points as an outer limit and added the 3 percentage points for ATS, that gets us to [more than] 9 percentage points, and we would be having growth at about a 7 percent annual rate in the first quarter.

Now, to give a little perspective to that, in 1975 and 1976 when the model overpredicted money for 11 straight quarters beginning in the third quarter of 1974 that gave us a little more confidence in using the residuals as a rough indication of the amount of demand shift and, therefore, confidence in using that adjustment to give us the economic impact of what was happening to M1. If we had literally taken the model [results]--and again it would be an overstatement--the growth in M1 in '75 and '76, which was between 5 and 6 percent, would instead have been between 9-1/2 and 10 percent. That in my view is probably a better analysis, economically, of what that low rate of growth in the literal reading of the M1 numbers meant in '75 and '76. But as I say, to the degree that we use the model in this way, I would caution that this may be an overstatement rather than an understatement.

On the other hand, with regard to bank credit, if anything, I would tend to subtract from that acceleration. The bank credit growth that we've seen in the first quarter has not been accompanied by any acceleration in total credit raised. In fact, there appears to be in our flow of funds accounts a drop in total funds raised by nonfinancial sectors in the economy of around 10 to 15 percent. Much of that drop has to do with funds [raised] for the U.S. government and foreigners. The drop is quite small--more on the order of 1-1/2 percent--for private domestic nonfinancial sectors, the area which may be more closely related to economic activity. That's a very small drop. So I don't think the bank credit number is an indicator of a strengthening in total credit; on the other hand, the credit flows to domestic nonfinancial sectors remain generally strong. Another factor strengthening bank credit has been that it is displacing other sources of funds raised. A considerable amount of the funds raised in our market in the fourth quarter was funds supplied by foreign governments --monetary authorities buying U.S. government securities in view of the weakness in the dollar. This has come to a halt in the first quarter; it has been reversed. And that sharp turnaround in funds supplied has been made up in part by the banks supplying funds to the market, in [effect] a reflow of funds from abroad. In February, on the basis of fragmentary data, it looks as if about $4-1/2 billion of the $9 billion increase in bank credit was supplied by a reduction in bank lending to their foreign branches. So this would be the other side of the support operation. The dollar became stronger and the money is coming back home in this way. That kind of reflow is not associated with any kind of money supply liabilities. It simply involves a bank reducing its lending to [foreign] branches and increasing its lending in the domestic market. So, we would not see that on RP or fed funds type liabilities on the domestic bank.

Well, Mr. Chairman, the conclusion I would draw from all of this--and I present this to the Committee for its consideration--is that the behavior of the monetary aggregates when interpreted in light of ongoing demand shifts is certainly not in itself a signal for easing. And if one believes the extreme estimate on the amount of demand shift, the aggregates might weigh slightly, or be not inconsistent with, moving in the direction of tightening if the Committee thought the behavior of the real economy required it.

On the other hand, the behavior of bank credit--when interpreted in light of overall credit flows and the diminished credit flows in mortgages and corporate bonds that is occurring to offset the business loan expansion--certainly doesn't give a clear signal for tightening. Nor do I believe these data are very consistent with easing. So I am afraid the conclusion can't be unequivocal in any way. If I were asked to give odds on whether these conflicting signals were most consistent with tightening, easing, or staying the same, I would say they were least consistent with easing. In my judgment, the case for that conclusion is the weakest. And the strongest conclusion I can give is that they are most consistent with staying the same, but not inconsistent, of course, with tightening.

MR. BALLES. Thanks a lot!

CHAIRMAN MILLER. Thank you for your decisiveness! Are there questions of Steve, besides what did he say? Dave.

MR. EASTBURN. I think I understood. I'm not sure I agree. Steve, we did calculations similar to the ones you did, although not as sophisticated, trying to find what these other sources of funds might add to the aggregates--the money market funds, the RPs, and the ATS. We added them back in different ways and just didn't find enough money there to add to the actual figures for either M1 or M2 to make that look as if it could be the full explanation. Then the question is: What is left? My inclination is to look at what happens to money as an indicator of what is happening to the real economy. If one looks at the shortfall in that respect, I think one might come to a different weighting of these policy conclusions than you did. My own conclusion, even after all these adjustments one might want to make, is that the weak money supply is telling us that the economy is going to be weaker in the future, and that that would call for a different policy prescription.

MR. AXILROD. President Eastburn, that may or may not be. The point that I would like to make on these measurement problems is that in 1975 and 1976, as an example, when we added back in 1-1/2 to 2 percentage points because we included the business saving accounts and all that in evaluating the money supply, I think that was wrong. I believe that understated what was happening because when the public decides that the existing stock of deposits is too large--that they're going to take deposits and put them somewhere else--there's no reason to think that that money necessarily is going to go into very close substitutes. It could just as well go into Treasury securities and items like that. So I think adding up the very liquid assets will tend to underestimate the demand shift. At the same time, I wouldn't say that the residuals in equations are the perfect measure. But in '75 and '76, Dave, I think they were a convincing argument that the demand shift was greater than we would have gotten by simply adding up the money substitutes. And to a degree I think they're probably telling us something close to the same thing in the first quarter. Of course, even so, we may not get to so rapid a rate of growth.

MR. EASTBURN. Could I follow up with one more question?

CHAIRMAN MILLER. Certainly.

MR. EASTBURN. The other part of my question is: How much validity is there to the idea that what is happening to money is supply induced and not demand induced?

MR. AXILROD. Well, it's very difficult to give an answer to that, President Eastburn, because we don't control the supply of money and we make no effort to control it.

MR. EASTBURN. Supply in the real economy [sense or] just weakness in the--

CHAIRMAN MILLER. May I interrupt this dialogue to give you a flash? We always like to have some drama in these meetings! So if you turn to page 8 in part I of your Greenbook, I have data that have just flown in. The second column on page 8 shows the [nominal] GNP number at 15.0 percent for the fourth quarter of 1978; that has just been revised by the Commerce Department to 15.6 percent. If you go across the columns to real GNP in the fourth column, it shows 6.4 percent, which was the last estimate we had; that has been revised to

6.9 percent. And the fixed weight business deflator was maintained at the 8.0 percent shown. If you go down one line to the data for the first quarter of 1979, we have the first estimate of the Commerce Department for quarter one.

MR. PARTEE. It's a projection really.

CHAIRMAN MILLER. A projection, excuse me. It's not an estimate but a projection, for whatever it's worth. As you can see, the staff has 12.2 percent for nominal GNP; the Commerce Department is saying 10.6 percent. If you go across to the fourth column, the staff is now saying 3.0 percent [for real GNP]; the Commerce Department projection is 1.4 percent. If you go across to the deflator, the staff has 9.6 percent and Commerce is now saying 10.0 percent. Now you can pursue your question, Dave. I didn't want you to get trapped, you see.

MR. EASTBURN. I wouldn't have been if you hadn't given the figures!

MR. AXILROD. President Eastburn, the only way I think I can answer is to say that, as you know, the System does no more than accommodate to whatever amount of money the public wants to hold at today's interest rates. So in that sense we could always have more money [growth] if the System were to provide reserves more aggressively and let interest rates go down in the short run. That's the way I would answer. [As for] whether it's a demand or a supply phenomenon, it's very difficult to disassociate the two.

CHAIRMAN MILLER. I have John Balles next [on my list] and then Larry Roos.

MR. BALLES. I'll just pick up for a minute on the comment that Dave made. We've looked at these same numbers, Steve, and frankly, we come out more on Dave's side than yours. We have here an array of the different Ms going up to M7. And in a nutshell what the facts seem to say is that they've all been decelerating since last fall, though to varying degrees, of course. Even if we look at the latest monthly growth numbers on M7, which includes all these money market funds, RPs, commercial paper, and so forth, the percentage growth now is less than half--or at least it's no bigger than half--what it was last fall. And in some cases growth is about a third as big as it was last fall. So I don't see a simple tradeoff between, say, M1 and M2 and something in M7.

The bottom line is that this is a very difficult and slippery area, as you well know, and judgments can differ looking at a set of facts. From my standpoint, I suspect that you may be overestimating the shift in the demand for money. I'm not at all sure it's going on to the degree that would seem to be implied by your analysis, and I say that with all due respect. Judgments can differ on these things. The alternative explanation is that we've simply been very stingy in the provision of reserves. I think some combination of those two might explain where we're coming out. But as I say, if one looks at the actual components of what goes into the so-called substitutes for money, it's true that money market funds have surged, but the RPs have not. They haven't grown proportionately any more than they did in 1974. And the sum of those two has not grown proportionately any more than it did in 1974, based on our look at the data. So, I have to register some skepticism, to put it mildly, on the extent of the shift in the demand for money. It remains a judgment rather than a fact, as far as I'm concerned.

MR. AXILROD. I have no quarrel with that, President Balles. In terms of dimension, I would feel very confident that a minus 2 percent M1 in the first quarter is plus 1 percent, because I add the 3 percentage points for ATS. I feel reasonably confident that it's probably as much as plus 3 percentage points; and I have diminishing confidence as I go above 3 up to 7 percent.

CHAIRMAN MILLER. Larry.

MR. ROOS. My questioning was going to parallel somewhat what John Balles said.

CHAIRMAN MILLER. Bob.

MR. MAYO. To follow up on this, I keep forgetting Steve, M7 still doesn't include money market funds or RPs, does it?

MR. AXILROD. Yes it does.

MR. MAYO. Both?

MR. AXILROD. Well, it ought to include them, netting out the CDs the money market funds hold. I'm not convinced that we've got it all measured exactly right.

MR. BALLES. Your footnotes and documents say that it includes both, Steve. Am I wrong?

MR. PARTEE. Yes, netting out their certificates, and they mainly hold CDs. Of course, that's double counting not to net out the CDs.

MR. AXILROD. Right, they should net them out.

CHAIRMAN MILLER. Well, why don't we do a go-around before our break. As I said, I'd ask you to give your own ideas of how the economy is going and what you think the policy implications are. I forgot where we started last time so we'll just start with Paul and go around that way.

MR. BLACK. How far do you want to take this, Mr. Chairman--up to the point of giving specifications?

CHAIRMAN MILLER. No, at this point, it's the qualitative direction you think [on policy] rather than specifications. Then after the break we'll come to those.

MR. BLACK. Right, short of specifications.

VICE CHAIRMAN VOLCKER. Well, if I look far enough ahead, Mr. Chairman, meaning through the year, I think the odds are better than 50/50 that we're going to run into a recession by [year-end], and I've thought that for some time. I think the odds are being increased by the oil situation and by what's going on in inflation generally. Having said that, I don't think we can change that much by any modest adjustments in monetary policy. I believe a real easing in monetary policy is likely to make things worse. My reasoning is that in the short run--and I'm mainly impressed by the evidence of the last six weeks or so--I think we're much more up against capacity [constraints] and growing shortages, caused in part by those GNP figures you just read and the continuous upward revisions in those figures for the fourth quarter. I don't see that the economy has any real margin to grow here without seriously aggravating our inflationary problem. I think the growth we had late last year is already aggravating our inflationary problem. And I believe an attempt to [induce] very fast growth here would increase the odds not only of a recession but a more serious recession as we go along.

One doesn't have to speculate to see that inflation is a lot worse. In my view we'll be lucky if that Commerce figure stays at 10 percent for the first quarter when the final number comes out. Commodity prices are rising; through the latest information we have them rising at alarming rates. I suspect the oil price increase that the staff has projected in a very uncertain situation is, if anything, low; and it might be substantially low. Essentially, I think we're in retreat on the inflation side; if there's not a complete rout, it's close to it. And in my view that poses the major danger to the stability of the economy as we proceed. It's an obvious danger for international stability despite the welcome respite we've had in the last three or four months. That remains a major problem not only in terms of economic stability but in the dimensions beyond that if the dollar stability should give way not just to an erosion but the panicky situation we had earlier.

So, without getting into any more details, there's no doubt in my mind that even if we didn't look at the aggregates at all, this is the time for some firming rather than the reverse. I think we are at a critical point in the inflation program, with the tide against us. If we don't show any response at all, we are giving an unfortunate signal in my judgment. I believe those concerned about inflation would find no response during this period almost inexplicable in terms of what we say regarding our worries about inflation. I do think there is some risk of a boomlet. I don't think it would go very far in real terms because I doubt the economy has the capacity to meet it. But it could add to those inflationary pressures, lead to excess ordering, and potentially to excess inventory building that would only make a recession worse if indeed we are going to have a recession later this year or in early [1980]. So, without getting into the real complications caused by the money supply figures, but noting that I pretty much share Mr. Axilrod's conclusions in that respect, it seems to me that the real factors point in the direction I've indicated.

CHAIRMAN MILLER. Chuck.

MR. PARTEE. Mr. Chairman, last week I appeared before the House Subcommittee on Monetary Affairs to discuss monetary policy in the context of our Humphrey-Hawkins report, but the discussion soon turned to current monetary policy. Steve and I did our best to defend current monetary policy before the Subcommittee. The reason I mention this is that I'm obliged to report to you that the Chairman of the

Subcommittee, Parren Mitchell, wants the FOMC to know that he is concerned. He says he's concerned not as an economist because he isn't an economist, not as a monetarist because he doesn't understand the arcane area of monetarism, but as an historian because he has noted that every time there is substantial and sustained weakness in the money supply, a recession follows. He wonders why the current situation would differ from previous situations.

Now, I must say that I'm not a monetarist either, but I do have some sympathy with Chairman Mitchell's view of this. It does seem to me that we've had a sustained period of weakness in the money supply. It has been five months, October through February. Perhaps that's marginal; it may need another couple of months to be truly sustained, but it's getting pretty close to a sustained weakness now. I think it is also true that the weakness in money supply growth is substantial. If one makes the adjustment for ATS and NOW accounts, which I think is appropriate, one gets about a 1-1/2 percent average rate of increase in the narrow money supply over this five month period, compared with the 8 percent rate of increase recorded for a good many of the preceding months. That is a significant step down in the rate of expansion. I don't really believe much in taking these developments such as money market funds and money market certificates and RPs and that kind of thing as an explanation because they have occurred in the past. That's simply the reflection of what happens when interest rates are high; the rate of return on cash money is zero and people try to find substitutes. It's the process of finding substitutes, as I said on the phone the other day, that we're really describing when we look at this.

Turning to the economic situation, I, too, think there are indications that we are in the last stage of a boom. Consumer spending has flattened; it has declined in real terms since the first of the year. There's a little push in car sales, but that's simply a matter of clearing out the small cars because of the prospect that gas prices will certainly be higher and gas may be in short supply. Housing has clearly turned down. I don't think there's any way one can read the decline of the last two months as being an entirely weather-related phenomenon because those developments are too widespread. There are too many other indications of weakness developing in that area, and we've just taken an action that will assure that the big lenders are not going to have as much money as they did before to put into the mortgage market. I don't think capital spending is going anywhere. I'm quite impressed by the decline in contracts; I think all we've had is a little bubble in new orders for capital equipment that isn't going to last very long and can, after all, be reversed by cancellations. One should always remember about those new orders that a great many of them are subject to cancellation; many orders were cancelled after there was a bubble in '74 and then the recession of '75. So, that can happen. It is conceivable that we will have a period of rapid business inventory accumulation and we may have some scare buying of materials; that seems to have been going on, but I don't think it will last very long.

So, I would have to say, looking at the real economy as well as the monetary numbers, that I now believe a recession is very likely--a recession which at this point the Federal Reserve will have done nothing about. We will have made no effort to block it in any way. We will have sat here again, seeing very weak monetary aggregates as a precedent to the recession phase. I believe we're in considerable danger of that happening. You often ask us to give our views on [economic] growth over the policy period [relative to the staff's views], which are at the bottom of page 8 [of the Summary and Outlook part of the Greenbook]. I don't think we're going to have 1.7 percent real growth this year. It could possibly be a bit above zero, but not very much. I don't think we're going to have 8.7 percent inflation. I think the staff has finally managed to predict a number that is higher than the one we will realize. That's partly because of my weaker scenario, but partly because I'm also very convinced that businesses are raising prices in anticipation of wage and price controls. And whether or not wage and price controls occur, these firms have taken their action and there will be a moderation in those markups in the period to come. And, of course, I don't expect the unemployment rate to be 6.3 percent at the end of the year; I think it will be 7 percent or above. So, that's the situation as I see it.

CHAIRMAN MILLER. Thank you, Chuck. Nancy.

MS. TEETERS. Mr. Chairman, I've looked over the numbers and I've looked over the projections and I also think we're in the final quarters of the boom. I had the staff put together for me a variety of indicators in the last three quarters before a peak. One thing that stands out is that they're never the same. There is very little similarity between the various peaks that we've had. We seem to do better [predicting] troughs and recoveries than we do with [the end of] expansions. I think we're headed toward a recession. As I look at the data and the projections, I think the disintermediation and its impact on housing are finally taking place. However, I won't feel comfortable until I see a March housing starts number [in trying to determine] where we really are in that area. The other elements of the economy still appear to be relatively well balanced. With the possibility that we could dip into a recession and the high costs of that in a variety of areas, I would take the position that we ought to wait another month until we have some better data. The first quarterly estimate by the Commerce Department is notoriously bad. It can bounce from here to over yonder in a month's time; in another month's time we'll have some more real numbers on the economy and that would be an appropriate time to move. I don't think we need additional restraint at the present time. For heavens sakes, our policies are finally beginning to work. Now is the time to sit back and let them work and not make it seem as if we're panicking about what's going on in the economy currently, which I think some people are doing. Also, I doubt that most of the spot prices are going to hold; some of them have been pushed up and are now beginning to recede somewhat. So, my recommendation is no change in policy at the present time.

CHAIRMAN MILLER. Thank you, Nancy. Bob.

MR. BLACK. Mr. Chairman, I come out somewhat less optimistic than the staff. Like many, we've been impressed by the strength we've had in the economy. It has been much greater up until now, as far as the statistics show, than we had expected. But I'm becoming increasingly concerned by the appearance of scattered signs that we frequently do see before a major downturn. The Redbook mentioned a number of these, [including] a lengthening of delivery times, high capacity utilization, tight supplies in the market for skilled labor, and the inventory figures. The last inventory figure, though partly explainable, coupled with an apparently heavy shift toward short-term borrowing on the part of businesses is certainly the sort of thing one might expect. And I'm especially concerned about the probability that in view of the petroleum situation we'll have some spawning of a general shortage psychology, which will lead to inventory buildups and probably heavy demands for short-term credit. And that will make it pretty difficult to keep M1 under control without pushing interest rates up rather high. Coupling this with the latest price data and the impending labor negotiations, I have to rate the possibility of stagflation or worse as pretty high. So my figures would come out lower than the staff's, somewhere in the neighborhood of what Chuck Partee said.

Turning to the policy question, I think we have a difficult choice this morning. The weakness in the aggregates has persisted for about five months and this weakness has been a source of increasing concern to many of us, both within and [outside] the System. It seems to me that one could make a pretty good case for some easing this morning. But on the other side of the coin, there are three reasons why maybe we ought not take any action this morning. One, of course, is that we really don't know what those aggregates are saying. We, like so many others--John Balles and Dave Eastburn as well as Steve Axilrod--have tried to see what we could do by adding back in the things that might have been reducing the aggregates. And some of the arguments that people have made don't seem to us to hold water. But I don't think we can rule out the possibility, indeed the probability, that there has been a downward shift in the demand for money. If so, that's an important reason for not doing anything at this particular time. The second point is that historically we often have had a burst in the aggregates in April because of faulty seasonal adjustments, and I don't think we can rule that out. We could also have a temporary spurt in economic activity. And finally, the improvement in the dollar in the foreign exchange markets has been so fragile that I think any reversal of policy now could certainly jeopardize that. That gets me to the point where we work on [the specifics of] policy, and I won't say anything about that until after the break.

CHAIRMAN MILLER. Thank you, Bob. Willis.

MR. WINN. Mr. Chairman, a sobering exercise at a time like this is to go back to the first quarter of last year and use our models or any other approach and ask oneself what conditions would produce a negative rate of growth in money supply in the first quarter of this year. We get astronomical interest rates and a lot of other things that we really haven't seen. So then we ask ourselves, given that everybody is expecting weakness at this time--and that's certainly the news--where do we find it? Again, if we follow our models, they may not work out quite this way. Having spent the winter falling into potholes, I take a pothole approach to economic forecasting. One of the potholes, of course, is in the energy area, with tremendous problems with respect to refining capacity. I really don't see how we can get out of this on any short-term basis. What this means for the consumer is that he may find he can't buy, beg, or steal gasoline.

CHAIRMAN MILLER. The latter they can always do.

MR. WINN. Okay. Then we divert more of our oil supplies to producing electricity; with the shutdown of the atomic plants in this area, I don't quite know what this means. Another pothole I would call to your attention is the fact that we focus pretty much on the domestic scene in terms of our analysis. Now, the international situation looks a little better at the moment, but as I travel around and see the diversions of some of these economies into the military side, I get concerned about what this means down the road. If a country puts that much of its [economic resources] into the military, the tendency is to use it in one form or another. How this will turn out, I don't know, but we certainly can see trouble in Yemen and lots of other places that aren't in the headlines at the moment. The third point is the confidence factor on the international side and the tremendous flows that occur. And I look at confidence in another area--at many of our so-called monetary mechanisms. Take the credit unions and look at their loan/deposit ratios and their lack of cash; yet they're in the share draft business. What does it mean if customers really step up their demands for [withdrawing] their money from some of these [institutions] or want to transfer it? So, I would project the potential for weakness that everybody's talking about, and then I'm raising the question of whether there are other possible developments. The only real weakness I can find at the moment in the District is the coal situation, but in other areas such as cement there is strength. A number of the raw materials producers are at capacity. Steel is running flat out. There's just isn't any [more capacity]. If we get demand for steel in excess of [the current level], we will really be faced with a blow-up the other way. Now, it may not occur.

MR. MORRIS. Did you say the demand for coal is weak?

MR. WINN. Yes, weak.

CHAIRMAN MILLER. That's the one place where it's quite weak.

MR. WINN. I would say I end up confused in my outlook; I think the uncertainty level is really quite high.

CHAIRMAN MILLER. Thank you, Willis. So far it has been a very cheerful report! Now we come to Dave.

MR. EASTBURN. Mr. Chairman, before I start, could I ask you a question? Is there anything that you would care to say about the discussions going on in the Administration currently?

CHAIRMAN MILLER. I don't know that there's anything I am able to say. The President is giving very careful consideration to making some decisions about energy. He hopes to do so by the end of the month and then announce them. I think he is perhaps trying to bite off an awfully large number of issues. I don't know whether he'll end up doing that. Of course, the core one is whether he will do something about decontrol or not. But there's a whole series of other things. He has not made any decision so far; it's a question of options. On the economic side, I think the main concern is whether the wage and price standards program can hang together. There is good compliance by the major corporations, but there's a feeling that medium and small corporations are ignoring it. They are going to put some effort, I think, to [change] that. They're also doing some technical things. They're sweating it out as to whether they can get to fall into compliance, but it has been extremely difficult.

MR. EASTBURN. I was impressed by the Vice President's comment, I believe over the weekend, in which he mentioned monetary policy and continued restraint on the monetary front as being important. I wondered if the Administration might be starting to put us in the forefront of--

CHAIRMAN MILLER. I think the Administration is frustrated. There's nothing much they can do in the fiscal area now that would have much impact [in 1979]. The deficit for this year is going to be less in any case, mainly because inflation is higher and, therefore, revenue flows will be higher. And there has been some shortfall of spending so that the deficit is now projected to be $33 billion [in fiscal 1979]. I wouldn't be surprised to see it near $30 billion. And yet if they begin to cut back their $29 billion deficit projected for next year, that's the short-term problem. So I think they look with great anxiety over to 20th Street and Constitution Avenue to see whether we can contribute to a solution. I don't think they have any particular views on what, if anything, we can do.

MR. EASTBURN. Well, my view could be summarized by reporting on a meeting that we had last week with some business people and [other contacts]. The discussion around the table was very optimistic about current conditions, almost uniformly so, until I took a [poll] asking who thought there would be a recession this year. And about three-fourths of the hands went up. And that's where I come out. I agree very much with the analysis Chuck gave. I think the staff's projections are too optimistic. I'm also skeptical about the Bluebook projection that the money supply will bounce back in the next month or so. I think that the slow growth of money is telling us something about the real economy and that that has implications for policy. I would dearly hope that we could hold the funds rate where it is in the next month but I would like to have policy tilted so that if the aggregates continue to be weak, we could edge that rate down.

CHAIRMAN MILLER. Thank you very much. Bones.

MR. KIMBREL. Mr. Chairman, I, too, share the feeling that some business weakness, but not anything major, is likely early next year. I recognize that no two periods are exactly parallel, but history suggests that some things we experienced in '73 and '74 are coming back. Certainly, we are seeing a lot of anxiety about the prices of oil and food. We're seeing capacity constraint difficulties that have already been [mentioned]. There is the feeling that inventory building cannot be very far behind and some concern that the labor growth we have seen may be related as much as anything else to additional people entering the labor force [in an effort] to offset [the effects of] inflation. Indeed, [inflation] is the number one concern that we continue to hear about and it's taking its toll. We would be reluctant to put much emphasis at the moment on movements in the aggregates because they are confusing, both to us and to the market as a matter of fact. It would appear that the markets are expecting some slight firming. I feel that our failure to do that might very well raise some unnecessary and unneeded questions at the moment. It would seem that foreign exchange markets also would probably welcome a touch of firmness. Finally, while our projections are pretty close to most of the Board staff's projections, I want to make [clear my] feeling that the staff probably has not projected a rate of price increases as high as we think it will be; we expect that to be more like 9 percent or probably above 9 percent.

CHAIRMAN MILLER. Thank you, Bones. Larry.

MR. ROOS. Mr. Chairman, my position is essentially reflected on this button that I'm wearing which reads--

CHAIRMAN MILLER. I must need glasses, I guess. All my life I've never had glasses but I can't quite make that out.

MR. ROOS. Well, I stole a page out of the MIT buttons and this reads "MB 10-5 + 1Q = R." Translating that, it says that when the monetary base decreases from 10 percent to 5 percent and remains that way for one more quarter, there is a very real probability of a recession. Inasmuch as we're flooding the Midwest with these buttons, I'll be glad to present this to you, sir, at the end of the meeting because it is historic.

CHAIRMAN MILLER. MB 10-5? I could read that as more bunk for 10 minutes instead of 5.

MR. ROOS. In spite of that, I'll proceed! As we analyze the behavior of money, and of course we do place a great deal of weight on the behavior of money, we observe that from December of 1977 through October of 1978, the monetary base grew at about a 10 percent rate. Since October of last year to the present there has been an abrupt decline in that rate to an average of about 6-1/2 percent, with it being close to 5 percent recently. Growth in bank reserves, which we think is important, has declined to a negative figure since October--less than zero as compared to a 10.2 percent rate of increase from December 1977 through October of last year.

Mr. Chairman, in spite of the confusion that some of my colleagues have expressed, if we look back in history, most of the postwar recessions that have occurred--with the exception of [the one precipated by] unusual circumstances with the oil situation in '73 and '74--have been preceded by an abrupt reduction in the rate of money growth that has persisted for two or more quarters. For example, what happened prior to the recession in 1970 was that from mid-1968 through the end of 1968 money was growing at about a 9 percent rate. Early in 1969, monetary policymakers permitted that rate to fall to about a 3 percent rate; it persisted at 3 percent for a couple of quarters and there was a recession. Look at graphs. Whenever this phenomenon--an abrupt drop in the rate of money growth--has occurred and has persisted, there has been a recession. So based on that analysis, which is not one to be taken lightly, I think if we're going to err, we should err at this time in the direction of moving toward slightly expanded growth in the monetary aggregates rather than anything of a restrictive nature. We should certainly watch this very carefully this month and next month because if [the weakness] persists, we're going to be in trouble. I would just add in closing that there is an old saying that politics makes strange bedfollows, and I'm glad to be in bed with my strange bedfellow Governor Partee on this issue!

CHAIRMAN MILLER. It's an historic occasion! Thank you, Larry. Roger.

MR. GUFFEY. Thank you, Mr. Chairman. I think I'm also falling into bed with some people that normally I would not have associated with in the past. We have done some of the same work that Steve has described this morning and a couple of conclusions are apparent to me at least. One is that M1 is totally unreadable now and, as a result, I don't think we should put a great deal of weight on it. But by the same token, the impact on M2 is not nearly as great. It has been rather readable. In any event, if one looks at all of the aggregates, it's fairly clear that there has been a substantial deceleration in their growth. And given the environment, most people, including myself, would look for recession some time later this year or early [1980]. It seems appropriate that we be careful not to worsen that [prospect] in the sense of doing any further tightening at this time. If we're going to move at all over the upcoming month, then I would prefer to skew our ranges and targets in such a way that we would, indeed, move [the funds rate] down a bit. Whatever we do today is not going to have an impact on bringing inflation down further, it seems to me. We have rather strong constraints in place now as we have had starting last May. To do anything further at this point would not have an impact on inflation for some period out but would ensure a recession. As a result, I would prefer, for this month at least, to hold about where we are but to adopt a policy that will permit us to move back a little if indeed the aggregates continue [to grow] at a low rate through the month of March.

CHAIRMAN MILLER. Thank you, Roger. Bob.

MR. MAYO. Mr. Chairman, I still see considerable economic strength. Though the signs are increasing that we may now have some of the characteristics of the last stages of the boom, I don't think they are as strong as they have been at comparable times in the past. But I still would not be surprised at all if we have a couple of quarters of zero [GNP] growth at the tail end of this year and early 1980. I don't get terribly distraught about that prospect because I think it is a function of a monetary policy that, despite all our picking at it, has been a fairly successful one over the last year or so given the circumstances we had to deal with. We are in a trap. I think we all recognize that; if we don't, we should. The business of [being accused of] overstaying our [policy of] restraint is still true; that will be true inevitably each time we come to this pattern, regardless of what we do. And I say that advisedly because part of our job description is to be a convenient whipping boy. I don't say that with any bitterness; I think this is part of the function of the Federal Reserve System. We are handy [as a scapecoat]. We can portray an image that is very greatly oversimplified in the public mind--to the extent that they pay attention to us at all--and I am willing to suffer with that. Even our best efforts at economic education seem unable to put a dent in that.

So I think we are in for some problems later this year, but I don't feel any sense of panic about that. To the extent that we have an influence, and we certainly do, I think we are part of the creation of the leveling out--I hate to use the word recession. I won't be like Fred Kahn and make it a banana much less a kumquat, which I gather has succeeded the banana. We have some concern, and properly so, about a very low level of economic activity. But I view it as something that we can build on, not something to be afraid of.

I find Steve's analysis very good. Sure, he is in a position, given his job description, to have to overly quantify some things that are extremely difficult to quantify in order to be as helpful as he can. But I think the tenor of his remarks is basically sound, and I interpret [his remarks as supportive of] my own feelings that it is too early for any easing. I would prefer to stay where we are and lean a bit toward--and really just a little--more pressure because I don't think it would do any harm.

On the international side, although I'm not as pessimistic as Paul is, I think the basic tenor of his remarks is correct: We still do have a very serious problem in maintaining the value of the dollar. The improvement that we are seeing now, the "stability" in the value of the dollar, I think is going to continue partly for a very negative reason--that there is more concern about the stability of the Deutschemark, the yen, and the Swiss franc. That is damning with faint praise. But I think this will help us stabilize the dollar, even though it seems to some people that we're all going down together. We are still looked upon as a leader in terms of [unintelligible] government action. To overstate it or simplify it, we are seen as the Rock of Gibraltar. I would prefer to see us stand up and take the rap, since we're going to get it anyway, and keep the pressure on a bit longer.

CHAIRMAN MILLER. Thank you, Bob. Tom.

MR. GAINOR. Mr. Chairman, the Ninth District economy has been very strong and continues strong. Our District's unemployment rate is lower than that for the country, at 4.4 percent versus 5.8 percent. Our help wanted advertising is at a record high in the Twin Cities area. Farm income in our District is up sharply. The inflation rate in the Twin Cities was 11-1/2 percent for the last year, considerably higher than for the country. The only negative factor in our otherwise positive picture is housing starts; they are down. And at least in Minnesota we're not willing to say that that isn't weather-related this year.

MR. PARTEE. I wouldn't think you'd build anything in that weather!

CHAIRMAN MILLER. They built two houses!

MR. GAINOR. On the national level, we continue to be very concerned about inflation. Of course we're uncertain, as everyone is, about the impact of the oil shortage, and we don't fully understand the current state of the monetary aggregates. So in view of the uncertainty about oil, housing, and the aggregates, we would favor holding the line for this month.

CHAIRMAN MILLER. Thank you, Tom. John.

MR. BALLES. I hope Chuck has a king size bed because I would like to crawl into it too! There is no sense in reviewing in detail the way I come out because essentially I'm in agreement with Chuck's analysis; we were apparently reading the same tea leaves. If that analysis is right, then the strategic problem for us now is how to get a soft landing. We can't stuff the genie back into the bottle as far as inflation is concerned. We shouldn't expect instant results from the tightening that we've engaged in since last November 1. We all know about lags in policy and, unfortunately, they seem to be longer on the price side than on the real economy side. So we're going through that usual agonizing period when the bad news comes now in terms of the damping the economy and the good news comes later--perhaps as much as a year later--when monetary restraint begins to show through on the price front. The real danger at the moment, therefore, is overstaying restraint.

I fully understood and concurred in the moves we made on November 1; in effect, since that time we've been targeting interest rates. It was done almost under crisis conditions because of the potential for international economic and financial disruption at a time when the dollar was going down like a rock. But we've done that and now we've seen some extremely slow monetary growth, even after adjustment for ATS and NOW accounts and so forth. And given the fact that the staff forecast for money has been way over the mark for 5 months in a row now--and as Steve well knows I'm not being critical because this is a very slippery business--I will bet you a drink or dinner, Steve, that the actual March numbers will be about as weak. I suspect they will be down several percentage points from your present forecast, as they have been in October through February. So I am getting an increasingly uneasy feeling about overstaying restraint and I would begin to hedge our bets by a slight tilt toward a lower funds rate, trying to get money growth back up a little closer to what we declare to be our 12-month objective.

CHAIRMAN MILLER. Thank you very much, John. Ernie.

MR. BAUGHMAN. Mr. Chairman, I suppose I'm as confused as anyone else. A nice warm bed is always attractive but--

MR. PARTEE. I didn't know it was so warm!

MR. BAUGHMAN. --that particular bed is rather crowded right now anyway. We have worked the numbers, as presumably everyone else has, and come to fairly inconclusive conclusions. By inquiring around I have attempted to get some impression of the activity in mutual fund accounts because, as you know, one can draw checks on most of them but the minimum size, though it varies, is very often $500. And it doesn't take a very large number of $500 transactions to equal the number of checks over $500. Now, the very small proportion of total checks in the system over $500 does account for a very high proportion of the total volume of expenditures handled through the check mechanism. So if there were some fairly persuasive evidence that we were getting a significant number of transactions through these money market funds--and after all it is expenditures not balances that move the economic machine--then there might be some basis for feeling a little less distressed about the indicated slow growth in [bank] balances. I take some comfort also in the indicated resurgence in demand for bank credit; I hadn't been inclined to downplay it to the extent that Steve has in his analysis this morning, although there may be justification for that. I hear generally from bankers that they see quite a strengthening of demand for credit from their customers and across a broad array of types of activities.

Just an incidental point: There's a good deal of resentment in the western part of our District with respect to the very large amounts of emergency credit the government is injecting into agriculture [because] the evidence is that fair amounts of these funds are being diverted into conspicuous consumption on the part of the borrowers.

CHAIRMAN MILLER. I didn't know anything was conspicuous in Texas!

MR. PARTEE. We should have had Ernie here to view those large tractors.

MR. BAUGHMAN. I can see them all back home! It is interesting that we have had a fairly persistent decline in the number of rotary rigs in operation. The decline has been significantly more in Texas and to some extent in Louisiana than in the country as a whole. And this [is occurring] in an environment of obviously short supply of the items they would drill for. I also hear more reports at the present time than I have heard at any time previously relative to "shut in" supplies. As I say, this is a somewhat puzzling situation. I have raised questions with people engaged in this business as to why. The explanation given is almost universally weak prices and excess supplies of natural gas within the Texas market. When one asks, given the gestation period of bringing a well into production and given the trend in supplies and prospective demands for oil and gas, why a temporary price weakness in a given location should result in a significant reduction in the amount of drilling activity, [the shutdowns] seem to make a lot of sense to the people I've talked to, although I've had difficulty fitting it together in my own mind.

The weakness in housing in Texas at the present time I think is a phenomenon of usury ceilings. I would raise a question as to whether the national figures have been looked at state-by-state in connection with the usury ceilings to see whether that might be a significant factor--that such states might account for enough of the [weakness in] total housing starts that it would be important. As I say, I think it is <u>the</u> dominant element in the picture in Texas, particularly for single-family housing at the present time. I believe the demand is there; we've seen no indication of resistance to interest rates. It's simply that with the legal ceilings and the legal question about points as well as the difficult aspects of points in the financing process that lenders have stopped making commitments on one-family dwellings. Of course, the fact that the legislature is in session and is considering this matter [of the usury ceiling] may be contributing to the shut-off of commitments at the present time as compared with lenders making more intensive efforts to try to work around the ceiling if that were not the case.

I've raised questions with everyone I've come into contact with who would seem to be in a position to know whether in the current circumstances there is something in the international arrangements which might be an explanation for the high volume of expenditures in this country from what appears to be a falling or a low volume of balances. Again, [that effort] has not been very productive. I haven't uncovered anything there but I'll have to admit it still seems to me that something may well be there which we have not discovered or documented. It seems to me--

CHAIRMAN MILLER. We're running a little low on time and I wonder if you could just conclude.

MR. BAUGHMAN. It seems to me, although based on historical experience it would be a very high risk position, that we should maintain the position we have had in recent months with respect to monetary policy.

CHAIRMAN MILLER. Thank you very much. Frank.

MR. MORRIS. Mr. Chairman, I think we're facing an emerging conflict between the domestic and international requirements of monetary policy. In the past year they've been nicely in harmony but, quite clearly, we're moving into a period where they are going to be in conflict, because I think we're approaching a cyclical peak in the economy some time around midyear for the reasons cited by Chuck Partee. I would simply add one more point: In the month of January, when we had no increase in industrial production, we had a whopping increase in inventories, which suggests that final demand was extremely weak. Now, this picture of an approaching cyclical peak is not conclusive and, of course, it won't be conclusive until the peak is three or four months behind us. And that is why monetary policy has always lagged in the past. If we're waiting for conclusive evidence, we'll inevitably lag again. But if we change policy now in the face of inconclusive evidence, it means that we have to be prepared to shift again if it appears that the economy is somehow getting a second wind, which I think is unlikely but possible. In my view, we don't know much about the demand for money; we used to think we did a few years back. But we do know something about the supply of money. And one thing we know is that we're not going to get much of a supply if bank reserves don't grow, and they haven't grown for the past six months. If it's our objective to avoid a recession, I think we have to move today; I don't think we can wait for another month. One thing I've found around this table is that one can always make an impressive case for waiting for another month. But the evidence suggests to me that the time to move is now. I think the issue is whether we seriously are concerned about avoiding a recession or not. Paul, I think, is resigned to a recession; I think the international constraint may be more of a factor in his thinking than he let on.

VICE CHAIRMAN VOLCKER. Inflation is a factor in my thinking.

MR. MORRIS. But the issue is whether we will be better off in 1980 with a 7 percent unemployment rate or an 8 percent unemployment rate. I'm inclined to believe that in the long run we will be better off with a 7 percent unemployment rate simply because that is likely to be more conducive to the maintenance of the kind of conservative fiscal policies that are now being talked about in the Congress. I'm a little concerned--as I was about Nancy's idea of waiting a month--about John Balles's phrase "slight tilt," which implies a move to 9-7/8 percent or something like that [on the funds rate]. It seems to me that if we're going to move, we're going to get some flack no matter how much we move. We're going to get just as much flack moving to 9-7/8 as we would to 9-1/2 percent.

MR. BALLES. My slight [tilt] was to 9-3/4 percent.

MR. MORRIS. I think we ought to move at least to 9-1/2 percent and we ought to move now.

CHAIRMAN MILLER. Thank you, Frank. Phil.

MR. COLDWELL. Mr. Chairman, I've listened to a lot of wisdom around this table and--

CHAIRMAN MILLER. Do you agree with any of it?

MR. COLDWELL. Yes, a good share of what has been said on both sides. I thought after the first two speakers that we had a very well defined two-camp arrangement. The subsequent speakers have blurred it somewhat. I look at this by trying to nail down, at least in my mind, a couple of points. First, looking at the economy, I think we do have [some strength] in labor markets, new orders, capital spending, business inventories, and loans. There is perhaps some weakness showing up in personal income--although I'm not quite ready to concede that--and in housing and industrial production. But the primary weakness in this economy right now is that it's [experiencing] an inflationary surge and there's concern about oil prices and uncertainty on the international political scene. My interpretation of all this leads me to feel that we are near capacity in effective labor and in several industries, so I don't really expect industrial production to be able to grow very fast unless we find some way to push a magic button and improve our productivity. On inflation, I think the surge is in food, raw materials, and energy. I give very little [weight] to the aggregates these days because they are totally confusing; I think we're utilizing some stock we built up in the latter part of last year. Whether they will take off under the new set of rules I don't know. From a policy standpoint, I think we have to balance some of the risks. Are we willing to risk a further surge in inflation, carrying it up beyond the 10 percent the Commerce Department is talking about in the first quarter and perhaps even up to a figure in the 15 percent area? I would view that [development] as perhaps one of the most debilitating to our entire economy of anything [that could happen]. The other risk, of course, is a potential recession. And the balancing of these risks is what I think the Open Market Committee's decision is all about today.

CHAIRMAN MILLER. Thanks. Did you indicate which direction?

MR. COLDWELL. I did not, Mr. Chairman. I'll wait until after the [break].

CHAIRMAN MILLER. Thank you, Phil. Henry.

MR. WALLICH. I think we're in imminent danger of building into the economy a higher rate of inflation and of putting ourselves into a position, with or without a subsequent recession, of having to work that off and starting from a higher level with less chance [of success] than we had the last time around. It's not true that we can't work off inflation; we did it after the experience of '74 and '75, But we've done very poorly of late and our surprises have always been that we've found more boominess in the economy and more inflation than we expected up through the last forecast which shaded the boominess a little. So, I see our main risk on the side of inflation. And I fear that we're in some danger of validating the increase in the price of oil and accepting that as inevitable. I think we ought not to do that; I'd accommodate this kind of outside shock only partly. It seems clear that the economy is much closer to capacity than we had thought. That is, I think, accountable for a good part of the pressures we're getting. Whether or not a recession is in the works is probably something that is beyond the power of monetary policy now to remedy. I think we have more chances of doing something about inflation than doing something about a recession. If there is a recession, it is likely to be a moderate and short one. I have that reaction because of the fact that it's so widely advertised and, in the face of that, business behavior has been to step up plant and equipment expenditures. It seems to me they're looking beyond the valley; they can't possibly be planning to put much [capacity] in place before some kind of a slowdown occurs. Meanwhile, the inflation pressure is threatening the President's wage and price program and if that collapses, we've lost one further instrument. It threatens the dollar and if something happens to [weaken] the dollar, we will have more inflation. All this suggests to me that the dangers are more on the side of inflation than on the side of the real sector. I don't want to minimize those real sector risks; I think they are real. I might add that people who are concerned about excessive boominess and excessive inflation are not just a small minority. I'm surprised how much support one sees around the country, even in the Congress and even among economists whom we have listened to and not usually found on the restrictive side--and even, if I may say so, among some people in the Administration. So if we are talking about beds, there are some prospects for unusual bedfellows here.

As for the aggregates, I have much sympathy for Steve's analysis. I think it is reasonably persuasive except perhaps the magnitude. I would look at bank credit at the present time as something like a proxy for the aggregates, realizing that it's not a very good measure of total credit. So that brings me to what I should say about policy. I think if we fail to do something that recognizes the threat of greater inflation, we will really add to that inflation. A demonstration [of our anti-inflationary resolve] is needed. At a minimum, I would not relax the funds rate for that reason. I'm very reluctant to push it up because I can see that six months from now we might regret having done that if the economy has weakened. I think some demonstration--an action on reserve requirements or the discount rate--might be more [appropriate], within a broader program than this Committee would ordinarily deal with. On the funds rate, I would like to hear the rest of the discussion.

CHAIRMAN MILLER. Thank you very much, Henry. Well, this has been very helpful. I think the best thing to do is to take a break for a few minutes and come back as near to 11:30 a.m. as we can and see if we can wind this up.

[Coffee break]

CHAIRMAN MILLER. Let me make a couple of observations. One is that in the course of these four years of business expansion, we've had all the elements of a long expansion. And we've had some new territory to explore since we've had only one other period in our lifetimes when there has been high inflation during peacetime in the

United States. We've had it in the whole decade but it's higher than even the ridiculous rates of 6 percent we had in the '73 to '75 timeframe. We don't have much in our models to help us understand those periods. There were peculiarities in that period related first to the aftermath of mandatory controls and then the oil boycott, so we can't crank that into our model and assume that that was an experience or a base from which all future periods of like rates will track.

In this particular cycle we've had an usual experience where we have alarmed the public about inflation in order to get policy changes and they reacted by finding out that inflation is a danger, which makes our policy direction more difficult. Nonetheless, without alerting them, we couldn't get the policy changes. And one of the things that consumers did in the face of this was to engage in preferring goods to money and, therefore, there was anticipatory buying which worked against our efforts to cool the economy. And businesses, having been burned so badly in 1973-74, have behaved extremely cautiously during this period. Their investments in either capital or inventories have been cautious. On a net investment basis, after replacement, we are not back to where we were at the prior peak. [Business firms] are actually investing less today than they were at the peak of the last cycle on a net basis. So there has been nothing exuberant about business behavior. They've been quite prudent, I think. We now have recently [unintelligible]. And the question before the house is: Does this mean that businesses also have begun to cave in to the inflation psychology and have begun to opt for goods over money? And will this create a speculative boom that [produces] another peak of sustained inflation, which then will result in a bigger bust?

Well, the data appear to be confusing. To the extent that any business decisions currently represent capital commitments, I would say that we should have little concern. Number one, the actual expenditures will be spread over a time [period] that we all predict to be soft economically at any case. In terms of material actually bought and paid for and labor actually employed, it will come at a time when there's not excessive economic activity. To the extent that it works on the supply side and deals with increasing capacity and modernization and reduces unit costs and contributes to productivity, we should all be applauding and encouraging it. To the extent that it represents inventory accumulation, on the other hand, it could be dangerous because it could result in excess stocks, leading later to cutbacks in production, thereby exacerbating the slowdown and tipping the economy into unnecessary recession. So one has to analyze that. Now, to the degree that stocks are being replenished because of [final sales] in the fourth quarter being stronger than expected, that's part of the solution. To the extent that stocks are being accumulated because of the fear that there may be a trucker's strike or a rubber strike, one has to admit that that's not speculative behavior but a prudent hedge which has an impact on the economy later but does not represent a shift. To the extent that the accumulation represents a fear that the energy situation is a problem in terms of availability and cost--[if that fear] is rippling through the world again and feedstocks and petro-based products of all types and materials related to that are being bid up--if that is either hoarding or a hedge or a speculation, we have a problem. And to what degree that's all happening [I don't think] any of us can judge.

In any case, what we do today is unlikely in my opinion to have much impact on the real behavior of the economy for the next two months. Therefore, what we should be doing today is thinking about what our policy direction should be as the year progresses, thereby being more consistent with our longer-term view that the monetary aggregates affect the economy over time. We could send up red flags or white flags or yellow flags and people are probably going to behave pretty much based on these other factors. How they view the energy situation is probably more overwhelming right now than anything else.

So with all that, I would ask you to turn first to page 7 of the Bluebook and thumb through to page 13. Look first at the staff's suggested alternatives for our directive for the period. Then look at page 13 where we can see [the projected outcomes relative to our long-run ranges] if, for example, we took alternative B and were within the growth ranges contemplated for the aggregates for the next 2 months under alternative B. If we were pursuing M1 in the 4 to 9 percent range and we hit the top of it, we would get growth back up to just within our long-term range. We'd still be below on M2, at the top of our range on M3, and we would be just touching the bottom of our [M1] growth range; on bank credit we'd be at the upper bracket. The Bluebook also continues to present to you the rates of growth for monetary aggregates that would be required to get back to the [upper limit], the midpoint, or the [lower limit] of our own target ranges over a period of time. Those I believe are shown on page 10.

With all of that, my thought would be that the right posture now is one of seeking to [guide] the aggregates back toward our ranges, but not doing so with undue acceleration or signals of undue concern by moving too rapidly. I would be more patient for the reason that I think the economy is going to pursue its own course right now. Nor do I think we ought to start to send any particular signals of unusual tightening or monetary restraint because that wouldn't do much in the short term and in the long term it would work against our desire, if we believe in our own ranges and the objective of getting back inside the ranges. For that reason I would be inclined to take a moderate course of more or less even keeling where we are; I'd [put] our objectives for M1 and M2 in the 4 to 8 or 4 to 9 percent area [unintelligible]. Those are just my personal observations. I would appreciate having inputs from each of you.

I might say that on the thrust of policy the score card reads as follows: John Balles, slight tilt toward a lower funds rate; Bob Black, no action now; Phil Coldwell will tell us later; Bones Kimbrel, some firming; Bob Mayo, hold the current position, although I gather from what Bob said that a trifle more restraint would be acceptable; Chuck Partee, what he said was that it's time to do something and reading between the lines I think he'd like to ease. Nancy Teeters, no change in policy; Paul Volcker, some firming; Henry Wallich, hold is what he actually said, but to demonstrate in some other ways that we are continuing our concern about inflation, which we obviously are; Ernie Baughman, maintain policy; Dave Eastburn, maintain the funds rate but tilt policy to ease; Roger Guffey, if anything, move in the direction of ease; Frank Morris, 9-1/2 percent today--

MR. MORRIS. Tomorrow would be all right.

CHAIRMAN MILLER. Larry Roos, err on the side of moving toward ease; Willis Winn, I'm not sure what you came down on, Willis.

MR. WINN. Hold steady.

CHAIRMAN MILLER. And Tom Gainor, hold the line. So that's the rundown. Now let's see what you'd really like to do. John Balles.

MR. BALLES. Well, in my tilt toward less restraint--I certainly wouldn't call it ease--on the specifications I would land somewhere between alternative A and alternative B. Specifically, on M1, the 4 to 9 percent range would be acceptable to me. On M2, I would make the range 5 to 9 percent based on my view that we shouldn't let M2 fall further below the lower end of our 12-month range. That's why the 3-1/2 percent in the Bluebook bothers me. And on the funds rate, I would like to see a range of 9-1/4 to 10-1/4 percent with an immediate move to 9-3/4 percent. One reason in particular for tilting toward a lower funds rate at this time is the point I referred to in my earlier remarks about the consistent over-forecasting by several percentage points on both M1 and M2 that has been going on for five months now. If that over-forecast continued in March, which is my full expectation, we're going to see some more very low numbers in the growth of the monetary aggregates in the month of March. That would make a full six months and that begins to worry me. We really have a dilemma in the sense that the announcement effects could be counterproductive both with respect to the value of the dollar and the public's perception of what we're up to. But realizing that there are lags in the impact of policy, as I continue to stress, and given my expectation of a recession by the middle of the year, I think it's now time to begin to unwind this posture we've been in since November.

CHAIRMAN MILLER. Thank you, John. Bob Black.

MR. BLACK. Mr. Chairman, I guess it's most accurate to say that I want a foot in each bed. I'm worried about both inflation and recession. I'm worried about what a recession might do in speeding up inflation later by causing us to throw in all our chips. So I think we have to be sensitive to both concerns in reaching a policy decision and I believe we ought to let the behavior of the aggregates guide what we do in the weeks just ahead. We [at the Richmond Federal Reserve Bank] tend to do that more than perhaps most people around the table. I believe we could do this pretty well with alternative B coupled with an aggregates directive. As I read this, that would give us a midpoint [on M1] of 6-1/2 percent and would trigger some action to lower the federal funds rate if the aggregate came in at 5-1/2 percent or lower. Growth at that rate would mean--if we look at this on a 3-month moving average basis, which is the way we like to do it--no further deviation of M1 from the path that we've set from the fourth quarter of last year to the fourth quarter of this year; it would continue to be about as much below the path as it has been. For a change, I'm less concerned on the up side and wouldn't be bothered if we hit a 9 or 9-1/2 percent rate of growth in M1. I suppose what I said is tantamount to saying I want an aggregates directive on the bottom and a money market directive on the top. The M2 range in alternative B would suit me fine, but I have even less faith in that than in M1 because I think the tightening of money has depressed M2 more. The money market funds have been coming mostly out of M2, I think, rather than M1. So far as the federal funds range is concerned, I would prefer to see that stay at 9-3/4 to 10-1/2 percent.

MR. PARTEE. That's "B."

MR. BLACK. That would be "B." I'd buy those specifications.

CHAIRMAN MILLER. Thank you. Phil Coldwell.

MR. COLDWELL. Mr. Chairman, I would prefer to do some of what Bob is suggesting, but with a tilt to it. I took your specifications to a degree: for M1, 4 to 8 percent; for M2, 3 to 7 percent; and for federal funds, 10 to 10-1/2 percent, with a midpoint of 10-1/4 percent. A zone to play with between 10-1/8 and 10-3/8 percent will enable the Desk to move around a bit. And if the aggregates come in extremely weak again, I would expect consultation by the Committee.

CHAIRMAN MILLER. Thank you, Phil. Bones.

MR. KIMBREL. Mr. Chairman, I think Governor Coldwell has just spoken my piece. I would favor exactly the numbers [he proposed] of 4 to 8, 3 to 7, and 10 to 10-1/2 percent. I would not like to see the funds rate drop below 10 percent; I think that clearly would be misunderstood. In my view the danger is on the side of inflation. And with our visibility in the markets, both domestic and international, any failure to recognize this danger of inflation could indeed cause us problems. I would like to see us with alternative B and those numbers.

CHAIRMAN MILLER. Thank you very much. Bob Mayo.

MR. MAYO. It so happens that I've also jotted down 10 to 10-1/2 percent on federal funds. I would treat it asymmetrically, rather than jump immediately to 10-1/4 percent. But if the market urge tended to push it toward 10-1/4 percent, I wouldn't resist it. For M1 4 to 8 percent is fine and 4 to 8 percent is all right for M2, although I don't feel strongly about that versus the 3-1/2 to 7-1/2 percent. I would do a money market directive.

CHAIRMAN MILLER. Thank you, Bob. Chuck Partee.

MR. PARTEE. Well, if I had the nerve, I would suggest what Frank Morris did because I think that is what's really required if we're to have any chance of avoiding a recession. And [even] that might not do it, but it's a start. But I do think there is more of a signal hazard in the current rate of inflation than that policy would make appropriate. I believe that we have lost a lot of ground with reference to the projections that we gave to the Congress just six weeks ago and we don't have a sliding base or anything of that kind any more. So I would hate to see us lose any ground relative to those presumed growth rates in the aggregates, unless we could say to Congress that we're doing that because the business outlook is really very much stronger than we expected, and that's not the case. If anything, it's very much weaker than we anticipated or than we said was consistent with our policy. I think it's important to look at the aggregates and I would go to an aggregates directive. I could live with 4 to 8 percent [for M1]. If you look at [the chart on] page 13, 4 percent picks the growth up just a bit and 8 percent would get us to about the lower limit, so I could live with 4 to 8 percent in the spirit of compromise. I would like to raise M2 to 4 to 8 percent also because I think it's very difficult to interpret what may happen in terms of the distribution of money market certificates between banks and thrifts when there is no differential and that is going to tend to favor the banks over the thrifts. Therefore, I would lift that range just slightly in order to allow for that contingency. So 4 to 8 percent on both M1 and M2 I think would be satisfactory.

On the funds rate range, I would like to tilt it downward a bit, though not as much as John Balles would. I can't visualize within those aggregate ranges any reason at all for taking the funds rate over 10-1/4 percent. So I think 10-1/4 percent ought to be the top and 9-1/2 percent ought to be the bottom. And I would treat [the range] asymmetrically; that is, I'd leave the funds rate at 10 percent or a tad above where it is now until the aggregates begin to move. If they begin to show weakness within their ranges--toward the lower end of the ranges or below--I would then move the funds rate down. I think the time has come to do that, if in fact we have another month where the aggregates are quite weak. Now, the staff is predicting that they won't be; and if the staff is right, there wouldn't be any easing. But if the staff is wrong, there would be an easing. So my preference would be 9-1/2 to 10-1/4 percent with a midpoint of 10 percent from the standpoint of current Desk operations.

CHAIRMAN MILLER. Thank you, Chuck. Nancy.

MS. TEETERS. Well, I can live with a 4 to 8 percent range on M1. And I don't think 4 to 8 percent on M2 would make too much difference; I happen to agree with Phil that if things begin to come apart, we will need to have a meeting. I would like simply to stay where we are and would recommend a federal funds range of 9-1/2 to 10-1/2 percent. If there's any question on economic developments, the funds rate should be shaded down. I notice that we seem always to end up at the top of whatever our range is in the actual operations of the market, and I would like to see the funds rate on the low side of 10 percent, but certainly not above 10 percent at the present time.

CHAIRMAN MILLER. Thank you, Nancy. Paul.

VICE CHAIRMAN VOLCKER. I do think we need to make some move in recognition of what has been happening on the inflation front. And I think it's good for the stability of the economy in the long run, as I said earlier. In terms of getting back into the longer-range targets, these figures on page 10 don't look particularly frightening to me in terms of what it would take to get back [into the ranges] by the third quarter. It seems fairly natural; it's only a 6 percent rate of growth in M1. I'm not sure we wouldn't get that, or maybe even exceed it, in the ordinary course of events. I don't know. I don't think that target itself, though written in our records, is written in heaven, given all the uncertainties that we had when we set it. But it doesn't look to me as if we're out of sight of it completely when I look at what it takes to come back. I also think we're in a much better position in terms of any easing move that we might want to make as time wears on. If these concerns about a recession, which I share to some degree, are true, we're going to want to be easing at some point; we're going to have to. I would rather make a small gesture now toward some firming and have a little more credibility when the case for easing is clear without upsetting the whole psychology of our basic anti-inflation program. I think we'd be a little better off. Looking at it in terms of the funds rate, I would be happiest going to 10-1/2 percent, which is a fairly small move when it becomes visible. I could live with the figures that Mr. Coldwell or Mr. Kimbrel cited certainly, which would involve a very modest move to 10-1/4 percent and putting the range at 10 to 10-1/2 percent.

I've been sitting here thinking about whether the money market or aggregates approach is better. With that kind of range and with some modest initial move, I could live with the aggregates approach easily enough, although I was originally thinking of a money market [directive]. Any of the ranges that have been mentioned for the aggregates seem a little on the high side to me except for the M2 range of 3 to 7 percent, which doesn't bother me at all. For M1, 8 percent on the high side does worry me and I'd rather go with something like 2 to 7 percent and make sure we stay at 10-1/4 percent [on the funds rate] or move slightly higher if M1 actually gets up to the 7 percent area. I recognize that we have the telephone conference alternative at all times too, so the exact level of the aggregates isn't quite as important to me as the movement on the funds rate. I'd like to make some gesture there immediately.

CHAIRMAN MILLER. Thank you, Paul. Henry.

MR. WALLICH. Well, I question the meaning of the aggregates. I think we have to add something to them, both for ATS and for shift in the demand curve, so I believe they are much higher than they look on paper. I would, therefore, take the C alternative, 3-1/2 to 8-1/2 percent for M1 and 3 to 7 percent for M2. And somewhere in the directive I would make reference to the view that the aggregates are being interfered with by technological developments due to ATS and other factors, which I think should also be reflected in our one-year targets. There's no sense running after those if we have good reason to believe that something has happened to the demand for money that makes a given amount of money go further than we thought it would. On the funds rate, I would like to push it up just a little to 10-1/4 percent and go to a range of 10 to 10-1/2 percent. But I do think the inflationary environment calls for some other kind of action, so I would say that the Board should move on reserve requirements or the discount rate or some combination of these in a moderate way. As far as the nature of the directive is concerned, I'd like to have a money market directive with the range of 10 to 10-1/2 percent and, as I said, move to the midpoint of 10-1/4 percent with reasonable promptness.

CHAIRMAN MILLER. Thank you, Henry. Ernie.

MR. BAUGHMAN. Mr. Chairman, alternative B as presented in the Bluebook is an acceptable prescription for me.

CHAIRMAN MILLER. Thank you, Ernie. Dave.

MR. EASTBURN. I would keep the funds rate where it is and I would use the bottom of the alternative A range [for M1] as the guide. I'd accept any growth in the aggregates above that bottom. And if the aggregates started to break through that bottom, I would have a telephone conference call.

CHAIRMAN MILLER. Thank you, Dave. Roger.

MR. GUFFEY. I would prefer ranges for both M1 and M2 of 4 to 8 percent--paying little attention to M1 but more to M2, in which I have somewhat more confidence--with a funds range of 9-3/4 to 10-1/4 percent, centering on 10 percent, which may or may not be a perceptible move downward. That is 10 or 15 basis points that perhaps the market would read. And I would favor going to 10 percent immediately.

CHAIRMAN MILLER. Thank you, Roger. Frank.

MR. MORRIS. Mr. Chairman, as I said earlier, I would move to 9-1/2 percent on the funds rate. When that has been recognized in the marketplace, I think the Chairman ought to hold a press conference and explain this unprecedented development of the Fed moving the funds rate down before we're actually in a recession.

MR. PARTEE. We don't know that for sure. We might actually be in one.

MR. MORRIS. We might actually be in it, yes.

VICE CHAIRMAN VOLCKER. We don't actually know there's going to be one.

MR. MORRIS. But it would be an unprecedented move and I think we would have to explain to the market that with a 10 percent funds rate, we've had no increase in bank reserves in six months and, therefore, no increase in the money supply. We need to explain that although our concern about inflation has not diminished, we also have concerns about the economy and want to keep it on a slow growth path rather than send it into a recession. We should note that if our concerns about the economy should change--if it turns out that the current trend toward a softening in the economy tends to be a short-term phenomenon--we will be quite prepared to move the funds rate back up to 10 percent. At least we'd have a head start on the job that I think we're going to have to do later on anyway.

CHAIRMAN MILLER. Thank you, Frank. Larry.

MR. ROOS. If our concern, Mr. Chairman, is to avoid or at least minimize the recession, and if our concern is about continuing to undershoot the growth ranges for the aggregates we had projected, I think there's no way we should tolerate a range that could possibly entail M1 growth at a rate as slow as 4-1/4 or 4-1/2 percent. So I would recommend raising the lower end of alternative A, if you will, to 6 percent so that under no circumstances could M1 growth continue at 4 to 4-1/2 percent. The M2 range is satisfactory as shown and in order to have the greatest opportunity of avoiding a continued undershoot of the aggregates, I think we should widen the fed funds range and allow the possibility that the rate could be reduced significantly. If the signal problem is difficult, let's make the range 9-1/4 to 10-1/4 percent. I think we should have an aggregates directive and an understanding that the Desk should keep an eagle eye on these aggregates and not permit them to sag by concentrating on maintaining the funds rate near the upper end of its target range.

CHAIRMAN MILLER. Thank you, Larry. Willis.

MR. WINN. Mr. Chairman, I'd take generally alternative B with a 4 to 8 percent range on both the M1 and M2 ranges and an aggregates directive.

CHAIRMAN MILLER. Thank you. Tom.

MR. GAINOR. Mr. Chairman, we would favor alternative B.

CHAIRMAN MILLER. Okay. As usual we have complete unanimity! For M1, 4 to 8 percent seems to be the most popular range, with six [members]. And we have for M2 four who said 4 to 8 and four who said 3 to 7; we had one for 3-1/2 to 7-1/2 and one for 5 to 9. For the funds rate, 5 people want 10 to 10-1/2 percent--six, I guess.

MR. PARTEE. Of the voting members?

CHAIRMAN MILLER. I'm talking just about the voting members. Well, I have Phil Coldwell, Bones Kimbrel, Bob Mayo, Paul Volcker and Henry Wallich. That's five. I miscounted, excuse me.

MR. COLDWELL. The 10-1/2 percent is at least a ceiling on all the ranges.

CHAIRMAN MILLER. Yes, nobody was over 10-1/2 percent.

MR. COLDWELL. There was variation on the bottom, though.

CHAIRMAN MILLER. Yes, one of us, Nancy, had a 10-1/2 percent top limit but that was with a 9-1/2 percent bottom. Chuck had 9-1/2 to 10-1/4, Bob Black had 9-3/4 to 10-1/2, and John Balles had 9-1/4 to 10-1/4. But on the low side we had five with a lower limit of 10, two at 9-1/2, and one each at 9-3/4 and 9-1/4 percent. I haven't said anything yet.

MR. BLACK. It averages out to 9-3/4.

CHAIRMAN MILLER. Yes. It looks to me as if we could cut this on a 4 to 8 percent on M1. I don't know quite what to make of M2, but 3-1/2 to 7-1/2 percent looks to be a mid-range [preference]. And the compromise area might be 10 to 10-1/4 percent on fed funds.

MR. PARTEE. And then just have a money market directive.

CHAIRMAN MILLER. Yes, and just have a money market directive--stay or more less where we are. That's what would seem [to be closest to a consensus]. How many would favor that?

MR. BALLES. A question first, Mr. Chairman: What is your reading on the consensus view for the midpoint of the federal funds range?

CHAIRMAN MILLER. As I look at this, I'd say the consensus is to stay at about the prevailing rate, which is 10 percent plus. Five were for the prevailing rate. One--that was you--was for a lower rate. And Phil and Bones were for just a slight firming--I would say something a little over 10, maybe 10-1/8 percent. Some wanted higher.

MR. PARTEE. It is just four weeks until the next meeting, is that right?

CHAIRMAN MILLER. That's correct. Well, let's try that one in a quick straw vote: On M1, 4 to 8; on M2, 3-1/2 to 7-1/2; on the fed funds rate, continue in a 10 percent plus mode. It has really been about 10-1/8 percent, hasn't it? So let's say around 10 or 10-1/8 percent, in that range. Paul, how would you feel about that?

VICE CHAIRMAN VOLCKER. No. I can buy the ranges for the aggregates but the one for the funds rate I can't.

CHAIRMAN MILLER. You can't buy the funds range, all right. But you can buy the aggregates. John?

MR. BALLES. If we're talking about preferences, it's a little too tight for me. I would say no.

CHAIRMAN MILLER. The aggregates bother you?

MR. BALLES. The aggregates directive is what I'd like and I failed to mention that.

CHAIRMAN MILLER. I mean do the aggregates numbers that were suggested concern you also?

MR. BALLES. Yes.

CHAIRMAN MILLER. Okay. Bob Black.

MR. BLACK. I would go along with it, Mr. Chairman. I would like to point out that with the 4 to 8 percent M1 range and a money market [directive], we would not do anything until we got a rate as low as 4 percent on M1. I'd rather see that [trigger] a little higher, but I can live with it. If one looks at those charts, that's not--

CHAIRMAN MILLER. It shows a tick up.

MR. BLACK. It's a tick up, but I'd go with it.

CHAIRMAN MILLER. Phil.

MR. COLDWELL. No, I think the ceiling on the funds rate is too low.

CHAIRMAN MILLER. Bones.

MR. KIMBREL. I find it a little difficult too, Mr. Chairman.

CHAIRMAN MILLER. Which part of it didn't you like?

MR. KIMBREL. The funds range is just entirely too narrow. I think the aggregates ranges are fine.

CHAIRMAN MILLER. Bob Mayo.

MR. MAYO. I'd prefer the 10-1/2 percent upper limit. I don't care that much about the 9-1/2 versus 9-3/4 percent [on the bottom].

CHAIRMAN MILLER. Chuck.

MR. PARTEE. Well, I would buy it for four weeks, but I find it too tight.

CHAIRMAN MILLER. Nancy.

MS. TEETERS. I could buy it. I think we should stay just where we are at this point.

CHAIRMAN MILLER. Henry.

MR. WALLICH. No, I can live with the aggregates, but I'd like to see the funds rate a little higher.

CHAIRMAN MILLER. It looks as if we're going to have a very close vote today because we have those who think this is too tight and those who think it's too loose. We have three who indicated they could accept it and five who indicated they couldn't. Of those, John, you would prefer it to be less restrictive?

MR. BALLES. Let me say something here because I realize we have to have a compromise between those who feel the current proposal is too easy and those who feel it's too tight. The one thing that could be changed so I could go along with it would be to move from a money market directive to an aggregates directive. At least that would--

MR. PARTEE. With a quarter point range on the funds rate?

MR. BALLES. Well--

MR. BLACK. It changes the trigger point.

MR. MAYO. Yes, but not much.

MR. PARTEE. What would we do in the case of a tie?

CHAIRMAN MILLER. The Chairman decides, obviously.

VICE CHAIRMAN VOLCKER. A plurality--

MS. TEETERS. Maybe the thing to do is to stay with 9-3/4 and 10-1/2 percent with the understanding that we can consult. That would get both ends of the spectrum.

MR. PARTEE. You mean just continue the present fed funds range?

CHAIRMAN MILLER. But you said widen the range.

MS. TEETERS. No, [retain] the one we've been operating with, the 9-3/4 to 10-1/2 percent, which gets both ends of the spectrum.

MR. BALLES. Yes, that would make a lot of sense.

MR. PARTEE. I think so, too.

CHAIRMAN MILLER. All right, let's try 9-3/4 to 10-1/2 percent. Is that where we are now?

MS. TEETERS. Yes.

CHAIRMAN MILLER. What was our directive last time?

MR. ALTMANN. We didn't have a range. We had "maintaining" the prevailing rate provided the aggregates stayed within their ranges.

CHAIRMAN MILLER. That's what I thought.

MR. PARTEE. Oh, really? I thought we had a range.

CHAIRMAN MILLER. No, we had no range. It's one of the few times when we had no range at all. However, let's try it with a 9-3/4 to 10-1/2 percent range now.

MR. BLACK. Is this with a money market directive?

CHAIRMAN MILLER. From what I hear, let's try this on an aggregates directive first.

VICE CHAIRMAN VOLCKER. And that means no change in the prevailing federal funds rate?

CHAIRMAN MILLER. That means we stay where we are, the prevailing rate. We have 4 to 8 percent for M1, 3-1/2 to 7-1/2 percent for M2, 9-3/4 to 10-1/2 percent for the funds range and we stay around 10 percent plus--10 to 10-1/8 is the maneuvering room--and an aggregates directive. Let's try it again. Paul.

Vice Chairman Volcker	No
President Balles	Yes
President Black	Yes
Governor Coldwell	No
President Kimbrel	No
President Mayo	Yes
Governor Partee	Yes
Governor Teeters	Yes
Governor Wallich	No

CHAIRMAN MILLER. I would vote for that, which means we would have a 6 to 4 vote. Okay, let's take a final vote. Secretary, would you read what it is we're proposing?

MR. ALTMANN. The M1 range is 4 to 8 percent and the M2 range is 3-1/2 to 7-1/2 percent; the funds range is 9-3/4 to 10-1/2 percent, with the initial objective at the prevailing rate of 10 to 10-1/8 percent.

MR. COLDWELL. And a money market directive?

CHAIRMAN MILLER. An aggregates directive.

MR. ALTMANN.

Chairman Miller	Yes
Vice Chairman Volcker	No
President Balles	Yes
President Black	Yes
Governor Coldwell	No
President Kimbrel	No
President Mayo	Yes
Governor Partee	Yes
Governor Teeters	Yes
Goveror Wallich	No

CHAIRMAN MILLER. Okay, we have a vote. There's some other business for the meeting, I think.

MR. ALTMANN. Yes.

CHAIRMAN MILLER. The next item is the consideration of the Manager's recommendation with respect to foreign currency operations. Alan Holmes.

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

CHAIRMAN MILLER. Thank you very much, Alan. Any questions or comments? Henry.

MR. WALLICH. Alan, do you have the feeling that the Germans would want us to use Treasury funds raised in their market to repay swaps rather than go to a second renewal?

MR. HOLMES. Yes, I think the Germans would like it and the Treasury would not; so there's a bit of an impasse there.

MR. WALLICH. Yes, I wouldn't either. I think the Treasury is right.

CHAIRMAN MILLER. Any other questions or comments?

MR. PARTEE. What would be the effect of that anyway, Henry?

MR. WALLICH. Well, we use up the easily disposable money where nobody can say "no" when we want to use it and we put ourselves in their hands. And they can restrain us--

CHAIRMAN MILLER. We can draw on the swap but we have to get their concurrence.

MR. PARTEE. I see.

CHAIRMAN MILLER. It cuts down our flexibility.

MR. PARTEE. I agree with you. It's undesirable.

MR. WALLICH. Particularly in light of the

CHAIRMAN MILLER. Other questions or comments to Alan? Next, we have distributed a memorandum from Peter Sternlight and Bob Mannion on the Lending of Securities. Unless there are any comments or dissents, we could approve that.

MR. COLDWELL. May I raise a question, Mr. Chairman?

CHAIRMAN MILLER. Yes.

MR. COLDWELL. In view of the rising volume in the lending area it seems to me that we ought to be raising our interest rates on this, perhaps to a 2 to 10 percent range instead of the current range.

MR. STERNLIGHT. Well, we have a differential now, Governor, and I think it's one that generally induces the dealers to look elsewhere before they come to us, although as you mentioned there has been an increase this past year. I think that is largely just because of general shortages of collateral in the market.

MR. PARTEE. What is that differential customarily, Peter?

MR. STERNLIGHT. We are charging about double what they would have to pay elsewhere.

MR. PARTEE. About double?

MR. HOLMES. And with an escalating scale if they don't pay off [on time]; that's the point.

MR. COLDWELL(?). My only point is that we are starting to see an enlargement of this and I would raise questions as to the desirability of our providing more and more [of these securities loans]. I think we can provide a little more disincentive to borrow by raising that rate slightly. Two percent is not a large change.

MR. WALLICH. I'd like to support this, because it seems to me it would induce greater effort on the part of the market to find collateral in advance and be prepared [to meet obligations]. It would also be helpful should the float become very large again, so we're not a cheap lender of last resort anyway.

MR. HOLMES. Well, we're not a lender of last resort, Governor Wallich; as you know, we will lend only in the case of a failure to a dealer. They just can't come and borrow from us for any purpose.

MR. WALLICH. Yes, I see your point.

MR. COLDWELL. But they do come and borrow. The question is the degree to which they push to try to cover [their shorts] before they come to us. A little more price disincentive might--

MR. STERNLIGHT. Well, the difference between 3/4 percent and 1-1/2 percent is already a substantial incentive for dealers to try to find collateral anywhere. I think over this past year, with the growth in the use of the repurchase agreement by banks, there has just been that much less collateral in the market. I don't think that's a lasting situation; at least I hope it's not.

VICE CHAIRMAN VOLCKER. I don't know that this is a religious issue. I can see charging a little more but it's perhaps a peculiarly bad time, given the unfortunate profitability situation of government securities dealers for some time now. I wonder whether we couldn't go along as we are now without throwing a rock in the bucket.

CHAIRMAN MILLER. Do you want to review this in six months instead of a year? Why don't we put it on the agenda for a 6-month review and approve it the way it is instead of waiting for the full year? And we will see how it goes.

MR. COLDWELL. I would like to have a little study done on the question of what [a rate change] would perhaps do.

MR. PARTEE. Quantify the idea of raising the margin, and see what the effect would be.

CHAIRMAN MILLER. Okay, on that basis, may we have your approval? Thank you very much. The next item is a review of the Authorization for Domestic Open Market Operations. Has that been distributed?

MR. ALTMANN. Yes, it's attached to the--

CHAIRMAN MILLER. Is there any change? Is there any dissent from approving it? Hearing none, we will approve it. Item 14 of the agenda involves a, b, c, and d--the review of the Authorization for Foreign Currency Operations, the Foreign Currency Directive, the Procedural Instructions with Respect to Foreign Currency Operations, and the Special Authorization. No changes are proposed in "a" and "d" and minor changes are proposed in "b." Are there any questions about those?

MR. COLDWELL. We have reached the alternate procedural limits--

CHAIRMAN MILLER. That's "c" and we will come to that in just a second. Any problems on agenda items 14a, b, and d? There are minor changes in "b." But the changes involve taking out the word "proposed," which used to be before the words "IMF article IV." That's because it's no longer proposed; it's now effective. That's a big change! I hope you all will go along with that. On those three documents are there any problems? May we approve them? Yes, Bob.

MR. MAYO. I have just one slight worry, though I'm not going to oppose approval. In "a" I have no objection to the $300 million on any day, but I think this is--

CHAIRMAN MILLER. No, we are not there yet.

MR. MAYO. Oh, we are not on "a"?

CHAIRMAN MILLER. Isn't that "c"? Have you changed them on me?

MR. COLDWELL. It's attachment A; that is the "A" [he's referring to], Mr. Chairman.

CHAIRMAN MILLER. All right, then let's take the one that has several proposed changes, the Procedural Instructions with respect to Foreign Currency Operations, and deal with that. Then we'll pick up the others, which don't have changes, other than the minor one that I mentioned. Alan, do you or Steve want to comment on this?

MR. HOLMES. Well, I think the memo that we put out ought to be self explanatory. I am not one who particularly likes daily limits on operations, but I can see why members of the Committee would like them, and I think those that are being proposed are ones we can live with for the time being. If we do run into problems operating under them, we will certainly come back to the Subcommittee and to the Committee. I don't foresee any problems at the moment.

CHAIRMAN MILLER. Steve, any comment?

MR. AXILROD. No, I have nothing to add.

CHAIRMAN MILLER. Are you all familiar with what is being proposed? We went without limits for a while except the $8 billion limit on the total position. What's being proposed now is that we limit the changes between meetings. Would you review it for me?

MR. ALTMANN. Under the procedural instructions, paragraph 1A says that the Manager shall clear with the Subcommittee, or with the Chairman if the Chairman believes that consultation with the Subcommittee is not feasible in the time available, any operation that would result in a change in the System's overall open position in foreign currencies exceeding $100 million on any day or $300 million since the most recent meeting. The proposal would be to increase those two limits--to raise the daily figure from $100 to $300 million and to raise the figure for the change since the most recent regular meeting from $300 million to $1 billion. In paragraph 1B, which has to do with changes in the net position in a single currency, the daily limit would be raised from $100 million to $150 million and from $150 million to $300 million when the operation is associated with repayment of swap drawings, and the intermeeting limit would be dropped.

Paragraph 2 has to do with operations going beyond those limits, which would have to go to the Committee for approval. It says that the Manager shall clear with the Committee or with the Subcommittee if the Subcommittee believes consultation with the full Committee is not feasible in the time available and so forth "any operation that would result in a change in the System's overall open position in foreign currencies exceeding" the limit. The old limit was $500 million and the proposed alternative is $1-1/2 billion. That's for the change since the most recent regular meeting. Anything beyond that would have to go to the full Committee. Those are the proposed changes.

CHAIRMAN MILLER. I think you all have had a chance to review [this memo]. Are there questions now? Bob, you had a question.

MR. MAYO. Yes, my only question is on paragraph 1A, Mr. Chairman. The $300 million on any one day doesn't bother me; I'm a little uneasy about the $1 billion since the most recent meeting. This is a very volatile [market] and I guess my question is, Alan: Do you really need that much room on the cumulative amount?

MR. PARTEE. Without contacting the Subcommittee?

MR. MAYO. Yes.

MR. HOLMES. I would think, Mr. Chairman, that if we have an opportunity to pay a billion dollars in Deutschemark debt between Committee meetings, we ought to go ahead and do it. Now, if we are intervening heavily on the other side, obviously, we are going to be reporting this [intervention] regularly to the Subcommittee and to the Committee generally. But I would like that larger leeway for the time being because our main effort now will be directed at repaying debt, and I think we ought to do that as rapidly as we can.

MR. COLDWELL. That's not the question, though, Alan. The question is: Is it the Manager's prerogative to carry this up to a full $1 billion without consultation even with the Subcommittee?

MR. HOLMES. Well, as you know, we report daily to the Subcommittee on what we have done. We are not without surveillance on any of this.

MR. WALLICH. If I may add to this--

CHAIRMAN MILLER. Yes, Henry.

MR. WALLICH. Mr. Chairman, there is pretty close contact [between the Manager and the Subcommittee]. I would certainly expect, if operations of that order of magnitude or anything remotely resembling that were in prospect, that prior conversations would have taken place. So--

MR. PARTEE. Then why not make it subject to prior approval, if there have been prior conversations?

MR. WALLICH. Because the Subcommittee is sometimes hard to get together.

MR. PARTEE. In that case, the Chairman--

MR. COLDWELL. The Chairman can act [for] the Subcommittee.

MR. HOLMES. That's what it says.

MR. WALLICH. We can do that. I think that reduces the flexibility somewhat. The Chairman, too, may not be easily accessible so I don't see a great deal of risk here.

MR. PARTEE. If the Chairman is not accessible, does somebody substitute for the Chairman?

SPEAKER(?). Yes.

MR. WALLICH. I guess that's the Vice Chairman.

VICE CHAIRMAN VOLCKER. If you can't, [then] you get the Subcommittee or the Vice Chairman. You could have the Chairman not there and the rest of the Subcommittee [available], couldn't you?

MR. ALTMANN. We've had one occasion when the Chairman of the Committee was not available and, as a matter of the fact, the Vice Chairman of the Committee was not available. And we went to the Vice Chairman of the Board who is able to act as Chairman of the Committee.

VICE CHAIRMAN VOLCKER. But in the first instance if the Chairman wasn't there and the rest of the Subcommittee were available--

CHAIRMAN MILLER. Are you all clear on what we are talking about now? There could be no more than $300 million in one day, right? And we are talking about a cumulation of $1 billion between meetings. We couldn't run this up [to $1 billion] in one day, Phil, because at $300 million a day we would need three full days, or more precisely 3 and 1/3 days, of maximum operation to get there. So it would have to be getting up there and we watch it every day. I think the Committee would really be doing something wrong if we were not [aware] because we are in touch with this not [only] by the day but by the hour often.

VICE CHAIRMAN VOLCKER. If $300 million is right for the daily limit, and I think they need something like that flexibility by the day, it's hard to see that three days of operations [could occur] without formally figuring the--

CHAIRMAN MILLER. We will do whatever the Committee wants. We can cut this back to $500 million or whatever you think, but I don't think it represents a serious problem.

MR. MAYO. Well, I don't either, Mr. Chairman. I just wanted to hear this sort of discussion. It has helped me.

MR. PARTEE. I think it's procedurally poor.

MR. COLDWELL. I think it is, too, but it's even worse on the next page. I don't think it's desirable for the Subcommittee to authorize an open position above $1 billion. The full Committee ought to look at an open position change above $1 billion.

CHAIRMAN MILLER. I just have to disagree because we have had to suspend these rules when we got into difficulty. Now you want to put them in so we can suspend them again if we get into difficulty. The only way we could operate on the day we did $1 billion dollars in one day was to have some authority to do so. So on that day we did suspend the rules. You're kidding yourself about your procedures because when we got into the real heat of battle you had to give us complete authority. Now you are saying while we don't have the heat of battle put the limit down tight; and when we have the heat of battle and the real danger comes and the authority could be abused, we'll take it off completely. That's poor procedure in my view.

MR. PARTEE. Well, I don't disagree with $1-1/2 billion, Mr. Chairman, but I think the Subcommittee ought to be formally involved before we get to $1 billion, maybe at $600 million.

CHAIRMAN MILLER. Do you want to cut it to $750 million?

MR. PARTEE. Say $600 million, or 2 days--

CHAIRMAN MILLER. Okay, two days or $600 million is fine. Does that suit everybody?

MR. HOLMES. We can live with almost anything, but if we run into trouble, we'll come back. The thing that frightens me the most, Mr. Chairman, is that if we get a sudden huge capital conversion and the Germans come in and offer us, say, $350 million, I would much prefer to be able to say yes right then and there--and [not] say I have to wait and consult first--because [the $350 million] might not be there when I get back.

MR. AXILROD. Well, Alan, when it goes up to $300 or $400 million after one day's operation, it would be possible to go to the Subcommittee and get prior approval.

MR. HOLMES. I think we can do it.

CHAIRMAN MILLER. I think that's all right. We keep some leeway. We can operate that way. With that amendment, to $600 million, may we have your approval? Any other questions or comments? I don't want to cut this short, but hearing none--

MR. COLDWELL. I will not vote for the $1-1/2 billion.

CHAIRMAN MILLER. Does anyone else feel negatively about that? Certainly, if we get back into really active trading again, it could run that [much].

VICE CHAIRMAN VOLCKER. I, for one, would feel that they need the leeway because it's just too cumbersome to get the Committee together when caught in the heat of battle. We can't get into that kind of--

CHAIRMAN MILLER. Are there any other questions on that? All those in favor say "aye."

SEVERAL. Aye.

CHAIRMAN MILLER. Opposed?

MR. COLDWELL. No.

CHAIRMAN MILLER. So voted. I believe that we have only one other item unless there were questions on the other three parts of agenda item 14. I assume that those with no changes and this one little minor change are acceptable. Is that correct? Hearing no dissent, that's approved. The next thing is to confirm that our next meeting is on April 17 and to adjourn for lunch, which will be in the usual place. Thank you all very much.

END OF MEETING