

### 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.

Meeting of the Federal Open Market Committee  
February 3-4, 1994

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 Thursday, February 3, 1994, at 2:30 p.m. and was continued on Friday, February 4, 1994, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. McDonough, Vice Chairman  
Mr. Broadus  
Mr. Forrestal  
Mr. Jordan  
Mr. Kelley  
Mr. LaWare  
Mr. Lindsey  
Mr. Parry  
Ms. Phillips

Messrs. Hoenig, Keehn, Melzer, Oltman,<sup>1</sup> and Syron, Alternate Members of the Federal Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of the Federal Reserve Banks of Philadelphia, Dallas, and Minneapolis, respectively

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

Messrs. Beebe, J. Davis, R. Davis, Goodfriend, Lindsey, Promisel, Siegman, Simpson, Stockton, and Ms. Tschinkel, Associate Economists

Ms. Lovett, Manager for Domestic Operations, System Open Market Account  
Mr. Fisher, Manager for Foreign Operations, System Open Market Account

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors  
Mr. Slifman, Associate Director, Division of Research and Statistics, Board of Governors  
Mr. Madigan, Associate Director, Division of Monetary Affairs, Board of Governors

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1. Attended Thursday session only.

Mr. Hooper,<sup>2</sup> Assistant Director, Division of  
International Finance, Board of Governors  
Mr. Reinhart,<sup>3</sup> Section Chief, Division of  
Monetary Affairs, Board of Governors  
Mr. Rosine,<sup>3</sup> Senior Economist, Division of Research  
and Statistics, Board of Governors  
Ms. Low, Open Market Secretariat Assistant,  
Division of Monetary Affairs, Board of  
Governors

Messrs. T. Davis, Dewald, Lang, Rolnick, Rosenblum,  
and Scheld, Senior Vice Presidents, Federal  
Reserve Banks of Kansas City, St. Louis,  
Philadelphia, Minneapolis, Dallas, and Chicago,  
respectively  
Mr. McNees, Vice President, Federal Reserve Bank of  
Boston  
Ms. Krieger, Assistant Vice President, Federal  
Reserve Bank of New York

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2. Attended Thursday session only.  
3. Attended portion of meeting relating to the Committee's  
discussion of the economic outlook and its longer-run  
objectives for monetary and debt aggregates.

Transcript of Federal Open Market Committee Meeting of  
February 3-4, 1994

February 3, 1994--Afternoon session

CHAIRMAN GREENSPAN. As you know, this is our organizational meeting and always in such meetings we have the election of the Chairman and Vice Chairman. I turn to our senior Board member to offer nominations.

MR. KELLEY. Mr. Chairman, I have the high honor and distinct privilege to nominate officers to serve until the election of their successors at the first meeting of the Committee after December 31, 1994. For Chairman of the Committee I nominate Alan Greenspan and for Vice Chairman, William J. McDonough.

SPEAKER(?). Second.

MR. KELLEY. Thank you. I move the nominations cease.

SPEAKER(?). Second.

MR. KELLEY. You're a little slow but thank you! It's been moved and seconded and the nominations have ceased.

CHAIRMAN GREENSPAN. The nominations have ceased and what happens now?

MR. KELLEY. I guess we vote. All in favor--do I do that?

CHAIRMAN GREENSPAN. Yes, please carry on.

MR. KELLEY. All in favor say "Aye."

SEVERAL. Aye.

MR. KELLEY. Opposed? Mr. Chairman, it unanimously passes. Congratulations on your election to another term as Chairman of the FOMC, and congratulations, Mr. Vice Chairman.

CHAIRMAN GREENSPAN. I thank you, Governor. It's always a wonder how the democratic process works in this organization. I think we want to go next to filling the staff officer positions and I call on our distinguished Deputy Secretary.

MR. BERNARD.

Secretary and Economist, Donald Kohn;  
Deputy Secretary, Normand Bernard;  
Assistant Secretaries, Joseph Coyne and Gary Gillum;  
General Counsel, J. Virgil Mattingly;  
Deputy General Counsel, Ernest Patrikis;  
Economists, Michael Prell and Edwin Truman.

Associate Economists from the Board of Governors:

David Lindsey;  
Larry Promisel;  
Charles Siegman;  
Thomas Simpson; and

David Stockton.

Associate Economists from the Federal Reserve Banks:  
Jack Beebe, proposed by President Parry;  
John Davis, proposed by President Jordan;  
Richard Davis, proposed by President McDonough;  
Marvin Goodfriend, proposed by President Broadus; and  
Sheila Tschinkel, proposed by President Forrestal.  
That's the list, Mr. Chairman.

CHAIRMAN GREENSPAN. Thank you. Are there any objections to that listing of officers? If not, I will assume that they have been selected by the Committee.

Before we go further, let me just indicate that we have a problem that emerges as a consequence of our meeting on a Thursday and Friday as distinct from the middle of the week. I don't know what we will eventually decide tomorrow, but it's clear that we may decide to take some action with respect to rates. Should that be the case, we are caught in a position where under our normal procedures we would be going into the weekend with a very important decision having been made and without public disclosure thereof. So, what I would intend to do at the end of our session today is to discuss contingency plans in the event that we decide tomorrow actually to move toward tightening. If that policy issue has to be resolved, we clearly have to do it in the morning, which means we would have to reverse our agenda and first discuss the regular short-term policy issues that we usually discuss and leave the long-term target issues as the second policy item on the agenda. In the event that we choose to do nothing, all we'll do is create a minor difference in the order we usually handle things. But I think it's probably a worthwhile precaution in the event that we decide to do something. Until we actually see how it evolves tomorrow we won't know for sure, but I think the point at issue here is that we not be in a position where we are restricted in taking action because of concerns about security. So, later this afternoon I would like to discuss a hypothetical case of what we might do even though it might take a few minutes to do so and it may not prove to be necessary. But it's probably a worthwhile precaution.

Let's move on now to item 2, which is the selection of a Federal Reserve Bank to execute transactions for the System Open Market Account; this is traditionally New York and I'd like somebody to make such a motion.

SPEAKER(?). So move.

CHAIRMAN GREENSPAN. Is there a second?

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. Without objection. Similarly, we need to select the Manager for Domestic Operations and the Manager for Foreign Operations. Our incumbents are of course respectively Joan Lovett and Peter Fisher. I would ask whether there are any objections to their selection with the understanding that the decision made by this Committee is still subject to agreement of the directors of the Federal Reserve Bank of New York. So, would somebody like to move that?

SPEAKER(?). So move.

CHAIRMAN GREENSPAN. Is there a second?

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. Without objection.

Item 4 is the regular review of the Authorization for Domestic Open Market Operations. That authorization has been circulated and if there are no comments, I will ask whether there are any objections. Hearing none, I assume that there are no problems there.

Next, we have the review of: (1) the Authorization for Foreign Currency Operations; (2) the Foreign Currency Directive, and (3) the Procedural Instructions with Respect to Foreign Currency Operations, including a review of the "warehousing" authority incorporated in the Authorization and in the Directive. Copies of all of these have been sent out to the Committee, and I believe that Mr. Truman dispatched a memorandum on the warehousing issue a few days ago. Are there any questions or comments on those particular issues? Yes?

MR. JORDAN. All those issues including the "warehousing"?

CHAIRMAN GREENSPAN. Yes.

MR. JORDAN. I have some comments on that.

CHAIRMAN GREENSPAN. Sure, please go ahead.

MR. JORDAN. Warehousing is a loan by the central bank to the Treasury. That issue is one that's general not only to this central bank but to central banks around the world. Central banks around the world are moving toward more arms length dealings with Ministries of Finance. Certainly, the "accord" between the Federal Reserve and the U.S. Treasury over 40 years ago had that in mind. As I understand it, warehousing was proposed by Secretary Bill Simon in a letter to Chairman Burns about a week or so before the Ford Administration left office, and I can't for the life of me imagine why he did that. I haven't asked him yet, but I am going to ask him what was he thinking when he did that. Subsequently, in 1979, there was legislation providing for temporary lending in effect by the Reserve Banks to the Treasury because of so-called liquidity problems having to do with debt ceiling limitations and all of that. That authority was controversial at the time; it lasted for only two years. It was decided that it was a bad idea and Congress let it lapse. Yet warehousing continues as a practice, or at least the authority is still on the books for us to make a loan to the Treasury Department when it was generally agreed going back 80 years that that should happen only under very, very exceptional circumstances. I would take the latter to involve conditions warranting a full discussion by this Committee. So I think it's not appropriate for us to have a standing authority for a line of credit for the Treasury to get us to lend to them up to \$5 billion. And I think we should not authorize this.

CHAIRMAN GREENSPAN. I call on Ted Truman.

MR. TRUMAN. Well, let me deal with the historical issue first. The reason why Secretary Simon proposed this arrangement in 1977 was to establish a mechanism that would allow the United States to participate in the arrangement

As I remember, the arrangement was in effect for a period of a year or two. It was a joint operation that had been negotiated by the Treasury and the Federal Reserve. The System was very much involved, but the Treasury was also very much involved and the arrangement was linked to

The warehousing agreement was very much in that context. It was very well thought out; it wasn't a casual action. The warehousing facility had existed before that time, but it had been more ad hoc. It had existed in similar circumstances in the late 1960s when there also was a special arrangement

The issue of whether warehousing is a loan is obviously a question primarily for the lawyers. This Committee faced that issue in 1990. There was one group who felt that it was a loan and should be regarded as a loan. The lawyers have informed me that it should not be considered a loan. It is a market transaction that's carried off at market rates. Although people can disagree with that interpretation, that has been the interpretation of this Committee to date. That is a matter of public record. That's the majority interpretation of the Committee, and it hasn't been challenged by the majority of Congress or even a substantial minority of Congress.

CHAIRMAN GREENSPAN. Any further issues or discussion relative to the three items I mentioned? If not, let's take a single vote on all. Would somebody like to move their approval?

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Is there a second?

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. All in favor say "Aye."

SEVERAL. Aye.

CHAIRMAN GREENSPAN. Opposed?

MR. JORDAN. No.

CHAIRMAN GREENSPAN. Okay, the "Ayes" have it. The next item on the agenda is updating the Managers' titles in the Committee's Rules of Organization and other documents. A memorandum from Mr. Gillum was distributed a week or so ago. Any questions?

MR. LINDSEY. Mr. Chairman?

CHAIRMAN GREENSPAN. Yes.

MR. LINDSEY. I'm sorry, there was a resounding silence on the last vote. I think that may reflect the fact--frankly, I didn't understand the issue and that's why I didn't say anything. I think we had two "Yeses" and one "No." While I agree it passed, could we at least have some kind of document laying out the pros and cons?

CHAIRMAN GREENSPAN. Was that sent?

MR. TRUMAN. Not the pros and cons. A document summarizing the history was circulated earlier.

MR. LINDSEY. Well, I suppose what I really want to hear is-- I'm asking Jerry Jordan--you said we had a letter outlining what Secretary Simon said. At some point, perhaps next year, I'd--

CHAIRMAN GREENSPAN. Sure, certainly. Ted, why don't you arrange to distribute some information on this? Actually, we've been over this a number of times over the years, and it's an open dispute; there has not been unanimity in this Committee on this. Jerry Jordan has raised these issues before. Perhaps it would be useful to get a set of documents that would cover this, and Jerry you could possibly add a piece of paper to that package.

MR. TRUMAN. Well, we can recirculate the documents. The documentation was circulated to the Committee in 1990; not all of you were here then.

MR. LINDSEY. I was not here in 1990.

MR. TRUMAN. We'd be glad to recirculate that document to the Committee, and we will remind you of it next year when the topic comes up.

MR. LINDSEY. Thank you.

CHAIRMAN GREENSPAN. Okay? On updating the managers' titles, is there any question on that? Is there any objection to it? If not, I will assume it's passed. We now move to our regular pre Humphrey-Hawkins meeting and I will ask somebody to move the approval of the minutes of the Federal Open Market Committee meeting of December 21.

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Without objection. We'll now move to Peter Fisher on foreign currency operations.

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

CHAIRMAN GREENSPAN. Do we have to authorize the oral intervention? [Laughter]

CHAIRMAN GREENSPAN. Questions for Peter? If not, let's move on to Joan Lovett and the Domestic Desk.

MS. LOVETT. Thank you, Mr. Chairman. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions? President Forrestal.



MR. FORRESTAL. Joan, do you have an "add need" tomorrow as well?

MS. LOVETT. For the entire period that begins today--which is the first day of the maintenance period--both the New York and Board staffs estimate a need to add something under \$1 billion for the full period. The distribution of those reserves in the first couple days of the period is such that today is sort of straddling "flat" if you will. Tomorrow is flat to a modest deficiency, although I have to say there's some difference of opinion about the estimates of the Treasury balance, and that difference of opinion is \$3 billion between us and the Treasury. If we are right, there will be a modest deficiency tomorrow; and if the Treasury is right, there will be a more considerable surplus.

CHAIRMAN GREENSPAN. Mr. Syron.

MR. SYRON. Joan, just on that point. This apparently will be germane to the discussion that appropriately we will be having later about how we announce one way or the other. What does the market think we are going to do tomorrow? Is there any perception of the need to stay flat? What would they think we would do if we were staying neutral?

MS. LOVETT. In the market it will depend on where the federal funds rate is. I guess people will assume that if the funds rate were firm we would signal something through inaction--by not providing reserves. However, I think most of them feel that our preference would be to signal something through an assertive action and therefore a funds rate anywhere in the range of 3 or 3-1/8 percent would evoke a draining action on our part. I think that is how people would see something like that conveyed. We are coming off a period where there has been some uncertainty in the reserve numbers. About a week or two ago, the market might even have viewed this maintenance period that we are going into today as a drain period. But given all the variabilities, they might see this as what I would call a modest add. So, for us to drain reserves within the right federal funds context would get the message across, presuming funds are trading at the appropriate level for us to do that.

VICE CHAIRMAN MCDONOUGH. Would we conclude correctly, Joan, that as far as you can see today, if the Committee decided that action should be taken tomorrow, the technical condition of the market is such that it would not create a problem for us?

MS. LOVETT. I think that's correct as far as the technical condition of the money market in terms of getting the right constellation of rates. Yes, I think that's correct.

CHAIRMAN GREENSPAN. Other questions? If not, would somebody like to move to ratify the actions taken by the Domestic Desk?

VICE CHAIRMAN MCDONOUGH. So move.

CHAIRMAN GREENSPAN. Is there a second?

MR. KELLEY. Second.

CHAIRMAN GREENSPAN. Without objection. I think we can now move on to the Chart Show and Messrs. Prell and Hooper.

MR. PRELL. Thank you, Mr. Chairman. Peter and I will be referring to the chart package that's been placed in front of you. [Statement--see Appendix.]

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

CHAIRMAN GREENSPAN. I want to note that revisions, if any, on the forecasts that everyone submitted should be sent to Mike Prell by the close of business next Friday, February 11. Questions?

MR. LINDSEY. I have two questions. The first has to do with personal income numbers. Do you have a breakdown for personal income, a forecast by source of income?

MR. PRELL. Yes. I wouldn't want to put too fine a point on any of the numbers, but we do go through a reasonably detailed exercise.

MR. LINDSEY. Could I get a copy of that breakdown?

MR. PRELL. You're trying to get inside the factory here. I certainly will share with you our major numbers.

MR. LINDSEY. Horrors! [Laughter]

CHAIRMAN GREENSPAN. This is known as the statistical sausage factory!

MR. PRELL. I think one has to recognize that, when we get down to these levels of detail, there are potentially a whole lot of offsetting factors and we don't necessarily have strong convictions.

MR. LINDSEY. I realize that you need more details to develop forecasts. I'm not going to hold you ex post to the forecast, believe me, but I do want to have some sense particularly about whether the functional distribution of income is going to change from 1993 in your forecast. And that's why I'd appreciate more details.

CHAIRMAN GREENSPAN. Interest and dividends versus wages and salaries?

MR. LINDSEY. Yes, and small business income.

MR. PRELL. I can share with the entire Committee in broad terms our expectations in this regard. In personal income growth, we have a substantial step-up in regular salary disbursements. Nonfarm proprietors' income is expected to rise somewhat more than in 1993, but it's not a dramatic change. Wage and salary disbursements are muddled by all that income shifted into 1992 out of the first quarter of 1993. I would caution everyone that our expectation is that once again sometime during this year there will be a revision of the fourth-quarter income figures that will show at least some shifting from the first quarter. Otherwise, we have a significant pickup in dividend income. We've already seen some upward movement in that category in recent quarters; in fact, quite rapid in recent quarters.

Also, we have an acceleration in personal interest income. Again, we are beginning to see, as the rates have bottomed out, some firming in that category. Otherwise, transfer payments will increase pretty much the same as last year.

MR. LINDSEY. What you've told me is that everything is going up. I believe that is true. I would just appreciate seeing the data expressed as relative increases at some point.

My other question was on housing. I had a consumer group allege that a third of all new single-family housing starts are manufactured homes.

MR. PRELL. Beats me. I just don't know.

MR. LINDSEY. Are trailers part of that?

MR. PRELL. That's not in manufactured homes.

CHAIRMAN GREENSPAN. It's not mobile homes; this is housing that is prefabricated at the factory.

MR. LINDSEY. Prefabricated?

CHAIRMAN GREENSPAN. Yes, a lot of that type of construction goes on; I don't know what the number is.

MR. SYRON. They may be including prefabs plus mobile homes, in which case--

CHAIRMAN GREENSPAN. No, I think usually when they talk about manufactured homes they talk about the fact that they build the various structures in a factory and bring them on site for assembly. The trouble with the concept is that it varies in so many different instances as to what degree of prefabrication goes on.

MR. SYRON. This prefabrication total has to be awfully high. You see these structures coming in on the trucks--

CHAIRMAN GREENSPAN. If it's a third, it has to be far more--

MR. LINDSEY. That seems high.

MR. PRELL. Well, if they were including mobile homes, then that might be a quite plausible number. Mobile homes run a quarter of a million a year, so if you tacked on 100,000 or 200,000 houses as prefabs or whatever, that third would be easily attainable. I just don't know.

CHAIRMAN GREENSPAN. You are quite right. It is attainable if they include mobile homes.

MR. PRELL. I'll try to get more precise data.

MR. LINDSEY. The other question I had was on the homeownership rate. If you take out seniors, the homeownership rate declines more precipitously than it does here. But suppose you also took out two-adult households? You mentioned the role of demographics in here.

Knowing the home maintenance that's involved, I couldn't imagine doing it by myself. I wonder if that adjustment would change your conclusions about a rebound in homeownership?

MR. PRELL. Well, I've never seen figures broken out that way. I've seen it by age groups. Are you suggesting that there is a financial impediment to--

MR. LINDSEY. It's more a time impediment or a hassle impediment.

MR. PRELL. No, I don't have any real insight.

MR. LINDSEY. Do you know if data exist?

MR. PRELL. I've not seen them, but there are lots of data in this area; perhaps they have them at the Bureau of the Census.

MR. LINDSEY. I call the phrase "two-adult" households as opposed to "single-adult" households--homeownership by two-adult households.

CHAIRMAN GREENSPAN. There may be information in the housing census on those owning their homes.

MR. LINDSEY. In the housing census, okay.

MR. PRELL. Well, I suspect that somehow there's a cell buried in the data that could address--

SPEAKER(?). There is a cell in the sample.

MR. LINDSEY. Okay.

CHAIRMAN GREENSPAN. What estimate are you using internally for the January CPI change?

MR. PRELL. I think we have about .3 percent for January.

CHAIRMAN GREENSPAN. And the core?

MR. STOCKTON. It's .4 percent for the total CPI.

MR. PRELL. And .3 percent for the core.

CHAIRMAN GREENSPAN. It's .4 for the total and .3 for the core?

MR. PRELL. Yes. Again, there's some uncertainty relating to the seasonal adjustment factors. The latest word we received just a day or two ago is rather encouraging on how aggressive they may be in solving this problem.

CHAIRMAN GREENSPAN. That seemed to be the case about 10 days ago.

MR. PRELL. Well, we thought they were going to go a long way. They may go even further, so that the seasonal adjustment problem will be largely eradicated.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. You were talking about the influence of the length of the workweek on the growth in employment. I have a recollection that when I read Part II of the Greenbook, it said that the workweek in manufacturing had reached a post-World-War-II high of 41.7 hours. Is it conceivable that the length of the workweek may actually fall--so that we might get an even stronger rate of employment growth? It seems as though as an extreme point we might just envision that employers, though they have been very reluctant to hire workers, may do so if they believe that economic growth is going to continue, and they may actually try to shorten the workweek.

MR. PRELL. We thought that a couple of tenths ago! The tendency has been remarkable here. I guess the conventional wisdom might be that at some point workers get tired of putting in that much overtime on a persisting basis. They like it for a while because their paychecks are padded, which makes up for the lean times.

MR. PARRY. It's rather impressive when the length of the workweek is at a postwar peak.

MR. PRELL. The incentives at this point look very strong for an employer. The additional worker means a batch of fixed-cost fringe benefits plus the perceived costs of hiring and possibly firing, including legal expenses. Then on top of that they fear that some medical insurance costs might be imposed that they don't face now. Our expectation is that the workweek is probably going to remain quite high. But there's certainly a risk that it will shift back some and that we will see more of a slant toward employment growth.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Mike, just two technical questions. On this elusive business of potential, there's obviously no clear answer, but do you have any feel for where the likelihood of an error is on the potential? We are getting to really fine points here, but if you were going to guess, is the risk that your point estimate on potential is too pessimistic or too optimistic?

MR. PRELL. I don't see a very obvious asymmetry in the risks. I might note that the CBO, using different techniques to some degree, arrived at the same numerical conclusion as our point estimate--2.4 percent. I think in the Bluebook there was, as I recall, some reference to possible risks that one could perceive. One possibility on the positive side is that the productivity trend is even stronger than we've anticipated, but offsetting that is the languishing labor force participation. As I noted, whether we're going to get even the modest growth in the labor force that we've anticipated is a question mark. So, I can point to risks on both sides and I think we feel comfortable that this is a workable basis for forecasting over the intermediate term.

MR. SYRON. I know you said that when one tries to explain price performance, one can do it with the traditional model pretty much without taking the external sector into account in a different way than it has traditionally been done through the import and export channels. So, you don't think there's very much to this issue of whether there is excess capacity overseas? Your view is that capacity utilization numbers broadly can be looked at now in the same way as they could be looked at before?

MR. HOOPER. With a proviso that as the economy has become more open, these normal channels that are put in the model become more important.

MR. SYRON. Right.

MR. HOOPER. Certainly, import prices have a greater effect as the share of imports has grown over time. I think the share has come close to doubling over the last 25 years. But in addition to the effects of import prices on aggregate demand, there's really not much comparative evidence although we've really only begun to look carefully at the statistical evidence there.

MR. PRELL. President Syron, I want to turn this around slightly and emphasize that we see significant external impacts on the domestic inflation. Our econometric models do incorporate import prices through the aggregate demand channel. Weak economies abroad mean demand for our exports is weak. Other things equal, that tends to damp activity and inflation here. So we think they're very important channels, as Peter was emphasizing. If you look at those two factors, that pretty much captures it as best we can judge.

MR. SYRON. Well, that's right. You are capturing the external capacity utilization effect through those channels.

MR. PRELL. Right.

MR. SYRON. But I was just wondering whether independent of that--thank you.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mike, on the unemployment rate, the new and the old series, am I correct that our rule of thumb is that the new will run about 1/2 percentage point higher?

MR. PRELL. Well, two things are going to happen with tomorrow's numbers. One is the introduction of the new survey of households. Looking at the sample that they used and comparing it to the official unemployment rate, the experience of the past year would suggest that it was almost .5 different. On top of that, these adjustments to the census introduce enlargements in the labor force and unemployment that add almost a tenth to the unemployment rate. So, between the two of them the difference is somewhere between .5 and .6. For the purpose of our solicitation of your forecasts, we suggested a number that was rounded to .6. But this is, as I said, a very uncertain matter. When they move to the full-size survey and there's more experience, we may find that the implicit differential may narrow. And we'll never really have a very clear idea of whether

we have that nailed down after the fact because they won't be continuing a large parallel survey against the old questions.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. I want to get some guidance on how to interpret the last table. You made assumptions about policy without any indication of the appropriateness of that policy.

MR. PRELL. Except that we try to be sensitive to the objectives of the Committee, and so we are swayed. The reason that we put the interest rate increase in, as I noted, was that we thought that at a minimum you folks had expressed a view that the inflation trend should be pointed down; we just have it pointed barely down.

MR. JORDAN. Okay, well that's helpful. For '94 for instance compared to '93--from the very preliminary numbers we have for '93--you have nominal GDP increasing a little faster, actually a lot, but the CPI a little faster. Based on your chart on page 8, I understand your core rate of inflation for '94 would be slightly below this 3.3 percent that you have in here and then for '95 you have a deceleration of nominal GDP, real output, and the CPI--again with the core rate being slightly below. Our objective for each year's inflation is to be below the previous year. Of course, in the last two years ex-food and energy the rate has been above that for the previous year; you've got it slightly above, so we're back to the 3.1 percent. Then when I look at the submissions from the Committee members, I'm puzzled because in the memo we got from Gary Gillum our instructions were that the projections for 1994 and 1995 should be based on the assumption of what in our judgment would be an appropriate monetary policy. Then I see projections of nominal GDP this year with a range up to 7-1/2 percent, a CPI up to 4 percent, and nominal GDP for 1995 with a range up to 6-3/4 and the CPI up to 4-1/2 percent. I have to interpret that as being a submission based on somebody's assumption of what an appropriate monetary policy would produce. Is that your interpretation?

MR. PRELL. That was the instruction that went out to the Committee members, and I thought I would not try to read the minds of the Committee. But let me just say--

MR. JORDAN. But you said you did read the minds--

MR. PRELL. Well, one possibility I can imagine is that Committee members may feel that there will be developments in food or energy prices that may obscure an underlying trend and that the underlying trend is better than these numbers may suggest. But I don't know, and I didn't interrogate each person to find out exactly what his or her objective function is and what special factors may have played a role in these numbers.

MR. KOHN. Mr. Chairman and President Jordan, I'll be addressing this issue a little bit in my own briefing when we talk about whether the 1995 forecasts should be submitted to the Congress at this time. I think your point, President Jordan, is well taken in the sense that there would be a temptation to interpret the 1995 results as what the Committee members on average desire to happen. Although the lags of policy are long, one assumes that they're not so

long that you couldn't take some actions in early 1994 that would move you a good ways toward where you wanted to be in 1995--given the constraints of where you are starting and the underlying structure of the economy, which give you sort of a policy frontier as to the best you can do.

MR. PRELL. We didn't look at these numbers before we completed our forecast; in fact, we didn't have many of them before we completed the forecast. When I looked at them a day or so ago, I said our assumption that the Committee might consider a baseline with just a slight down tilt in the inflation rate relevant to their discussion didn't seem to run head on into the forecasts you submitted. So, I felt more comforted than anything else by this in terms of whether we were presenting to you a forecast that was generally in the ballpark you were thinking about.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. Normally in an economic expansion, developments in the real sector are mirrored at least to some extent in the financial side. And this report is relatively thin on the financial side. Yet, we tend to explain rising interest rates in an expansion by rising demand for credit, loan demand, and that sort of thing. Is the lack of very much on the financial side simply a continuation of all the dislocations and distortions that we find there, or is this going to be an expansion without very much of an increase in commercial loan demand, or what is the complication?

MR. PRELL. Well, our expectation is that as the financing gap of the nonfinancial corporate sector widens, as I indicated, there will be an increased need for credit by business firms and a considerable segment of that will be satisfied in the shorter-term markets, including bank loans. We have only a rather moderate increase in bank credit. You have a flow of funds forecast that portrays these flows. In the household sector we're anticipating, as I said, that the growth in borrowing will exceed the growth in income. We are anticipating that consumer credit will continue to grow fairly rapidly in the near term, but that it will trail off a bit as the intensity of demand for durables wanes. Mortgage credit will continue to grow apace, in line with our forecast of residential construction activity. Otherwise, we have the Federal government's borrowing requirements tailing off with the deficit, and State and local governments continue to borrow significant amounts of funds to support the investment that I referred to. So, overall, we have debt growth running pretty much in line with nominal income.

We don't see great strains developing over the next two years in this scenario. We do see real interest rates increasing slightly, but at the long end we have nominal rates coming down a little in the near term and then backing up slightly and in general remaining close to their recent levels. This is a rather mild experience compared to prior cycles. Maybe that calls into question whether we've got this right, but we do see fiscal policy in an unusual contractionary mode. That's one factor here, and it will be a while before the external sector is exerting a lot of positive force on the economy. And with the pent-up demands probably relatively limited coming out of a mild recession, we think we'll work our way through those pretty rapidly; we've already gotten to a period of high-level housing activity. We



don't think we're going to have to see sizable increases in interest rates in order to keep the economy on a growth path that is consistent with some slight downward pressure on inflation.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. I answered my own question, so I withdraw.

CHAIRMAN GREENSPAN. You gave the right answer?

MR. LAWARE. Yes! [Laughter]

MS. PHILLIPS. At least the one you wanted!

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. With respect to the issue Don Kohn just raised: Is it a given that in the February Humphrey-Hawkins report we give the forecast for the next year and are we required to do that?

CHAIRMAN GREENSPAN. No, we are not required to do so and I think that at some point we've got to decide whether in fact we will do that.

MR. KEEHN. I move that we do this year only unless we have to do 1995.

MR. PRELL. Well, this was intended to be a topic for discussion.

MR. MCTEER. Maybe do last year! [Laughter]

CHAIRMAN GREENSPAN. Don, when are we scheduled to discuss that question?

MR. KOHN. With the long-term ranges.

CHAIRMAN GREENSPAN. So we can decide after we do the long-term ranges.

MR. KOHN. Well, I was going to include it as part of my briefing and it's up to you after that!

CHAIRMAN GREENSPAN. The answer to your question is that we have not been required to do that. But the issue, as Don may have indicated, is largely an endeavor to respond to the Senate Banking Committee's question of whether the M2 targets are ceasing to be useful. If they are, the Banking Committee is looking for a vehicle which would enable them to make judgments about what it is we are doing, which is an appropriate question on their part. One endeavor to respond to that is to go out another year in our forecasts; that's the main reason that's in here for Committee consideration. This has, however, been put together tentatively pending the discussion by the Committee of whether we want to do this. But should the Committee decide to do so, if we didn't have it in the report, then we'd be in trouble.

MR. PRELL. I think simply having the numbers may give some additional context to the discussion.

CHAIRMAN GREENSPAN. Any further questions for the gentlemen? If not, would somebody like to start our roundtable? President Keehn.

MR. KEEHN. Mr. Chairman, with regard to the national economy, in terms of growth at least for this year our forecast is really very close to the staff forecast, especially for the main sectors involved, and any difference is really not worth talking about. Our overall CPI forecast is a little lower than the Board staff's; part of that I think is due to seasonal adjustment factors. Offsetting this, our core rate of inflation is just a little higher than the staff forecast, so there is a little difference in our expectations with regard to energy prices.

With regard to the District, the level of activity and I think the general tone of things and the underlying strengths are better now than they were at the time of the last meeting. And despite the really miserable weather that we've been having in the Midwest, so far I don't sense any dropoff in the level of underlying activity this year of the magnitude that we had last year. Admittedly, it's early to be coming to this conclusion, but certainly in the Midwest we've not had the same kind of dropoff.

The auto business, of course, continues to lead the way. Production schedules for the first quarter--it's hard to believe these numbers--have been set some 15 percent higher than the levels of last year or little more than that, and of course last year was a strong comparative period. So the first-quarter production is going to be very, very heavy. And in fact for some models, manufacturers are now experiencing some capacity constraints.

The outlook for the heavy truck business has been improving. Producers are raising their forecasts some 5 to 10 percent above last year's sales and production levels, and again last year was a pretty good year. And related to this, the truck-trailer business is reported by one company to be absolutely on fire. The shortage of truck shipping capacity is now a decided problem. Shippers have become concerned and are pushing the large companies to add to their equipment and also to hire more drivers.

Despite the adverse growing conditions last year in the ag sector, farm incomes were good. Certainly farm attitudes coming into the new year are positive, and this is reflected in continued strength in the production and sales of ag equipment. The production schedules for one large manufacturer have been raised some 16 percent above their earlier expectations for this year.

Retail sales are surprisingly strong. Christmas, of course, was just terrific. Sales limitations, at least for some stores, resulted from the inability of suppliers to deliver and not from resistance from customers. Again, despite the miserable weather, we really have not seen as adverse an effect on retail sales as we might have expected. And to state the obvious, sales of snow shovels and batteries have been phenomenal!

In talks with representatives of various companies, I thought I'd mention three differences from what I noted the last time. First, despite higher sales levels--and I think Mike Prell had a chart that demonstrates this--inventories remain under very, very tight control. One large manufacturer reported that this is the first time in the history of their company that they've had a significant increase in production and sales and yet have not had an increase in inventories. They are obviously managing their inventories very carefully. But they are managing them on an absolute basis and not on a relative basis. Second, while the now almost macho "I'm not hiring any more employees" statements continue to prevail, this time there were two heavy manufacturers who said they are adding employees and this is a sharp shift from their earlier "not ever" statements. Third, I'm sensing some price pressures out there, and I think it's more now than just steel. Several contacts reported that the prices for their purchased products are edging up just a little. Also, in terms of their prices, though marketplace pressures remain competitive, they said they have been able to raise some prices and those increases are sticking. That is by no means prevalent nor are the increases large, but at the margin a subtle change seems to be occurring. So, I think the outlook here is a little different than it has been.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, while economic activity is healthy in most of the Twelfth District, weakness in California persists. Payroll employment, usually what we consider to be the most reliable short-term indicator of economic activity for a state, continues to decline. However, there is a growing body of evidence that suggests the California economy is finally bottoming out. Following earlier losses, real retail sales have stabilized during the past year or so and construction employment seems to have bottomed out as well. We're also starting to see some encouraging signs in the housing sector, although it's still too early in our view to tell whether this is the beginning of a true housing recovery. For example, the number of home sales has been rising for the past several months and there was a surge in sales in the month of December. The number of home permits also has risen in the last two months, although it is still very low by historical standards. However, when we looked at what other forecasters are saying about the California economy, no one expects any significant improvement during the near term. Most forecasters expect the California economy to be flat during the first half of this year with only very minimal growth during the second half of the year.

Preliminary damage estimates from the earthquake put the property losses at \$15 to \$30 billion, depending on who is making the estimates. This makes it one of the worst U.S. natural disasters on record. Still, the quake probably will not change significantly the overall pace of economic activity in the Los Angeles area. In the San Francisco area after the Loma Prieta Earthquake, earthquake-related reductions in business activity were largely offset by demolition, construction, and engineering activity associated with rebuilding. President Clinton has asked Congress to authorize \$9.5 billion for earthquake relief and the California government ultimately will contribute to the rebuilding efforts as well. It's a little difficult to estimate how much money will be coming from the state, but the experience we had with the 7.1 Loma Prieta earthquake in 1989 suggests that it will cost the state between \$1 and \$2 billion.

If I can now turn to the national economy, the strong growth in the second half of last year certainly, as we all know, has narrowed the gap between actual and potential GDP and has brought unemployment down close to most estimates of the natural rate. We're basically in agreement with the Greenbook forecast for real GDP growth in the neighborhood of 3 percent for 1994 which, of course, would narrow the gap further. I was struck when Mike Prell referred to the stubbornness of wage inflation in Chart 8. Growth in the employment cost index as was indicated by that chart has been stuck at 3-1/2 percent for quite a while. At current interest rates, it seems as though we would not be able to expect any further progress in bringing inflation down in 1994 and clearly not in 1995.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Little has changed in the Eleventh District economy since our last meeting. Growth remains in the range of moderate to strong and employment growth is strongest in the construction and durable manufacturing sectors. For context, job growth has been positive for the last 11 quarters and for 26 of the past 27 quarters. To echo Si a little bit, we do have some reports of labor shortages, particularly in the trucking industries and in some construction trades. There is also some evidence of upward pressure on construction prices, but the low level of interest rates seems to have offset that in keeping housing affordable and fostering robust housing performance in the District.

Regarding the national economy, we're very close to the Greenbook projections; we're just a little stronger on real growth, I believe, but less on inflation.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Thank you, Mr. Chairman. Well, conditions are legitimately better in our District. The region's economy shows genuine improvement; I think it's cumulating. The only state that's an exception to that is Connecticut. Manufacturing--particularly in durables, products that are tied to autos and capital goods--looks pretty strong. Exports are still soft, however, and medical equipment is one area where you might expect this. Producers of medical equipment indicate that low ticket items are still doing all right, but that MRI machine orders, for example, are off about a third, which may be a good thing in the long run. Retailing is more mixed, but again it follows the national pattern with autos and high-tech goods being better and some retailers in soft goods feeling that things are relatively weak. The residential real estate market is, I would say, very strong. In fact, realtors tell us that in certain price categories in the low end of the market inventories are getting quite thin now. For New England, given the time of year, there's a lot of construction activity going on that hasn't been reflected in prices very much yet. But we will have tight labor conditions in the building trades this spring, particularly since there are so many roofs to be replaced, ceilings to be put back in, and other repairs made necessary as a result of the cold weather. Other than that, there is some improvement in employment. Prices generally are well behaved except for items that Si mentioned--shovels and salt, where prices can be over \$1 a pound for salt.

As far as the U.S. economy goes, we tend to agree quite a lot with the Greenbook, but I must say we're somewhat more optimistic about this 1994-1995 period. We expect output to be somewhat stronger in 1994, though not enormously so, which is also reflected in some greater attenuation in the unemployment rate. We also are slightly more optimistic on prices, but that is because at least in the short run I think we're more optimistic on potential. Well, that's where we are. Thank you.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. The tone in the District is positive, and I would say tentatively optimistic, going out for the balance of the year. Except for commercial real estate, most sectors and areas of the District are growing, and the growth appears to be self-feeding, although the District is still growing more slowly than the nation as a whole. One of the indicators I use is how vociferously business people complain. I was visiting with a group of 20 or 25 business people in central Pennsylvania a couple of weeks ago and didn't hear any complaints. It was hard to keep them focused on talking about the economy. There is a sense that an increase in interest rates is almost a foregone conclusion, all of which I interpret to mean that things are going well and they just don't want to talk about it very much. It's that Pennsylvania Dutch reticence, I think, on their part. There still is a reluctance to hire, but hiring is going on nonetheless in many parts of the District. I, too, have picked up a hint of perhaps a little more in the way of price increases-- particularly in prices paid by business firms. It's not a lot, but there wasn't much of a hint a few months ago.

As for the nation as a whole, I think the momentum of last year has spilled over. I don't think the type of slowdown we saw a year ago is very likely. The 3 percent growth rate or thereabouts seems about right. My sense is that if there is any asymmetry in terms of the risks to the forecast, it is probably that the economy may grow faster rather than slower than that 3 percent. I have no real quarrel with the rest of the staff's forecast.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Well, the moderate expansion that we've been experiencing appears to be continuing in our District. Looking at some of the sectors, retail sales have been quite good since Christmas with the exception of apparel and particularly women's apparel that required a lot of heavy discounting over the holidays. Retailers are generally keeping their inventories quite lean; they are waiting for indications of continued consumer interest before they build up their spring inventory lines. If sales don't taper off, many of them are going to find themselves with stocks that are actually too low.

Tourism is fairly healthy around the District with the exception of Miami, which is still suffering from bad publicity. In production, our latest survey would indicate that compared to last month things are looking quite good currently as are expectations for six months from now; that's with respect to production, volume of shipments, volume of orders, and the backlog of orders. In the mining sector, the rig count is up to 119; that's up two dozen from a year ago and that's almost exclusively in the natural gas area.

In the real estate area, residential construction is quite strong. Reports of possible overbuilding have completely vanished, lumber prices are now adjusted for in many construction contracts, and sub-contractors are still in short supply. Multifamily housing is also improving and occupancy rates are edging somewhat higher. But new development is practically nonexistent at this point. On the commercial side, I think we've probably hit the bottom and vacancy rates are beginning to fall a little. But, again, new development is almost always build-to-suit with no speculative development apparent at all.

On the employment side, the Sixth District widened slightly its lead in employment growth over the nation in the fourth quarter with strength in construction, services, trade, and government. Job losses in manufacturing have stopped almost completely and some gains are evident, particularly on the durables side. I might mention port activity; it's apparent at least in New Orleans and perhaps in some of the other ports around the District that NAFTA is beginning to have a positive effect already.

On the price side, for the first time in a long time our directors have talked a little about seeing some price increases. This was basically in concrete and lumber, so it's evident at this point only in housing and construction more generally. Where there is import competition, prices seem to be feeling no pressure. But I thought it was interesting that we got those reports for the first time in many, many months. I would say that the sentiment in the District is really quite good and what's interesting to me is that there no longer is this expectation that growth will be very robust. There is now a recognition that growth is going to be more moderate and perhaps more stable over the period.

With respect to the national economy, we don't really have any differences with the Greenbook forecast.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, our District continues to grow at a very steady pace on the whole. Within the District, though--as I mentioned I think in November and I'll say it again today--there is a little more of a boom-like atmosphere in the western and the northern portions. There is very strong housing and a shortage of labor in that industry. Manufacturing is doing better, especially in the nondurable goods area. The slow areas are energy, except for natural gas, which of course is a little more on a roll right now. Also, we think we will have modest activity in the agricultural sector because of the floods and the effects from that.

At the national level, our view is that inflation may run a little higher than in the Greenbook forecast for a couple of reasons. Our GDP projection is a little stronger than the Greenbook's, especially in the second half of the year. But also we have estimated a little lower unemployment rate and we have a little higher, I guess, natural rate of unemployment in our thinking than the Greenbook and that is generating added price pressures as we see it in our projections. I would add to that on the other side a point that may be of interest in terms of the amount of liquidity that is in the system. In talking with some fund managers, it seems to us that an

attitude is developing--almost a bandwagon effect--in terms of the flows of some of these funds into investment opportunities they are seeing. We are hearing a lot of this going on--emerging markets and those sorts of things--from these fund managers, and we take note of that. I think it is having some impact on attitudes in the economy. That, Mr. Chairman, is how it looks.

CHAIRMAN GREENSPAN. Thank you. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, at the last meeting I talked a little about the differences between the rich and the poor, and I focused primarily on how taxes would affect the rich and how that might affect our forecast. I got some compliments, so at the risk of discouraging all praise, I thought I'd try it again and this time focus on the other end of the spectrum--the bottom 99 percent of which I am clearly a part. The thesis here is that demographically different people have different tolerances for borrowing. The two groups that I have separated out were individuals over 65, who are unlikely to incur additional debt for life-cycle reasons, and those in the top 1 percent in terms of income, which is roughly people making over about \$225,000. I would imagine that debt may be a convenience for them but it is not subject to their economics. The data that I have come from a number of sources. Generally, they are from the P60 series the Labor Department puts out and also some tax data.

The first chart in my handout, which I think was distributed, shows that we have a trend that has developed over time where the share of income going to the old has risen since the end of World War II; it has more than doubled. And the share of income going to these two groups, the old and the rich, has just about doubled.

CHAIRMAN GREENSPAN. Netted out or what?

MR. LINDSEY. Netted out--taking out the old rich.

CHAIRMAN GREENSPAN. So, it's the old plus the young rich.

MR. LINDSEY. It's the old plus the young rich. Actually, the way I did it was the rich plus the poor old. [Laughter] That's because getting the data was a bit easier that way.

MR. LAWARE. Could you call us the "no longer really young" instead of the old?

MR. LINDSEY. John, you're not in this group!

MR. KELLEY. You've got to get politically correct!

MR. LINDSEY. That's right. Well, we struggled with that labeling. I started with the "middle-aged middle class" and that didn't sound too good. So, we ended up calling it those likely to borrow of the non-rich, non-old.

The next chart shows the debt service adjusted for Chart 1 which is the rise in the income share of the old and the rich. The bottom line with the triangles on it shows the regular series that is presented by the staff and the top line shows the adjusted series. The adjustment seems to make some difference, particularly in recent

trends. If you apply debt service to those of us who actually have to borrow, it's quite high. The same is true on the debt outstanding share, on the next chart, which again assumes that debt is being borne by those who have to borrow. It's now up to 110 percent of disposable income, whereas the more standard measure puts it around 75 percent. So, I would say that those who actually have to borrow to expand their spending are probably more constrained than the data that we've looked at indicate. I might say that these are not publication-quality analyses, but what I did to see if my thesis worked was to try approaching it from an entirely different angle. So, rather than use P60 data, my next approach was to go to the NIPA data and see if that showed the same effects based on a functional distribution of income.

The first thing that's important to realize is that the NIPA data do not mean income earners actually get the money. I convince myself of that every year when I do my taxes, when I also compile for my wife a breakdown of our income and where it was spent. I find that useful because I always tell her we never have any money but we end up managing to spend lots of it and she never believes me. So I present the actual breakdown and she is forced to concede the facts. The interesting point that I want to make here is that not all NIPA income is actually spendable by households, and that's particularly true with regard to interest and dividends. For example, the income that accrued on your 401K plan is counted as interest and dividend income to you, but you really can't get at it. And that actually is a very important phenomenon in the economy. So, I broke down the NIPA income into a number of areas. Cash income--excuse me the chart says "cash" but it should say wages--wages are basically all paid in cash. Only about 8 percent is received by the rich and 3 percent by the non-rich elderly. So, 89 percent is received by those of us who are likely to borrow. Of interest income, only about 45 percent actually finds its way to the households where it can be spent. And the way I got this number was to look at the ratio of what is reported on tax returns to what is reported in NIPA. The tax return data probably are fairly reliable at the moment, since paying institutions are now required to put out a statement for everything over \$10. So, only about 45 percent of interest in the economy actually is received by households.

CHAIRMAN GREENSPAN. Excuse me, the Commerce Department does break that down into imputed interest and dividends--interest imputed at random from the cash flows, so they are using the same data.

MR. LINDSEY. They are using the same data, yes. I had to get the income for the elderly too, so I had to go back and look at tax return data where people used an exemption for those over 65; that flagged the returns to be used in the tabulation. It turns out that only about 14 percent of total NIPA interest is actually received by people likely to borrow. The same is essentially true of dividends--16 percent--and of small business income at 27 percent. The income retained by small businesses includes such things as inventory appreciation, capital consumption allowances, what have you, which while income really can't be eaten or used to pay a credit card bill. That's why the distinction is here. The reason I think that's important is that what we're seeing is a big change in the functional distribution of income away from wages, particularly in the last two years. For a comparison period, I took the change in personal income from 1983 to 1988 which was of course the heyday of Reaganomics when we all know workers were being stomped on by the capitalists who were



in power! Still, in spite of that, 56 percent of all the increase in personal income was paid in the form of wages. If you turn to the last chart, of the increase in personal income in 1992 and 1993 only 47 percent was paid in wages. During 1993 that fell to 38 percent. And even during the fourth quarter of 1993, when everyone was saying how good the economy was and optimism was rising, only 38.4 percent of the increase in personal income actually was in the form of wages. So, the way I would talk about the last three charts is that the non-rich, non-old live paycheck to paycheck, quite literally. That's where all their income comes from. Remember, virtually none of the capital income or business income goes to them. They have to live on their wages and that wage share is also declining. So, whether you look at the aggregate numbers from NIPA or at the aggregate numbers from the P60 series, the middle-class, middle-aged people who are borrowing are really getting their income squeezed. What that would suggest to me is that unless the trends change and employment picks up, the capacity of households to take on ever more debt is going to have to stop at some point, and perhaps sooner than we think.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. My report is going to be pretty bland after that, but developments since the December meeting have simply reinforced my view that the economy is moving ahead nationally at a good clip. Also, the recent national data show that the economy finished 1993 on a high note, and it seems clearly to have entered the current year with a lot of momentum.

In our District our directors and other business contacts report that economic activity is continuing to strengthen and improve pretty much across the board. There may be a little more strength in the southern part of the District--in the Carolinas--where manufacturing is dominant and a little less in the northern part of our region where defense and other government activity is more dominant. But, clearly, the District is in good shape overall. In their comments at all three of our board meetings in January several of our directors described conditions in their respective local areas as booming. Even the Charleston, South Carolina area, for example, which has been hard hit by naval cutbacks is described as doing reasonably well under the circumstances. This is not to say that everybody in our District is happy about the present and optimistic about the future, but I think it's fairly accurate to say that the overall tone of the information we're getting is about as good as it ever gets on average in this business. The outlook and attitudes toward at least the near-term future among most of our business people are pretty optimistic. I don't think they are expecting any significant slowing in activity. The severe winter weather in recent weeks has been disruptive, to put it gently, and it may have suppressed activity a little. But I think much of that loss is expected to be temporary and made up in the months ahead. Also, most people around here don't deal with the sub-zero temperatures very well, so plumbers and body shops have been doing quite well lately along with cab drivers and electric utilities and franchises that deliver pizza!

As far as the national situation is concerned, the Greenbook projections for 1994 certainly seem reasonable to us, not that they need our blessing, but they impress us as fully defensible. We are a

little stronger on real GDP growth and a little lower on inflation. Our projections have GDP growth at 3.2 percent and a CPI of 2.9 percent. I would say that the risk of error on those numbers--I'm not sure my staff would agree with me on this--is probably tilted to the up side.

I don't want to jump the gun on the policy discussion again, but I do need to say just by way of explaining--

CHAIRMAN GREENSPAN. Wait a second, what do you mean?  
[Laughter]

MR. KOHN(?). He read the memo!

MR. BROADDUS. Yes, I did read the memo. Just by way of explaining our projections and in particular our projection that inflation may be about 1/2 point lower than the Greenbook is expecting: We base that projection on an assumption that the Committee will move quite quickly to do whatever it needs to do to keep actual inflation under control and keep inflationary pressures from rising significantly in the months ahead.

CHAIRMAN GREENSPAN. That's pretty good! [Laughter]

MR. BROADDUS. I ought to stop there. But just one final statement: I really think the System's anti-inflationary stance has done a great deal to increase our credibility in recent years, and in terms of the forecast I think it's quite likely that that will give us a better breakdown of nominal GDP between real growth and inflation if we follow through.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Thank you, Mr. Chairman. Business conditions in the District remain quite positive and the strength is widespread both by sectors of the economy and geographically. I'm certainly hearing fewer comments of concern about the future or about the fragility of the current expansion; that has diminished. One aspect of the economy that I have commented on before and I'll just reiterate briefly is that we have had steady employment growth and we have low unemployment rates in most of the District states now. That tends not to be remarkable in heavily agricultural states, but we have low unemployment rates in most of the major metropolitan areas as well, which I think is a more significant way of looking at it. And we are hearing a variety of reports of labor shortages now--not at the unskilled end of the labor market, but at levels above that clearly there are growing reports of labor shortages. That does not seem to have translated into discernible wage pressures yet. But that seems to me almost inevitable. At some point along the line here one of the reactions is going to have to be some wage pressures both to attract, but maybe more importantly to retain, some of the workers who are in short supply.

With regard to the national economy, in looking at the Greenbook and listening to Mike Prell's comments, I took the staff forecast to be a sort of "more of the same only less so" forecast. What I mean by that is that the economy grew over the second half of the year somewhere between 4 and 4-1/2 percent in real terms. If we

get away from disturbances because of the weather and auto schedules and so on, I conclude that we're going into 1994 with a good deal of momentum, more momentum probably than the Greenbook forecast seems to incorporate. So I feel pretty good about the state of the economy, but that also implies that at least under current circumstances we're not going to bend inflation down further from here.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. In spite of my own doubts about the matter, I consistently run into the expectation throughout our District that eventually it will thaw out! It's an the area of the country where severe winter weather seems to have absolutely no negative effect on people's mood and outlook.

We also hear the stories of shortages of certain classes of labor and the difficulty of hiring. Some of our major manufacturing areas are reporting under 4 percent unemployment. I hear the same expressions of reluctance to hire that others apparently still are hearing although Ohio, for instance--whatever the credibility of the data--showed a 3-1/2 percent increase in employment last year. So, they "reluctantly" hired a lot of people. The last time I saw both these kinds of numbers and this rather pervasive mood of "everything's okay and getting better" was when I lived in southern California during the roaring boom in the latter 1980s before the bust. Si has already mentioned a lot of the region-specific and the sector-specific developments that also relate to our area. I'm not going to go through those in detail. One thing that I could add on the motor vehicles side, after calling around to various plants in the District, is that they are estimating that the weather reduced production by some 60,000 to 70,000 vehicles in the quarter and not all of that will be made up. Industry contacts tell us that some of the plants, by running overtime, can make up lost output by the end of March; others are telling us that their production schedule for the quarter was already such that they are not going to be able to make it up; they view these as permanent losses in production. Some of the plants were shut down totally for as much as four days. All of the lenders in the District are talking about very strong credit demands--commercial, consumer, and residential. I haven't heard any reference to the notion of a credit crunch in some time now.

On the national side, my forecast is that the numbers for the last two years will be revised substantially and that once we get that revision three or four years from now and look back on the period, a lot of these intra-year patterns will go away. A smoothing process will indicate that we didn't have a weak first half last year and a boom in the second half, but more or less that the economy in the last couple of years has grown somewhere in the 3 to 4 percent range, and that won't look quite so odd. When I look at year-ago expectations about 1993 and then look at the numbers that we had on balance, abstracting from the intra-year pattern, real output growth was about what was expected a year ago and the CPI came in about as was expected. Yet during the course of the year, the numbers for 1994 generally continued to show an upward revision for inflation. And now the numbers for 1995--we've only had a couple of forecasts that go out to 1995--are already showing higher numbers. In fact, the numbers we now have for 1995 are higher than the numbers we had for 1994 a year ago; 1993 similarly was progressively moved up. So, it's a pattern

that implies becoming accustomed to accepting no further progress on inflation, and I find that very disturbing. If those numbers are accurately based on current policy or the assumption about what policy will be, then I think the conclusion would have to be one of two things: Either we have changed our objectives with regard to inflation or we have to change our policies. Otherwise we're going to send the wrong message to people who look at these numbers to gauge the Committee's real intent.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Our outlook for real growth next year is somewhat more optimistic than that of the Greenbook, but in the case of inflation our outlook is considerably more pessimistic. Nearly all of the macroeconomic indicators have become increasingly favorable and point to a strong and sustainable expansion. But the down side of this, of course, is that both capacity utilization and unemployment are approaching levels that raise concerns about how long the economy will stay in the disinflationary mode. In addition, recoveries in the economies of U.S. trading partners as indicated in the Chart Show's alternative scenario might also generate demand pressures that would lead to price increases.

Like the national economy, our District economy continues to improve and in some sense has been outperforming the national economy, at least in terms of employment growth. Many firms have reported increases in sales and employment. In fact, in at least two parts of the District that I've heard about recently, northwest Arkansas and northeast Mississippi, labor shortages have curtailed industrial expansion. District retailers report good-to-strong sales of most types of merchandise during the holiday and post-holiday periods. Single-family home building is unseasonably strong in many parts of the District, largely because builders are scrambling to start and finish projects that were delayed in the latter half of 1993 because of wet weather. After several years of stagnation, multifamily housing construction appears to be on the upswing, as apartment occupancy rates and rental rates edge up. And as is the case nationally, sales of new and existing homes have been relatively strong lately and average selling prices continue to rise. In agriculture, soybean stocks nationally are down 49 percent from last year and corn stocks are down 62 percent. The stocks/use ratios for these crops are only 7.6 percent and 10.4 percent respectively, which are the lowest levels we've seen since the mid-1970s. So, clearly, in those areas we are quite vulnerable to any kind of weather shocks. One final comment: Loan demand both nationally and at the District level seems to have increased. At a number of our large District banks, we have reports of a significant increase in all major categories of loans during the last two months of the year relative to the previous two months.

Let me just end up with some comments about inflation. We project that the CPI will move up sharply in 1994 and will be even higher in 1995. Indeed, there may be some early warning signs that the economy's disinflationary course has already come to an end. When its volatile food and energy components are removed, the CPI rose at a 3.4 percent rate during the last three months of 1993, up significantly from the 2.4 percent rate of increase during the previous six months. The CRB futures price index is up by nearly 13

percent from its level a year ago despite a very significant decline in energy prices. An even sharper increase is seen in the Board's experimental commodity price index when the food and crude oil components are omitted.

In addition, long-term interest rates have risen somewhat from their October 1993 lows. In our view, measured either by the growth rates of M1 and reserves or the ex post real federal funds rate, the stance of monetary policy has been very expansionary for about the last three years, and we weigh this sustained stance of monetary policy heavily in making our forecast of longer-run inflation trends.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, my sense of the course of events is in flux. As far as the strength of the economy goes, I had been thinking up through the time of the last meeting that we were indeed going to have a strong fourth quarter but that we would be looking at some substantial moderation after that. The fourth quarter now does appear to have come in meaningfully stronger than I had thought and that seems to be accompanied by considerably more momentum than I had anticipated. The new data that we've been receiving recently look quite strong to me. The purchasing managers' report across all of its components looks strong--in new orders, the deliveries stretching out, and the prices paid. We also got very strong housing numbers and very strong new orders data. In short, the new data suggest to me that the economy has more momentum than I would have thought; and in fact it strikes me that it wouldn't take a whole lot for me to begin to use the word that I've heard a couple of times in this go-around--an emerging "boom."

There are a couple of concerns that worry me. Number one is that consumer debt seems to be accelerating, and this is at a time when the ratio of consumer debt to worth is still at an all-time high. It never came off; it just flattened out. The debt service rate came down with lower interest rates but not the level of absolute debt. And if we get a surge from here, we are going to be setting all kinds of new records for the ratio of debt to income. That is of particular concern as it would relate to the data that Larry Lindsey gave us a while ago. That's pretty worrisome in my mind. Also, we seem to me to be experiencing a rather euphoric stock market; it's up 11 percent in the last four months and 6 percent since our last meeting, for goodness sake! These kinds of developments give me concern that we could possibly be heading for something that might look distressingly like a bust somewhere down the road.

On the inflation side, if we look at things with a fairly long-term view, they still look pretty good. But like Tom Melzer--I had written down in my notes a couple of things he just mentioned--I have concerns. Number one is that fourth-quarter CPI of 3.4 percent, which looks a bit ominous. Also, in a world full of capacity, just about all of the commodity price indexes that I've had access to, both domestic and international, seem to have a rather persistent upward drift. I certainly wouldn't try to say that an inflationary surge is upon us or is inevitable. But as John Wayne used to say in his Indian movies, "There's dust on the horizon!" [Laughter]

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Well, it seems to me that the fundamentals of housing, autos, capacity utilization, new orders, inventory levels, and increased loan activity of banks are all pointing toward continued growth, even stronger growth than we previously expected. But the tax shock and the health care uncertainties are still unknown and unmeasured and are probably the governors which will keep the economic engine from running amuck. Perhaps even corporate re-engineering is now ho-hum, at least for those not getting the heave-ho. [Laughter] Inflationary pressures may currently be masked and the resulting euphoria in the financial markets probably has bloated stock and bond prices beyond rational values. That may be built more on profit expectations than on actual profit performance. In short, I think we are now in a period where the expansionary forces in the economy seem to be emerging as the reasons for caution rather than the contractionary forces that I had reasoned were fundamental before. Moderate growth seems to be the consensus forecast, but the possibility of inflationary behavior triggered by inflationary expectations in terms of anticipatory price increases rather than demand-driven price increases creates for me a mood for caution.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Thank you. The sustainability of the recovery certainly seems considerably more assured now. Leading the way are housing, autos, durables, clearly reflected in the IP index. People are spending and they're dissaving to do so. Inventories are lean so there probably will be no surprises on the supply side. Productivity improvements can still provide opportunities for competitiveness and growth. I think most encouraging has been consumer and business confidence; even the earthquake and the cold didn't provide much disruption. So there is less chance that we're going to have another fading spell, and I don't think that this recovery now can be considered as fragile as it was a year ago. At the same time, strong financial markets are continuing to provide financing, and banks are better positioned to contribute. We are even making some progress on the debt side. The risks and structural adjustments facing the economy are still there, but I think it's fair to say that no new insurmountable ones are appearing. People may have gotten a bit tired, as John LaWare mentioned, of talking about corporate restructuring and defense restructuring, and the pace of balance sheet restructuring appears to have slackened. On the international front, there's some glimmer that the economies of our major trading partners are beginning to bottom out, so we may see some improvement there. The labor market is still showing some signs of stress due to the layoffs and re-engineering, resulting in part-time and temporary employment and downward mobility. On the fiscal policy side, I think the focus on the deficit may well contain many of the new initiatives; even the health care proposals now appear to be open to negotiations. So, I think there's a bit less to fear there, and there were no great surprises in the form of major new expensive initiatives in the State of the Union message.

On the inflation front, the recent numbers certainly look good, particularly the PPI and the deflator, and I think the Committee should be very pleased with that. Progress on the underlying rate of inflation, while it may still be feasible, certainly is going to be at

a reduced pace at best. I'm a bit concerned, though, that we are likely to hit a stone wall over the next few months with respect to inflation, given the problem with the seasonals, obviously, and short-term supply distortions. Many of those were mentioned around the table with respect to labor shortages and supply shortages in areas where demand is particularly strong. We may well start to see commodity price increases working their way into the PPI and CPI. I think that we're now seeing some major risks on the inflation front. Certainly, the Greenbook acknowledged the food price increases and the risks with respect to the upcoming harvest, which Tom Melzer mentioned in particular. On the energy front, it's hard for me to see that we should be depending on a cartel to keep the CPI in check. And, of course, precious metals' prices have been elevated. Certainly, the money numbers are difficult to read but I agree with those around the table today who mentioned that credit has picked up, so I think all of these things highlight the risk we now see on the inflation front.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. Well, after some extended period of a very flat regional economy, economic activity in the Second District has actually been improving at a moderate pace for about the last three or four months. The December establishment survey showed modest job gains in New York State, New York City, and New Jersey. Over the October-December period, personal income tax collections, which as you know are an advance indicator of personal income, were growing at a moderate to strong pace. The cold weather conditions seemed to have delayed some output, but our sources feel that it is not any worse than that. The inability of consumers to get to the sales taking place in January slowed down some of the activity at the retail level, but again our sources feel that retailers can recoup that over the President's Day weekend, assuming the weather is decent then. I think what's particularly good about the District is that, despite the fact that we have the corporate giants like IBM, Citibank, and Kodak downsizing, New York State gained 15,000 jobs from November to December. That's the third consecutive month that we had some job gains in the area. New York City also had some growth in jobs as did our part, the northern part, of New Jersey.

With regard to the national forecast, we are rather similar to the Greenbook with some exceptions. We have stronger real growth in the second half of 1994. Some of that comes, as does somewhat stronger growth in 1995, from our view that residential construction will be somewhat higher than the staff forecast has indicated. That's an area in which there are some capacity constraints, so it could be an additional cause of some inflationary pressures. In general, we think the gap between actual and potential GDP is now quite small, and certainly that which remains will be used up in the course of 1994 with our forecast, the Greenbook's, or any of those we've heard around the table. Consequently, with the unemployment rate coming down to what we think is a reasonable estimate of the NAIRU--in the low 6 percent area--we do have to be considerably concerned about inflation. And our inflation forecast is, in fact, somewhat higher than that of the Greenbook.

CHAIRMAN GREENSPAN. Thank you. We've completed the general discussion that we usually have on the first day of Humphrey-Hawkins meetings. As I mentioned earlier, we're going to reverse the schedule

tomorrow to deal with the short-term monetary policy questions first and then go to the long-term ranges. The question I want to raise this evening before we close is one that has been tugging at me for the last number of weeks. This really gets to the issue that when we move in this particular context, which of course will be the first time we have moved since September 1992, we are going to have to make our action very visible. It's more the equivalent of a discount rate move than the incremental federal funds rate changes that we have been embarking on for quite a long period of time. I am particularly concerned that if we choose to move tomorrow, we make certain that there is no ambiguity about our move. My understanding of the technical conditions in the funds market is that it looks as though the funds rate will probably be edging above 3 percent, and in the circumstances a draining action will be unambiguous to the professionals. But I'm not sure that more widespread recognition will come out very quickly; it will sort of dribble out. Under ordinary circumstances, that is not only fine but desirable. One of the things that we have argued, and I would continue to argue, is that there is a distinction between a discount rate and a federal funds rate action in the sense that we don't want an announcement effect ordinarily on the funds rate. It gives us a much more calibrated instrument. But a federal funds change in this particular instance is a discount rate change, as far as the Federal Reserve System is concerned. I'm very strongly inclined to make it clear that we are doing this but to find a way to do it that does not set a precedent.

I understand that that is not at all easy to do, but if we are going to make changes as to how we structure our Minutes and our announcements and responses to various developments, we need a lot of time in this Committee to discuss the pros and cons. There really are lots of pros and cons, of which I think we are all aware. But we are going to have to deal with this issue in conjunction with the question of transcripts and tapes and all of the other disclosure issues. One of the reasons that I thought it was not desirable to discuss it at this meeting is that there is clearly a time problem. There also will be a lot of significant, useful evidence for us in our deliberations when we see how everyone responds to our releasing the last four transcripts of 1988 meetings when they are done. We'll get a much better sense of the reactions. So, I'm caught in this particular situation where I would feel very uncomfortable if when we make a move--whether it's tomorrow or next month--we do not make it very clear that we are moving. The only issue on the table tonight is that if we decide to move tomorrow--and that we will get to when we resume the meeting at 9:00 tomorrow morning--I would very much like to have the permission of the Committee to announce that we're doing it and to state that the announcement is an extraordinary event. The major reason would be that it's a Friday and we rarely meet on Fridays. This is a very unusual circumstance. So I'd like the permission of the Committee to try to formulate a couple of sentences which state (1) that we have moved, assuming we do that, and (2) that this announcement of the move is not precedential. We will try to find a way to say what is special about this particular day and this particular event. So, I open it up for everyone's comments.

MR. SYRON. Mr. Chairman, I have a lot sympathy with what you suggest, and it strikes me that there's another information-gathering advantage--



CHAIRMAN GREENSPAN. Excuse me, could I just make one final comment before you go on? While I myself, as you know, have been strongly opposed in the past--and I have testified against announcing when we are making a move since it does reduce our flexibility--that issue is still on the table and it's a much broader issue. The issue of whether something is precedential or not is under our control. We don't have to announce our policy moves; there's nothing forcing us to do so, and I cannot believe that there will be legislation requiring that. So, the issue is not whether if we do something, we will be forced to do it again. I think we can avoid that. We may decide for reasons other than basic policy to continue, but I see no reason for such an announcement to be a precedent nor do I see any likelihood of legislation requiring that because the thrust of what's been happening on the Hill doesn't strike me as leading in that direction. Anyway, sorry for the interruption. Go ahead, Mr. Syron.

MR. SYRON. All I was saying is this: Just as you thought, appropriately, that it's worth seeing when we put out the transcripts what the reaction is going to be, we'll also get information if we follow this course from what the reaction is to it. There will be information in terms of market and Congressional reactions, and so forth. If essentially we tell the financial markets what our policy is at 11:23 of the morning after our meeting--if it is really the case that by our market operations we generally do that--I have a lot of sympathy for doing it more explicitly the evening before. My own view is that by doing this once we will get some information on reactions and we may find out what its weight is. My own forecast would be that this would pull the teeth in a longer-term sense, which we are not resolving now, on a lot of these issues about disclosure. I know these issues wouldn't all go away, but the essential information is what the final score of the game is. The rest of it is akin to finding out what play Emmitt Smith was asked to run on third down. So I think there is a lot to be gained from this without locking us into a longer-term arrangement.

CHAIRMAN GREENSPAN. Si.

MR. KEEHN. I'm not quite clear on the precedential side of this. Are you saying this would be an announcement that we have tightened without a discount rate change or with a discount rate change?

CHAIRMAN GREENSPAN. The answer is no discount rate action.

MR. KEEHN. Okay.

CHAIRMAN GREENSPAN. But the point here is that when we move the discount rate, we're hitting a "gong." What I'm saying is that the first time we move the funds rate after this extended period, we are hitting a "gong."

MR. KEEHN. That's right.

CHAIRMAN GREENSPAN. And I think we ought to stand up and hit it.

MR. KEEHN. I agree with that.

CHAIRMAN GREENSPAN. Other comments? Bob.

MR. PARRY. I would very much support issuing a statement. I think it's very important that the statement exactly coincide with our taking action in the market and not be either before or after taking action. I also feel that we ought to have a discussion as quickly as is feasible about the desirability of similar statements in the future because I think some of us believe there is some advantage to doing it on a continued basis. Perhaps we could deal with this issue explicitly in the not-too-distant future along with the other issues that you mentioned.

CHAIRMAN GREENSPAN. You don't mean in a special meeting but as part of the next meeting.

MR. PARRY. Yes, but I really think that there is an urgency.

CHAIRMAN GREENSPAN. Bob Forrestal.

MR. FORRESTAL. Mr. Chairman, I understand your rationale. I'd just like to express a couple of concerns, and you've hit on them already. One is with respect to the process and the other is substance. It strikes me that this is a very major change in the way we are operating and we haven't had very much time to reflect on this. As Bob Parry just indicated, I think it is essential that we do have that discussion as soon as we can. My more serious concern is whether we can keep this non-precedential. I have a real concern that there's a risk that we're going to be pushed by pressures--not necessarily legislation but other pressures--to make this an ongoing operating procedure. If that's the case, I think we would lose some flexibility. The other thing that occurs to me is that if we are forced by this action to do it on a regular basis, the discount rate is going to lose its effectiveness and along with that the effectiveness of our directors. So, those are concerns that I think we need to reflect on, if indeed our announcement does for some reason become a precedent. However, having said that, if we can draft a statement that clearly indicates this is not a precedent but a one-time event because of the peculiar circumstances, then I would support your recommendation.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. I thought your Congressional testimony last Monday was well constructed and made the points that you needed to make in the right way. I was initially quite discouraged with the wire service stories as they came out, which seemed totally to miss the point you were trying to convey. But then the stories that came out in some of the major dailies restored my confidence that maybe we're making a little progress in conveying our views. I thought both the New York Times and the Wall Street Journal--or at least one of the Wall Street Journal pieces--treated it as we would have hoped. Based on what you said there and the way that went, I would trust that you wouldn't be saying that "the Committee tightened," using that kind of jargon but rather that because of the nature of the change being contemplated--and it doesn't matter whether it's tomorrow or at the March or May meeting--the next move is undoubtedly going to be in an upward direction on interest rates. And it's not just that it would be the first change since September 1992; it's the first change upward in some five years. Without repeating all the discussion that we had in December about the importance of a rate increase being clearly

understood as being an action of the Committee, the rationale for it as a growth-sustaining move is extremely important. Only by putting out a statement can we get that message out there, or at least make an effort to say that this is not an anti-growth move but one that is designed to enhance the longevity of this expansion.

CHAIRMAN GREENSPAN. That was actually the closing paragraph in my testimony. Tom Hoenig.

MR. HOENIG. Mr. Chairman, I understand the sensitivity of this. I have a hard time understanding how this would not be precedential. If we say it is desirable to announce this time because it makes sense and we've got this issue of a Friday and so forth, I think it will be difficult from a credibility point of view to argue against announcing in the future should we want to make that argument. Even if we have to start our meeting earlier tomorrow, I'm wondering if we cannot position ourselves to know whether we want to take an action tomorrow, and then do so. Then, as the questions come in, we can validate that we did in fact take an action so that we're not making a statement which sets a precedent. I think we are going to set a precedent.

CHAIRMAN GREENSPAN. Well, I certainly agree that there is a risk involved, but I disagree that we can be forced to do it for other than legislative reasons.

MR. HOENIG. Well, we may not be forced but I think the credibility of our position will be compromised.

CHAIRMAN GREENSPAN. We're saying there are different types of changes. For example, in 1979 there was a major change. Chairman Volcker and his staff went out and had a big press conference. There are certain individual events where periodically the Federal Reserve has made special statements; I'm merely stipulating that this is one of them. Frankly, with the exception of the stock market crash in October 1987, it's the first one since I've been here. But let's assume, for example, that we decide to move tomorrow and we make an announcement, and then we decide to move again, say, four weeks later. I don't see any reason why a statement would be appropriate at that later time.

MR. HOENIG. I'm uneasy about that, but I understand what you're saying.

CHAIRMAN GREENSPAN. Look, I'm not naive enough to believe that it doesn't create precedential issues when we do things that are different. But I think the question is can we control it, and in my judgment we can. Tom Melzer.

MR. MELZER. On the precedent point, Alan, I would just say that another point to consider here is the Treasury funding next week.

CHAIRMAN GREENSPAN. Yes.

MR. MELZER. If we wanted another rationale, namely that there be no confusion in the marketplace, that might be another.

CHAIRMAN GREENSPAN. Yes, I think that is one of the possible points for discussion. Joan wants to think about that.

MR. MELZER. Okay. Well, there is at least one audience out there that wouldn't like to hear that. I think there is a risk of a headline along the lines of "In an unprecedented move, the Fed announced..., saying it wasn't setting a precedent." But where I come out is that in the climate we're in and in view of this inflection point after five years, as Jerry Jordan pointed out, these are unique circumstances. And openness, given what we've been through in general during this period, is probably a pretty good course. I think how much is said is important. I personally would favor saying, "The Fed decided to increase the degree of reserve restraint" and that would be about it. It would trouble me if we got into expectations about where the funds rate would trade.

CHAIRMAN GREENSPAN. Let me read what Don Kohn handed me before. "The Federal Reserve announced today a slight increase in the degree of pressure on reserve positions."

MR. MELZER. Yes.

CHAIRMAN GREENSPAN. Then he went on and said, "This action is expected to be associated with a small increase in short-term money market rates."

MR. MELZER. I think that's all right. I don't think we should be giving a target range, though.

CHAIRMAN GREENSPAN. You mean the actual number?

MR. MELZER. Yes.

MR. KOHN. No, that is not our intent.

MR. MELZER. That has been advocated at times in other discussions here. Also, if we're announcing a decision--and this would be a legal question--are we obligated to say anything about the vote, for example? I'm not sure. Again, I'd prefer just to say what the action was. It's a decision of the Committee, but if we get into disclosing the vote, that begins to set other types of precedents that could be relevant when we get to the point of deciding this issue on a permanent basis.

CHAIRMAN GREENSPAN. Look, the main issue here is that, as far as I'm concerned, I would like us to stand up and be counted. We are the central bank and we are making a major move.

MR. MELZER. Right, I agree.

CHAIRMAN GREENSPAN. And to do it in an ambiguous manner I think is unbecoming of this institution.

MR. MELZER. No, I didn't mean to suggest otherwise. I agree we should do that, but the point I was raising is that there may be a legal question. If we have announced a decision, does it follow that we have to disclose the vote?

CHAIRMAN GREENSPAN. I don't see why. Is Virgil Mattingly here?

MR. SYRON. No, there's no legal question. The Chairman before in Humphrey-Hawkins testimony has said something about policy and what the Committee has done without announcing a vote.

CHAIRMAN GREENSPAN. That's correct, isn't it? Were we to come out and make a statement that the Committee made a decision, are we obligated to stipulate what the vote is?

MR. MATTINGLY. If somebody asked, you would have to tell them. In other words, it would be subject to disclosure.

MR. SYRON. Why?

MR. MATTINGLY. The Freedom of Information Act. The legal issue is: Why is it confidential? What's confidential about the vote?

MR. BOEHNE. It's confidential now.

MR. MATTINGLY. Yes, but if you disclose the action--

MR. SYRON. Then you'd have to disclose the vote?

CHAIRMAN GREENSPAN. You know, there is an interesting difference here. The difference is that if we are asked after the action has been disclosed. That's--

SPEAKER(?). Very different.

CHAIRMAN GREENSPAN. Well, you may be right; there may be a legal question of disclosure. So long as we don't disclose it and do so only in response to a question--

MR. MELZER. Of course, we might not get asked.

MR. COYNE. Oh, believe me, you will get asked! [Laughter]

MR. MELZER. Alan, the reason I'm bringing it up--and this is more relevant to the discussion we're going to have down the road--is that if we go this way, the effect of that is to place the minority rather than the majority in the limelight in terms of who the press might be interested in talking to, which might not be optimal. Just one other point: I agree with Bob Parry. I agreed with deferring the discussion of our recordkeeping issues and so forth, but I think we should get to that promptly. From my point of view, if we could get to that at the next meeting, that would be highly desirable.

CHAIRMAN GREENSPAN. I don't see any reason why we shouldn't be able to get to it. We should have enough reaction at the next meeting from the 1988 transcripts that we should know.

MR. SYRON. The mini-series will be out!

MR. KEEHN. Committees could do mortal damage to press releases, but I really wonder if we want to use the term "small increase" rather than just "increase."

CHAIRMAN GREENSPAN. I would stay with small.

MR. LINDSEY. We're not writing a press release.

MR. SYRON. We're not writing a press release and if we don't say "small," people will think we've made the announcement because it's a 1/2 point or 3/4 point increase or something like that.

MR. LAWARE. It sounds like we've made a policy decision already!

MR. LINDSEY. I think that's a little premature.

CHAIRMAN GREENSPAN. Can I make the following request? I'm not asking the Committee to make a statement. I'm asking the Committee to give me the authority to make the statement so that in effect it's one step removed. As announcements go, it's very short.

MR. KEEHN. I was going to take a word out!

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I'm supportive of what you want to do. I think this is one of those special times, and I think we have to be careful that we don't become captive to our own procedures when we are called upon to do something. There is a precedent for our making these kinds of announcements for special occasions. They don't happen very often, but I believe this is one of those times. While clearly the precedent is there, and we'd all be naive to think that this doesn't tilt the scales in that direction, there is also a risk in not disclosing tomorrow. If there were a premature leak or any confusion or misunderstanding about any action taken tomorrow, it seems to me that that would be far more costly than whatever the precedential risk is in going forward with this as you suggest. I agree with you that it ought to be your statement as the Chairman rather than an announcement of the Committee. I sympathize with your desire to make it short. However, I think it is good to get the right focus on this, and I liked the way you ended your testimony on Monday about putting this in the context of being pro sustainable growth rather than fostering this notion that we are against growth. I would urge you in the statement to hark back to your testimony on Monday; I have forgotten the precise wording in the last sentence or two in the last paragraph but I thought that captured the essence of what we're doing very well. At the risk of this statement being a little longer than you may want, I'd just put in that last paragraph--or the last couple of sentences--from your testimony.

CHAIRMAN GREENSPAN. Susan.

MS. PHILLIPS. I actually had two questions. When are the 1988 transcripts to be released?

CHAIRMAN GREENSPAN. Donald Kohn.

MR. KOHN. We've done a few of them; Norm, where are we? Let's toss the ball back down there.

MS. PHILLIPS. I feel like I'm in a tennis match here!

MR. BERNARD. We have about three of them just about done.

CHAIRMAN GREENSPAN. Really?

MR. BERNARD. Yes.

CHAIRMAN GREENSPAN. The last three of 1988?

MR. KOHN. No.

MR. BERNARD. The first two and the last one. Work on November has been started.

CHAIRMAN GREENSPAN. When do you guess 1988 will be completed?

MR. BERNARD. The third week of February.

MR. KOHN. Then they have to go through an international and legal redaction process. But I think it's reasonable to--

CHAIRMAN GREENSPAN. Our next meeting is March when?

MR. KOHN. The 22nd.

CHAIRMAN GREENSPAN. Yes, I think we need two to three weeks of response time.

MR. BOEHNE. Right. What if we put out part of the year?

SPEAKER(?). The first six months?

CHAIRMAN GREENSPAN. You know we could put out--you see, the problem is that in the middle of 1988 there are garbled transcripts; The taping system broke down.

MR. BOEHNE. Why is it that life can never be simple?

CHAIRMAN GREENSPAN. There are 18 minutes of tape missing!

MS. PHILLIPS. So it's not next week that these are coming out?

CHAIRMAN GREENSPAN. No.

MS. PHILLIPS. It's probably going to be at least a month or so?

CHAIRMAN GREENSPAN. Maybe; probably about a month. If it's more than a month, I think we may want to reconsider getting out whatever we've completed because we can certainly do the last three meetings in 1988. That's the most recent. In fact, in a sense that's where our obligation is; the most recent is really the most important

in that respect as we move back. I think there will be a lot of interest in the stock market crash discussion.

MR. KOHN. That would be the end of 1987.

CHAIRMAN GREENSPAN. Yes.

MR. PARRY. A point of clarification related to what Ed Boehne said: It seems to me that it would be beneficial if your statement were made on behalf of the FOMC. Is that what you were thinking? It didn't sound that way to me.

CHAIRMAN GREENSPAN. I would not do that. I don't think that's a good idea.

MR. PARRY. You don't?

MR. BOEHNE. "Chairman Greenspan said today."

MR. SYRON. Yes, that's exactly right.

CHAIRMAN GREENSPAN. Now, if we decide to do it on a permanent basis, then it's a Committee issue. But marginally it's of a less precedential nature if I do it.

MR. BOEHNE. If it doesn't work, the Committee could fire the Chairman!

MR. PARRY. That's right.

CHAIRMAN GREENSPAN. Well, maybe we ought to bring that issue up before that vote! [Laughter]

MS. PHILLIPS. I wanted to ask Joan, or Bill from your former capacity, what do you think the market reaction would be?

MS. LOVETT. Well, it certainly would remove any ambiguity about the move. [Laughter] People don't have to guess about the size of the move and that kind of thing; I guess if there's a pro, that's the positive outcome. In terms of setting a precedent, I think it very much depends on the wording that's used.

MS. PHILLIPS. Is this going to be helpful, do you think, or not helpful in terms of the market absorbing what is occurring?

MS. LOVETT. I think that it can't be harmful.

MR. PARRY. Another word for "minimal."

MS. LOVETT. No, it tells everybody what's happening and it leaves no room for ambiguity, and if it's phrased the way you are suggesting, it's not setting a stage for people to have expectations of an announcement every time there is a policy change going forward.

MR. LINDSEY. Mr. Chairman, I agree with you completely. I think that it's right for you to make the statement because you have the authority. The Committee is not establishing a precedent; we always can fire you. And you are making the judgment that this is an



instance where you want to speak. In fact, I would go so far as to suggest, although you know what we want--we've already said it--that we not dictate to you what you're going to say because it should be only your statement. That way there is absolutely no precedent; you are simply acting as Chairman of this Committee.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. I very much support what Governor Lindsey just said. I think this is something that we absolutely must do because of the importance of this. As Jerry Jordan said, this would be the first time that we've increased--if we do so--interest rates since 1989. And, therefore, it is something that we should step forth and state. I believe as Larry said that you should be doing it in your words. We might have to think rather carefully about the precise timing of the Desk's action in relationship to any announcement that may be made tomorrow. I'd be very worried if the Desk's action were first. Then we would be giving some essential market insiders an opportunity to move on it before the general public was informed. So, if you can't do it simultaneously, I would favor any statement by you coming out marginally ahead of that time, but definitely not behind it.

MR. MELZER. I think simultaneous is risky, frankly.

MR. SYRON. I agree with that.

SPEAKER(?). That's right.

MR. BOEHNE. Why don't you put it out at 11:00 a.m. or something like that? Is 11:30 a.m. when you conduct your operations?

MS. LOVETT. Yes.

MR. BOEHNE. If you did it by 11 a.m.--

MS. LOVETT. It's very risky sometimes to try to time things down to the wire and hope that people pick up the press releases.

MR. COYNE. I think it just takes a couple of minutes for the wires to get it on.

CHAIRMAN GREENSPAN. Gary.

MR. STERN. I'm comfortable with what you are proposing. I happen to agree with those who think this will turn out to be precedential and from my perspective that's fine because I think we've been in an awkward situation where we have kind of acknowledged that people in the markets get the news and the signal immediately, but for those who are not close to the markets the news kind of dribbles out depending on how quickly they read the financial press or consult other sources of information. But I mention that now only to reemphasize the point that Bob Parry and Tom Melzer made, which is that we really do need to come to grips with this whole host of issues about what records we keep and what we disclose and when we disclose it, and so on and so forth.

CHAIRMAN GREENSPAN. You mean they are all related issues in other words.

MR. STERN. Yes.

CHAIRMAN GREENSPAN. It's all one package.

MR. STERN. And I think we better get on with that discussion.

MR. KOHN. Mr. Chairman, the former Mullins Subcommittee, whatever it is now, is to meet on this issue tomorrow after the FOMC meeting, so I don't think there's any reason why the Subcommittee can't put the finishing touches on whatever recommendations it is going to make in the very near term and get them out to the members.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. Mr. Chairman, Ed Boehne really made my point. There are certainly risks of doing this and they have been well stated here. But there are risks of not doing this. If there were any confusion tomorrow going into the weekend or this thing gets played out in the New York Times on Saturday and Sunday or on CNN, I think we would have a real mess. I certainly also agree that this should be your statement and you ought to say whatever you're comfortable with. My feeling is it ought to be as brief as possible. I don't think you need to say a lot; if we do it, this is not going to be an unexpected move. If there is an effort to defend it or explain it in any detail, then I think it would exacerbate the problem of precedent before we try to figure out what we're going to do in the longer run. I also support Gary Stern and Tom Melzer and Bob Parry on the need to decide as quickly as possible.

CHAIRMAN GREENSPAN. The purpose of accepting the Joint Economic Committee's invitation to testify before this meeting was precisely to move ahead of the curve on potential explanations in the event they were required of us. In a sense that statement was, as far as I can judge, the basis of what we've been doing.

MR. SYRON. You can reference your JEC statement.

CHAIRMAN GREENSPAN. Yes, I possibly could. President McTeer.

MR. MCTEER. Just for the record, Mr. Chairman, I agree with your suggestion and all of its details. I personally wouldn't mind seeing it become a precedent. I've argued before that quick release of the decision is much more desirable than verbatim minutes or transcripts, and I think that quick release of the decision might take off some pressure for early release in these other areas. I know that's something to be discussed later and I agree with your recommendation.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, I think this is a very important question. It's had a very good airing, and I don't have anything to

add to what has been said. I fully support your request and recommendation.

CHAIRMAN GREENSPAN. Does anybody else want to raise an issue or question? Well, why don't we adjourn this evening.

MR. KOHN. Mr. Chairman?

CHAIRMAN GREENSPAN. Yes, Don.

MR. KOHN. You asked me to remind you to remind the Committee of the highly confidential nature of the subjects being discussed, and the fact that you would take drastic measures if something were leaked.

MR. PARRY. Nobody would want that!

CHAIRMAN GREENSPAN. Let me just reiterate basically what Don said. If we end up tomorrow morning with anything in the newspapers, one way or the other, or any public indication of what it is we've discussed today in any respect, I think it will do very grave damage to this institution. And the Wall Street Journal the Post, and the Times all, of course, know that we are meeting; they know it's a crucial meeting. There will be all sorts of endeavors to get some information, directly, indirectly, or otherwise. I just beseech you to be as careful as you possibly can and not even tell your doorman where you've been!

MR. MCTEER. Maybe you could just have some jam and hamburgers sent in; we could spend the night here.

MR. BOEHNE. Jam and hamburgers? Hopefully not!

[Meeting recessed]

February 4, 1994--Morning Session

CHAIRMAN GREENSPAN. Mike Prell has some information for us on the employment statistics.

MR. PRELL. Earlier this morning I had a brief discussion with a senior official at the Bureau of Labor Statistics. The civilian unemployment rate for January was reported at 6.7 percent under the new survey. They have two econometric models that they are using to try to give people some guidance about how the month-to-month movements in the unemployment rate might have looked if the new survey had been in place in December or if the old survey had remained in effect in January. On the basis of their model of what the old survey would have done, they estimate that the unemployment rate would have dropped 0.1 percent in January. Their model of what the new survey would have done is that it would have dropped 0.3 percent. There is a considerable range; the household series is clearly subject to a lot of uncertainty. There was a huge increase, 1.3 million, in the household employment total. As I indicated, there are both the change in the new monthly survey plus an adjustment for a Census update involved here. A rough guess is that, if you took out those two special effects, the month-to-month change might have been in the area of 150,000 or maybe a little higher, but that is a very crude guess at this point. The labor force participation rate was 66.7; it had been 66.3 in December. One might have expected an upward movement from the change in the survey of 1/2 percent or more. And so on that basis it looks as if the labor force participation rate might have dropped and contributed to that decline in the unemployment rate, all other things equal. Again, this is very difficult to read. The nonfarm payroll increase was 62,000--72,000 for private industry--well below market expectations and below what we had been expecting for the near term. Manufacturing was up 26,000 but construction was down 3,000 and private service-producing industries had an increase of 51,000. There were no large revisions to the prior couple of months.

The Labor Department believes that weather had a serious effect on the payroll increases, particularly in construction. They noted that in parts of the country that we wouldn't expect to be much affected by weather at this time of the year, construction was up, whereas in parts of the north central and eastern regions, where the weather ordinarily is very cold, they found that construction was down. They also pointed to weakness in a number of other industry groups that they think might have been affected by weather, such as recreational amusement, and they mentioned that some colleges evidently had to cancel athletic events. In their minds all these things evidently contributed to the low increase in payroll employment. Now, this may also have affected the mix of full-time and part-time employment for the month. The average workweek is estimated to have risen to 34.8 hours, a relatively very high workweek, from the 34.5 hours figure in December; that was revised down from 34.6 hours. This does look fluky; we've seen ticks up to this level sometimes revised away a bit and in other cases just reversed. So this rise may prove ephemeral. The index for the overall increase in production hours went from 125.2 to 126.3 reflecting that workweek increase. Actually, the way the arithmetic goes, they report the hours, then derive the average workweek. But that's the better part of a

percentage point. That's a much stronger start on the quarter than we had anticipated.

Overall, taking all of these things into account, my reading of this would be that there are signs that perhaps the outlook is a bit stronger than we had anticipated in the Greenbook and would probably imply our leaning more toward raising our first-quarter GDP forecast rather than lowering it. Given the very strong car sales that were reported yesterday, that gives some greater credibility to the production schedules for February and March. That output will be needed to keep inventories from being utterly depleted even if sales don't maintain their January pace. That, too, argues for some upside risk to the 4 percent GDP forecast we made.

One final note on average hourly earnings: They were up .7 in January. Again, this may have been affected seriously by the shift in the industry mix and more importantly in all likelihood the shift in terms of part-time/full-time employment and so on. So, I don't think one would want to read that number too closely either, but it certainly does look as if it's on the firm side of our expectations for the start of the quarter.

MR. BOEHNE. How are financial markets interpreting that?

MS. LOVETT. Initially, the market moved up by almost a point at the long end--at the 30-year mark--as the headline news on the nonfarm number came across the wire. There has been some backing away from that. The market is still up; it was up about 3/8 to 1/2 when we came in here. It may be that market participants are trying to read through some of the underlying data in terms of hours and so forth. So, it's lost some of its initial gain, but it is still up

CHAIRMAN GREENSPAN. Let me just go get the latest report. [Secretary's note: Chairman Greenspan left the meeting very briefly at this point.]

MR. KOHN. The other interesting aspect was that bill rates went down 3 or 4 basis points and the funds rate, which had opened at 3-1/8 to 3-3/16, went down to 3 to 3-1/16 and remained there. So in some sense at least the certainty of firming today was taken out by the employment numbers. Now, maybe as the bond market and everyone else reassesses them, the adjustment will be reversed.

CHAIRMAN GREENSPAN. The long end is now down 3/32.

MR. LINDSEY. They got to the last page of the release!

MR. PRELL. I was just handed Commissioner Abrahams's statement and she indicates here that "weather appears to have played a major role in the relatively small rise in payroll employment between December and January. The reference week for the survey was the week before the California earthquake and the East coast snow and ice storms; the extreme cold over much of the nation during the reference week held down employment. Indeed, the weakness in the payroll survey was quite concentrated in weather-sensitive industries in January, while other industries continued the pattern of moderate growth that has prevailed for some time." And then she goes on to provide detail for some of these industries. I guess the person I

talked to at BLS was reading from this or had written this! One other point I might make is that, looking at the manufacturing data, the workweek remained at its recent high level. The workweek employment increase was in motor vehicles; outside of motor vehicles there wasn't any gain. But overall this looks consistent with a moderate increase in industrial production. That's even allowing for what we think would have been some loss during the month from the freeze and the earthquake. I think the industrial production picture for January is at least as strong as we anticipated when we prepared the Greenbook forecast.

MR. FORRESTAL. I didn't quite catch what you said about the old survey; is that down 0.1 for the month of January?

MR. PRELL. The econometric model that they have used would have predicted that. If I'm looking at the right place in the press release, it says: "Another tool that we are providing analysts is our model of what the January 1994 unemployment rate would have been under the old methods based on the historical relationships between employment, the unemployment rate, and other economic indicators: that rate is 6.3 percent."

CHAIRMAN GREENSPAN. Any further questions for Mike? Yes.

MR. LINDSEY. I notice that the hours were way up, from 125.2 to 126.3. Is that the basis of your higher GDP forecast?

MR. PRELL. Well, that's the key element in my judgment that would probably raise the forecast. But these numbers are all being affected by weather; evidently, we're going to have to sort through the data to get a more refined assessment.

CHAIRMAN GREENSPAN. If you take those hours that were given and you assume that the average workweek didn't change, payroll employment goes up about 700,000.

MR. KOHN. I just got a market update. The long end is now off 5/32, which puts it about 2/32 below what I had written down at 8:29 and 59 seconds a.m. [Laughter] But the funds rate is still at 3-1/16; bill rates are still down 4 basis points. We took a reading on the fed funds futures market at 8:55 a.m. and that suggested, at least at that time, a substantial lessening of expectations about Federal Reserve action. For example, the one month ahead futures rate went from 3.26 at the close last night to 3.19 at 8:55 a.m. this morning.

MR. FORRESTAL. What about the dollar?

MR. FISHER. It came off. Yesterday, it moved up against the mark and was 173ish to 174ish; it lost all of that first thing today and it's creeping back up to 173.63 on the latest reading that I have.

CHAIRMAN GREENSPAN. Okay, any further questions for Mike? If not, let me call on Don Kohn.

MR. KOHN. This is the short-run policy part of the meeting. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Don? If not, let me get started. Much of what I would usually say I stated in my testimony on Monday before the Joint Economic Committee, and I won't belabor any of that. The one issue that I didn't raise, except in a very minor way, is what I consider to be potentially dangerous upside problems in the inventory area. In looking at inventory/sales ratios, we tend to combine wholesale, retail, and manufacturing at book value levels and put them in constant dollars. The interesting question that this procedure raises is, does this appropriately capture what is going on? And my answer to that is "no." The reason the answer is no is that what basically determines the relationship of orders, production, consumption, and the like are units of inventory. So, if you were to take the wholesale and retail inventory data, whose inventory/sales ratios are trending upward much more than in manufacturing, strip out the markups to put them back to factory level values and adjust the manufacturing data to factory level values, which is essentially a markup, what you effectively do is very significantly re-weight those three major components. But since manufacturing has been going down, it all of a sudden has a big impact on the total. Even when you strip out work-in-process, what you get in terms of gross days' supply is a decline that is much more abrupt than the official numbers.

Now, the one thing we know about forecasting is that when inventories go to zero, the rate of change cannot remain negative! There are models, incidentally, that don't necessarily have that constraint! But the reason I raise this question is that we're seeing a very tranquil inventory situation. The use of just-in-time inventory management is becoming increasingly evident. The lead times on the deliveries of materials ordered are flat and low. There has been some minor increase in the delays of deliveries, which is usually a sign of some tightening. But we have a very interesting problem here: How far down can inventory/sales ratios continue to go?

The forecast that we saw yesterday in the Chart Show showed a gradual flattening out. The truth of the matter is that I don't know how they did it, but I know what they don't know. And what they don't know is what's going to happen to that particular ratio. If we begin to get any evidence of either a pickup in materials costs--and an anticipatory element is involved--or any evidence of a tightening of lead times on deliveries, which occurs when the operating rates begin to move up, purchasing managers will start to increase their inventory requirements. It is apocryphal that everyone's inventories now, in today's computer regimes, are only in transit and that nobody has anything. That may be partly true, but it can't be wholly true because there's still a huge amount of inventories sitting in various places. Everyone may say that emergency stocks in the system right now are probably at the lowest level in history and the reason is the computer technology. But what I'm trying to get at here is that if there's one element of tranquility in our forecast, which was gradually lulling us into considerable complacency, it's on the inventory side. That's basically what concerns me and what very readily could end up as the problem if suddenly we find that instead of slipping back to 3 percent GPD growth, or 2-1/2 percent or something like that, the numbers stay up there. And the reason they would stay up there is the same reason they've always stayed up in a business cycle expansion--that inventory accumulation turns inventory/sales ratios higher, and that's ultimately a source of

business cycle instability. That is a fact which has a great deal of history associated with it.

I am still puzzled by the fact that the balance sheets do not seem to be restraining activity by as much as I thought they would, considering the fact that they have not yet fully adjusted, if I may put it that way. Clearly, balance sheet relationships are not back to those typical of the mid-1980s and I always presumed that the desired relationships would be more conservative, considering what we went through. That hypothesis is hard to hold in the context of what's going on in purchasing and new orders, and I must say especially the January motor vehicles sales figure that came out yesterday, which was quite a surprise. The chain store retail sales figures were weak, weaker than expected. However, the correlation that exists between those data and total retail sales is very low, and I'm not even sure the sign is right. So really, those data don't tell us anything. The motor vehicle sales are inputs into the GDP; they are real; they involve full coverage; and they do not present any statistical problems of great moment.

So, I concluded, as far as policy is concerned, that we are at the point where we finally have to start moving toward a somewhat less accommodative path. I think we have had an extraordinarily successful run in restoring balance to a disturbed economic system. We haven't raised interest rates in five years, which is in itself almost unimaginable, especially in the context of strong economic conditions and historically low inflation. I must also say that the presumption that inflation is quiescent is getting to be a slightly shabby notion. We are seeing things like the purchasing managers' reports in January, which showed not a big spike in prices, but some spike. Listening to our roundtable discussion yesterday, I was impressed by the fact that labor shortages still were mentioned--not as a big deal but in a number of different areas--and that several of you cited some evidence that price increases are holding. So, while we may not find it in the broader price indexes, there was at least an inkling that the presumption that inflationary indicators are all quiescent is, as I said, sort of fraying at the seams. I don't know what to make of this 0.7 increase in average hourly earnings. I took a look at the details; it's basically in the services area; manufacturing is up 0.3 on straight-time earnings and 0.1 on average. That is consistent with part-timers going out of the system, given that their average rate is considerably below that of full-time workers. There may not be much there but, as Mike said, the presumption that inflation is staying down is very hard to maintain. That doesn't necessarily mean anything; I suspect productivity is probably doing better than we would expect and hence unit labor costs are not going up all that much.

In any event, I would put on the table my preference that at this meeting we move up 25 basis points. But if that's not the view of the Committee, I would urge that we at least go asymmetric. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. Thank you, Mr. Chairman. I believe very strongly that we should firm policy and that we should do so today and announce it today in the manner described in our late afternoon conversation yesterday. Let me give some of the reasons that drive me to this conclusion. We are very near potential GDP and



all of our forecasts, whether they are fine-tunings of the Greenbook or right on it, say that we will reach full potential this year. That would mean that labor market pressures should show up relatively soon on a more generalized basis, and as the Chairman just described, they already are showing up in some areas of skilled labor. I agree that an inventory cycle could well be at hand, especially in certain areas where there are resource constraints already--those involving residential construction, automobiles and light trucks, and home durable goods.

Therefore, it seems to me that the question is not so much whether we should tighten but by how much. And rather than comment on the alternatives of an asymmetric directive and a move of 25 basis points, let me evaluate my own view of whether the move should be 25 or 50 basis points. Why would one think that a firming of 50 basis points might be appropriate? Well, it might be deemed to be closer to a true adjustment away from what by our forecast is now excessive accommodation. However, I think there are two downside aspects to a 50 basis point firming. First of all, it could be interpreted--and in my own view would be interpreted by a fair number of market participants--as a one-time fix, a one-time adjustment which would be followed by a "Fed-on-hold" period. Secondly, I think it could be deemed, especially in light of some of the discussion in this town and others, a macho response, and I've always thought macho responses confused brains and bravado. A 25 basis point move, on the other hand, I believe would send the right signal in the sense that the Federal Reserve, the central bank, is being watchful, as it should be. And we would be moving earlier in the economic cycle than the Fed has done historically and, therefore, we are doing our job even better than in the past. I think it would be interpreted as the first of a series of moves and thus would be deemed, in my view, to be a stronger signal than a 50 basis point increase--if the 50 basis point increase were seen, as I believe it would be, as a one-time adjustment to be followed by the "Fed on hold." So, I support the recommendation of the Chairman that we tighten. My own preference is for a 25 basis point firming today.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Well, as I stated yesterday, Alan, the stance of monetary policy has in my view been very expansionary for the last two or three years. Accordingly, as I've also mentioned, the St. Louis Bank expects that the CPI will move up sharply in 1994 and will move even higher in 1995. Indeed, as you mentioned, there may be some early warning signs that the economy's disinflationary course has already come to an end. It is my view that we should act now to reduce the growth rate of reserves and M1 and signal this change with a 50 basis point increase in the federal funds rate target. I favor 50 basis points rather than a more modest amount at this juncture for the following reasons: (1) I think the stage has been well set for a change in policy; (2) in my view we are late in acting; (3) too small a policy shift may not convince markets of our resolve to keep inflation low; and (4) I suspect that each successive action could become more difficult to take. That's my view on policy.

Let me make just one other suggestion with respect to the language in the directive where we describe economic and financial conditions. I would suggest that we include in that some mention of

the behavior of M1, the adjusted monetary base and/or reserves over the last year. I think that that may mitigate against some incorrect interpretation of relatively weak M2 and M3 growth and what some might think that implies with respect to the thrust of monetary policy. That's all I have, Alan.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. For some time, just viewing things from my District, I have started to get the feeling that it's not a case of worrying about head winds but rather of building tail winds. And after listening to the discussion yesterday, it sounds to me as if that's true to some extent around most of the country now. For any of you who have ever tried either to pilot a light aircraft or sail a sailboat, you know that trying to steer with a tail wind is much more difficult and much more dangerous than with a head wind. And if we let tail winds build up, where we wind up on the course is more problematic. So, I think an adjustment now is appropriate. I would come down on the side of 50 basis points even though Bill McDonough's argument about that being viewed as a one-time adjustment followed by the "Fed on hold" is interesting. The other side of that would be that 25 basis points would be viewed clearly as the first of a series of moves. And if the market quickly built in pricing and expectations of the next 25 basis point move, then the equilibrium rate would move at least as much as our move, implying de facto that we eased conditions relative to where the market is if it's ahead of us. I don't know what the timing might be as to market expectations, but if it's a fairly short horizon--maybe no further out than the next FOMC meeting--we may find that 25 was not enough to restrain reserve growth and that we would have been better going 50, or will need to give them the other 25 fairly quickly. I would also support Tom Melzer's suggestion about references to reserves and narrow money measures as contributing to why we think a move is appropriate at this time.

CHAIRMAN GREENSPAN. Let me raise a question. I thought about 50 basis points, or I thought about it in the sense of trying to move the rate to where we want to put it and then sticking with it. But I think it may be very helpful to have anticipations in the market now that we are going to move rates higher because it will subdue speculation in the stock market; at this particular stage having expectations hanging in the market that we may move again, and move reasonably soon, could have a very useful effect. If it is in any way contemplated that we have moved and are going to stop, that could create the type of erosion in the economy that I've watched over the past decades, which is precisely what we don't want. If we have the capability of having a Sword of Damocles over the market we can prevent it from running away. If somebody suggested 50 basis points and then another 50 and then another 50, that's an argument I understand and it's not inconsistent with my position. What I'm a little concerned about is that a number of people might expect that that's in fact what we are trying to do. If we're going to move, I would not mind moving again at the next meeting or the meeting after that, for example. That depends on the evolution of events, frankly. In order to simmer down this process, I think we should just very gradually tighten into it if the evidence suggests that that is where we should be going. On the question of whether it will become more difficult to tighten, I presume that that means there are non-monetary-policy reasons for that, and I think this Committee has

indicated no inclination to be affected by that. I have no reason to believe we will be.

MR. JORDAN. Would your preference be for 25 basis points and symmetric language or 25 coupled with asymmetric?

CHAIRMAN GREENSPAN. That's a good question. At this stage I would tend to stay with symmetric if for no other reason than whatever it is we do the first time out, I think we send a very important message. If the economy continues to run ahead of our expectations, I would for the next move go asymmetric.

MR. JORDAN. Well, just to follow up: My own preference is always going to be for symmetry, and what I would like to see done would be to do 25 now but with an understanding that there may be a conference call if conditions seem to warrant another 25 even before the March meeting.

CHAIRMAN GREENSPAN. Well, I don't think we have to have an understanding. That's an ongoing issue and I wouldn't want to imply that that's not always the case because I think it is. President Boehne.

MR. BOEHNE. As far as the economy goes, this is as good as it gets in terms of convincing evidence to move. There always are uncertainties; there always are reasons why we shouldn't make a change. But what I see is a self-feeding expansion and I think capacity and price pressures are not all that far away. So, as far as the economy goes, I think we need to move. On the credibility side, there's a time to talk, a time for speculation, and a time to act. We've talked, we've had speculation, and I think now is the time to act.

I came into this meeting somewhat undecided between a 1/2 and a 1/4 point rate increase. I think there are some good reasons for a 1/2 point move. It is more difficult to tighten than to ease, at least it has been historically. So there is an advantage to getting the job done with fewer moves rather than more. Historically, there is also the tendency to get behind the curve rather than stay ahead of it. And I think a larger move does compensate for that risk. On the other hand, I do think that a 1/2 point move may be just too strong at this point. There is a risk that we could appear too eager. I've seen this Committee operate in the 1970s; I've seen it operate in the 1980s and the 1990s; frankly, my confidence in our willingness and ability to move promptly, to move as needed, is high enough that I think that a 1/4 point move makes sense. I also buy the notion that it is important for the market to anticipate further moves. I think we need to be forthcoming when that is called for. So, while history and the risks do weigh heavily on my mind, on balance I come out in favor of a 1/4 point move and I support the symmetrical directive. I think we really need full Committee support on this action; and to reiterate my point of yesterday, I think we ought to make this announcement sometime before Joan Lovett would normally go into the market today.

CHAIRMAN GREENSPAN. President Broadus.

MR. BROADDUS. Mr. Chairman, I certainly think that the time has come to move and that we need to take action today. If we don't move, we would put our credibility seriously at risk because there's no question really that we need to move. If we don't, I think we will fall way behind the curve. In terms of the amount, my preference would be for a 1/2 point move. At this stage of the game, given the signs of strength in the economy and the evidence of some nascent upward price pressures in at least some places like the purchasing managers data, I worry that if we just do a 1/4 point at this juncture it's going to be seen as a rather timid move. I think there's some risk that even after making that move, pretty shortly we will still be behind the curve. A 1/2 point move, in contrast, would be a decisive move. It would help us get out in front of this thing as it develops and would strengthen our position. And I guess I have a little difficulty understanding the argument that that's going to create an expectation that we are not going to move again for some time. I believe those expectations would be determined by unfolding events. Also, it's worth noting that if we were to move the funds rate to 3-1/2 percent on a nominal basis, the real funds rate would still be quite low and one could still make an argument that policy even then would be quite accommodative. So, I think the case for a 1/2 point increase is not a weak one, and that would be my preference, although I could accept the 1/4 point increase.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, this decision is not altogether clear-cut in my mind. As a matter of fact, I view it as a difficult decision. I would just like to interject the argument for waiting a little, and that argument would revolve around the uncertainty in the economy. We certainly had a demand surge in the fourth quarter and it would appear that that is going to continue to some extent. However, there is always the question before us as to whether that level of activity is going to continue. And I think the uncertainty is engendered by the income/debt ratios that we see, the uncertainties surrounding the economies of our trading partners, the question of whether capacity utilization rates given global competition are as meaningful as they were, and the possible effects of fiscal policy--including the uncertainty surrounding the health plan which could be announced, I suppose, before our next meeting. So, I think all of those things do present the case for staying where we are for the moment and waiting. I just want to make sure that we don't lose sight of those arguments. But I did indicate that it's a close call in my own mind, and on balance I think the arguments are more persuasive on the other side by some marginal degree. So I would support moving at this meeting. The credibility of the central bank is a very, very important element at this time, and I think we will gain credibility by moving now even though there might be some marginal risk that we might have to reverse course. Clearly, there are signs that inflation is heating up a little, and we have to be vigilant about that. So, I would support your recommendation. I would go for 25 basis points because I think the gradual approach is better at this point, and I would support a symmetric directive.

On the question of inflation, I would just put something on the table, not for discussion now but as something that perhaps we ought to think about. And that is that I, for one, am not really clear what our objective is with respect to inflation. We talk about

price stability and lower inflation and inflation being quiescent and so on, but I don't know what our level of tolerance is, what we find acceptable as a Committee for inflation. Now, I know we don't want to designate a point reference of 2.6 percent or something like that, but I wonder if perhaps we ought not at some point think about and have some discussion about where we really want to be in terms of inflation. Is it zero or is it somewhere between 2 and 3 percent or exactly what are we aiming for?

CHAIRMAN GREENSPAN. And which price index are we using, that sort of thing.

MR. FORRESTAL. Yes.

MR. SYRON. And over what time period.

MR. FORRESTAL. I throw that out as a suggestion for the Committee to think about.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. I agree it's certainly the time to move. I have three thoughts on why I would prefer a move of 1/2 point over 1/4 point. First, the staff in yesterday's presentation said that to maintain not price stability but constant inflation we have to raise interest rates 150 basis points by mid-1995. We have to make a choice as to whether we want to move six times in the next year and a half or three times. My answer is that I have a strong preference for three times.

CHAIRMAN GREENSPAN. Suppose they are wrong?

MR. LINDSEY. Well, if anything, I think the risks are that we are going to have to do more than 150 basis points to lower the level of inflation. I think the bias of the Committee is that if possible we want to bring inflation down a little more. Furthermore, the staff noted today that GDP momentum seems stronger than they thought when they came up with the 150 basis point estimate. So, based on what we've learned since they did their forecast, it seems that the risks are on the up side, and that would suggest even more actions to tighten. I appreciated very much Bill McDonough's analysis of the "Fed on hold" versus the first in a series of moves. If I think about it this way, though, what we are out to do is to minimize the effect on long-term growth, for a given amount of disinflation. If we go a 1/4 point, we are telling the markets that this is the first in a series and we're going to be raising rates over a long period of time. That would seem to me to be a signal that over an extended period of time the average short-term rate is going to be higher than it would be if we did it quickly. And since what affects long-term growth is equity prices and long-term bond prices, a slow gradual move--because it means on average higher long-term rates for a longer period--would be more damaging to growth. So that would be another reason, I think, to move suddenly.

Finally, I don't have any personal memories of it although I was alive at the time, the most successful Fed move against inflation, as I recall from what I read of history, was back in 1966. At first the data showed a recession then, but that recession was revised away.

The Fed was able to overcome an inflationary condition by a short, sudden rise in interest rates. The downturn was actually not a downturn but simply a slowing in the rate of growth that lasted at most six months and it brought the country another two years of high rates of economic expansion. I think the 1966 model is really what we want to emulate today.

CHAIRMAN GREENSPAN. Let me just interject.

MR. LINDSEY. You want to correct my sense of history?

CHAIRMAN GREENSPAN. The history was that the Fed took the 10 percent surcharge as fiscal deflation and didn't act. The Fed was wrong and had to act more rapidly in order to offset that, so I think that was not a period when the Fed excelled in policymaking.

MR. LINDSEY. But the 10 percent surcharge wasn't enacted until 1968 and didn't take full effect until 1969.

CHAIRMAN GREENSPAN. Yes, but there was the expectation that there would be fiscal drag, and I think the Fed responded to that. That's not a major issue; I don't want to prolong the discussion but I happened to be reading about that episode recently.

MR. LINDSEY. Okay. In any case, if we have to do 150 basis points or more, I think the greatest "bang for the buck," with minimum harm to long-term growth, would be to move 50 basis points today.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, I think yesterday's discussion and this morning's indicate that we really need to take action now. As for the amount, there is an economic case for doing 50 basis points now and I think it would in the longer term give us a more stable environment. Bill McDonough's arguments are valid to some extent in terms of what kinds of reaction we would get, but I think those would take care of themselves and we would really be better off with 50 basis points.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I agree with all the comments that have been made about it being the appropriate time to move, and I won't go through the rationale for that. On the question of magnitude, I have a mild preference for a 50 basis point move basically on the grounds that I believe short-term interest rates have to move pro-cyclically. A 1/4 point increase at this point just doesn't seem to me to be an action of much magnitude at all. My guess is not that it would get lost in the markets--that certainly won't happen--but that it's not going to turn out to be significant relative to the job ahead of us. And if I'm right that short-term rates have to move pro-cyclically, it seems to me that we ought to get started. Therefore, as I said, I would have a mild preference for a 50 basis point move.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, I too would favor tightening at this point for the reasons that have been mentioned. I might note

that I found your discussion of inventories quite interesting. Yesterday, I characterized our forecast as being very similar to that of the Greenbook. One difference is that we have somewhat greater strength in the early part of the period largely as a result of much higher nonfarm inventories than assumed in the Greenbook forecast. With regard to the amount of our move, I do favor 50 basis points. I think it's the appropriate move for some of the reasons that have been mentioned. I'm not in favor of 25 basis points. But if one wanted 25 basis points, communicating as best we can that other increases are coming, I think that would drive one to asymmetry. It seems to me that 25 basis points and symmetry just doesn't represent what most of us think.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. To start out, I guess I disagree with Bob Parry. I came into this meeting thinking that we should do something. As I read expectations and where things are, I would have thought that 25 basis points would not be seen by the market as something that was lacking in courage or testosterone on our part. I want to make some other observations, but could I ask a question of Joan just as we are in this comment process?

CHAIRMAN GREENSPAN. Sure.

MR. SYRON. And the question is, Joan: What do you think the expectations in the market will be if we are to do something? What do you think the market reaction would be to 25 basis points as compared to 50 if either were announced about an hour from now?

MS. LOVETT. When the market was anticipating the move, I think most of the expectations were for 25 basis points. Some of that got built into the rate structure yesterday; I think by the time the day was over about 80 percent reflected that a 1/4 point move might occur today. This morning's numbers on the January employment situation may have moved some of that pricing back out of the market. So, certainly a move of 50 basis points would have to be reflected in the market. Since 25 basis points is not fully in there now, the next 25 basis points would clearly result in some rate back up; rates would have to adjust much more than they have.

MR. SYRON. Well, let me just continue. I think policy has been stimulative but I don't think it has been inappropriately stimulative. I don't want to argue about a month or five or six weeks one way or the other, but we went through a period in which we needed to do something. What we all want to do very clearly is to maximize long-term growth in the economy, controlling real growth. As Larry Lindsey said, controlling prices is a mechanism for doing that. But the reason we're concerned about prices is that we care about long-term real growth, not for some abstract reason. While there's no long-term tradeoff, in the short term the way things work--at least in my model--is that we can't avoid some lost output at the edges; and what we're trying to do is minimize that interval of lost output over time. I'd be cautious about doing 50 basis points because I'm not sure that we have to raise rates 150 basis points. And at this point I wouldn't want to start down a path with fairly fixed notions of where I'm going at the end of it in terms of rates or in terms of monetary policy. I have a notion of where I want to get in terms of

the economy, but not necessarily on what we need to do to get there. I think policy over time has been pretty effective. We're already what I might call orally asymmetric in a sense, given what the Chairman did rather effectively in his testimony. I would strongly suggest doing 25 basis points now with this accompanying change in process. And don't forget this will have a big announcement effect both in the way it is done and the fact that we haven't done anything in 17 months and we haven't tightened in 60 months. I would also suggest that it's not terribly long until the Humphrey-Hawkins hearing and there's going to be plenty of opportunity to be orally asymmetric, if I may use that phrase again, or to indicate how we see things. So, I think going 50 basis points would be depreciating a little too much the opportunity we're going to have to put this in context and may not be fully taking into consideration the announcement effect of doing 25 basis points and announcing it after this long a period of policy inaction.

CHAIRMAN GREENSPAN. Well, I've been around a long time watching markets behave and I will tell you that if we do 50 basis points today, we have a very high probability of cracking these markets. I think that would be a very unwise procedure. It is far easier for us to start the process with a smaller move. And, as Dick Syron says, there's a very large announcement effect. Having stuck with an unchanged policy for so long, it is going to be far easier for us to get on an accelerated path if we need to at a later time. To go more than 25 at this point I think would be a bad mistake. It could generate surprising counterproductive responses in this market. Strangely, it is far easier to do 50 basis points in the second move, not in the first move.

SPEAKER(?). That's right.

CHAIRMAN GREENSPAN. This is a very big move, not because of the magnitude but because of the announcement effect, as Dick Syron points out. I would feel very uncomfortable if we tried to do more at this stage. I think it's the wrong pattern and I must say it would make me really uncomfortable.

VICE CHAIRMAN MCDONOUGH. Could I make a comment?

CHAIRMAN GREENSPAN. Certainly.

VICE CHAIRMAN MCDONOUGH. I very much share the view that the effect of a 50 basis point move today in the marketplace is highly unpredictable. It's sufficiently likely to be damaging in cracking the markets that I think it's a step we should not take.

CHAIRMAN GREENSPAN. Look, the stock market is at an elevated level at this stage by any measure we know of. We could set off a sequence of events here that I think could make the policy path that we have been developing here a difficult one. Governor Phillips.

MS. PHILLIPS. Well, I do have a preference to tighten 1/2 point immediately. It's probably too strong to say that a 1/4 point move is following the market but a good deal of that is already built into the market. I do think that because of the cyclical influences a 1/4 point move won't have as much effect. I don't see anything on the horizon that would warrant an asymmetric directive. Now, having said



that, I will say that I can live with a 1/4 point on the "Fed on hold" theory and the expectation of more to come.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, I'm in the camp that prefers 25 basis points. I am not sure whether we are early or just right or late; I don't know how history is going to judge that. But I am reasonably confident that we're not seriously late and that conditions are not in the process of running away from us on the up side. I just don't see the economy as overheated now. I see it as in the process of approaching full employment but still with some meaningful soft spots. President Parry among others mentioned some important places where that's still evident in the economy. I just don't think we need a strong shock. What we need is a new policy momentum. We have been in a momentum of rest for a long time; I think we need to change that and now is the time to do it. But I believe the 25 basis points would establish that; it would put a new framework in the marketplace and a new orientation to policy. In my view that's what is needed at this point rather than a more serious move than that.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. I certainly buy the fact that this is the time to make a change in policy toward more constraint. But I really favor the 50 basis point move at this point, and I respectfully disagree with the assessment that such a move would crack the markets. I think the markets have already discounted a 25 basis point move and are still burning away at a great rate. I would like to see a stronger move than 25 basis points simply to damp down without a crash the stock market particularly. I think it is getting increasingly dangerous because of the way it has been running. I believe a 50 basis point move will send an unmistakable message that will damp this enthusiasm in the stock market without causing it to crash. If it successfully scotches the inflationary expectations that may be part of the structure of long-term rates, that may have a very salubrious effect in bringing down long-term rates, and I don't think 25 basis points will do that.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, I certainly favor moving and, like others, I have debated in my own mind the difference between a move of 25 and 50 basis points. I was impressed with the tone of the comments yesterday. It does seem to me that there has been a very significant shift toward strength in the reports that we heard yesterday as contrasted with December. But despite all that, I must say that some uncertainties still remain. Things are looking awfully good but there are some questions that we've all talked about that still need to be answered. So, I come down favoring 25 basis points. It does seem to me that 25 basis points with this announcement--which may turn out to be precedential but at least this morning would be unprecedented--will have a very strong signal effect. Therefore, I think in effect we will get more than 25 basis points out of the action that we contemplate. With regard to symmetry versus asymmetry--and this is a different thought--I've come to the conclusion that we ought to get rid of the asymmetric language forever. It seems to me to cause far more complications than it's worth. If we are going to move,

particularly over the foreseeable future, I think we ought to do it as a result of a conference call where we are all participating as opposed to getting all wrapped up in asymmetric language. So, I would strongly favor symmetry now on a continuous basis.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. To me the question remains: If you're going to cut off the cat's tail, what is the optimum number of snips? Normally the answer to that is one. In a policy context, I think that translates to the 50 basis points, but I could certainly live with your recommendation of 25 basis points plus the announcement effect.

CHAIRMAN GREENSPAN. You know, I rarely feel strongly about an issue, and I very rarely sort of press this Committee. But let me tell you something about what's gnawing at me here. I am very sympathetic with the view that we've got to move and that we're going to have an extended period of moves, assuming the changes that are going on now continue in the direction of strength. It is very unlikely that the recent rate of economic growth will not simmer down largely because some developments involved in this particular period are clearly one-shot factors--namely, the very dramatic increase in residential construction and the big increase in motor vehicle sales. Essentially the two of those have added one-shot elements to growth. In the context of a saving rate that is not high, the probability is in the direction of this expansion slowing from its recent pace, which at the moment is well over 4 percent and, adjusting for weather effects, may be running over 5 percent. This is not sustainable growth, and it has nothing to do with monetary policy. In other words, it will come down. And the way a 3 percent growth feels, if I may put it that way, is a lot different from the way the expansion feels now.

I would be very concerned if this Committee went 50 basis points now because I don't think the markets expect it. You want to hit a market when it needs to be hit; there is no significant evidence at this stage of imbalances that require the type of action that a number of us have discussed. Were we to go the 50 basis points with the announcement effect and the shock effect, I am telling you that these markets will not hold still. I've been in the economic forecasting business since 1948, and I've been on Wall Street since 1948, and I am telling you I have a pain in the pit of my stomach, which in the past I've been very successful in alluding to. I am telling you--and I've seen these markets--this is not the time to do this. I think there will be a time; and if the staff's forecast is right, we can get to 150 basis points pretty easily. We can do it with a couple of 1/2 point jumps later when the markets are in the position to know what we're doing and there's continuity. I really request that we not do this. I do request that we be willing to move again fairly soon, and maybe in larger increments; that depends on how things are evolving.

I also would be concerned if this Committee were not in concert because at this stage we as a Committee are going to have to do things which the rest of the world is not going to like. We have to do them because that's our job. If we are perceived to be split on an issue as significant as this, I think we're risking some very serious problems for this organization. I don't think there is a

philosophical difference anywhere around this room. If somebody asked me if I think there is an economic case for 50 basis points, my answer is "most certainly there is a case." Do I think there is a case in the full context of where the financial markets are at this stage and what the expectations in the markets are at this stage? I would say emphatically "no." It's far too risky. We don't need to take those risks. If I could see a very significant benefit from doing 50 basis points, I would say let's do it; I just don't see it. Bob.

MR. PARRY. Mr. Chairman, you certainly made your points very strongly and they are points that one wants to take into account. I think the concern of some who are favoring 50 basis points may be related to the long time between now and the next meeting. Is it possible, as something of a compromise, that we could have an agreement to have a telephone meeting at some intermediate point between the two meetings to see if things have changed to any extent? We certainly would have the benefit of seeing the market reaction to this 25 basis point move. In addition to that, we'd have some more information on the economy, particularly the inventory side, and maybe we could discuss these developments again.

CHAIRMAN GREENSPAN. That's perfectly fine with me.

MR. LINDSEY. Mr. Chairman, if we could make it specific, I would recommend that we do 25 basis points today and have a conference call within two days after your Humphrey-Hawkins testimony.

MR. PARRY. Upon what evidence?

MR. SYRON. May I ask a procedural question? I favor Bob's suggestion. I would be a little concerned about setting a precise date just because we're in this process of change. The announcement, for example, is a change and these are all things that we will openly discuss later on. I think we have to be careful that what we're announcing today is--

CHAIRMAN GREENSPAN. Let me put it this way. I've been Chairman of this Committee now for over six years. I hope I have enough credibility to know when a telephone call is appropriate. I'm watching the same developments that you are. I'd just as soon not set a date. It may turn out that way, Larry, but I don't--

MR. LINDSEY. But there will be a phone call?

CHAIRMAN GREENSPAN. Yes.

SPEAKER(?). I wouldn't put a fixed date.

VICE CHAIRMAN MCDONOUGH. I would very strongly prefer that we not set a precedent that the Chairman, particularly this Chairman, has to agree in advance on the need for a phone call. His record is that he's going to call us if there's something to talk about or if a few of us call him and say we think there's something to talk about and request a telephone conference. I think it's demeaning to the process, to the nature of this Committee, to say to the Chairman, "I'll vote for what you want but we've got to have a phone call." I really think that's a terrible precedent to set.

SPEAKER(?). I agree with that.

MR. SYRON. I agree with that and I also agree with that from another perspective. In being fully open and honest, which we should be, in what we discuss when we release the minutes for this meeting, we don't want half a picture conveyed. We don't want to say that there has been a dramatic change in process and that we went along with this policy but it was with a contingency--that it was really a nod and a wink. It's fine if there's a call, but it has to be on your volition without essentially a nod and a wink agreement that, yes, we'll do this but with a strong presumption that we'll do another 25 basis points in a call. I think that would be wrong. I think it still has to be an open issue.

CHAIRMAN GREENSPAN. Yes, I think Bob is saying precisely the same thing.

MR. JORDAN. I'm willing to defer to your judgment on the market reaction, but the logic of that position is that if 50 basis points really would be the correct move except for constraints of the market, then once we've done the 25 basis points and overcome any concerns about market reaction we would come in with the second installment fairly promptly.

CHAIRMAN GREENSPAN. I'm of the belief that if this economy behaves as strongly as it has been behaving recently, it means that our forecast is wrong and that more is required rather than less. I think it's too soon to make that judgment. But if this economy continues to move, especially if the inventory issue which I raised begins to show its head, I would be strongly supportive of much more rapid and, frankly, larger moves.

Let me make the suggestion then that we move 25 basis points with symmetry, that we watch this process very closely, and that if evidence suggests that this situation is not simmering down, that we have a telephone conference at the appropriate time. At that point we can decide to do nothing, move further, or suggest another telephone conference; we can do a number of things. But it would effectively be a continuation of this meeting. So, I would request that. I don't request often that we try to stay together. That's not what is required here. I think we're all very much on the same focus. It's not as though some of us think we shouldn't do anything, some think we should ease, and some think we should tighten. We've had those occasions in the past and that's a legitimate difference reflected in the nature of the Committee itself. As I listened these last two days, I didn't sense any significant difference within the Committee on the purpose and the goals of what we're doing. I would request that, if we can, we act unanimously. It is a very potent message out in the various communities with which we deal if we stand together. If we are going to get a split in the vote, I think it will create a problem for us, and I don't know how it will play out. I rarely ask this, as you know. This is one of the times when we really are together and I'd hate to have our vote somehow imply something other than the agreement for a tightening move that in fact exists in this Committee. With that I would ask--I'm sorry, Governor Lindsey, did you want to say something?

MR. LINDSEY. You answered my question.

CHAIRMAN GREENSPAN. With that I would request that you read a symmetrical directive with a somewhat tighter--

MR. BERNARD. I'll be reading from the Bluebook on page 24: "In the implementation of policy for the immediate future, the Committee seeks to increase somewhat..."

MR. KOHN. I would say "slightly," Norm.

MR. BERNARD. "...to increase slightly the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint or slightly lesser reserve restraint might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate growth in M2 and M3 over the first half of 1994."

CHAIRMAN GREENSPAN. Okay, call the roll.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman McDonough	Yes
President Broaddus	Yes
President Forrestal	Yes
President Jordan	Yes
Governor Kelley	Yes
Governor LaWare	Yes
Governor Lindsey	Yes
President Parry	Yes
Governor Phillips	Yes

CHAIRMAN GREENSPAN. I thank you for that. I think it's the right move. I think in retrospect when we're looking back at what we're doing over the next year we'll find that it was the right decision.

MR. JORDAN. What is your intention now for implementation?

CHAIRMAN GREENSPAN. I think we're going to make a short announcement.

MR. MELZER. Alan, what is your judgment on adding--I'm talking about the part of our directive where we're just reciting historically what has occurred--some reference to the behavior of narrow aggregates and taking the edge off of the relatively weak growth in the broader ones?

CHAIRMAN GREENSPAN. I would be inclined to change as few things as possible. We are making a very large announcement at this point. Let's put that on the table.

MR. MELZER. That's fine. I just think it may help in terms of people understanding that the aggregates aren't presenting a clear picture of the stance of monetary policy.

CHAIRMAN GREENSPAN. Well, you know it might be best to handle that in the Humphrey-Hawkins testimony.

MR. MELZER. Yes, whatever you decide on that is okay with me. I put that forward as a suggestion that might be helpful in terms of defending our position. Thanks.

CHAIRMAN GREENSPAN. Okay. Here's the statement I plan to release. "Chairman Greenspan announced today that the Federal Open Market Committee decided to increase slightly the degree of pressure on reserve positions. This action is expected to be associated with a small increase in short-term money market interest rates. The decision was taken to move toward a less accommodative stance in monetary policy in order to sustain and enhance the economic expansion. Chairman Greenspan decided to announce this action immediately so as to avoid any misunderstanding of the Committee's purposes given the fact that this is the first firming of reserve market conditions by the Committee since early 1989."

SPEAKER(?). Perfect.

SPEAKER(?). Good.

SPEAKER(?). Perfect.

SPEAKER(?). Fine.

CHAIRMAN GREENSPAN. Why don't we break at this stage for coffee, assuming it's there.

MR. MCTEER. You will release that now?

CHAIRMAN GREENSPAN. Yes, well, we have to release it ahead of "Fed" time. We are going to release it before 11:00 a.m.

MR. KELLEY. So we are are adjourned or recessed or whatever.

[Coffee break]

MR. KOHN. I will be referring to page 8 in the Bluebook in the course of my report. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. As I understand it, we have basically two ways of looking at the monetary aggregates. Either we're going to look at them and make them usable and useful in policy determination or we are not. If they come back into vogue and they are working, what we want is a range that is consistent with price stability. As I understand it, that's 1 to 5 percent for M2, if it's working.

MR. KOHN. Right, assuming a flat velocity.

CHAIRMAN GREENSPAN. Yes.

MR. KOHN. The monetary aggregates could come back in a sense of predictable velocities. In fact, we haven't done that poor a job of predicting them in recent years, but we believe it's not a stable situation. But you're right; if the M2 velocity comes back to its

flat path, the 1 to 5 percent range would be approximately the right range.

CHAIRMAN GREENSPAN. If that's the right one, then the question is what do we do in the interim? We have a choice of making them lower, in which case we're basically saying that M2 doesn't matter. As Paul Sarbanes said, we've shot the bullet and then drawn the circle around the bullet hole. If M2 starts coming back and we have a 0 to 4 percent range, do we want then to raise the range to a price stability range? It raises an interesting game theory question here. I'm almost inclined to say we ought to leave it where it is, and if it's not working it's irrelevant, and if it starts to work we are where we want to be.

MR. SYRON. Why lower it and have to raise it?

CHAIRMAN GREENSPAN. I think raising it gives the wrong signal. We've been trying to get the M2 range to price stability, and we finally got it here. It may be true that M2 isn't working, but the range is working! [Laughter] And if M2 comes back, we actually will not be pressured to move on it. Anyway, that was supposed to be a question!

MR. PRELL. Mr. Chairman, a possible answer may be that when we made some of those recent adjustments, we did emphasize their technical nature in response to some recent developments in the behavior of the aggregates, so there might be some feedback.

CHAIRMAN GREENSPAN. Yes, but I have this technical problem where if it's technical we're not using it, and if it works we want it to be right. And to make it right by raising it, I find difficult. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, I agree with you completely on a 1 to 5 percent range for exactly the reason you gave. My question is on debt, however. If you look at Chart 4, the world was lovely until about 1981 or 1982, then it fell out of bed. And unlike M3 and the rest of them, it didn't even change course. It looks as if during the 1980s we moved to a new secular plateau. We know what happened during that period: There was corporate restructuring in favor of debt for lots of reasons; there were lots of learned papers to explain that development. Similarly, households moved toward debt. Not only have those trends stopped in the corporate sector, but they are now reversing themselves. Equity is now being issued to replace debt. Wouldn't it be reasonable to expect that, if anything, the velocity of debt would accelerate in the years ahead largely as a result of responses in the corporate sector?

MR. KOHN. I think it's a balancing of a couple of things here--the federal government versus the private sector. The private-sector debt growth as you know was very low and total debt growth actually was close to GDP, as you can see by the flatness of that line, largely because the federal government was such a heavy borrower. Now, federal government borrowing is being cut back but we believe the private debt growth will be picking up a bit; in fact, it did over the second half of last year. The projection for 1994 is basically that the pattern of the second half in terms of household and business borrowing--there are tradeoffs between the two but taken

together the total--will be about the same as it was in the second half of last year. We're not predicting an acceleration of that.

MR. LINDSEY. You are basically predicting an elasticity of one with respect to nominal GDP and debt spending.

MR. KOHN. Although I think that's what works out of a complicated underpinning in which we say, as Mike pointed out yesterday, there will be more corporate use of external funds over the coming year or two because their cash flow is slowing relative to their spending. Household borrowing growth, on the other hand, is expected to slow a little.

MR. LINDSEY. But there has been a secular change in the relative costs of debt and equity in the corporate sector. They are voting with their feet now and issuing new equity, particularly IPOs and what have you.

MR. PRELL. You could greatly overstate these trends. We are talking about \$20 to \$25 billion a year of net equity issuance, which is a very small part of the overall external financing activity in the economy. So that isn't a major element of the financial flows at this point.

MR. LINDSEY. In the takeover of Paramount, what I find striking about the composition of that offer is how heavily equity oriented it is compared to offers five and six and seven years ago.

MR. PRELL. But it's less so than a lot of the other transactions. In fact, that one includes some cash, whereas most of the major transactions have just been stock or stock swaps. So, indeed in our forecast we're assuming we're going to see some trickle of cash buyout transactions over the coming years because our sense is that the firms probably have gone a long way in adjusting their balance sheets and trying to get the mix that they will be comfortable with. Our tax system, with an increase in corporate income tax rates, tilts even more in the direction of favoring debt than it did a year ago.

MR. LINDSEY. Well, I don't know if I would make that conclusion for the aggregate effect of the taxes. I might argue the other way.

MR. PRELL. Well, okay, I was just looking at the marginal taxes.

MR. LINDSEY. But while I agree with the alternative I M2 and M3 target ranges, I prefer alternative II on debt.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. I have a question. I'm probably the next to the oldest person in this room and I remember M1. The precipitous decline in M1 growth shown on page 13 puzzles me. What's the rationale or the reasoning behind that?

MR. KOHN. Going from 1993 to 1994, we have two special factors. One is the mortgage-backed securities situation, which added



a couple percentage points to M1 in 1993 and will subtract a little in 1994. We are assuming that the refinancings of mortgages will settle down or actually decline, and they have, and that subtracts from demand deposits. Number two is which shifted a bunch of deposits, about \$7 billion or so--we're not quite sure how much yet but in that order of magnitude--from NOW accounts to MMDAs. It doesn't affect M2, but we think that subtracted about 3/4 of a percentage point from M1 growth. For M1 growth, when you go from 1994 to 1995 the principal effect is interest rates. We've assumed that the short-term interest rates consistent with the Greenbook forecast start on an upward trend in the second half of 1994 and continue that way through 1995. One thing we have found about M1 is that it is a very interest-sensitive aggregate. There's the issue of compensating balances and the earnings effects, but even more so, I think, there's the issue of NOW accounts. When time deposit rates or maybe even savings deposit rates start to rise with market interest rates, some of the funds that had been shifted into NOW accounts--because rates on NOW accounts and small time deposits were about the same or not much different--may well be shifted back to time deposits. So, we think the NOW accounts in particular have become extremely interest sensitive. And that's why you see the velocity of M1--on Chart 5--has become highly variable, especially after 1980. It's because of the interest rate effects. Primarily what's happening, going from 1994 to 1995 in particular, is the effects of the rising interest rates.

MR. LAWARE. So, the major effect is in the demand deposits segment of M1?

MR. KOHN. Demand deposits but the NOW accounts as well. We think that rising interest rates will pull funds out of the NOW accounts into small time deposits which would have, obviously, no effect per se on M2 but would have a major effect on M1.

MR. LAWARE. What is the underlying assumption about the spread between a NOW account rate and a CD rate?

MR. KOHN. We would assume that that spread would widen. Our experience is that the NOW account rates adjust very slowly and sluggishly whereas the small time deposit rates in recent years have come to adjust fairly rapidly. We would think that the retail CD rate would rise with a lag but fairly promptly as the fed funds rate rose and other market interest rates adjusted higher, but that the NOW account rate would be quite sluggish.

MR. LAWARE. Thank you.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. A couple of questions, Don, about your table on page 8. I realize the risk of making too much out of these projections, but the first question relates to the Chairman's remarks about the ranges. As I understand your M2 projection in the outer years, under all three of these alternatives M2 is in the upper, upper half of all of them, even the 1 to 5 percent. That would assume that if we went to your alternative II, 0 to 4 percent for M2, we would at some point have to raise the range if the idea was to have the range center around what we would wind up with in equilibrium.

MR. KOHN. Yes, although I think the baseline is a little toward the upper end, but we are assuming that these special trends in velocity do come to an end. We do have some declines in short-term rates in 1996 and 1997 in the tighter and easier alternatives, which push up money growth a little. We have long-term rates coming down so we have the yield curve flattening. So, there are a few special factors, which are pushing up money growth out there. But the underlying assumption is consistent with what the Chairman said, that is, aside from those special factors having to do with the shape of the yield curve, in the out years we assumed--without any evidence yet that it's happening--that the big shifts in money demand did cease.

MR. JORDAN. When I look at your nominal GDP projections and the M2 out at the end of your projection, I notice your velocities are zero for all three. It's the constraints that you impose; you've assumed that by that point--

MR. KOHN. Yes. When the interest rate effects die down in 1998 and 1999, we have assumed that velocity growth will be zero as you said, that the special shifts will--

MR. JORDAN. Okay. It struck me, when I looked at the top and the bottom of the federal funds rate projections for the out years and the top CPI projections, that you have under all three alternatives either 4 or 4-1/2 on the funds rate. That means the funds rate--I don't like the words tighter and easier so I won't use them--on the less inflationary path is above the inflation rate.

MR. KOHN. Yes.

MR. JORDAN. And even substantially above the nominal GNP. In Street jargon, policy is becoming relatively more restrictive going forward in that the inflation rate and inflation expectations are coming down more than the nominal yield and you're leaving the funds rate above nominal GDP six years out.

MR. KOHN. It's two things. One is that we recognized when we talked about whether we should fine-tune this strategy, in particular when we got out there, that in fact real interest rates are rising in this tighter strategy. We have the unemployment rate still at 7 percent. I think that in fact if the Committee were to engage in the tighter strategy--that is, raise rates higher now--it would end up reducing the funds rate in the out years. It just seemed like a degree of fine-tuning that perhaps wasn't needed. But we recognized the problem you're raising, which is that the real rate is rising out there, and the Committee would have to bring it down. I think it is important to emphasize that to get the kind of disinflation embodied in this scenario and without credibility effects--as we pointed out we're just working off short-run and long-run Phillips curves--you do need to keep the real interest rate a bit above its equilibrium level in this tighter policy to keep slack in the economy, to keep the inflation rate pointed down. So, it's not surprising that the real rate in the tighter strategy is above the real rate in the baseline or the real rate in the easier strategy; that corresponds to the various unemployment rates in the model which you need to get the inflation rate--

MR. JORDAN. Well, there's no doubt the lack of credibility has effects on this. But the last time we were running for a sustained period at 2 percent or less on the CPI--as in the period from 1997 through 1999--we had a lot lower short-term rates than you are suggesting here.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I don't have any questions on this.

CHAIRMAN GREENSPAN. Okay. Any further questions? If not, would somebody like to start the roundtable on what you want to do?

MR. SYRON. I agree with what I think was implicitly the Chairman's suggestion, which is that I would leave these ranges alone. I understand the point that Larry raised on debt, and I could go either way with that. But my own personal view is that it risks putting a little too fine a point on this. That's a tactical issue; it's not a substantive issue. I think the comment was correct, but given our level of knowledge on these things and the disruptions that we are and have been subject to, I'd be very wary of making a relatively small change in one of these ranges because I think it could imply an ability to forecast and to understand these things that is greater than we have. I don't know if you want my view now on presenting a forecast for 1995, but I would have fairly serious reservations about going ahead with that. As has been said, that is far enough out that it certainly incorporates as much an objective as it does a pure forecast. And I think that suggests we need to think very carefully about whether we want to do that or not. Thank you.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. Well, I don't think we should change the targets for the reasons that Dick Syron just went through. I agree with him. Given the kinds of uncertainties we're facing with M2, especially now, I do think that that raises a problem. Not having a nominal anchor in some explicit way raises a problem for monetary policy, but I don't think that putting out the 1995 forecasts would solve that problem. It would raise more questions than it would answer about preferences and tradeoffs and a lot of other things. So, I think that would be a bad idea. To me the way to deal with that problem basically is just to continue publicly to communicate our firm commitment to price stability over the longer haul, no matter how tired people get of listening to us say that and how tired we get of listening to ourselves say it. But that I think is our best option in that sense.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Well, Mr. Chairman, I think there are so many uncertainties at this point with respect to M2 that we shouldn't change the range. And those uncertainties are magnified by the fact that if we do have an increase in rates, M2 could grow much more quickly, with defections from asset funds; this effect could in fact be heightened if there is concern about the safety of these uninsured assets. If we're confident about our current estimates, I think there's enough scope in the current ranges to adjust policy the way we want to. With respect to a tighter alternative, I would find it very

difficult to assume a policy path that shows a rise in unemployment from the current level that is basically sustained over a five-year period. So, I would favor retaining the provisional ranges that we have.

CHAIRMAN GREENSPAN. How do you stand on the 1995 publication?

MR. FORRESTAL. I don't think we ought to do that; I would just have 1994.

CHAIRMAN GREENSPAN. Having seen the results, in terms of the forecasts submitted, I am a little dubious for the reason that Jerry Jordan pointed out yesterday. President Hoenig.

MR. HOENIG. I think we should stay with the current targets as we have them, no changes. And in my view we should not be projecting 1995.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, I think our current ranges are consistent with our longer-term objectives and I would not be for changing them. In addition, I would not favor using the 1995 projections.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I'd adopt the provisional ranges shown in alternative I. And I agree with your logic, Alan. I've always felt that we ought to get those ranges where they ought to be in terms of some concept of long-term price stability and then not move them around, even though they're not useful right now. I wouldn't provide the 1995 projections. My reason has to do with the fact that they incorporate different underlying assumptions. They really are not comparable. People have made different assumptions about monetary policy in particular. If we were going to do anything along those lines, although I wouldn't suggest that we are ready to, we'd be better off to set a nominal GDP target which, of course, implies an inflation target. That's something we might want to explore in connection with setting provisional ranges for 1995, but we're certainly not ready to talk about it seriously right now.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. I would prefer to stay with the provisional ranges and I would be strongly opposed to releasing the 1995 projections.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, I would not change the provisional ranges and, like Governor LaWare, I feel very strongly about not releasing the 1995 forecasts.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. I prefer the 1 to 5 percent range on M2. I don't have a clue about the debt number; I never did. While in principle I prefer publishing not only the 1995 numbers but beyond that, I certainly wouldn't want to publish these numbers! [Laughter] I'd like us to publish CPI objectives out through 1999, but I sure don't like the numbers that are companions to them. So, I'm stuck with saying: Don't publish 1995 unless we come up with some better numbers!

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I agree with what has been said. I would keep the ranges as they are. I don't see any point in calling any more attention to the aggregates at this time. And I would not publish the 1995 forecasts.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. I would keep the ranges where they are and not publish the 1995 forecasts.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. The same: no change in the ranges and no release of 1995 forecasts.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. I agree with everybody on everything. [Laughter]

SPEAKER(?). All the time!

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. I agree with maintaining the provisional ranges and believe we should not release a forecast for 1995. There's no question in my mind that it would become a forecast with which we would be expected to live and there's no consensus in the Committee on what such a forecast should be.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I'd declare victory on the M2 and M3 ranges, and I don't have any feelings about debt at this point. And we're not ready for an extended forecast beyond the next year.

CHAIRMAN GREENSPAN. I think we're as close to unanimous as we can get on these sorts of things. Why don't we vote on the same ranges and no publication of 1995 forecasts.

MR. BERNARD. I'm reading from page 23 now in the Bluebook. The first sentence is unchanged, and continuing: "In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 1 to 5 percent and 0 to 4 percent respectively, measured from the fourth quarter of 1993 to the fourth quarter of 1994. The Committee anticipated that developments contributing to unusual velocity increases could persist during the year and that

money growth within these ranges would be consistent with its broad policy objectives. The monitoring range for growth in total domestic nonfinancial debt was set at 4 to 8 percent for the year." Then at the bottom of the page, "The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

CHAIRMAN GREENSPAN. Call the roll.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman McDonough	Yes
President Broadus	Yes
President Forrestal	Yes
President Jordan	Yes
Governor Kelley	Yes
Governor LaWare	Yes
Governor Lindsey	Yes
President Parry	Yes
Governor Phillips	Yes

CHAIRMAN GREENSPAN. I'd like to take a moment before we adjourn to note the impending retirement of one of the System's most distinguished economists, Dick Davis. During his 33 years at the New York Bank he's provided important service not only to that institution but to the System as a whole. Repeatedly when there was a major issue regarding monetary policy--for example, the role of the monetary aggregates or what our operating procedures should be--we all looked to Dick for leadership in our research efforts. Dick has always exhibited an extraordinary ability to blend sophisticated, technical analysis with common sense and an understanding of institutional realities. In addition, he has been a model for all economists in the System. We thank you very much and wish you well in your future endeavors. [Applause]

CHAIRMAN GREENSPAN. Dick, if you want to make a speech you're welcome.

MR. DAVIS. I appreciate your remarks very much; thank you.

MR. SYRON. Good speech!

CHAIRMAN GREENSPAN. Well, let's adjourn to lunch.

END OF MEETING