

**Federal Open Market Committee
Conference Call
January 3, 2001**

A telephone conference meeting of the Federal Open Market Committee was held on Wednesday, January 3, 2001, at 11:00 a.m.

Present:

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

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

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

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

Mr. Beebe, Ms. Cumming, Messrs. Eisenbeis, Goodfriend, Howard, Lindsey,
Reinhart, Simpson, and Sniderman, Associate Economists

Mr. Fisher, Manager, System Open Market Account

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

Mr. Winn, Assistant to the Board, Office of Board Members, Board of
Governors

Mr. Madigan, Associate Director, Division of Monetary Affairs, Board of
Governors

Messrs. Oliner, Slifman, and Struckmeyer, Associate Directors, Division of
Research and Statistics, Board of Governors

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

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

Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs,
Board of Governors

Messrs. Hakkio and Hunter, Ms. Mester, Messrs. Rasche, Rolnick, and
Rosenblum, Senior Vice Presidents, Federal Reserve Banks of
Kansas City, Chicago, Philadelphia, St. Louis, Minneapolis, and
Dallas respectively

Mr. Fuhrer, Vice President, Federal Reserve Bank of Boston

Transcript of Federal Open Market Committee Conference Call of
January 3, 2001

CHAIRMAN GREENSPAN. Good morning, everyone. Let me start by saying “Happy New Year.” I guess that's appropriate.

Since this is our first meeting of the year, our rules require us to select a Chairman and Vice Chairman and the Reserve Bank to carry out our open market operations. I will turn the meeting over to Governor Ferguson to chair this part of the meeting.

MR. FERGUSON. Thank you very much. Let me open the floor for nominations for two positions, that of Chairman of the FOMC and Vice Chairman of the FOMC. Governor Kelley.

MR. KELLEY. Well, you might at least let me volunteer! [Laughter]

MR. FERGUSON. I thought you might want to volunteer.

MR. KELLEY. I would like to nominate Alan Greenspan to be Chairman of the Committee and William McDonough as Vice Chair.

MR. FERGUSON. Are there any other nominations? Are there any objections? Hearing no other nominations and no objections, let the record show that Alan Greenspan was elected as Chairman and William McDonough was elected as Vice Chairman of the FOMC to serve until the first meeting of the year 2002. Congratulations to you both.

CHAIRMAN GREENSPAN. Thank you. I approve of the democratic process!

VICE CHAIRMAN MCDONOUGH. Thank you.

MR. FERGUSON. We do not allow for recounts and there is no one on this Committee named Chad!

Now we can turn to the next piece of business, which is the selection of a Reserve Bank to conduct System open market operations for the coming year. Are there any nominations for that? Governor Kelley, if you would like to volunteer, that might help move things along.

MR. KELLEY. I was behind the curve on that one, sorry. I thought you were going to ask somebody else.

MR. FERGUSON. Why don't you propose New York for the moment?

MR. KELLEY. All right, I nominate the Federal Reserve Bank of New York.

MR. FERGUSON. The Federal Reserve Bank of New York has been nominated. Hearing no other nominations or objections, I will also note that the Federal Reserve Bank of New York has been selected as the Bank authorized to conduct System open market operations for the coming year. And with that, let me turn the meeting over to Chairman Greenspan. Thank you.

CHAIRMAN GREENSPAN. Thank you very much, Governor. The purpose of this meeting is to extend our monetary policy discussions at our December meeting. As you may recall, we left the door open for an evaluation of the potential need for an intermeeting policy move. The evidence since that meeting is fairly clear and regrettably somewhat negative, to say the least, in certain respects. The rate of economic growth continues to fall, although it's by no means a breakaway on the down side. We will be seeing a significant increase in initial claims and insured unemployment when the data are released tomorrow morning. There was an upward revision, I might say, in last week's initial claims figures, which I was given by the Department of Labor during the week. And on top of that the early indications are that there's going to be a significant increase for the subsequent week, the last week in December.

As you probably are all acutely aware, the S&P earnings per share numbers are being revised down at a fairly aggressive pace week-by-week, to the point that now the analysts' estimates for both the fourth quarter and the current first quarter are negative versus a year ago. To be sure, the analysts have revised their numbers upward for the second half of 2001 and 2002, but the problem here is the difficulty of getting a handle on what is clearly a decelerating path. And at this stage there is as yet no evidence that the downward revisions on the part of the analysts have come to an end. As we've all observed, orders are weakening across the board. Pockets of high-tech strength persist, but generally we're seeing a very poor orders pattern and deterioration in a number of the industrial sectors of the economy.

The Christmas season, as you know, was rather poor despite the fact that sales in the last two weeks of December did come back somewhat. But essentially they were coming back because Christmas retail goods are sold eventually, and the only issue is at what price. What that means in real terms or in profitability is something on which we will not get any good information for at least a number of weeks.

The greatest concern, I think, is the extraordinary weakening that apparently took hold of the motor vehicles industry in December. Our evaluation in the early part of the month, after talking to industry analysts, was that there would be a modest decline seasonally adjusted in auto sales in December relative to November. But when we got an update later in the month, there was a very significant downward revision, implying that the second ten-day figures were really quite weak. And the estimate for the third ten days was such that the projected sales number for December now indicates a dramatic decline. We will get preliminary data for December tomorrow and final results probably on Friday, but the cutbacks in production schedules we're all seeing are consistent with a very weak system. Indeed, in our estimates, we're reducing the

real GDP growth by 1-1/2 percentage points for the first quarter, leaving it at 1.7 percent. Even though that 1.7 percent does imply a degree of stabilization, it is still a forecast at this point.

While consumer confidence in an absolute sense remains historically high, we've all been aware of a very significant erosion in confidence. And much the same pattern has been evident in the NASDAQ, although I must say that is less definitely the case with respect to the Dow Jones Industrial average. Finally, the data and the anecdotal evidence that are coming in from the rest of the world continue poor. Europe, to be sure, is doing somewhat better than other parts of the world, but the economies of Japan, East Asia, and a number of other foreign nations are looking weaker. Moreover, what we're probably going to observe anecdotally is that a good deal of that weakness is reflective of what is occurring here in the United States.

As I said previously, however, we're certainly not yet in a free fall. I say "not yet" because a free fall doesn't look like a free fall until you really start falling. And there are elements of stabilization in the picture. Homebuilding, obviously responding to the lower mortgage interest rates, has been doing somewhat better. That sector has basically stabilized. And the most recent data on private nonresidential construction that came out this morning were reasonably good. Oil prices have come down and the implied "import tax" associated with that also has come down. So, that is removing a very major negative. Obviously, there are continued drains on the purchasing power of household incomes as a result of increases in natural gas and electric power prices. But there we have largely an issue of shifts among sectors within the United States; it's not in the form of an "import tax" that the oil price changes created.

We are getting some positive evidence in the area of mortgage financing in that the volume of refinancing has gone up quite considerably in the last week or two. And our information for this particular period indicates that the "cash out" amounts from refinancing are

fairly substantial. That represents a net addition to purchasing power in the sense that it's an equity extraction from homebuilding and one that is suggestive, at least on the basis of a survey we did about nine months ago, that we will get a rather significant impact from it.

The evidence we have of a retrenchment, which is occurring fairly rapidly and very markedly, is more concentrated in industrial production than in the rest of the economy, which suggests that we are observing an inventory readjustment process. To be sure, inventory-sales ratios have not been going up in any general way, but they have flattened out after being on a pronounced long-term downward trend. And it's by no means self-evident that what we're observing here is inventory backing up from what it otherwise would have been if we had had a continuing decline in the underlying inventory-sales ratios.

Certainly, inflation expectations are continuing to decline. The most formidable piece of data we have there, obviously, is the spread between the TIPS real rates and the illiquid nominal Treasury rates of comparable maturities, and that has been going down quite appreciably in the last couple of months. And while one may raise serious questions about whether the absolute level of the implied forecast of consumer price inflation is a realistic one, the fact that it has come down probably is real. Indeed, the anecdotal evidence that we're getting on pricing power is consistent with that. That is, pricing power continues to decline. What that suggests in a way is that the real funds rate has been going up even though we haven't moved the nominal funds rate.

In any event, looking at all of these data, it strikes me that we have to move the funds rate lower. As we've discussed in previous meetings, I do believe, when we're moving rates higher or moving them lower, that we try to make certain we do at least what we need. The result is that we almost invariably program an excess of moves, which means that the last move

we make is usually not necessary, but to take the risk of not doing it is too high. Therefore, when we move in a different direction for the first time, it's probably wise to remember that the existing level of rates embodies one more move than we needed to do. In the current situation then, rates are higher than we actually need, a fact that is reflected in the very sharply declining yield curve from the spot overnight rate out to two years. What the markets effectively are saying to us is that the funds rate is too high, and I think all the evidence does suggest that that is correct.

I would hope that this morning we could move the funds rate down 50 basis points and retain the balance of risks statement to the down side. I put that out for discussion with one further element, namely, that if the Committee decides to go along with such a reduction, the Federal Reserve Board subsequently will meet and presumably move the discount rate down. At the moment we have requests from a number of Reserve Banks for a 25 basis point reduction, which we would accept. But we would go further and indicate that we would entertain an additional 25 basis point reduction in the discount rate so that we would keep the spread between the funds rate and the discount rate unchanged. I put that proposal out for consideration.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, this is Bill McDonough. May I make a comment, please?

CHAIRMAN GREENSPAN. By all means.

VICE CHAIRMAN MCDONOUGH. I believe that what you are recommending is very much the policy action that should be taken in all of its respects. Let me add some additional elements to the very good analysis of the real economy, as seen from the data and supported by some anecdotal evidence, you have cited. I believe that the markets and the leaders of major firms in the world are at or near a point of psychological crisis. The pessimism about

what is likely to happen in the economy is at a point where it can start feeding upon itself, which could make the extent of the slowdown in the expansion greater than would be in the interest of the country. That, therefore, makes it even more clear that we should act.

A number of us often wonder about the credibility of the Federal Open Market Committee when we consider taking an action that would be rather dramatic both in its timing and its degree. I believe very strongly, as I've said on many occasions, that we maximize our credibility by making the moves that are necessary when we deem them to be necessary. Merely maintaining a tough-line monetary policy for the sake thereof diminishes our credibility. We enhance it and do the best for the country by taking aggressive action when it is necessary, and I believe that at the present time the action you suggested is very necessary indeed. Thank you.

MR. HOENIG. Mr. Chairman, this is Tom Hoenig. May I speak next?

CHAIRMAN GREENSPAN. By all means.

MR. HOENIG. I also agree with your recommendation and I would reiterate my point that the funds rate has been above where it should be for a little while now. I think we should make our more aggressive moves when the rate is clearly above where the economy suggests it should be--above the natural rate or whatever we want to call it. That's because in my view the risks then are less than they are if we wait until the end of a series of policy actions to make our big moves. So I believe we should start with a fairly significant move--and your proposed move is significant, I think--and then decide whether we should whittle the size down as we get closer, hopefully, to the correct rate. So I would support a 50 basis point move now. And I think the risks still are on the down side because if in fact the economy is slowing as you're suggesting--and I think it is--the natural rate may continue to decline. So we may be chasing that rate for a while. In my view those are real risks for us to be mindful of as we go forward.

MR. STERN. Mr. Chairman, this is Gary Stern.

CHAIRMAN GREENSPAN. Yes, Gary.

MR. STERN. I also support your recommendation. As I commented at the December meeting, I had a sense that we were confronting an inventory correction. That impression has been strengthened in my mind, and I think that correction has increased the risks to the down side. Similarly, what has happened to equity values, though I don't want to exaggerate that, clearly has reversed the wealth effect and has added to pessimism. Therefore, I believe the action that you are suggesting is appropriate under the current set of circumstances.

MR. PARRY. Mr. Chairman, this is Bob Parry. I certainly agree with your recommendation. I think a 50 basis point cut is appropriate at this point. One question I have relates to the discount rate. When we were discussing several months ago--I guess it has been longer than that now--how we might administer the discount rate in the future, we talked about the possibility that the rate would become a penalty rate. We said then that the appropriate time for doing that would be when rates were coming down. Is it your thought that this would not be a time to adopt that new policy with regard to the discount rate because it hasn't been explained sufficiently to the market?

CHAIRMAN GREENSPAN. That's right, Bob. We've discussed that here and, as you know, Ned Gramlich has been our lead Governor on this issue. We've concluded that it's probably wise to have a specific policy decision by the Federal Reserve System on this and then use an occasion such as the Humphrey-Hawkins testimony to explain the purpose, the goal, and the reasons for the new approach. The plan would be to implement it after that rather than do it in conjunction with a policy move and hence create a degree of confusion in the marketplace, which probably would not be wise to engender.

MR. PARRY. Okay, thank you. That makes sense to me.

MR. BROADDUS. Mr. Chairman, this is Al Broaddus. May I speak now?

CHAIRMAN GREENSPAN. Certainly.

MR. BROADDUS. Let me start off by saying that I support your proposal. I lost my Committee membership three days ago but if I still had a vote, I would vote for the proposal. There has clearly been a very negative turn in sentiment. I'm seeing it in our District. I'm getting phone calls that I don't normally have to field. Referring to what Bill McDonough said about credibility, precisely because our credibility is very high now as a result of our policies over a long period we have some leeway to react to this situation. And I think this is probably a time to spend some of that credibility.

Having said that, it probably won't surprise you that leading off with a 50 basis point move and a discount rate move along with it is a bold step and it gives me a little pause. If I'm not mistaken, this is the only instance in your tenure, Mr. Chairman, where we've begun a series of easing moves--if in fact it turns out to be that--with a 50 basis point reduction, except for the 1987 market break. So I think it will be a strong signal because I don't believe it is fully anticipated. The key risk, as I see it, is that a bold move like this as our first step may build significant expectations of a substantial further easing down the road, beginning perhaps as early as our next meeting. When we do a 50 basis point move at the end of a series of moves in one direction, that is sometimes seen as a signal that we've finished the string of moves. When we start at the beginning with such a move, it might actually have some opposite effects. And I worry a bit that market expectations could get ahead of us.

With that in mind, in packaging this move and describing it publicly we might consider talking in terms of taking back the last 50 basis point increase that we did last May. That might help to keep things in perspective. But with that caveat, again, I support the move.

CHAIRMAN GREENSPAN. Actually, one thing that I think is important is to indicate in our press statement that there is little evidence to date of any deterioration in the long-term advances in technology and the related expansion in productivity. That would essentially say that we are reacting to a short-term situation and not to a fundamental change in our overall view.

VICE CHAIRMAN MCDONOUGH. This is Bill again. I think that's exactly the right message to give.

CHAIRMAN GREENSPAN. And in Lynn Fox's and Dave Skidmore's off-the-record discussions with the press, they can convey that we're not all of a sudden signaling the prospect of a massive collapse in the federal funds rate. Indeed, I don't think we should presuppose that whatever we do today suggests anything very specific about what we will do at the next meeting because we will make that decision then on the basis of the evidence that materializes between now and then.

MR. HOENIG. Mr. Chairman, this is Tom Hoenig. I'm a bit uneasy with what you've suggested. Although I think the long-term outlook still may be fundamentally sound, I'm not sure we know that because events have come on rather rapidly in some areas. So I don't know that we want to be too far out on that limb in terms of how strong we think the economy will be, going forward.

CHAIRMAN GREENSPAN. I think we have to be careful about appearing to suddenly abandon a long-term proposition because at the moment the fact is that there is little

evidence of a deterioration in the expectations of security analysts regarding longer-term earnings. Actually, the orders patterns are holding up in a number of sectors--in other than the dot-com and PC areas. So I'm concerned that in doing this we not be perceived as suggesting to the marketplace that we know something about the economy that they don't know--that we have evidence of an economy that is unwinding at a rapid pace. That is clearly not the case.

MR. HOENIG. Yes.

CHAIRMAN GREENSPAN. It's a very tricky issue to manage, but I don't see that we have much choice but to try to do it that way.

MR. HOENIG. I agree with you. I guess I feel a little more comfortable with Al Broaddus's approach of talking in terms of taking back some of the increase that we did last year.

CHAIRMAN GREENSPAN. I think that can be handled by Lynn Fox and Dave Skidmore as they speak to the press. They can put that spin on it.

MR. HOENIG. Okay.

CHAIRMAN GREENSPAN. We can't make this issue too complex because I think that will create more problems for us than we would like to create.

MR. HOENIG. That I agree with.

MS. MINEHAN. Mr. Chairman?

CHAIRMAN GREENSPAN. Yes, Cathy.

MS. MINEHAN. I want to speak a bit about my perceptions of this move. I am in agreement with a move in this direction. I, too, have been quite surprised by the degree to which the tone in the economy has become so much more negative over the couple of weeks since we last met. I think one can look at this move as President Broaddus has suggested, as a taking back of our last move or to some extent as "insurance." I know you hate that term, or you have hated

it in the past. But I view this in some sense as insurance that the current negative attitude, which seems to be creeping into so many areas, does not result in an overly negative impact on the economy. We have an economy that is slowing, but one whose long-term prospects seem sustainable and solid, absent a negative spillover effect from this overwhelming market-driven or psychological process--however you want to characterize it--that's occurring. If we look at this as either a taking back of our last increase or as insurance against a spreading negativism--as a supportive kind of action somewhat like the 50 basis point move in 1998, which was a second move but also done between meetings--it makes more sense. That perhaps would help to deal with this issue of whether we see some extremely negative developments out there in terms of a potential collapse of the real economy. I agree with you that we don't see that. If we were looking just at the real economic data, we would say that the economy appears to be slowing from a 5-1/2 to 6 percent rate of growth to around 2 to 2-1/2 percent, but that's not terrible. It's the change in tone and the speed with it seems to be occurring that is terrible and that this move could help. I think if we phrased it that way, as a preemptive type of action rather than a reaction, it might be better.

CHAIRMAN GREENSPAN. Well, the only problem is that it is by no means obvious that the economy is growing at 2-1/2 percent.

MS. MINEHAN. Right.

CHAIRMAN GREENSPAN. If it were and if it were stabilizing at 2-1/2 percent, I think we could be quite pleased with ourselves. But the evidence suggests that the rate of growth is moving closer to zero in the first quarter even though that's not our official forecast. I say that because in a period like this the data that we deal with, remember, almost always tend to be revised downward. When we look back retrospectively at periods like this, they usually turn out

to be worse than the initial impressions because a lot of the preliminary estimates involve merely plugging in the numbers of the previous month before the pace of activity went down. So I think we also have to be a bit careful about suggesting that there's a host of psychological problems out there that we are going to minister to by changing the federal funds rate. That may well be the case, and I hope it is, but we can scarcely persuade people in the market that they have an unrealistic view of what is happening and we're going to move rates down and change their view. I don't think that works. As for talking about taking back the last rate increase we did, I think you're quite correct that we ought to employ that strategy. We don't want to imply that we see developments in the marketplace that the rest of the world does not see because we have access to data that they do not have. But we really are not in a position at this stage to say that the change in the rate of growth has gone to zero. The evidence at this particular moment suggests that it is still declining. And until we stabilize the rate of growth, even if at a very low level, we are in the position of the person falling off the 30-story building and still experiencing a state of tranquility at 10 floors above the street.

MS. MINEHAN. So in essence we're saying that the expansion is moving in a downward direction at a faster rate than we had anticipated a couple of weeks ago and, therefore, we are acting in a preemptive way to try to stabilize the rate of downward movement?

CHAIRMAN GREENSPAN. Frankly, that's the way I would hope this could be read.

MS. MINEHAN. So in a sense it is an insurance policy that would foster some amelioration in the various factors that are propelling the downward movement?

CHAIRMAN GREENSPAN. Yes.

MS. MINEHAN. An insurance policy that I guess wouldn't fully play out--

CHAIRMAN GREENSPAN. Yes. I don't feel as negative about the notion of insurance as I might have implied before. I'm flexible.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, it's Bill again.

CHAIRMAN GREENSPAN. Yes, go ahead Bill.

VICE CHAIRMAN MCDONOUGH. I think we're getting this message much too complicated for the average human being to understand. In my view, emphasizing the taking back of our final rate increase of last year, even though arithmetically correct, would lead to a story that the Fed blew it in its last 50 basis point increase and, therefore, corrected its mistake. I prefer the way that you described it earlier, before some of the intervening commentary. The point is that the real funds rate is simply too high in relation to what has been happening in the economy and, therefore, the Federal Reserve has taken action to bring the federal funds rate down to an appropriate level. That's a message that's quite easy to understand. It really subsumes all of these other issues we've been talking about. When we come out with a move of this size, that is both unexpected and earlier than people had anticipated, I would caution all of us to try not to make the message too complicated. We ought to make it fairly simple: The Federal Reserve has decided that it should take appropriate action to reduce interest rates to bring the real fed funds rate to where we think it should be. Period, full stop.

MR. JORDAN. Mr. Chairman, this is Jerry Jordan.

CHAIRMAN GREENSPAN. Yes, Jerry.

MR. JORDAN. First of all, I agree with your recommendation. I also agree with what Bill was just saying, that your earlier point when you made your recommendation was the right one. Last summer--and well into the fall, no doubt--a 6-1/2 percent funds rate might have been perfectly appropriate, given what was going on in the real economy and how it was

affecting the financial sector in that period. But in the environment we now find ourselves--not only what we're learning about the real economy but what we're seeing in the financial markets--a 6-1/2 percent funds rate is in effect tighter than it was earlier. Lowering the funds rate and bringing it in line with these other developments I don't think ought to be cast as taking back the final rate move last May as though it were wrong. I say that because I'm not sure that it was wrong, given the circumstances at that time. But I do feel strongly that the 6-1/2 percent rate is too high for the current environment. Lowering the funds rate, if it's not an insurance move, is to my mind a reduction in the amount of restraint that is currently in place. And by casting it that way, if we were to get a resurgence in real economic activity and in the financial markets, we would at least have a consistent basis for explaining any subsequent need to move the funds rate back up from however low we take it during this current round of easing.

MR. MOSKOW. Mr. Chairman, this is Michael Moskow. I agree with what Jerry Jordan just said and also with the comments that Bill McDonough made. I don't think we should characterize this as taking back the last increase for the reasons they explained. I do agree with your recommendation for the 50 basis point cut and for retaining the asymmetrical language on the balance of risks. I think it's an aggressive move, but I believe it is called for. If we don't do it, we risk falling behind the curve, and we may be a little behind the curve already. Certainly, the anecdotal evidence that we've received supports your analysis both in terms of the auto industry and on the banking side. As I mentioned in the December meeting, the auto sector appeared to be coming in very weak and our industry contacts since then have confirmed that. Also our contacts have indicated continuing concern that bankers may be overreacting to the situation. So I support the move and also the way you explained it. As for what we would say in the press statement, I understood from your comments that we would talk about the fact that

there is no change in the long-term outlook for increases in productivity growth. I think it is very appropriate for us to mention that because our analysis certainly supports that as well.

MR. GUYNN. Mr. Chairman, this is Jack Guynn.

CHAIRMAN GREENSPAN. Yes, Jack.

MR. GUYNN. I'd like to associate myself with what Jerry Jordan, Bill McDonough, and most recently Michael Moskow just said. In my view, that's the right way to think about it. I believe it's the right move and I think it will reassure people that we're awake and are aware of what is unfolding. I very much support what you recommended.

MR. SANTOMERO. Mr. Chairman, this is Tony Santomero. I also want to support your recommendation and would join my colleagues in support of a fairly straightforward representation of it as an action taken in light of the new data.

MR. POOLE. Mr. Chairman, this is Bill Poole. I also certainly support the recommendation. In thinking about the choice of moving by 25 basis points or 50 basis points, I don't have any difficulty coming to 50. If we were to do 25, I think the odds are that the various data reports over the course of this month would make it appear to the market that we were too timid and had gotten behind right off the bat. So in my view 50 basis points is absolutely the right thing to do. The timing is right and I think it's good to be decisive.

In terms of the message, I think referring to something we did as far back as last May is not going to be very convincing. We ought not to be trying to explain past actions; rather our focus should be on the future. The main message that needs to be conveyed is that going forward, we will make the adjustments that are appropriate as conditions unfold and will be willing to move decisively when that is in order. So I agree with the thrust of the conversation that Bill McDonough started and others joined in to support.

MS. MINEHAN. Mr. Chairman, this is Cathy Minehan again. As I consider this, I think Bill McDonough has hit it right on the nose. If we make our reasoning very straightforward in terms of where the real interest rate is and leave it at that, I think that is fine. In his earlier comments, I thought perhaps he was suggesting something having more to do with the state of the markets and whatnot. But if it's very straightforward--we are reducing the real interest rate to a level that's more consistent with the current level of economic activity--that has the same message in terms of a supportive action that I was suggesting. And I would agree with that tactic.

CHAIRMAN GREENSPAN. Okay.

MR. MCTEER. Mr. Chairman, Bob McTeer. I think your proposal is just right and your explanation for it is just right.

CHAIRMAN GREENSPAN. Thank you.

MR. FERGUSON. Mr. Chairman, this is Governor Ferguson. I would also support both parts of your proposal. The incoming data, particularly with respect to sales and production, have indicated an ongoing weakness. To put that in the context of financial conditions, I look at spreads and other indicators of tightness in financial markets. That tightness is to the point where I think it will interplay with the real economy and that might lead growth to slow to a pace that probably would be far below potential and probably totally inappropriate. Your proposal today seems to be very well focused on the issues. And I hope the press statement can convey exactly the kind of analysis that Bill McDonough and others have led us through.

MR. KELLEY. Mr. Chairman, this is Mike Kelley. I certainly support your recommendation. I think it's just the right one. On this matter of how our action should be framed, I have a little disagreement with some of my colleagues here about the notion of

explaining it as a reduction in the real interest rate. To my mind that's a rather abstract concept for the general public. As I see it, the economy is transitioning from an earlier unsustainable rate of growth to what we hope will be a somewhat lower and sustainable rate of expansion. That process necessarily implies that during the transition we're going to see some softening or falling off of activity in some sectors. And that's what we see, although I would certainly agree that the softening has been a little more pronounced and has occurred more quickly than we had expected or hoped. But this was to be expected in an economy going from an unsustainable growth rate to a sustainable one. I think what we are attempting to do here, as you said a little earlier, is to reach a point of stability in this downward transition process. And that's the way I would like to see it explained.

CHAIRMAN GREENSPAN. Governor Meyer.

MR. MEYER. Larry Meyer here. Mr. Chairman, I support your recommendation. It seems to me that we're in a situation now that is very similar to the one we faced in September and October of 1998. In late September of 1998 we made a small move but it led to great disappointment in the market. We had a chance to come back in October with a further move that changed the market's expectations and gave it a psychological boost. Similarly, after our last meeting, though we moved the balance of risks statement directly from one direction to another the markets were still disappointed. This gives us a chance to reset the psychological tone and expectations.

I think this move is also justified by where the baseline forecast is today, and not just in terms of the downside risks to that forecast. We're seeing significant downward revisions in the forecast and we now have expectations of growth that are quite a bit lower than we anticipated

when we undertook our tightening moves. So I think some modest easing is justified on that basis.

I do have some caution, though, about the future course of policy. I fully support this move. The problem we have to worry about is how aggressively to respond in the future. I would note two concerns. One is the literature on instrument instability. When the monetary authority tries to make up for the lags in monetary policy, it sometimes responds very aggressively to try to get quickly back to its target and, therefore, there's always a tendency to overshoot. I think we want to be careful not to end up with swings in monetary policy that lead to swings in economic growth from above trend to below trend and back to above trend. We want to control that and try to achieve a more stable pattern. In addition, we shouldn't lose sight of the fact that we did want to encourage a slowdown, though it's now greater than I think we wanted when we tightened policy. There are downside risks associated with that, so this move is certainly justified. But going forward I think we want to be objective as well.

In terms of the message, I would very much prefer not to go with a message that we're lowering the nominal funds rate to avoid a rise in the real funds rate. One, it's a complicated message, and two, I don't believe it. Third, if that is the right story, it's probably not the right thing to do; we should be lowering the real funds rate today. The way we measure the real funds rate is typically with short-term inflation expectations, and I don't find that argument very persuasive. The economy has slowed dramatically. The degree of slowing may be still deepening. We are lowering the real funds rate as an appropriate move to counter that.

CHAIRMAN GREENSPAN. Governor Gramlich.

MR. GRAMLICH. This is Ned Gramlich. As for the recommendation, I think it's the right thing to do and the right time to do it. I have just one small comment on the issue of

instrument instability raised by my colleague to my right here, Larry Meyer. If we're worried about that and if a series of rate changes is in prospect, it makes sense to take the big ones early in the process and get at least to equilibrium conditions as soon as possible. In my view this move today could be justified on both counts.

CHAIRMAN GREENSPAN. Okay. Can we get the appropriate text from our Secretariat?

MR. BERNARD. For the wording of the directive itself, "The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee in the immediate future seeks conditions in reserve markets consistent with reducing the federal funds rate to an average of around 6 percent." And for the balance of risks sentence to be incorporated in the press release, "Against the background of its long-run goals of price stability and sustainable economic growth, and of the information currently available, the Committee believes that the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future."

CHAIRMAN GREENSPAN. Call the roll, please.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman McDonough	Yes
Governor Ferguson	Yes
Governor Gramlich	Yes
President Hoenig	Yes
Governor Kelley	Yes
Governor Meyer	Yes
President Minehan	Yes
President Moskow	Yes
President Poole	Yes

CHAIRMAN GREENSPAN. Let me read you the proposed statement that will be released if it's acceptable. Incidentally, in regard to the references to the discount rate action, the Board will endeavor to meet immediately after this meeting to take that action.

The Federal Open Market Committee decided today to lower its target for the federal funds rate by 50 basis points to 6 percent.

In a related action, the Board of Governors approved a 25-basis-point decrease in the discount rate to 5-3/4 percent, the level requested by seven Reserve Banks. The Board also indicated that it stands ready to approve a further reduction of 25 basis points in the discount rate to 5-1/2 percent on the requests of Federal Reserve Banks.

These actions were taken in light of further weakening of sales and production, and in the context of lower consumer confidence, tight conditions in some segments of financial markets, and high energy prices sapping household and business purchasing power. Moreover, inflation pressures remain contained. Nonetheless, to date there is little evidence to suggest that longer-term advances in technology and associated gains in productivity are abating.

The Committee continues to believe that, against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future.

In taking the discount rate action, the Federal Reserve Board approved requests submitted by the Boards of Directors of the Federal Reserve Banks of New York, Cleveland, Atlanta, St. Louis, Kansas City, Dallas, and San Francisco.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, it's Bill. I think the statement is absolutely right on the mark. I would encourage very strongly that we get it out as soon as possible. As for my own Reserve Bank, our next telephone conference call is scheduled for tomorrow. And I'm sure, based on the conversation at our most recent meeting, that a request from the New York Bank directors for an additional 25 basis point cut in the discount rate will be in by 5:00 p.m. our time tomorrow afternoon.

MR. STERN. What time do you plan to release this?

MS. FOX. This is Lynn Fox. We have a bit of problem with absences in the pressroom between 12:00 and 1:00 p.m. and, obviously, we want all of the major wire services to get this news at the same time. So we intend at this point to get to the wire services at a few minutes after one o'clock and have it run on the wires by 1:15 p.m.

MR. STERN. That's roughly 1:15 p.m. eastern time?

MS. FOX. Yes.

MR. STERN. Okay.

CHAIRMAN GREENSPAN. Let me suggest that as a consequence of this action there is going to be a very significant endeavor by the press to ascertain the individual views of all the Committee members and to try to make a story out of it. Most particularly, they will try to feel their way through to what we might do at our meeting at the end of the month. I think it is extremely important to remember that we tend to have two distinct types of press discussions. One type that we always have, and which is very important that we pursue, is an educational process. That has been very useful and I think all the presidents and the governors have been very effective in that regard.

In the next several weeks, however, the issue with these reporters is not going to be education. It's going to be what the Committee is likely to do at its next meeting. There will be a competitive effort by those in the press to try to get a story out on that. There is no way that we can respond effectively to their questions other than to say "no comment" because any characterization whatever is quite capable of being read by these very experienced reporters to get a story on what is going on within the Committee. All they need is one or two straws. Well, one straw they usually will not take, but give them two straws and they will make a huge story. The most troublesome part of it is that they usually are correct. The reason is that they've been

around for a long time and they are quite sensitive to our wording and they know exactly how to read our body language.

The best position to take is to say “no comment” or “I regret that I cannot answer your question” or something equivalent. To try to characterize a policy action or our views of the economy or to be more forthcoming is almost invariably a problem. So I would very much hope that we can, as a group, leave the next decision to the Committee itself when we meet as scheduled and not find that the press is front running us and preempting us in terms of what we may or may not want to do. Frankly, I don’t have a clue at this particular stage regarding exactly how we will come out at the next meeting. In the meantime, I hope we will try to maintain a high degree of reticence with the press--not a lack of friendliness but a lack of information, if I may put it that way.

MS. MINEHAN. Mr. Chairman?

CHAIRMAN GREENSPAN. Yes.

MS. MINEHAN. Some of us, myself included, have speeches scheduled over the next week or two. Generally speaking, I don’t take questions and I don’t deal with the press except to release the speech at the time I’m giving it. But it’s going to be hard not to deal with recent developments in the context of a speech.

CHAIRMAN GREENSPAN. Well, let me suggest to you that it is often quite useful to become a two-handed economist or even a three-handed economist in that sort of environment. When people ask me what I think about a particular statistic or a particular segment of the economy and how it is behaving, I tend to have a standard response. I generally say that I don't know how to answer that without getting into the issue of monetary policy, which is the prerogative of the Federal Open Market Committee. And I think people accept that. They

realize that it's a game in which they're trying to get us to say things indirectly that we won't say directly. So, I think that's the best way to handle it. I don't know of any other suggestions I could make.

MS. MINEHAN. I just wanted to mention that issue. I'm sure all of us--I know I will--will characterize what has been done here in exactly the way the press release characterizes it and try to leave it at that as much as we possibly can. But there are going to be comments that go beyond the press statement in the formal text of speeches that many of us are giving over the next week or so. We are going to have that issue to deal with in terms of our prepared statements, regardless of whether we agree to have a question and answer period afterwards.

CHAIRMAN GREENSPAN. I think you have to make a judgment yourself. I don't think any of us can advise the rest of us on exactly how to handle this particular problem. The only request that I really want to make is that we leave the decisionmaking process to the FOMC and not to the news media. And I'm fearful that this time they're going to be really fascinated and interested and will be more aggressive than usual. I think the best way to handle it is just to smile.

MS. MINEHAN. Yes.

MR. MOSKOW. Mr. Chairman, the problem we faced last time was the article that I believe was in the Wall Street Journal just a day or so before the meeting. That story, of course, wasn't put together from any speeches that people had given. That was from personal contacts that that reporter or his associates made. I think that's an area we have to be particularly careful about.

CHAIRMAN GREENSPAN. Yes, Mike, I think that article was very unfortunate. And it is quite descriptive of the dangers we face in making comments that relate to policy in the

sense that years ago presumptions about what the Fed would or would not do didn't have that much effect on the marketplace. Now we just whisper or open our mouths or smile or something and the markets go berserk. So I think we have to be especially careful. I realize that there's an element of incivility involved when one is dealing with a friendly press, but I don't know what else we can do. There's just no way to avoid that unless we are willing to risk serious problems that constrain our capacity to function.

VICE CHAIRMAN MCDONOUGH. This is Bill. Mr. Chairman, this is an awfully hot decision that we've made and assuming that the Board of Governors will act rather promptly on the discount rate, I wonder if we couldn't release the press statement immediately after that vote. To sit on this for another hour and eighteen minutes really troubles me. I'd very much like to force the nice people in the pressroom to have their sandwich a half-hour later.

MS. FOX. The problem, President McDonough, is that even if we call starting now there already are going to be empty seats in the pressroom. And this news is conveyed best if all of the wires move promptly together at the same time. If I call and give them a heads up to go and collect everyone, then I've told them the story and we can't do that. Our best judgment in terms of disseminating this information is to do it right at one o'clock. If others believe, as you do, that we might not be able to hold onto it for an hour, I can be convinced otherwise.

VICE CHAIRMAN MCDONOUGH. Well, I think the Chairman has to make the call. I'm not concerned about the--

CHAIRMAN GREENSPAN. We have held onto these decisions before and I think there has been no evidence that we have failed in the past so I would presume that we are capable of holding onto it. But the last thing anyone should do over the next hour is to answer a telephone call. [Laughter]

VICE CHAIRMAN MCDONOUGH. I think I raised my objection largely so that you could make that comment, Mr. Chairman.

MR. PARRY. Has Lynn changed the announcement time to one o'clock now?

MS. FOX. What I'll do is call the pressroom at one o'clock. It will take them 10 or 15 minutes to go through the process.

MR. PARRY. So it's still 1:15.

MS. FOX. Yes. So it still effectively will be on the wires at around 1:15.

MR. PARRY. Let me mention one other point. Cathy, one thing I have found very useful in terms of prepared text--and perhaps you take advantage of it as well--is to run it by Lynn Fox.

MS. MINEHAN. Oh yes, I do that.

MR. PARRY. Well, that helps. That, I think, should take care of the prepared text part.

MS. MINEHAN. Yes, that's a good comment to make because I know several of us have speeches scheduled in the next week or so.

MS. FOX. Thank you both for saying that. I think everybody already has said the right thing, which is to refer monotonously to this public statement--to use those words over and over. They become a mantra and then everyone gets the same story all the time.

If I might, I wanted to add a couple of details about what we plan to tell the press that I think you ought to be aware of. In addition to providing the written statement to the pressroom, we're going to tell the press a couple of things just to save a lot of phone calls and some confusion. First of all, we are going to tell them that the FOMC met at 11 o'clock this morning. Secondly, we're going to tell them that the Committee voted on the rate decision, and astute reporters will know that it is rare to have a vote on an intermeeting move. In fact, I think it has

only been done once before in the Chairman's tenure. We're simply going to say that given the nature of the action, the Chairman felt it appropriate to have a vote. We will say those things straightforwardly and on the record. By way of background we will be spending some time explaining the two separate votes on the discount rate. We are going to make clear it's a process issue. We will do it on background. Don't be surprised if there's confusion. I think there will be. We'll just handle it as it comes.

VICE CHAIRMAN MCDONOUGH. Make it as boring as possible.

MS. FOX. We are going to be very dull. We have a manual on how to be dull! There's another thing that I would tell you that might be of assistance in dealing with reporters and market participants. We can't forget that market participants talk to you and then talk to reporters, so then we have all kinds of convoluted third-hand and fourth-hand reporting. So, if market participants or reporters call you with questions that are sensible technical questions, just refer them to us if you like or to your own public affairs person. I suggest that because taking you out of the equation sort of reduces the impact of whatever information is conveyed. Now, the reporters are going to be very anxious; they're going to be in a long queue. You're going to be called over the weekend. We are in town and we have beepers and cell phones and everything else. Please take advantage of us if it is at all helpful. And though it is awkward to consider this a true blackout period because, as President Minehan noted, she and others have public speeches planned, you can certainly use the blackout rules as an excuse. You can simply tell reporters that the Committee has informally agreed insofar as possible to follow the normal rules associated with policy decisions.

CHAIRMAN GREENSPAN. Let me make one comment about the mantra issue. Bob Rubin used the mantra about the strong dollar to a point where all of us who had to sit and listen

invariably cringed more and more as the weeks and months went on. It turned out to be exactly the right policy approach because what happened was that by not varying the statement, an issue never arose about whether a comment involved a subtle change or not in the policy toward the dollar. It was boring, it was dull, it was repetitive, it was nonintellectual, and it worked like a charm. So I would suggest to you that your inclinations to be thoughtful, conceptual, and interesting be suppressed. [Laughter]

If there is nothing else with the Reserve Bank Presidents, we will adjourn this Federal Open Market Committee meeting and meet again at the end of the month, and we will go into a session with the Federal Reserve Board here. Goodbye everybody and we look forward to seeing you in a few weeks.

END OF MEETING