



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

April 11, 1978

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee
FROM: Arthur L. Broida *ALB*

The subject of quantitative economic expectations will be considered at next week's FOMC meeting, under agenda item 6. Attached is a copy of a letter concerning that subject, dated March 30, 1978, from President Baughman to Chairman Miller.

Attachment



ERNEST T. BAUGHMAN
PRESIDENT

FEDERAL RESERVE BANK
OF DALLAS

March 30, 1978

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
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OFFICE OF THE CHAIRMAN
DALLAS, TEXAS 75222

Chairman G. William Miller
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Chairman Miller:

I am writing in response to the question you raised at the last FOMC meeting as to how you might best handle requests for quantitative forecasts of production, employment, prices, interest rates, and money velocity when you testify before Congress. It seems to me that you have about four alternatives.

The first, and possibly most obvious, is to continue along the line pursued by Arthur Burns, namely, present projections on the items in question and indicate they are your personal views and do not necessarily reflect those of the other Governors or other members of the Federal Open Market Committee. I do not consider it a disadvantage that your views would be accepted as the views of the Federal Open Market Committee. It is difficult to conceive a circumstance when anyone would be seriously misled in making such inference. An advantage of this proposal, and I suspect the reason that Arthur Burns chose to go this route, is that it does not afford Congress the opportunity to play one member of the Federal Open Market Committee against another in public.

A second alternative, which is probably not very real, is to attempt to avoid giving quantitative forecasts at all. With some members of Congress interpreting the language in the Federal Reserve Reform Act as requiring quantitative estimates, the language currently included in the Humphrey-Hawkins bill, and the precedent set by Arthur Burns in giving Congress quantitative forecasts when he testified before them, it seems quite unlikely that you would be able to avoid giving Congress some fairly specific projections.

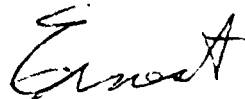
A third alternative would be to present a consensus view of the Board or the Federal Open Market Committee. This could be a set of averages, modes, or ranges, or some combination. The major advantage would be that what is ascribed to the Open Market Committee as its outlook is truly that. This approach might have the further advantage that it would reaffirm to the public and Congress that the Federal Open Market Committee is indeed a group of individuals with different points of view regarding the economy. However,

I think these advantages are outweighed by the fact that such a procedure would tend to invite Congress and the press to seek out individual members of the Federal Open Market Committee and to publicize those views that differed from the majority. I see no real danger in this procedure unless the Congress were to forthrightly undertake to pit FOMC members against each other in the public arena. If this were done it could impair the credibility of the FOMC in the public eye and could inhibit the effectiveness of the free exchange within the Committee in reaching policy decisions.

A fourth alternative, you could present the staff forecast. As you pointed out at the recent FOMC meeting, such a procedure probably would greatly inhibit members of the staff in their ability to present unbiased forecasts and that would be a serious loss to the Committee in carrying out its responsibilities.

All things considered, it is my present view that you would be well advised to present quantitative forecasts as your own personal views and without excessive effort to dissociate them from the Committee's views. This approach is certainly not without potential problems, but it seems to me that it would lead to fewer complications than any of the alternatives I can think of.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Ernest T. Baughman".

Ernest T. Baughman
President