

TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE MEETING

November 21, 1978

Prefatory Note

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

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

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

Staff Statements Appended to the Transcript

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

Meeting of Federal Open Market Committee

November 21, 1978

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, November 21, 1978, at 8:00 a.m.

PRESENT: Mr. Miller, Chairman
Mr. Volcker, Vice Chairman
Mr. Baughman
Mr. Coldwell
Mr. Eastburn
Mr. Partee
Mrs. Teeters
Mr. Wallich
Mr. Willes
Mr. Winn

Messrs. Balles, Black, Kimbrel, and Mayo,
Alternate Members of the Federal Open
Market Committee

Messrs. Guffey, Morris, and Roos, Presidents of
the Federal Reserve Banks of Kansas City,
Boston, and St. Louis, respectively

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

Messrs. Burns, J. Davis, R. Davis, Keir,
Kichline, Paulus, and Zeisel,
Associate Economists

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Mr. Holmes, Manager, System Open Market
Account

Mr. Sternlight, Deputy Manager for
Domestic Operations

Mr. Pardee, Deputy Manager for Foreign
Operations

Mr. Wallace, Staff Director for Federal
Reserve Bank Activities, Board of
Governors

Mr. Coyne, Assistant to the Board of
Governors

Mr. Kalchbrenner, Associate Director,
Division of Research and Statistics,
Board of Governors

Messrs. Gemmill and Siegman, Associate
Directors, Division of International
Finance, Board of Governors

Ms. Farar, Economist, Open Market Secretariat,
Board of Governors

Mrs. Deck, Staff Assistant, Open Market
Secretariat, Board of Governors

Messrs. Balbach, Boehne, T. Davis,
Eisenmenger, Parthemos, Scheld, and
Sims, Senior Vice Presidents, Federal
Reserve Banks of St. Louis, Philadelphia,
Kansas City, Boston, Richmond, Chicago,
and San Francisco, respectively

Mr. Brandt, Vice President, Federal Reserve
Bank of Atlanta

Mr. Ozog, Manager, Securities Department,
Federal Reserve Bank of New York

Transcript of Federal Open Market Committee Meeting of
November 21, 1978

CHAIRMAN MILLER. Well, ladies and gentlemen, thank you for your early attendance. It may turn out that you will like this arrangement and we will continue it in the future. There is only one danger; I have found that Parkinson is right that work will expand to fill the [available] time. So if we came in at eight o'clock, I'm sure you'd still talk until one o'clock regardless of my admonitions. So maybe we'd better meet at eleven and that way we can shorten these meetings!

But we have this [early] meeting for a sad reason and that is, of course, because of the loss of Steve Gardner who was certainly a gentle person and a wonderful colleague. I think we might start our meeting, if you don't mind, by perhaps just standing for a moment of respect for Steve.

[Moment of silence]

CHAIRMAN MILLER. The first order of business is the approval of the minutes for the actions at our meeting on October 17th. And all the intervening events are included, I believe. Is that correct?

MR. ALTMANN. Well, they're included in the Policy Record.

CHAIRMAN MILLER. All right, are there any corrections or changes to the minutes? Hearing none, they will stand approved.

Next item: Submitted to you on November 9 was a report of the examination of the System Open Market Account. I believe all of you have received a copy. We need your acceptance of that report. Are there any questions or comments you care to make? Hearing none, we will record that as accepted by the FOMC. Now we turn to foreign currency operations, and first is a report by Scott Pardee on these operations since October 17.

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

CHAIRMAN MILLER. We don't want to settle for that. Thank you, Scott. Well, timing is everything and the timing wasn't too bad. Now we've got to be sure that the Treasury promptly issues some of the foreign currency denominated securities, which will allow resources for intervention without expanding the money supply in other countries. That will be very popular and will be a breakthrough of policy; it's as important as anything else we've accomplished and exercised.

MR. MORRIS. Have they established an amount on that?

CHAIRMAN MILLER. Yes, of course. The amount we agreed on was up to \$10 billion, which would be [issued] over a year or so. In December they probably will issue two to three billion in German marks through a private placement. And we're trying to encourage them to place, probably before the middle of December, an issue of one or two billion Swiss francs at the

same time, and as promptly as possible a small yen issue just to establish the principle. Once it's established, we're over the hump of the possibility of withdrawal pains and once it's done I think there is a psychological change in the Treasury. They now see this as a desirable instrument in debt management and, therefore, I think we have crossed that [hurdle]--I hope.

MR. BAUGHMAN. Have they reached any decisions as to the maturities?

CHAIRMAN MILLER. The maturities we are discussing. But the market is really for 3- to 5-year notes in Germany. And these can be placed without being termed under German law "securities." They would carry 6 to 6-1/2 percent interest and would probably be non-callable. And if the Treasury wanted to hedge during the period of their being outstanding, they could acquire marks to offset their obligation--if they felt the exchange rates were reasonable. And, of course, then the question is [where] to reinvest the funds and that's being worked out. Possibly [there could be] an issue from the Ministry of Finance that would allow the funds to be invested until such time as we use them because the Treasury needs to get a yield on them. In the Swiss franc market you're talking somewhat the same order of magnitude, [and that's] much easier to sell. They can do very much larger amounts if necessary and the interest rate is 2 to 2-1/2 percent. Yes, Willis.

MR. WINN. Scott, [you mentioned] the \$4.6 billion of our intervention; what's the foreign intervention at the same time? The footnote in the Bluebook about \$11 billion is for direct placements in foreign securities in the bill market by foreign accounts.

MR. PARDEE. I think it probably depends on how you measure; [they're] roughly about the same over the whole period. We've taken a bigger share than we normally have. Since November 1 our share has been bigger than the others.

MR. BAUGHMAN. Then the \$11 billion [referred to] in the footnote in the Bluebook is from a previous period?

MR. PARDEE. Well, [it's] the totality of central banks; a lot of central banks ended up buying dollars due to the Swedish [unintelligible] Riksbank.

CHAIRMAN MILLER. As you all would expect, the great difficulty in this operation has been in D-marks. I think the operation in yen and Swiss francs has gone remarkably well and the coordination has been superb. [In] our intervention in Swiss francs, Scott, we've had an equal 50 percent intervention by the Swiss National Bank in New York. They've intervened directly in addition. And, of course, we've intervened very modestly relatively in yen, and the Bank of Japan has operated very strongly. The problem [is] with the D-mark, of course; it's the [currency] that is most subject to speculative trading and testing. And because of the 24-hour market, the marshalling of a rate on the dollar or whipsawing is possible between times when certain markets close and others open. We've had a little bit of trouble in that regard, which has been attenuated in more recent days but was worrisome for a while.

MR. [PARDEE]. Mr. Chairman, in response to President Winn's question, since mid-October the total foreign intervention was \$5.6 billion, of which \$600 million was through the Desk. And since the beginning of November the total foreign intervention was \$3.3 billion, of which \$500 million was through the Desk.

CHAIRMAN MILLER. And when we think of these numbers we must recall that the risk on our intervention through the swap line is shared 50 percent by the other parties. So our exposure, which is what Scott is giving you, on the profit [or loss] side is only half of the amounts that we intervened through our swap lines. So when you take it all into account, our intervention would be half of the \$3.6 billion since November 1, right?

MR. PARDEE. All of our intervention in New York, which has been in German marks, is for our account. It's just in the case of the Swiss that--

CHAIRMAN MILLER. So our risk is half that amount; that's all I wanted to point out. So what we have in risk is not the \$3.6 billion but half of that, in terms of our exposure to gains or losses. Any further discussion?

MR. EASTBURN. Mr. Chairman, could I ask two questions? I'll put them in the form of comments that you can react to. These are both looking to the future. One, I'm assuming that the market will look to our policy to be responsive to what happens in the aggregates. That is, they will not necessarily be disappointed if interest rates don't go up further if the aggregates are soft. Second, my assumption is that as we move further toward the possibly of a recession, [our trading partners] will be increasingly concerned about the impact of that on their own economies and perhaps won't be pressing so hard for us to hold our economy down. Would you react to those?

MR. PARDEE. Well, on the first question, I think many people felt that one of the items in the November 1 package was a sharp rise in the federal funds rate. And to the extent that it has drifted back in the last few days, we've had a number of people calling us wondering why the Federal Reserve has trimmed this back, and there has been some comment that this has hurt the effort on the dollar. But that's policy here.

As for the other question on the recession, I'm not being so receptive to the comments on this point that people from the market are making these days because I think some of them have become so frustrated and cynical that they argue that we should have a recession--that we somehow should purge our souls from all of these terrible things that we have done. And my reaction is precisely what you've said, namely that the risk is that we will not only have a recession in the United States but that we will have a broader decline or a recession in other countries as well. So they've got to be very careful of what kind of policies they're trying to push on us in the United States and on the other countries at this time. So they haven't recognized that there is this broader risk; they're still thinking in terms of some kind of purging on the part of the United States.

MR. EASTBURN. Perhaps there's a difference between the markets and the authorities with respect to that.

MR. PARDEE. Well, I've said the same to some of our central bank colleagues in Europe as well.

MR. EASTBURN. Thank you.

CHAIRMAN MILLER. May we have your approval to ratify the transactions since the previous meeting in the foreign exchange markets?

VICE CHAIRMAN VOLCKER(?). So moved.

CHAIRMAN MILLER. Any dissent? Hearing none, we will record that as approved. Now we have Alan Holmes with recommendations with respect to foreign currency operations.

MR. HOLMES. [Statement--see Appendix.] [Secretary's note: The Manager made routine recommendations to renew maturing swap drawings.]

CHAIRMAN MILLER. Just to make it clear, Alan, to the extent that we do acquire these currencies, we may be paying these down instead of rolling them over. So your comment was to roll them over if we had not paid them off.

MR. HOLMES. If we do not, yes.

CHAIRMAN MILLER. Any comments or questions? Yes.

MR. BALLEES. One observation: The November 6 letter from Bill Wallace to Murray Altmann on the examination of the [System Open Market Account] had some numbers in it about a loss on foreign exchange operations, showing that as \$121.7 million. If that is to be published ever, I think it would be quite important to distinguish between losses from current operations in this year [and prior periods]. Just by a phone call, we found out that it's only \$27 million [this year] whereas \$105 million of that was the liquidation of the Swiss franc swap going way back to 1971.

CHAIRMAN MILLER. I think in our published reports that is set out separately. Is that correct?

MR. HOLMES(?). Yes, it is.

MR. BALLEES. Well, that's fine. I just want to make sure, because otherwise it would be very misleading.

CHAIRMAN MILLER. I think they're very distinctly separated in the public report. That's a good point, incidentally. That happened on somebody else's watch. I assume you were all here during that time; I wasn't. Any other comments? Then do we have your approval to follow the Manager's recommendations? Hearing no dissent, we'll so order. We'll turn to [the report on] our economic and financial situation.

MR. HOLMES. Mr. Chairman, I'm sorry, but in addition to those routine [recommendations], I have some that aren't routine.

MR. HOLMES. [Statement continued--see Appendix.] [Secretary's note: The Manager requested approval to renew the basic swap agreements, in either revised or old form, with the understanding that the Desk would strive for uniformity as soon as arrangements could be worked out.]

CHAIRMAN MILLER. Any comment? Is that satisfactory to everyone?

MR. HOLMES. [Statement continued—see Appendix.] [Secretary's note: The Manager recommended that actions taken on October 31 involving the approval of a \$5 billion limit on the total open position and the suspension of the intermeeting limit be continued. No formal action required.]

CHAIRMAN MILLER. What is the Committee's desire? Would that be satisfactory? I think the operation has been going well, and I do think we need this leeway until we stabilize.

MR. HOLMES. [Statement continued--see Appendix.] [Secretary's note: The Manager discussed warehousing foreign currencies for the Treasury.]

CHAIRMAN MILLER. Alan, as I recall, when I first came here this warehousing plan was approved, so you're merely reporting that it might be activated.

MR. HOLMES. That's right, at this stage now the Treasury may want some changes in it. There was an early exchange of letters between Secretary Simon and Chairman Burns. And while that covered warehousing in general, it related particularly to the special sterling arrangement that the Treasury shared with us back at the end of 1976.

CHAIRMAN MILLER. But the arrangement that was approved here in March, as I recall, was general.

MR. HOLMES. It was general in nature. That's right.

CHAIRMAN MILLER. As you described it.

MR. HOLMES. Right.

CHAIRMAN MILLER. Chuck, did you have a question?

MR. PARTEE. What do we do with the currencies, Alan?

MR. HOLMES. Well, we invest them in whatever we can.

MR. PARTEE. In Germany?

CHAIRMAN MILLER. In the currency of whatever country it happens to be.

MR. HOLMES. Whatever currency it happens to be.

MR. PARTEE. And would we pay a rate of return to the Treasury on the warehousing?

MR. HOLMES. No, we would get the interest.

CHAIRMAN MILLER. And they take the exchange risk, Chuck.

MR. HOLMES. It's a way of financing for the Treasury, really.

CHAIRMAN MILLER. It's just so we can hold [the foreign currencies] and they have dollars, that's all.

MR. PARTEE. Well, I was just wondering, would we put it into some kind of short-term investment?

MR. HOLMES. We have investing arrangements now in all three of the currencies that would be involved.

MR. PARTEE. Because that might [amount] to quite a bit.

MR. HOLMES. It could be, yes.

CHAIRMAN MILLER. The present authority would be up to \$1-1/2 billion.

MR. PARTEE. It would be counterproductive to pay off the Germans.

MR. HOLMES. It probably would be. It just gets very complicated when you try to look at it--

MR. PARTEE. Accounting [is what] I was thinking of, but I think the monetary influence would be counterproductive if we pay them off. That is, you wouldn't get the advantage that the Chairman cited of borrowing abroad. And when you use it, you won't expand the money supply.

CHAIRMAN MILLER. Also, Chuck, we don't have a free draw on that swap; we have to consult with them. But if we have our own resources we have free leeway. If they are Treasury [resources], the Treasury can authorize us to use them, in effect. Any comments from others? Alan, thank you very much. I'm sorry I didn't let you complete your very interesting report of proposed actions and possibilities. Yes, Willis.

MR. WINN. Before we leave the area, Mr. Chairman, I wonder if [Alan or Scott] would comment on the weakness reported on the foreign exchange markets this morning.

MR. PARDEE. The rates are where they closed yesterday. The weakness occurred yesterday afternoon and our market is just drifting back a little bit, so at this stage it's quite [calm] and hopefully may be steady for a while. But we're prepared to operate; we did intervene late yesterday afternoon when the rate was drifting off.

CHAIRMAN MILLER. Well, knock on wood, so far this has been a fairly peaceful war.

MR. PARTEE. Very successful, I think.

CHAIRMAN MILLER. Very. I really expected that we'd have to use more resources, to be frank. So if we just continue [working] on the fundamentals, we can make some progress. Any other comments or questions? Then we will proceed to Jim Kichline, who has been waiting patiently to give us the news, good or otherwise, about the economy.

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

CHAIRMAN MILLER. Thank you, Jim. Mark.

MR. WILLES. I would like to make just one comment on Jim's comments on capital spending. It seems to me that the long-term cost of capital for business has not gone up. Bond rates, for example, went down after the November 1 announcements. So there's nothing in that which would indicate that business spending ought to be less. And what I am hearing from business people in our part of the country, at least, is that we might get even the opposite. That is to say, as expected rates of inflation come down, which they are starting to do now as [people] see the policy actions that have been taken, that reduces a little bit the uncertainty with regard to the future they face. And when you invest in long-term investments that you don't expect to come on line until 1980 or 1981 anyway, that is beyond the horizon most people seem to be concerned about. So they are talking very seriously in several companies in our area of increasing their capital appropriations and budgets over the next two years. So it seems possible, at least to me, as we work our way through this, that rather than having a decline in business spending we could actually have an increase.

CHAIRMAN MILLER. Could that be formulated through appropriations of spending very quickly in your area, Mark? Or would it be delayed until the last half of next year when we have a softness or slack in the forecast?

MR. WILLES. Well, most of it would start to be spent in the last half of next year; it would take at least that long.

MR. PARTEE. These are long-term expansions.

CHAIRMAN MILLER. They are not rushing out to buy a piece of equipment. These are long-term plans for--

MR. WILLES. The kind that have been notoriously weak in the current expansion.

CHAIRMAN MILLER. Any other comments or questions?

MR. KICHLINE. I would only point out on cost of capital that I had in mind equity capital, which has risen substantially in cost. PE ratios have declined. Stock prices are down, depending on how you measure it--which exchange or over the counter--10 to 20 percent. So I was really referring to equity. I think it's quite clear long bond rates have done very well.

CHAIRMAN MILLER. Yes, John.

MR. BALLE. Jim, have you had a chance to look at the details in most of these [projections by] private forecasters who are now forecasting on behalf of their clients a recession? [In what sectors do they] expect this to come and why? You said it's not going to happen and I hope you're right. Nevertheless, there's that [unintelligible]. What I'm seriously worried about is sort of a self-fulfilling prophecy.

CHAIRMAN MILLER. I think we have a real risk of talking ourselves into this--a recession that we don't need.

MR. BALLE. But a lot of corporations subscribe to DRI or Chase Econometrics or whatever. As you well know, they are forecasting recession. My question was: Have you had a chance to look at the details there?

MR. KICHLINE. We've looked at some but not in great detail. I think the differences are rather widespread, but the consumer sector is one where I think a general weakness shows up. We have, relative to a number of outside forecasts, a stronger personal consumption picture than many. Housing tends to be a bit weaker in some, not all. Business fixed investment I think is a mixed bag, but in general the information coming in has led most forecasters to reduce expenditures rather than raise them. But I think personal consumption expenditures are really a key area here. If you assume that attitudes turn bearish or that the consumer decides to increase his saving substantially, you get the multiplier [effects and] a very weak economy.

CHAIRMAN MILLER. Phil.

MR. COLDWELL. Jim, you're grounding this all on the current level of restraint in terms of interest rates?

MR. KICHLINE. Yes, and the expected impacts over time.

MR. COLDWELL. But you are not talking about additional restraint.

MR. KICHLINE. No, that's right.

MR. COLDWELL. Or higher rates of interest than we now have.

MR. KICHLINE. Well, we've assumed a funds rate of around 9-3/4 percent throughout 1979. So we are talking about 12 basis points or something.

MR. COLDWELL. Well, 12 basis points; you can't be that [fine-tuned].

CHAIRMAN MILLER. That's a smaller percentage though.

MR. COLDWELL. I think the forecast is excessively pessimistic under these conditions.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. Well, reacting to what Phil said, I continue to find it difficult to see how you have this kind of soft landing with the very high inflation rates that are forecasted. And just on the other side of Mark's comment, at a recent meeting we had with business people, the view was unanimous that we are in for a recession. I think there is this kind of talk going on.

CHAIRMAN MILLER. Well, some of them want it. Willis.

MR. WINN. On the business [side], you get a strange dichotomy. If you ask them how their business is they'll tell you it's very good but they're told by their economists that it is going to get poor. Their own assessment is quite different from [their sense of the] general environment. On Jim's point on the consumption spending, the thing that bothers me a little bit is that if you look at the service component of personal consumption expenditures, the big factor in its growth is related to housing, as I understand it, including such things as storm windows and other things. It seems to me that we may get more fluctuations out of changes in personal consumption expenditures than we have had previously because of the real difference in mix that is going into that service component. Some I find it hard to call "services" but that's the way they classify them.

CHAIRMAN MILLER. Chuck.

MR. PARTEE. I just wanted to raise the same question I raised yesterday [in the Board briefing]; I think it should be raised again today. The supplement to the Greenbook points out that general merchandise stores such as Sears, Penney's, and Federated--the big department stores--added to their stocks at a \$4.2 billion annual rate in September. And a chart on the subject shows that inventory/sales ratios are the highest they've been for a long, long time, and far higher than just before the '74 recession began. I wondered what comment you might have on it.

MR. KICHLINE. I think that is clearly the one area we would point to--relatively high or, in fact, quite high inventories--as the major change across the country. As for the principal source of that large stock of inventories, we have made some calls around. I would say that the one thing that does stand out is that Sears has a particular problem. They have changed their marketing strategy and are attempting to retrench from a very aggressive pricing program that they started and the industry followed. Now Sears would like to get out and their sales have slipped substantially so they are stuck with a very large amount of inventories. But other retailers report large inventories

as well. The Redbook, too, had selected comments on this; various Districts pointed to inventories being perhaps on the high side in the retail area. So I think it is something to watch. We don't get a great deal of concern from those we have talked to, but there's clearly an awareness that if sales should slip, inventories would look very excessive.

MR. PARTEE. It used to be, Jim, that department stores did 15 percent of their year's business in the five weeks from Thanksgiving to Christmas. I suppose, of course, that we have seasonally adjusted ratios here but for those whose inventories are now quite high, it's a very, very important season that they are moving into.

CHAIRMAN MILLER. Frank Morris.

MR. MORRIS. Mr. Chairman, I think the critical assumption that underlies the projections is a rather dubious one, and that is that we will be able to have a reasonable degree of control over the money supply over the projection period at the current level of the federal funds rate. We've had a couple of weeks--say, a month and a half now--of rather pleasant readings on the aggregates. But I don't think we can conclude from that that the current level of the federal funds rate is going to do the job. Look at the rate of growth of bank credit in the past couple of weeks. It seems to me that we have a new surge of a growing demand for money. Am I interpreting these numbers wrong? I would like for Steve to comment on that.

MR. AXILROD. We are expecting money growth to be down in December, and if it weren't for the automatic transfers, we would have M1 growth up in the 8 to 9 percent range. Demands for credit have remained relatively strong in recent weeks. I'd also comment that we think there are some odds that we might not need a further rise in interest rates to have M1 growth at the top end of the range [with] ATS. But, again, that assumes that further downward shift in money demand, which we haven't yet seen, of about 1-1/2 percentage points. So the odds are really not any better than 50-50.

CHAIRMAN MILLER. Ernie.

MR. BAUGHMAN. In view of the comments about the disparate forecasts and that we might [talk] ourselves into a recession, I just wanted to balance the table a little bit by saying that flavor of conversation is not universal around the country. There are regions that are not seeing [a recession].

MR. MORRIS. And they never have. I'm sitting here wondering why this might be and it occurred to me that a possible explanation is that we may have a smaller ratio of expert economists to businessmen in the population.

CHAIRMAN MILLER. Well, we have a very small ratio of expert anything.

MR. BAUGHMAN. That depends on who's doing the judging. But I do hear reports from bankers that they are seeing some "flaky" real estate proposals, now suggesting instead of a weakening in the speculative interest possibly a pickup in speculative interest. I also hear reports

that people are not inquiring what the interest rate is when they come to the bank for loans even on residential mortgages. The only question is can they find the money.

CHAIRMAN MILLER. Henry.

MR. WALLICH. Two points--one on Frank Morris's [comment] about strong demands for money ahead. Of course, this may cut both ways. If we accommodate them and hold the funds rate, presumably that would call for a revision to the forecast in an upward direction. Otherwise, if we don't accommodate, then it would be a downward revision. [Unintelligible] now compared to--

MR. MORRIS. The question is how long could you accommodate them.

MR. WALLICH. I am puzzled, Jim, by the dichotomy between the short-term and long-term outlook. The short outlook is quite good; everything, with some exceptions only, is strong. Longer, we've got weak indications. Isn't there a chance that the experience of good current performance is going to bring [about] quite a change in the long-run evaluation? Likewise, isn't the strong present picture conducive to increasing inflationary expectations [or] behavior even though over the hill or halfway down the valley one sees a better performance?

MR. KICHLINE. Well, I don't think there's anything inevitable about the forecast in the sense of economic activity weakening. I would look at the current situation and say that there are elements of strength. There are also elements that cause one a little bit of concern. And I would say that retail sales are one of those areas where the reported numbers are down, but they change by huge amounts. I don't know what the revisions will do, but it's an area that I would view as a bit on the weaker side. Industrial production, particularly business equipment production, is rising at about a 4-1/2 to 5 percent annual rate. It had been going up at 14 percent annual rates for two quarters. It's a very different animal. So there are elements of weakness and items of concern.

I think you are quite right, however, in noting that attitudes can change. And if indeed short-run performance is much better than many anticipate, that could give us a much stronger picture as we go on. So I don't disagree with that. I think it's just a matter of our reading of the available information and expected relationships, which suggests to us that things will be weaker. But they may well turn out to be stronger. My own view is that the odds are very low on that. I really think, even with our downward revision of the forecast, that the odds are quite high that if we are wrong, [economic activity] will be weaker rather than stronger.

CHAIRMAN MILLER. I've cut off the list. We'll have three more comments and we will do a little go-around. Larry.

MR. ROOS. Jim, has the staff addressed itself to capacity constraints in considering the possibility of a slowdown in output?

MR. KICHLINE. We think, given our scenario, that capacity constraints will not be serious--that they are not a major factor in limiting the slowdown. The capacity constraints that we have heard most about tend to be in skilled labor rather than capital, although there are selected

areas in the capital side. But given a weakening of economic activity such as this forecast now portrays, capacity constraints would not be a serious problem.

MR. ROOS. It would follow, therefore, that if we felt it was necessary in monetary policy to deal with the softening that we could attempt to stimulate demand and have some productive results? In your judgment, isn't a matter of bumping up against capacity [constraints]?

MR. KICHLINE. Well, I think there we're reasonably close and it's hard to fine-tune these sorts of things. So if you said a number of 3 percent real growth or 2-1/2 percent real growth and it could be held there for some time, I wouldn't view that as a bad outcome, personally. If you pick a number like 4 percent, I think that does push the economy very quickly into serious capacity constraints. So there isn't a lot of room to maneuver in terms of getting the rate of real growth considerably higher than 2-1/2 or 3. [Beyond that] I really think there is a problem.

MR. ROOS. Thank you.

CHAIRMAN MILLER. Bones.

MR. KIMBREL. Mr. Chairman, we are not quite as optimistic about the price level as the staff. Looking at some individual performances, I guess we pretty much are like the Southwest. People have been reading the professional economists and are fearful of recession. But if quizzed about their individual business, they simply do not expect that business is going to be much weaker. There are few, rare exceptions--maybe textiles but that's a different [issue]. By and large, interest rates are taking their toll but there's an awful lot of commitment, full speed ahead. We're not expecting that there will be a recession and that it is inevitable in our area.

CHAIRMAN MILLER. Nancy.

MS. TEETERS. Well, gentlemen, there's a reason why the econometric models are predicting a recession. They're based on history. And these are conditions in the past that have always produced a recession. Only twice, in the latter part of 1963 and in the latter half of 1966, did we ever have growth this low without having a recession. You are all sounding like the final quarter before the downturn, quite frankly. I think we should take more account of the commercial projections because the econometric models are summaries of past history and there's good reason why they've turned this way.

CHAIRMAN MILLER. We have been scattering the shots recently and I'm going to suggest that we give brief comments individually on how we view the economy and its key elements of real growth, the fixed-weighted price index, and unemployment for the quarters under consideration here as compared with the staff's forecast. And I think we could add any particular comments as we go around. We'll start with Paul and go around counterclockwise.

MR. BLACK. Mr. Chairman, is this third quarter to third quarter?

CHAIRMAN MILLER. Yes. Well, no, I would like to do the fourth quarter to the fourth quarter on real GNP and also on the price index and your estimate of the unemployment rate for the fourth quarter of 1979. Those numbers by the staff are 2.1 percent for real growth, 7.4 percent on the fixed-weighted price index, and 6.4 percent on unemployment.

MR. PARTEE. You want to do fourth to fourth rather than the third to third that's in the Greenbook? They have the policy period of Q3 '78 through Q3 '79.

CHAIRMAN MILLER. Well, I think it's time to start looking at the full year.

VICE CHAIRMAN VOLCKER. You want a numerical estimate.

CHAIRMAN MILLER. Yes--or an indication.

MR. PARTEE. I had figured out what I'd put down for the third quarter to the third quarter; I don't quite know what I'd put for fourth to fourth.

CHAIRMAN MILLER. Well, [tell us] third to third; we'll give you that much leeway.

MR. PARTEE. If you take out the fourth quarter of this year and put in the fourth quarter of next year, it could make quite a difference.

CHAIRMAN MILLER. Well, we might all prefer to do the policy period. Why don't we do that? [The staff's figures are] 2.6, 7.5, and 6.2.

VICE CHAIRMAN VOLCKER. Well, Mr. Chairman, whatever numbers I have--the [unintelligible] in my mind would be considerably greater than usual. I do think there's a chance of a recession; it can't be dismissed. But I don't see why it should be large at this stage. And I don't feel any more that way this month than last month. In fact, I think the program probably stabilized expectations in a favorable way. I like the impact on the long-term bond market at least. But [I'd expect] something for the rate of growth of not much more than 2 percent third quarter to third quarter. I guess I would think the prices are going to be higher than the staff projected--maybe around 8 percent for that period. The unemployment rate doesn't change much but it would be up some--say, to 6-1/4 percent.

CHAIRMAN MILLER. Thank you, Paul. Chuck.

MR. PARTEE. I think the staff projection is reasonable, and I think they are quite correct to have put in considerable effect from the happenings of the past month or five weeks. I also believe it is plausible to think that we have moved over the watershed into a recession phase. I don't think it's bad for us to talk about recession. If we don't talk about recession, the effect is very counterproductive. Perhaps we ought not do it publicly but we ought to do it privately. As people know, I've long been a believer in the importance of the Christmas season and it seems to me that we have a situation where a poor Christmas season will bring us into a recession. And I think we are going to have a poor Christmas season because of uncertainty, concern, the behavior of the

stock market, and the feeling that things are tight in the money market. And you don't know what the future may bring. Once we get that, we have enough weakness generally in the economy to develop [further weakness] in housing, plant and equipment spending, and state and local spending. Then we could have a recession, which hopefully would be just a teeny weeny one.

VICE CHAIRMAN VOLCKER. You get a tax reduction.

MR. PARTEE. It doesn't amount to much, Paul. I just don't think it's going to do anything. So my figure, which is a plausible scenario I think, is a real growth rate of 1/2 percent third quarter to third quarter. I think probably there will be some price effect, and I would guess [inflation] might drop to about [unintelligible] for the four quarter period rather than 7-1/2. And at the end of the period I would project an unemployment rate of 8 percent.

CHAIRMAN MILLER. Chuck, that's the first time I've had the Boston snow theory explained to me. They always said that the economic forecast depends on the amount of snow in Boston before Christmas and I now know why. It means a weak Christmas. I always wondered why that was. Did you ever plot the stock market against the snow in Boston? It's absolutely the greatest.

MS. TEETERS. I don't think this [staff forecast] is going to happen. Either we are going to slip over [into a recession] or we are going to get through it much better than this. I can't remember a period over the past twenty years in which we've foreseen a slowdown that didn't turn into a recession or we were proved absolutely wrong--mainly in the period when we had the escalation in Viet Nam. My own feeling is that we are going to turn over into a recession. The chances are much stronger on that than they are on any sort of recovery coming in. We have a very weak consumer area. And the investment plans, I think, are going to be stronger than the surveys say but they're not going to be strong enough to offset the slowdown in the consumer area. I've never projected a 1 percent growth and lived to see it. I think we're in for some trouble. It's a question in my mind as to whether we'll get through Christmas this year or whether it will hit us next fall.

CHAIRMAN MILLER. Any numbers?

MS. TEETERS. Well, if we go down, I think we are going to go down lower than you do, Chuck, to a rate of negative growth. And if we recover, we'll probably [unintelligible] through it.

MR. PARTEE. The reason I get a plus 1/2 is because of the fourth quarter. It adds quite a bit.

MS. TEETERS. If you take the fourth quarter out, you don't get it. Let me also point out that even though we have a tax cut coming January 1 we have a tax increase on January 1. And we have another tax increase coming in the fall of next year when the increase on the ceiling on social security payments [hits]. So you're going to get two big tax increases, which will almost offset the tax cut that's coming in January. So I'm very pessimistic.

CHAIRMAN MILLER. Thank you. Bob.

MR. BLACK. Well, Mr. Chairman, I feel that we are not going to be able to accomplish as much on the inflation front as would be desirable, so I think there's going to be less strength than other people do and that a recession is likely. Along with this, of course, there will be more unemployment. I've already indicated that I think real GNP might be 1 percent to 2 percent. I think unemployment might be in the neighborhood of 6-1/2 to 7 percent and the inflation rate at 7-1/2 to 9 percent.

CHAIRMAN MILLER. Thank you, Bob. Willis.

MR. WINN. I think the variables are too great to be very confident on any kind of projection. You can spell out four or five scenarios and I don't have a very strong feeling at this stage as to which one is going to happen. I think we're paying too much attention to the retail sales of the past month or so, which I think are affected by weather and differences in terms of the samples [used] in collecting the data. I think we have more variables in those numbers and I feel less confident about those than anything. I'm thankful for Christmas ahead to keep some stimulation. And if we get some of this snow in Boston, it may actually spur sales rather than handicap them.

CHAIRMAN MILLER. At least for galoshes.

MR. WINN. Across the country. Well, coats haven't done very well either.

MR. PARTEE. You might sell a few coats.

MR. WINN. But you can trace some scenarios here of stability. [With a] regain of confidence and a sudden surge in inflation, [we can get] output that we don't [have forecast]. On the other hand, we can coast over to a very sharp decline very quickly here by consumers pulling in their horns. I'm not sure how much [good] a yearly forecast does us at this stage with the kind of variables we're faced with. I can see inputs that would lead to this result, but there are alternative inputs that can give us quite different results.

CHAIRMAN MILLER. Dave.

MR. EASTBURN. I would agree with Nancy and Chuck. As I indicated before, I think it would be unprecedented to have the kind of slow rates of growth that are being forecast with the very high inflation rates that also are being forecast. So I would see by this time next year some modestly negative rates of growth in GNP with higher unemployment--maybe 6-1/2 percent.

CHAIRMAN MILLER. Thank you, Dave. Bones.

MR. KIMBREL. Mr. Chairman, I still think we'll have slow growth, obviously, but maybe at 1-1/2 to 2 percent. Unemployment this time next year may be about 6-1/2 percent. On prices, I'd say 7-1/2 to 8-1/2.

CHAIRMAN MILLER. Thank you, Bones. Larry.

MR. ROOS. Where I live they predict snow on the degree of woolly worm developments, Mr. Chairman, but we don't have the resources to study that. We believe that there are certain fundamental monetary policy decisions--abruptly to hold down the [growth in the] aggregates to 4 percent or less--that would be about the only factor that would [militate] toward a recession in the true classic sense of the word. Basically we are optimistic. If monetary policy is conducted as we've set our targets, we would subscribe to Jim's figures.

CHAIRMAN MILLER. Roger.

MR. GUFFEY. Thank you, Mr. Chairman. We believe that the staff figures are just a bit high--in other words, growth over the third quarter to the third quarter at 1 to 2 percent, hopefully. Part of that comes, again, from the strength that is shown by the staff in the first quarter--which I believe is attributed somewhat to the tax cut--and we don't see that. But I think also the rate of growth would suggest a bit less in first quarter of '79, but getting some strength further out into the period, which gives you the 1 to 2 percent overall. Secondly, with respect to prices, I think [the staff] may be a bit optimistic; we would say 7-1/2 to 8 percent. On unemployment, [we see it] moving up to about 6-1/2 by year-end.

CHAIRMAN MILLER. Thank you, Roger. Bob.

MR. MAYO. I find this a difficult scenario to predict at this point. There are all sorts of possibilities. Like Willis, I think we could have in this time perhaps a sharp but brief recession that would still give us 1-1/2 to 2 percent growth over the period here. I am still pessimistic on the price side. Even if we do have such a sharp dip and recovery, I don't think we can do much better than 8 percent. And we could have close to 7 percent unemployment by this time next year.

We do, Mr. Roos, have facilities at the Chicago Fed for examining the woolly worms. The President does this over the weekend, and he finds that the woolly worms are very woolly--if that helps you.

MR. ROOS. Christmas Eve you'll get a gross of woolly worms from the St. Louis Bank!

MR. MAYO. I hope that postage is prepaid. On Chuck's point, though, if the size of the crowds and the traffic jams in the shopping centers in Chicago are any indication, the pre-Thanksgiving surge in Christmas sales is tremendous. Now, that doesn't give me a very good basis for [extrapolating] it out beyond Thanksgiving. But the crowds are just terrific in this pre-Thanksgiving period.

MR. PARTEE. Well, Bob, it used to be that every year I looked at State Street the day after Thanksgiving. We really tried to look at it, and it always seemed that it was at capacity. And sometimes they were good years and sometimes they were bad.

MR. MAYO. Well, State Street after Thanksgiving I think is a poor economic barometer because all the school kids go there.

MR. PARTEE. They don't spend anything; they're just coming out.

MR. MAYO. That's right, they don't spend anything.

CHAIRMAN MILLER. Anything further, Bob?

MR. MAYO. No.

CHAIRMAN MILLER. Thank you. Mark.

MR. WILLES. You're all talking about a class of models that I don't understand. I feel really quite comfortable with the staff forecast. We don't believe in what we refer to as the geriatric view of business cycles--that just because they're old, they die. I don't think that's necessary. We don't see anything in the current expansion that is so typical that it compels us to conclude there will be a recession. There are quite a few things about this expansion and about where we are now that are not at all typical and would seem to indicate that we could have a reduction in the rate of inflation without causing a recession.

I repeat the point that I made last time about models because that, I think, is an important point. If one changes one basic assumption in most of the existing models--namely, the way expectations are formed--those very same models with the very same structure fit the history just as well, and yet have radically different implications for policy and radically different forecasts with regard to recession. So even though they fit history in the way they're built, you can build them only slightly differently and have them fit history equally as well and not generate a recession forecast.

I think one reason we are not expecting a recession is because, given our view of the world, we think we have a very tightly reasoned theory which suggests that a recession is not inevitable. And we think it's not a question of our ignoring the history or ignoring what's going on. And as we talk to businessmen we get great confirmation of that. They don't see anything inevitable in the recession and this is one case where I hope they listen to their own instincts rather than their economists. I think they more likely could be right.

Now, if we get a recession, everybody is going to say: "My goodness, look what happened." My guess is that if we get one, it's not going to be caused by the policy moves that have been taken but by a major work stoppage or by a very difficult winter or something else--and not by the things that the press is talking about at the moment.

Having said all of that, we're between 2 and 3 percent for real growth, 7-1/2 to 8 percent for inflation, and around 6.2 percent for unemployment.

CHAIRMAN MILLER. Thank you, Mark. John.

MR. BALLEES. Well, like Mark, we don't believe that business expansions die of old age. We do believe they die of riotous living and we've had more than a fair amount [of that] in the last couple of years. I'm not going to rule out the possibility of a recession; I think it's a distinct possibility. We'll be lucky if we get through without one, with the distortions, imbalances, and everything else that have been created by this inflationary surge. So I don't have a great deal of confidence in the numbers that I'm going to cite for the third quarter to third quarter of about 2 percent on real GNP, 7.2 to 7.5 percent on the inflation rate, and unemployment of about 6.5 percent.

CHAIRMAN MILLER. Thank you. Ernie.

MR. BAUGHMAN. Mr. Chairman, I find the staff forecast about as acceptable as any forecast that I'm able to visualize this morning. The major difference would be that business fixed investment seems to me likely to be appreciably stronger than is incorporated in the forecast and that inflation is likely to be a bit stronger than is incorporated in the forecast. But real GNP and unemployment probably are not much different. It seems to me that there is a significant improvement in optimism--or to turn it around a diminution of pessimism--in the business sector, flowing largely at the present time from indications that the Administration is beginning to recognize the nature of the problems that they're working with, even though I do not detect a high level of confidence in their ability to handle them. But it seems to me that the mere fact that they're beginning to address them is causing businesses to feel there are improved possibilities of coming through this situation fairly well. My own personal feeling here is that if we could just find some way of slowing wage increases, then we would almost certainly have flowing from that a higher level of employment and a higher level of production than will otherwise materialize.

CHAIRMAN MILLER. Thank you. Frank.

MR. MORRIS. Well, Mr. Chairman, we've been more pessimistic than the staff for a long time and we're happy to see them approaching [our view] gradually. I think, as Nancy does, that a recession is inevitable. I think the questions--the uncertainty elements--are how big it is going to be and when it will start. The one missing piece of information that I have is what the Federal Open Market Committee is going to do. I think we're going to be challenged quite severely in the next few months by a very strong upsurge in demand for money. Again, I just base this on what has been going on in bank lending very recently. We haven't had a very restrictive policy until the last few months. Sure, interest rates have gone up, but we haven't had a period in which money has not been available for mortgages for the guy who wants to buy a house, for consumer credit, or for the business community. We are now entering that phase and I think we're going to see an upsurge in demand for money and the question is: Will this Committee accommodate this upturn over the next few months? [In that] case the recession would be put off one or two more quarters, but it would be bigger when we got there. Or are we going to refuse to accommodate it, in which case the recession would come sooner and be milder. My own feeling is that the country would be better off if we take a posture of not accommodating an increase in the demand for money and have a mild recession beginning in the second quarter. That would strengthen the President's voluntary

program rather than undermine it, which I think a policy of accommodation would do. And then we'd get the economy moving up again by the fourth quarter of next year.

There are some uncertainties here, Mr. Chairman, reflected in my rather wide range of numbers.

MR. PARTEE. Would you repeat why it is that there's going to be an increase in the demand for money? I didn't understand the reason for that.

MR. MORRIS. Well, I think, characteristically, as you enter the later stages of a boom, particularly an inflationary boom, you get a rise in demand for money.

MR. PARTEE. You don't mean in the monetary aggregates. I don't think you do, but that's not a fact.

MR. MORRIS. You don't get a rise in the demand for money?

MR. PARTEE. In the monetary aggregates, I don't think so. In bank credit, you may.

MR. MORRIS. Well, I think they are very closely linked. I think to the extent that you control the aggregates by pushing interest rates up, you--

MR. PARTEE. In the last month we've had a 50 percent rate of increase in CDs, which are not in the monetary aggregates.

MR. MORRIS. Well, I think they will soon be reflected in the monetary aggregates in time. That's going to be our problem in the next three months, as I see it.

So I would say, Mr. Chairman, 1 to 2 percent real growth, 6-1/2 to 7 percent inflation and 6-1/2 to 6-3/4 percent on the unemployment rate.

CHAIRMAN MILLER. Thank you, Frank. Phil.

MR. COLDWELL. Well, I'm tempted to go into a long discussion, Mr. Chairman, but let me just say--

CHAIRMAN MILLER. Resist the temptation!

MR. COLDWELL. --2.9, 7.7, and 6.0.

CHAIRMAN MILLER. More or less.

MR. BLACK. Did you round off whole numbers or was there a margin on either side?

SPEAKER(?). Was that exactly 2.9 percent or did you round that?

MR. COLDWELL. Absolutely fine-tuned.

CHAIRMAN MILLER. Thank you, Phil; that was a good speech. Henry.

MR. WALLICH. The range of possibilities, I think, is widening. I think a growth recession is entirely possible. There is a long history of growth recessions and they don't have to turn into full recessions, although it sometimes happens. And the reason, of course, why expansions don't go on forever is not that they die of old age but that the probability of disequilibrium or maladjustments arising increases as time goes on. I think our principle maladjustment now is the inflation which threatens to bring this [expansion] to an end.

But I'm very much impressed by the strength of the economy in the short run. The dire things that have been talked about for some time now aren't happening. Housing hasn't collapsed and investment spending has been quite strong. So these things may turn the economy around--in fact, may give inflation an additional [unintelligible]--and there is a wide range between the immediate recession scenario that one cannot absolutely deny and the possibility on the upside that we may face some further pressures. So, my most likely numbers would be real growth 3 percent, unemployment 6-1/4, and inflation 8 percent.

MR. COLDWELL. You see, I knew Henry was going to give that speech for me, so I didn't have to talk.

CHAIRMAN MILLER. Thank you, Henry. Yes, you're very close. Well, I want to thank you all for your unanimous agreement that we are going to stay in business for four quarters. What I gather from this is that we will still be here.

MR. COLDWELL. What are your figures?

CHAIRMAN MILLER. For the first time, I don't have to correct the staff! I think they are in the range, with the usual margin for error that represents a fairly good probability. I've been on the low side of the staff all year and now I think they are coming into the range that I think is reasonable. What we might do now, if you don't mind, is turn to the report on open market operations and complete that before a short break. Then we'll come back and deal with our monetary policy directive. Peter Sternlight.

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

CHAIRMAN MILLER. Thank you, Peter. It's rather interesting to have the November 1 action fall in the midst of a refinancing and turn out the way it did. Tricky to signal in advance so that that was not a problem. Any comments or questions? Yes, Chuck.

MR. PARTEE. Well, I would just offer one alternative explanation for that tipping down on long-term yields that somebody in the market must have felt. And that is that yields were likely to be reaching a peak because of the prospect or the increasing probability of a recession, rather

than that there would be success in dealing with inflation as a result of the measures. That must have been [in the minds of some]. Had I been a market manager, I would have bought longs the day after, too, but not because I felt inflation would be reduced.

MR. STERNLIGHT. I think that could have been a reason on the part of some participants.

CHAIRMAN MILLER. May we have your approval to ratify the transactions by the Desk since the previous meeting? You have had the report circulated. Are there any dissents? If not, we will record that as approved.

I would suggest a brief break now and we'll reconvene as quickly as we can so that we can complete our deliberations in time to make the memorial service. I think you all know that there will be transportation at the C Street entrance as soon as we finish here to take us to the memorial service at St. Alban's. Then there will be a lunch back here at 1:00 p.m. with Governor Jackson.

[Coffee break]

CHAIRMAN MILLER. Well, ladies and gentlemen, would you like a discussion or are you ready for the vote?

SPEAKER(?). Yes, let's vote.

CHAIRMAN MILLER. [Let's turn to] Steve Axilrod. I'll give him one chance and then we will vote.

MR. AXILROD. Thank you, Mr. Chairman. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN MILLER. Did you want to say something, Paul?

VICE CHAIRMAN VOLCKER. [Unintelligible.]

CHAIRMAN MILLER. Well, our usual practice is to go through a rather long process with everyone indicating his reasons. Let me start off by suggesting a possible directive and perhaps soliciting comments on whether or not this would be acceptable or whether variations of it are necessary.

I would tend to agree with Steve that we might deal with M1 as we did last month, with an upper limit rather than a range. And if we did that, I would think that perhaps a 5-1/2 percent lid would be an appropriate number. As for M2, I rather think the 6 to 10 range would be appealing. As for M1+, I think it ought to be treated as a nonoperative shadow aggregate that we have ranges for so we can learn to watch it and deal with it. Therefore, I would say that 2 to 6 percent would be an adequate indication and a shadow comment. My preference for the fed funds rate at this point would be to use a 9-1/2 to 10 percent range and to move it to 9-3/4 percent.

I'm a little open-minded on the form of the directive, but I tend to think we are still operating in a period where a money market directive might give us more flexibility. I think Steve is correct that next month and in coming months we're probably going to want to pay very close attention to the aggregates, but we are still sort of in a transition phase. I could go either way, but I think it might be just as appropriate at this time to have a money market directive. I can follow up with any comments or we can just go down the list. Phil, did you want to say something before we start down the list?

MR. COLDWELL. I'll [wait] my turn, Mr. Chairman.

CHAIRMAN MILLER. Okay. Paul, would you like to add anything as Vice Chairman before we start this?

VICE CHAIRMAN VOLCKER. Well, I guess I come out slightly differently than you do, Mr. Chairman. I really have one concern when I look ahead at the 4-week period until we meet again, and that is that we adequately back up the program that has already been announced. I think it has had a good effect internationally. I think it has had a good effect domestically in terms of-- "breaking" the inflationary psychology is much too strong a word but I think it has at least shaken thinking of the inevitability of more inflation anyway. And everybody is looking to see whether we will carry through. I don't think that implies a lot of tightening. But I do think we have to be sensitive to what goes on in the exchange markets and sensitive to what goes on in the aggregates, particularly on the high side, as Steve suggested.

Just looking at the federal funds rate, I would not like to see it go below the 9-3/4 level where we are, and I frankly would like the Desk to have a little flexibility to play it immediately, depending upon the exchange market, somewhere between 9-3/4 and 10 percent. And I certainly would be prepared to go above 10 if the aggregates got [beyond] those figures that you suggested. In fact, I would put the aggregates figures down, say, 1/2 percentage point from where you suggested on the up side. And I'd be prepared to go somewhat above 10 percent if the aggregates moved up in that area. I do think the outlook, as has been the basic pattern in the past, is for high figures. Our own analysis suggests that they are going to remain high without higher levels of interest rates than we have now, a little bit in contrast to what the Board staff is suggesting. These estimates are very uncertain. I don't want to attach a lot of weight to them, but I think there is a possibility that the aggregates could remain quite high, and we ought to be alert to it at this juncture particularly. I suppose that means we should use an aggregates directive--at least a lopsided aggregates directive on the high side.

CHAIRMAN MILLER. Paul, of course, if we run past our aggregates [figures], we would consult--and I think we have learned to consult--with the FOMC. I'd rather have us consult in an intermeeting period than get locked into motions. It's just a personal preference. It has turned out that our communications have been fairly good. However, let's see how others feel. We will start with Ernie Baughman.

MR. BAUGHMAN. Mr. Chairman, I'm rather concerned--somewhat along the line that Paul Volcker has mentioned--that if the conventionally observed policy indicators do not rather

[unintelligible] continue to show support for the program that we announced in November, we will soon be discredited. And it seems to me that it's quite important that we don't run that risk at the present time, even at the risk that we might be a little tighter two months down the road, looking back on it, than we had hoped. It seems to me that if we were to accommodate something like a 10 percent growth rate in M2, it would tend to be construed that way. Also, it seems to me that a 10 percent growth rate in M2 would probably be linked to enough growth in reserves or monetary base type numbers so it would tend to provide support for people who are already suggesting that mostly what we have done is say words and not really follow up or give them substance. So my preference would be to see a lower top on the M2 growth rate. I have thought in terms of 6 to 8 there, frankly.

MR. PARTEE.(?) Ernie, aren't you concerned about the tendency of banks now to issue these CDs--nonnegotiable CDs--in large amounts?

MR. BAUGHMAN. Well, yes. But then we carry over into bank credit and then we begin to get to the question that Frank Morris has raised and which tends to emerge in Paul's comments. We are not projecting much of a slowing in the rate of growth of bank credit for November and December. That growth rate has been pretty fast and it has been consistent through the year with an accelerating rate of inflation notwithstanding a pretty good level of real output in the economy. And it seems to me, as I say, that people are looking at us pretty closely now and trying to evaluate and construe just what our intentions are. They will be looking at bank credit along with other figures. So I would like to see a policy at the present time that would move the [funds] rate up a bit. I agree that we don't want to be really hard-nosed on it, but nevertheless move it up a bit if we see the indications of M2 and bank credit not slowing down. Our program was read by people as a declaration that we are going to get some slowing in the rate of money and credit growth in the economy for the purpose of making the Administration's program meaningful, both internationally and domestically. So it seems to me there is a lot riding on it at this point in time in terms of confidence in what we're trying to do.

CHAIRMAN MILLER. I think we are going to run short of time now. Could we get your numbers and move on because we do have this memorial service. We have to keep an eye on [the time].

MR. BAUGHMAN. My preference on M2 would be 6 to 8, and on the federal funds rate 9-3/4 to 10. The other elements of alternative B I can accept as they are presented.

CHAIRMAN MILLER. Okay, thank you. Phil Coldwell.

MR. COLDWELL. Mr. Chairman the figures you gave are not far from the ones I came out with. I think we have a rather wide diversity of opinion here. I don't see a recession immediately and I think there is too much inflation involved, so I would put a cap on M1--cap it at 5 percent--put a range of 6 to 9-1/2 on M2, and 2 to 6 on M1+ as a memo item as you have suggested. On the federal funds rate I guess I find myself at a halfway house here. I think 9-5/8 to 10-1/8 would be where I would [put the range], looking at a 9-7/8 percent midpoint, which does take us up a shade but it certainly slows the rate of increase.

CHAIRMAN MILLER. Thank you, Phil. Dave.

MR. EASTBURN. It seems to me that we are working 100 percent on a money market basis, so I would certainly cast the directive in those terms. I would also focus attention primarily on the funds rate and hold it at 9-3/4 percent. I'd not let it go below that but have a consultation if it looks as though the aggregates are coming in too high. I would not really fuss too much on the parameters of the aggregates because it seems to me that when--

CHAIRMAN MILLER. What did you say on the funds rate? I'm sorry.

MR. EASTBURN. A 9-3/4 percent effective rate; a 9-1/2 to 10 percent range is fine with me.

CHAIRMAN MILLER. Thank you. Chuck.

MR. PARTEE. I can agree with Dave 100 percent. I believe that this is a time when we want to stand still if we possibly can because there are so many rate relationships that have not yet adjusted. The prime rate probably has another quarter, perhaps another half to go. The mortgage rate is in the process of adjusting in most parts of the country. The long-term rates, I think, have not yet found their level, reflecting the very difficult adjustment they have to [make to] all the things entertained here. Therefore, I think what we want to do is to hold very steady on the funds rate, and 9-3/4 percent is okay with me. I like your ranges, and I certainly think a money market directive is called for. But I would agree that if something breaks loose here--either internationally as Paul fears or domestically as some people fear on the aggregates--that we should talk about it.

CHAIRMAN MILLER. Consult, yes. Thank you.

MR. PARTEE. We have a better land line now, don't we? And we can consult better.

CHAIRMAN MILLER. I think we are doing better on that, yes. Nancy.

MS. TEETERS. Well, I feel very strongly that we should stand still. I would go for a range of 9-1/2 to 10 on the funds rate and the money market directive, with not all that much attention at this point to the aggregates. However, if they begin to break loose, I think we need to consult. I want to say, though, that I would like to see the funds rate kept at 9-3/4. The past two weeks we have had a range of 9-1/2 to 9-3/4 and the funds rate was actually 9-3/4 to 10, which was higher than [in] the directive. I don't want to go to a range [with an upper limit of] 10 percent now and find that we are always at the top end of it.

CHAIRMAN MILLER. Okay, Nancy. Thank you very much. Henry.

MR. WALLICH. I am particularly concerned that we shouldn't convey a sense of easing inadvertently at a time when that has a balance of payments and dollar implication. So I would begin by starting the funds rate at 9-3/4, but be asymmetrical at 9-3/4. I'd leave it at that point, but

if the aggregates come in badly, go up to 10-1/4. For the aggregates I would say M1 with a cap of 5, M2, 6 to 9, and M1+, 1 to 5.

CHAIRMAN MILLER. Thank you, Henry. Mark.

MR. WILLES. For reasons which Paul and others have talked about, I would like a funds rate range of 9-3/4 to 10-1/4 percent and I would move promptly to 10. I think, frankly, if we don't do that, the market will be quite surprised and disappointed and it will unravel everything that we have done. For M1, I would like a maximum of 5 percent; if we have anything greater than that we're allowing growth in December excluding ATS that I think is really unduly large and, again, will have a very bad message for the market. I'd have a 6 to 9 range on M2. And I don't know what to make of M1+ so I don't have a number on that.

CHAIRMAN MILLER. Join the parade. Thank you. Willis.

MR. WINN. I would put a cap of 5 percent on M1, a range of 6 to 9 on M2, and 9-3/4 to 10-1/4 [for the funds] rate, staying at 9-3/4 until we see what's happening here.

CHAIRMAN MILLER. All right, let's go through the others quickly. John.

MR. BALLEES. Well, for reasons that have already been spelled out--and I won't repeat--if the important bridging actions of November 1 are not sustained, we are going to lose the effect of that and the credibility. I think we are under particular observation at home and abroad on that right now. So for those reasons, I would put a cap of 5 percent on M1, 6 to 9 for M2, and 1 to 5 for M1+. I favor 9-3/4 to 10-1/4 on the federal funds rate, moving immediately to 10 with an aggregates directive.

MR. WILLES. May I add, Mr. Chairman? I strongly prefer an aggregates directive.

CHAIRMAN MILLER. Okay, let's get that marked. Bob Black.

MR. BLACK. Mr. Chairman, my position is fairly close to that of Mr. Willes and Mr. Balles. It's very important that we don't flash a signal now that we are not backing up what we did on November 1. And as I look at the figures that have been provided by the staff, even on the toughest one, alternative B, that still provides really no improvement over a longer period of time. So I think we ought to set even lower figures on the aggregates than they have there. For arithmetic reasons that I won't go into now, I come out with -1 to 3 on M1, 5 to 9 on M2, and I'd rather leave M1+ out of it. A federal funds range set as in alternative B sounds fine to me, but for the reasons that Scott Pardee mentioned in his presentation, I would go on to 10 percent now. The market has been [disappointed] that we backed off from that; they thought we were there. And I think that will reinforce their feeling that we really mean business. But I would sit there until the aggregates dictate that we should go beyond that.

CHAIRMAN MILLER. Thank you, Bob. Roger.

MR. GUFFEY. Yes, Mr. Chairman. I would prefer the prescription very much as you described it earlier. I think it's not necessary to say, but maybe I will say it anyway, that we are only three weeks away from a very dramatic move in the markets. They haven't adjusted very well. It seems to me that we ought to sit right where we are--maintaining the 9-3/4 funds rate, however, to confirm that to the market. That's where they think we are on the bottom side at least. And I would take the aggregates as you suggested them, with a money market conditions directive.

CHAIRMAN MILLER. Thank you. Bones.

MR. KIMBREL. Mr. Chairman, I too am concerned about being discredited, but I think we might be able to consult and have no real concern about that. I would like a money market directive with essentially the numbers you have used. If I had any concern, it would be about a 9 percent ceiling on M2.

CHAIRMAN MILLER. Bob Mayo.

MR. MAYO. Mr. Chairman, I would buy the 9-1/2 to 10 [funds rate range] with the 9-3/4 midpoint. I would buy 9-3/4 to 10, for that matter, with a 9-7/8 midpoint. It's getting awfully narrow but I think this is the consolidating, so to speak, that Roger described. I would take a money market directive. I think it is a better judgment at this time, too. I don't think we are that close to the economic problems that we might dictate with an aggregates directive. I have more confidence in M2 than in either of the others, though I think I would put it at 5 to 9--a little more restrictive than alternative B. I would put a cap of 5 percent on both M1 and M1+. Although the months differ a little, the sum of the two months is essentially the same. I don't think the lower end of the range makes any more sense on M1+ than it does on M1.

CHAIRMAN MILLER. Frank.

MR. MORRIS. I come out, Mr. Chairman, very close to Henry Wallich's formula of 9-3/4 to 10-1/4 on the funds rate, with the Manager instructed to stay at 9-3/4 unless we have reached the upper limit [on the aggregates]. I think the Manager ought to have at least a half point to operate with. But the only area where I diverge from Henry is that I think we ought to eliminate the M1 and M1+ figures from our objectives because I don't think we can interpret either one of these numbers. I would prefer simply to see a single range for M2 of 6 to 9 percent.

CHAIRMAN MILLER. Thank you, Frank. Larry.

MR. ROOS. Yes sir, I would recommend a top of 5 percent for M1 and for M2 a range of 6 to 9 percent. I don't have any comment on M1+. I think it would be desirable to have a fed funds range of 9-3/4 to 10-1/4, moving to 10 right away. And I feel that an aggregates directive would be preferable.

CHAIRMAN MILLER. Well, thank you all very much. Looking at the voting members for a moment there seems to be a preference for a money market directive. As far as the immediate action on fed funds, there is a very high consensus for 9-3/4 percent. As far as the range is

concerned, it appears to be a tossup between 9-1/2 to 10 and 9-3/4 to 10. A few are over 10 but not many. We don't seem to have that much variance on an M1 cap; 5 percent looks like the consensus. It looks like a 6 to 9-1/2 percent range on M2 would be a compromise from a scattering of around 6 to 9, 6 to 10, and 6 to 9-1/2.

Let me just suggest the following: a 5 percent cap on M1, a 6 to 9-1/2 percent range on M2, a 9-3/4 percent fed funds rate--with a 9-3/4 to 10 range, but maintaining 9-3/4 as both the bottom and the midpoint for this purpose--and a money market directive. Is that something that could be supported?

MR. PARTEE. That's tight.

CHAIRMAN MILLER. Tight. What would you [change]?

MR. PARTEE. I would just point out that the M2 midpoint projection is a little over 8-1/2 percent over the two months. So it's tight. There's a good possibility that the 10 percent funds rate will have to be negotiated with a telephone conference call, but I find it acceptable.

MR. AXILROD. Mr. Chairman, does that mean that you are including the language on page 15 under money market emphasis--that we would add that?

CHAIRMAN MILLER. On page 15? Well, it would be raised or lowered within the range. That's true, because it could go up and come back down.

MR. PARTEE. I don't really think you need the "in an orderly fashion" if you only have a 1/4 point range.

CHAIRMAN MILLER. I think that would be a great change. All of the people who would track us carefully would notice that change and figure that it has some significance. So why don't we take that out?

VICE CHAIRMAN VOLCKER. I do think we need more language in here about the international business just to reflect what has been going on.

CHAIRMAN MILLER. I think that's a good idea. Incidentally, I didn't even mention M1+; I think we put it in as a side note. I think 2 to 6 or something like that is maybe the best thing to do.

MR. PARTEE. It's very hard to predict it.

CHAIRMAN MILLER. Maybe we will just leave it out. Why don't we just leave it out and keep track of it? That will be much better. Then we won't confuse everybody. Would you buy the latest proposal?

VICE CHAIRMAN VOLCKER. Well, I have the other--

CHAIRMAN MILLER. Come on now, we haven't any time for messing around.

VICE CHAIRMAN VOLCKER. Let's move the top of M2 down to 9.

MR. PARTEE. No, we can't. You're biasing the result.

VICE CHAIRMAN VOLCKER. I want to bias the result.

MR. COLDWELL. Mr. Chairman, I am bothered a little bit about a freeze at 9-3/4.

CHAIRMAN MILLER. You mean you are worried about the down side?

MR. COLDWELL. I'm worried about both the down side and the up side. I'd rather, if we could, buy a 9-7/8 midpoint as the midpoint shown on that range you picked. Actually, I think the range is terribly narrow; 1/4 percentage point gives the Manager very little leeway.

MR. PARTEE. That's a true money market directive.

CHAIRMAN MILLER. Yes.

MR. COLDWELL. If you really want to nail it, then I would rather nail it at 9-7/8 than 9-3/4.

MR. PARTEE. That's a very small point.

MR. COLDWELL. It is, but it's a small point on the other side too, Chuck.

MR. PARTEE. Of course, it hasn't been at 9-3/4; if we put it at 9-3/4, we have put it up from where it was. You want to put it up 1/8 point more, apparently.

MR. COLDWELL. That's right.

CHAIRMAN MILLER. Let's find out. There seemed to be quite a majority for a 9-3/4 funds rate at this point. So let's try this one on a straw vote and see what we have. How many of the voting members would accept--I'm not saying would propose but would accept--the proposition I just tried to get out of this? How many would go along with this?

MS. TEETERS. Would you just state it again?

CHAIRMAN MILLER. A 5 percent cap on M1, a 6 to 9-1/2 range on M2, and a 9-3/4 to 10 range on fed funds, using 9-3/4 as the initial positioning point and a money market directive--and M1+ just tracked on the side.

MR. PARTEE. But with a notion that it probably would be within [2] to 6 percent.

CHAIRMAN MILLER. Yes, tracking it to see how good we are at guessing. How many of you would support that? 1, 2, 3, 4, 5.

MR. PARTEE. 5 out of 10.

CHAIRMAN MILLER. I didn't count myself.

MR. ALTMANN. I think it's 6.

CHAIRMAN MILLER. 1, 2, 3, 4, 5, well--

MR. COLDWELL. Can we buy my try at it, Mr. Chairman? Leave everything the same but put the midpoint at 9-7/8.

CHAIRMAN MILLER. Sure put it in. The midpoint at 9-7/8. We will take a vote on that. How many would like that?

MS. TEETERS. With 9-1/2 still on M2?

CHAIRMAN MILLER. Yes, everything else the same.

VICE CHAIRMAN VOLCKER. And we consult if these aggregates get high.

CHAIRMAN MILLER. Oh, yes. 1, 2, 3, 4, 5, 6. Okay. I think that's a majority. Now let's take a vote. Let's get the others to swing in and realize that like a convention when they are all through they say, "Mr. Chairman, I move that it be unanimous." There's real opportunity here.

MR. PARTEE. It just shows with Mark that you can't satisfy him very long. We raised [the funds rate] very substantially and he liked it, but now several weeks have gone by and we haven't raised rates anymore.

CHAIRMAN MILLER. Three weeks. All right, I'll vote for the Coldwell compromise.

MR. ALTMANN.

Vice Chairman Volcker	Yes
President Baughman	Yes
Governor Coldwell	Yes
Present Eastburn	Yes
Governor Partee	Yes
Governor Teeters	Yes
Governor Wallich	Yes
President Willes	

MR. COLDWELL. Come on, Mark.

MR. PARTEE. Abstain?

CHAIRMAN MILLER. Keep with the club.

MR. COLDWELL. We've got a little bit more.

MR. ALTMANN. I didn't hear. Did he have an answer?

MR. PARTEE. He hasn't answered yet.

CHAIRMAN MILLER. He abstained.

MR. WILLES. If we would vote for this, we would tolerate almost 12 percent growth in M1 in December before we move.

MR. PARTEE. Assuming November is right.

MR. WILLES. That's right.

MR. PARTEE. Which we don't know.

MR. COLDWELL. Which we don't know.

CHAIRMAN MILLER. Well, just a minute now, Willis Winn.

MR. WINN. I'll go along with it.

CHAIRMAN MILLER. Now Mark.

MR. WILLES. Well, it's not December, but almost. I'll vote yes.

CHAIRMAN MILLER. A vote for Christmas. Thank you. I think that's the most marvelous vote I have had since I have been here.

VICE CHAIRMAN VOLCKER. What about the language?

MR. COLDWELL. We did take the money market directive, didn't we?

CHAIRMAN MILLER. We did take the money market and we did--

VICE CHAIRMAN VOLCKER. I have a proposal but I don't [know] whether it's--

CHAIRMAN MILLER. On page 15?

VICE CHAIRMAN VOLCKER. Well, on page 14 it refers to [the international situation].

CHAIRMAN MILLER. All right, let's look at page 14.

VICE CHAIRMAN VOLCKER. Well, I just wrote in a different phrase here [beginning with] the "while" for the first sentence. "In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for the money aggregates cited above, while supporting the objective of stabilizing the foreign exchange value of the dollar." That is all I put in.

CHAIRMAN MILLER. You want to leave in "giving due regard to developing conditions" don't you? And add supporting--

VICE CHAIRMAN VOLCKER. No, I just left that out and put this in as a substitute.

MR. PARTEE. You are [not] going to risk any further rise in the dollar?

VICE CHAIRMAN VOLCKER. Well, stabilizing--

MR. COLDWELL. That's what you say--stabilizing the exchange value. You can stabilize both ways, Paul.

MR. PARTEE. That's a very considerable departure from past practice.

VICE CHAIRMAN VOLCKER. Well, that's what we just announced that we were doing.

MR. PARTEE. I don't think the announcement said that.

CHAIRMAN MILLER. We were countering disorder.

VICE CHAIRMAN VOLCKER. We said we are going to call it to a halt and reverse it. Now, you could argue that we are allowing some up--

CHAIRMAN MILLER. That's because the whole market was in considerable disorder.

MR. COLDWELL. Why don't we just say "support" the value of the dollar? It might get you away from this "stabilization."

MR. PARTEE. I don't want to go toward that.

MR. COLDWELL. No, I don't want to go toward that.

MR. AXILROD. Mr. Chairman, "correcting excessive exchange [market fluctuation]" is what we used.

VICE CHAIRMAN VOLCKER. I have no hang-up on the word "stabilizing." I just wrote that in there.

CHAIRMAN MILLER. Do we want to leave in this language "giving due regard to developing conditions in domestic markets"?

VICE CHAIRMAN VOLCKER. It just seems too weak to me. I have no problem [leaving] in domestic markets; I just wanted more prominence to the international. After all, this program is certainly--

MR. COLDWELL. I'd buy Paul's wording, with the word "support" instead of "stabilize."

MR. BAUGHMAN. "Giving due regard" could mean anything you want it to.

VICE CHAIRMAN VOLCKER. The trouble is we've used it when we didn't mean much. That's the problem.

MR. WALLICH. Well, I think "stabilizing" is not helpful. I think "supporting" or "strengthening" or using the announcement [wording]--

MR. MORRIS. I think the word "supporting" doesn't go very well with a federal funds range of 1/4 point.

VICE CHAIRMAN VOLCKER. Well, you could say while "supporting" the foreign exchange--or "strengthening."

MR. ALTMANN. What's the strengthening?

MR. COLDWELL. Strengthening instead of supporting it.

MR. PARTEE. Strengthening what?

VICE CHAIRMAN VOLCKER. Strengthening the foreign exchange value of the dollar or giving due regard to strengthening it.

CHAIRMAN MILLER. That's what it says here--giving due regard to strengthening the--

MR. COLDWELL. Really "supporting" is a better word, isn't it?

MR. PARTEE. Strengthening means you are going to continue to run it up, and I don't know how far we will run it up.

MR. MAYO. Giving due regard to the developments in international exchange markets.

CHAIRMAN MILLER. Well, I think we need a little more positive statement. Support is okay. There's nothing wrong with support. I think we ought to leave something in here about the domestic markets. I really do. We shouldn't [base] our actions solely on international [markets]; that's the only point. Okay. Any other changes on page 14?

MR. AXILROD. Mr. Chairman, I would just suggest that the Committee be prepared to answer, when this reaches the public, whether in fact the Vice Chairman's wording means that the Committee would tighten or fail to lower the funds rate when the dollar is weakening. I think that question will inevitably come up at that time, whereas general language as is in there now or as President Mayo suggested wouldn't raise that question. I think it will be taken as an active change in policy. If that's what the Committee intends, fine. I'm not qualified to--

CHAIRMAN MILLER. Well, does the Committee buy the Volcker language with the word "support"?

MESSRS. PARTEE and COLDWELL. Paul, could you read it?

VICE CHAIRMAN VOLCKER. Well, "while giving due regard to developing conditions in domestic financial markets and supporting the value of the dollar in the foreign exchange markets." That's the way you have it, Mr. Altmann?

MR. ALTMANN. Well, "strengthening" or "supporting" the foreign--

MR. PARTEE. Yes, I think that ought to go first.

CHAIRMAN MILLER. "...and to developing conditions in domestic financial markets." All right, I don't hear any dissents. On page 15 was there a problem, Steve?

MR. AXILROD. No, I assume we don't need "in an orderly fashion." And I would just like to call the Committee's attention to the last paragraph beginning on the bottom of page 15, which used to be in the directive and we have added it again in case the Committee wants to include this. It spells out what is implicit.

CHAIRMAN MILLER. Yes, we did it before and we took it out the last time because of the particular circumstance. I think it should go back in. Now that we have done all of this--

MS. TEETERS. There's an extra sentence in here if we're going to drop M1. In the middle of the page [it says "weight is to be given to M1 if it appears to be growing at a rate close to or above]..."

CHAIRMAN MILLER. That whole section will come out. And we will take out the reference to M1+. Now that we have done all of this, let me ask Alan and Peter: Can you fellows live with this?

MR. STERNLIGHT. It seems to be reasonably clear to me, Mr. Chairman. It's hard to be very disorderly within a 1/4 point range. The fed funds range is really quite a good one and very appropriate in the current market.

CHAIRMAN MILLER. Is the range too narrow for you? You're okay. Well, thank you all very much. We have a few minutes to get organized to make our trip, and I appreciate it. We will come back here for lunch. Now, we do have a meeting on December 19 for Christmas, and at that time Mark will be even mellower.

MR. COLDWELL. Mr. Chairman, do we have a schedule for 1979?

CHAIRMAN MILLER. Do we have a schedule for '79 yet? We had a problem, Steve, about meetings. Chuck.

MR. PARTEE. We intend for the December meeting to have the report of our subcommittee on addressing the question of procedures and practices with regard to the new Humphrey-Hawkins bill. That will at a minimum require a change in the February meeting date and the July meeting date, so that we can meet sometime before we have to submit the written report, which is by the 20th of February and the 20th of July. I also think we will review the question of schedules perhaps with the view to reducing the number of meetings per year to ten. But we haven't looked at all of the pros and cons on that yet. So, we have a little--

CHAIRMAN MILLER. Because of the timing of these special reports.

MR. PARTEE. That's right. And because of the special reports, we really will have a longer-term thrust, I think, in policy as a result of the Humphrey-Hawkins changes in the Federal Reserve Reform Act. So, therefore, we might not need to meet quite so frequently; it would be perhaps more on a five or six week interval rather than a four or five week interval. [We haven't] talked about it, so I really shouldn't say that much about it.

MR. COLDWELL. Do you have enough information yet, Chuck, if we bought your proposal, to name the date for February?

MR. PARTEE. What did we decide--the 6th?

MR. AXILROD. We were thinking of the 6th and 7th. It might have to be a 2-day meeting.

MR. PARTEE. We will probably have to have two days of meetings because of--

MR. AXILROD. This report has to be out on the 20th and it's the first one so we need some time.

MR. PARTEE. And likewise with July.

CHAIRMAN MILLER. If we are going to have a 2-day meeting, the sooner we get it on people's calendars--

MR. PARTEE. What about July, Steve?

MR. AXILROD. I think it was--I may be off a little bit on the dates--somewhere around the 12th or 13th. I can't remember.

CHAIRMAN MILLER. Well, can you give us some tentative dates at lunch?

MR. COLDWELL. We really ought to know that.

CHAIRMAN MILLER. So we can at least block out the time.

MR. AXILROD. Well, some of these schedules change all the dates throughout the year, so I think it might even be premature to give tentative dates.

MR. PARTEE. Those two we ought to be able to pin down, I think.

CHAIRMAN MILLER. Just February and July. Let's get February tied down for sure.

[END OF MEETING]