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Date February 18, 1970

Office Correspondence

To Members of the Board

Subject: Meeting of the Treasury

From S. J. Maisel

Consultants, February 18

1. The consultants consisted of six rather heavy monetarists (Bailey, Brownlee, Fand, Fellner, Meiselman, and Meltzer) and Dan Throop Smith.

2. My notes show very few points made. Those which were made were agreed with almost unanimously. There were also numerous comments on the need for a constant monetary policy announced frequently and clearly to the public.

3. The following were the chief items of agreement:

(a) Fiscal policy can be disregarded because only monetary policy matters. Because of the fact that we are bound to have a full-employment economy with a constant savings rate, all the Government can do is affect the distribution among components of production. The Fed can also influence prices through monetary policy.

(b) All were pessimistic for this year. They predicted that the price increases would be considerably above the 4.4 per cent for 1970 predicted by the Council of Economic Advisers, while unemployment would be between 5-1/2 and 6 per cent by the last half of the year.

(c) All except Fellner and Smith agreed that the Fed had stayed with constraint too long. They all suggested that policy from here on in be a 4 per cent increase in M_1 .

(d) Fellner said don't relax unless it is a political necessity; that expectations were still high and, therefore, it was better to accept much higher unemployment in order to decrease the rate of future price increases.

(e) While all agreed that in their minds price expectations were critical in determining the next two years' price increases, they were split about half and half on what price expectations were important. One half seemed to feel that it was price expectations based on the last 5 or 10 years that mattered. The others felt that we could now be influencing the price expectations which would have some influence on prices in 1971. Almost all agreed prices for 1970 were already determined.

See 2/19/70 memo

S.J.M.

cc: Messrs. Holland, Solomon, Cardon,
Partee, Hersey, and Wernick

FOR FILES
Sherman J. Maisel