

TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE MEETING

November 15, 1977

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. Sternlight, Deputy Manager for Domestic Operations

11/15/77

Meeting of Federal Open Market Committee

November 15, 1977

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 15, 1977, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Coldwell
Mr. Gardner
Mr. Guffey
Mr. Jackson
Mr. Lilly
Mr. Mayo
Mr. Morris
Mr. Partee
Mr. Roos
Mr. Wallich

Messrs. Balles, Baughman, Eastburn, and Winn
Alternate Members of the Federal Open
Market Committee

Messrs. Black, Kimbrel, and Willes, Presidents
of the Federal Reserve Banks of Richmond,
Atlanta, and Minneapolis, respectively

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

Messrs. Balbach, T. Davis, Eisenmenger,
Kichline, Reynolds, Scheld, Truman,
and Zeisel, Associate Economists

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Mr. Holmes, Manager, System Open Market
Account

Mr. Pardee, Deputy Manager for Foreign
Operations

Mr. Sternlight, Deputy Manager for
Domestic Operations

Mr. Hudson, Assistant to the Chairman,
Board of Governors

Messrs. Coyne and Keir, Assistants to the
Board of Governors

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

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

Messrs. J. Davis and Parthemos, Senior
Vice Presidents, Federal Reserve Banks
of Cleveland and Richmond, respectively

Messrs. Brandt, Burns, Fousek, and Kaminow,
Vice Presidents, Federal Reserve
Banks of Atlanta, Dallas, New York,
and Philadelphia, respectively

Mr. Kareken, Economic Adviser, Federal
Reserve Bank of Minneapolis

Mrs. Tschinkel, Adviser, Federal Reserve
Bank of New York

Transcript of Federal Open Market Committee Meeting of
November 15, 1977

[Executive session]

[Secretary's note: The raw transcript begins at this point.]

MR. O'CONNELL. [--]FOMC involved a demand by the plaintiff, which he initiated in the federal District Court in the District of Columbia, for January and February 1975, the Memoranda of Discussion of the Committee together with the Record of Policy Actions for those two meetings, including the domestic directive and the ranges voted on by the Committee at those two meetings. The lower court held, in a series of opinions in 1976, that the Memorandum of Discussion had to be given to the plaintiff in what we then described as reasonable segregation of factual portions, but that the deliberative process as reflected in that Memorandum of Discussion could be withheld.

And the court ordered that we give reasonably segregable facts to the plaintiff and otherwise submit the entire Memoranda to the court for its review. Subsequently the court ruled in October of 1976 that the entire Memoranda of both meetings had to be disclosed and given to the plaintiff. Subsequent to that order, as the Committee was advised and under the Committee's direction, we negotiated a settlement with the plaintiff whereby--less than ordered by the court--but [to] the satisfaction of the plaintiff, the facts from the Memoranda were accepted by the plaintiff in settlement of that issue. Thus, it was separated from the court of litigation.

Secondly, the court had ordered that the Record of Policy Actions be made promptly available to the public upon its adoption by the Committee. In essence, that, too, was separated on appeal for the reason that, under the Committee's reduction in time sequence, the Record of Policy Actions is now available to the public, after its adoption by this Committee, immediately following the next meeting, roughly 30 to 35 days. Well, since this constituted essential compliance with the mandate of the court, namely, a prompt disclosure to the public after its adoption, and the Record of Policy Actions isn't adopted virtually until the next meeting, the parties agreed that we were in compliance.

That left one issue on appeal, and it was that issue that was the subject of the litigation in the decision that was issued on November 10 in the Court of Appeals, namely, the timing, under the Freedom of Information Act, of the Committee's release of the directive and, as it now includes, the ranges adopted by the Committee. Basically, the Freedom of Information Act, which is applicable to the Federal Open Market Committee, requires that policy statements and interpretations of policy adopted by an agency must be made promptly available to the public. And that availability takes either the form of publication in the *Federal Register*, the official government publication, or in lieu of that publication, availability to the public in copying form. That is what the court required be made available, in either of those two forms, with respect to the two items I mentioned--the directive and the targets within that directive.

Mr. Chairman, members of the Committee, I won't take time, unless specific questions are asked, to [explain] what the court's rationale was. The Committee may recall that, essentially,

we thrust three points on our appeal to the Court of Appeals. The most essential point was that premature disclosure of the directive materials could constitute an adverse reaction on markets to the undue advantage of those participating in the market who are sophisticated enough to handle that. Secondly, it was predecisional in nature, and that, under exemption 5 of the Freedom of Information Act, predecisional actions by an agency or, in this case, a committee, were not required to be disclosed.

As those of you who have had an opportunity to look at the opinion realize, the Court of Appeals cast aside both of these arguments by a unanimous court, Judge McGowan writing that opinion. The court held that, in its judgment, such actions by this Committee were not predecisional but were in essence the decision of this Committee; that at each meeting the Committee adopts and finally acts upon its directive to the Account Manager, and this is a final action, and that the ranges encompassed therein also constitute final action of this Committee and that nothing more is to be done except the discretionary action, within the range and directive, by the Account Manager. Thus, the action of the Committee taken today, for example, is a final action that must be made available, on its adoption, which of course would mean today.

Mr. Chairman, let me very quickly touch upon some possible alternative procedures that the Committee may wish at some time to contemplate as a result of this decision. With respect to the court's order and opinion, under the rules of the Court of Appeals, the court enters its judgment and opinion, and then, within 21 days of that entry--which is November 10--within 21 days of November 10, the court issues its mandate, which in effect is an entry by the clerk of the final effect of the court's order. So thus, by calendar count, on December 1, this Committee must be in compliance with the full mandate of that opinion, unless, in the meantime, some stay or continuance of that time order is effective. So thus, by December 1 coming, the actions of the Committee taken today with respect to its domestic directive and the ranges must be made available to the public.

Now, between now and December 1, the Committee can authorize that there be filed on its behalf a request for a rehearing by the Court of Appeals; a request for a reconsideration of the issues on appeal by the entire court, which is known as an "en banc" review by the Court of Appeals; or thirdly that we request of the Solicitor General of the United States under title 5 of the United States Code a writ of certiorari to the United States Supreme Court.

Very quickly commenting on each, the request for a rehearing must be filed within 14 days of the court's mandate entry. Now that petition would ask the same three judges who unanimously held against the Committee to review the case and re-decide this matter on the basis of resubmitted arguments of merit on behalf of the Committee. Commenting on that, may I say that a reading of that opinion doesn't suggest to me openly that there will be much merit in such petition. I think the opinion evidences a rather broad ranging--not without deliberation--but a disregard of the merits of our argument with respect to the three points that I mentioned were in our brief. So that [the success of] such a petition I think is in doubt.

Secondly, if you ask the entire court--this Court of Appeals has nine judges, three of whom decided this case. There are two other judges on the Court of Appeals who--on review, I believe their decisions indicate that they are of the same liberal bent with respect to the Freedom of Information Act as are the three judges who decided this case. That, I believe, would give you

five of the nine [deciding], I believe, as this court [already has], so I think that the likelihood that [the entire court] would reverse the Court of Appeals [three-judge] decision is small.

Thirdly, the petition for writ of the Supreme Court. The Solicitor General is given the authority to make the ultimate decision of whether an agency may seek certiorari of the Supreme Court. We would file a letter with the Solicitor General requesting that such a petition be filed. Within a 15-day period, a brief--very substantial, and, I think, very tightly worded--must be filed in support of this petition. Once that petition is filed with the Supreme Court, asking that the Court accept on certiorari a review of this case, that automatically is accompanied by a petition to the Court of Appeals that the previous 21-day mandate that I mentioned, which becomes effective December 1, be extended for a maximum, under the rules, of 30 days. So that the filing of a petition accompanied by this petition for extension could affect, until January 1, the Committee's time within which to respond to the court's opinion.

I'm now just setting out the maximum time calendar, Mr. Chairman, that can be accomplished. Again, if a writ of petition for certiorari is sought, we have, first, the Solicitor General's initial determination; if that's successful, will the Supreme Court accept the writ of petition for certiorari; and if that is given, then the third hurdle to pass is the Supreme Court's actual decision on certiorari on review of this case. Mr. Chairman, those are the procedural steps that are available to the Committee. I think, before the Committee begins with any comments it has on this matter, you might in your discretion, which should be done, ask for a no-objection from the Committee with respect to our pursuing all matters of procedural appeal that seem to be in the best interest of the Committee.

Alternatively, and a matter that the Chairman may wish to comment on, the last paragraph in the opinion--those who have read it will note that the Court of Appeals said,

We believe we have correctly interpreted the Freedom of Information Act, that those provisions requiring prompt public disclosure are applicable to the documents in question here, and that no exemption exists that would save them from that public disclosure requirement. This being so, there is no legal court pursuit that the Committee can make. We urge that the Committee might wish to turn to Congress and seek legislative relief, namely, a statute to be enacted by the Congress, if it so chose, that would relieve from the mandate of the Freedom of Information Act material such as this. Either in the form of an absolute mandate of freedom from this demand or a reasonable delay authorized by statute, pursuant to which the Committee could perhaps for 30 days--the same time as now under practice by the Committee--delay its public delivery of the directive and its contents. If this were authorized by statute, then, under exemption 3 of the Freedom of Information Act, the Committee could delay its public access of this material.

Mr. Chairman, I believe I've covered the points that the Committee would want to hear about, and I'll be glad to respond to any questions.

CHAIRMAN BURNS. Well, thank you very much. Let me ask you a question or two. Let's assume that the order by the Court of Appeals is effective as of today, you see. All right, we hold our meeting and we reach a decision, and that decision is to be published, or one of the options is to publish it, in the *Federal Register*.

MR. O'CONNELL. Yes sir.

CHAIRMAN BURNS. All right now, then, when would it be published at the earliest in the *Federal Register*?

MR. O'CONNELL. There is almost a certainty of a three-day delay for transmission. Totally, I think, outside time, five days is the most you can expect in the way of delay, possibly four, Mr. Chairman, from the time it leaves this building forward.

CHAIRMAN BURNS. I see. All right, that helps me.

MR. BROIDA. Mr. Chairman, I might add that while it might be five days until it appears in the *Register*, as soon as they receive the document at the *Federal Register* office, they place it on public file, so anyone can see them.

CHAIRMAN BURNS. I see. And how soon would that have to be done?

MR. O'CONNELL. I would say that, on Art's point, that that might make it available--I think it's still a three-day interim from the time of the Committee's action forward.

CHAIRMAN BURNS. Well, so one can catch one's breath, at least.

MR. O'CONNELL. Yes sir.

CHAIRMAN BURNS. Now my mind went blank momentarily as you were speaking, Tom, and would you--you spoke of two days as being critical. The December 1 date--that I understand. But then you also spoke of January 1 under certain conditions as becoming the critical date. Would you be good enough to repeat that for me?

MR. O'CONNELL. Yes sir, I will. The December 1 date?

CHAIRMAN BURNS. Now, I understand that. The January 1 date.

MR. O'CONNELL. All right. If the Committee, as I urge, perhaps might express a no-objection--if, on behalf of the Committee, there were filed a request for a stay of mandate with the suggestion that we would be seeking a writ of certiorari to the Supreme Court, the Court of Appeals can act upon that and grant a maximum 30-day extension of the December 1 effective date, which would take it to January 1 if the Court of Appeals granted our stay request.

CHAIRMAN BURNS. All right. Now isn't it clear that that is something we definitely ought to do today?

MR. O'CONNELL. I believe it is Mr. Chairman. I would recommend that.

SPEAKER(?). Is this discretionary on the court's part?

MR. O'CONNELL. Yes it is.

MR. JACKSON. Give us the rationale for directing that? I'm not sure that's clear.

CHAIRMAN BURNS. Otherwise we would have to release our decision on December 1. Because these other actions that are possible, such as going to the Supreme Court or seeking legislation, all of that will take time.

MR. WALLICH. Well, I think, Mr. Chairman, we ought to view this as part of a general strategy. If, at the end of the whole thing, we would have to publish anyway, we might have given away some benefits in terms of public posture by first having vainly tried to protest it in the courts. I'm trying to understand better, for instance, how normal it is to make such an appeal. Is that the quite usual course of events, or is that a major decision?

MR. O'CONNELL. I believe that over a period of time it will be found that a request of the Court of Appeals for this 30-day extension--and under the rules, the court has within its discretion a granting of a shorter or, under exigent circumstances, a longer period, but 30 is cited in the statute--is usually accompanied by a suggestion that the party seeking the extension intends to file a petition for certiorari with the Supreme Court.

I don't know of any instance in which the court would view a petition for extension and later [find] that the suggestion of petition was merely a fraud or a [unintelligible] to get this 30-day action time. So, Mr. Chairman, my point is that I think the Committee should seriously consider the legitimacy of seeking from the Solicitor General a merit judgment that we will seek petition for certiorari and at the same time ask that there be requested the 30-day extension of the time within which we must act on this mandate.

I spoke to the Department of Justice yesterday and asked [if] they were aware of any instance in which an agency asked for the 30-day extension on the stated premise that, as in this case, the court in its opinion suggested congressional relief [and] the agency needed this much time to address this matter to an appropriate congressional source. He said he was aware of no such time or action with respect to a petition for 30-day extension, that it usually accompanied almost automatically the petition for certiorari.

CHAIRMAN BURNS. Well, I think that unless members of the Committee are ready to abandon our approximate 30-day rule, I think the action recommended by Mr. O'Connell is something we ought to do and do forthwith. I think Mr. O'Connell's recommendation is thoroughly sound.

MR. PARTEE. That is, attempt to go to the Supreme Court. Is that correct?

CHAIRMAN BURNS. He can--well, to do two things. [To] take it to the Supreme Court and in the meantime start inquiries with members of the Congress, seeking congressional relief. As a matter of fact, I've already started that, but I haven't gotten very far.

MR. ROOS. Mr. Chairman, I just throw this out for a thought. Concurrently with taking the legal steps that Mr. O'Connell suggests, concurrently with feeling out members of the Congress for statutory relief, what would happen if just in this one instance we did what the appellate court suggests--for example, at the end of today's meeting, made this public and tested the market reaction. If the market reaction were as we anticipated it to be and [strengthened] our concern about not having the 30-day delay, wouldn't that strengthen and--in other words, if

something of an undesirable nature occurred, if we made this announcement immediately, then wouldn't that strengthen our case with the Congress and possibly with the courts? Is that a totally unrealistic--I'm just throwing it out? What if we let it all occur on a one-shot basis?

CHAIRMAN BURNS. Let me make two observations. First, we would not have to publish our decision until December 1. And therefore this--the test that you suggest would be an imperfect test. Second, I don't want to anticipate the results of today's meeting. But it's entirely possible--perhaps even probable--that today's meeting will not provide a good test. Mr. Morris.

MR. MORRIS. I just wanted to ask Tom if you had any feedback from the Solicitor General as to his willingness to press our case.

MR. O'CONNELL. President Morris, I have feedback only at the staff level. The head of the appellate section [of the Justice Department]--who, I believe, has a leg up on the attitude of the Solicitor General because they work together daily in these matters--is not too affirmative with respect to his judgment of success in getting the Solicitor General to seek the petition for certiorari. I must say, though, that on the appeal from the District Court, his attitude was somewhat the same. It took two visits to the [Justice] Department and a discussion on each occasion to satisfy the appellate section that there was merit in our anticipation of consequence should this be prematurely disclosed. So I can't be too affirmative in my anticipation, but the question, and my response now given, I think bears on President Roos's inquiry and the Chairman's comment.

May I say that, should we move ahead and maybe release pursuant to the court order, and [should] it not have any market reaction whatsoever, it does [make] a little bit difficult, then, the premising of our original points of appeal on a writ of certiorari to the Supreme Court. It makes that argument much more difficult.

MR. COLDWELL. May I ask a question, Mr. Chairman? Tom, if I heard you correctly, you not only have the possibility of a request for a 30-day extension; you also have an outside emergency type for a longer extension?

MR. O'CONNELL. The Court of Appeals rule provides that a petition for an extension may be filed very quickly. Under the rule for a stay of mandate--if I may, Governor, "a stay of the mandate pending application to the Supreme Court for a writ of certiorari may be granted upon motion, a reasonable notice of which is given to all parties. A stay shall not exceed 30 days unless"--and then this is the provision to which I referred--"the period is extended for cause shown," and, by practice, that has been proven to be one of necessitous circumstances or very deep concern.

MR. COLDWELL. So you don't go in asking for longer than 30 days to start off with.

MR. O'CONNELL. No sir, you don't.

MR. COLDWELL. I see.

MR. JACKSON. Could it be possible, Tom, to outline the maximum stalling tactic--and I don't mean that in a negative sense, but just a factual sense--that we are likely to accomplish under either of these [scenarios], considering that the Supreme Court either would not grant certiorari or else would grant it but then decide against us in this decision? My question is related to this fact--if our delay is not going to be sufficient in duration to enable the Congress with great expectations to act, then the question, [it] strikes me, that [we] should address [is]--would our ultimate best interest be served by having the effect on the court order earlier in the day or later in the day from a congressional relief point of view? And my question really relates [to the following]: Is there a practical prospect that we could sufficiently delay the effect of the court order as to give practical impact on congressional resort?

MR. O'CONNELL. If I may, some of the terms of this rule that I was reading for Governor Coldwell are applicable to your question, Governor. If I may, "If during the period of stay"--and this is the 30-day stay provided in the rule--"if during the period of stay there is filed in the clerk of the Court of Appeals a notice from the clerk of the Supreme Court that the party who has obtained the stay has filed a petition for writ in that court, stay shall continue until final disposition by the Supreme Court." And as a matter of practical judgment, that could be one to two years' time. "Upon the finding of a copy of an order of the Supreme Court denying the petition for writ of certiorari, the mandate,"--that is, the effective date--"shall issue immediately." And then it has provision for a bond to be posted, so that a finding of a request for the 30-day extension accompanied by a petition for certiorari would certainly achieve, I believe, the 30-day extension to January 1. Beyond that time, it would take favorable action by the Supreme Court granting a writ to further delay the effective impact date of this.

MR. JACKSON. In other words, the Supreme Court would normally grant or fail to grant certiorari within that period?

MR. O'CONNELL. In that time period. If it hadn't [decided whether to grant], we would then take steps to extend the stay pending decision of the Supreme Court.

MR. JACKSON. It's the Supreme Court's custom, then, to either grant or fail to grant certiorari within the 30-day period?.

MR. O'CONNELL. To the best of my knowledge, that's correct.

MR. WALLICH. If the Solicitor General would not take on our case, are we still entitled to the 30 days?

MR. O'CONNELL. Well, we would know. Assuming my earlier statement, Governor, that the two petitions are filed simultaneously--namely, the petition for writ and the 30 day--we would have known the Solicitor General's attitude. It presumes that the SG would let us know within that time frame whether or not he will support a petition for certiorari. If he [says] no, then I think that practically [negates] any findings in a petition for a 30-day extension.

CHAIRMAN BURNS. All right. Governor Lilly.

MR. LILLY. Well, following up on Henry's earlier question, just from a pragmatic point of view, what, in your view, Tom, is the likelihood of the Supreme Court overturning this appellate court?

MR. O'CONNELL. Governor, I think the likelihood is not too great, for this reason, very quickly stated. The Department of Justice under the current Administration issued, in the fall of last year, guidelines to accompany the Freedom of Information Act. And the civil division of that department now has promulgated its own suggested guidelines, pursuant to the Attorney General's directive, really [advancing] a very liberal attitude about the provisions of this act, all to the end that, as much disclosure affirmatively and promptly made as is possible is the rule of the day.

That being true, I think the Courts of Appeals and the Supreme Court are thus similarly interpreting the Freedom of Information Act. I think this opinion sets aside any imperative argument that we put on the nature of the document and treats, for instance, the directive as another piece of paper under the Freedom of Information Act and just deals with the statute parallel to earlier decisions of other Courts of Appeals. And I believe the Supreme Court would look at it in exactly the same view. So I honestly believe that the likelihood of overturning--unless we had an extremely strong brief and for some reason we're able to retrench our position-- not too great.

MR. LILLY. Given that situation, what are the probabilities of a congressional action occurring?

CHAIRMAN BURNS. Well, that's very difficult for me to appraise at the moment. I would not rate the probabilities high, nor would I rate them low, as of now. I want to suspend judgment on that. I think we have a fair chance to get congressional action, but--

MR. LILLY. But not before this court's directive becomes operative? Given the Supreme Court denial?

CHAIRMAN BURNS. Well, you don't mean--that is, Supreme Court refusing to take on the case--well, I would not want to express an opinion on that, either. I think one would have to test the waters, and I've only started that. I'm neither, to repeat, pessimistic nor optimistic as yet.

MR. WALLICH. Mr. Chairman, shouldn't we examine the alternatives, the problem of releasing this? How would we operate if we had to release it? Would it really be so damaging? Given that this is a very unpopular thing we are promoting--this secrecy--what would be the damage to us [with] the public, central banks, academics? Wouldn't we be better off trying first to see if we can live with it?

CHAIRMAN BURNS. Well, that's a possibility. Yes, Governor Gardner.

MR. GARDNER. Gentlemen, the core of this discussion is whether or not our instructions to the Desk should be immediately released for the next 30 day of its activities. Do we need any more evidence that the policies of this [Committee] over the last 30 years have been appropriate?

The last three weeks clearly indicated the impact of our activities on financial markets. We're enmeshed in [these] splendid intricacies of the law, and I firmly believe that we have a responsibility to pursue that course. Appeal to the Supreme Court is a perfectly normal procedure. You need suffer no embarrassment whatsoever by proposing that your position be appealed to the Supreme Court. That's what the intricacies of the law require us to do at this stage if we don't agree with the Court of Appeals decision. I've had decisions appealed to the Supreme Court. We're discussing the court's interpretation of congressional intent. I think clearly we should exhaust, and we have the responsibility to exhaust, all the normal courses of action.

I don't look on this as an effort by the Federal Reserve to continue to hide its operations [under] a blanket of secrecy. We're talking about something we've all agreed in the past is an extremely sensitive issue in the matter of the stability of financial markets. So I have no reservation whatsoever about exhausting the normal, absolutely common legal proceedings. In fact, whatever else we do in strategy, I believe personally that we're required to exhaust the courses of action that are open to us at the moment.

CHAIRMAN BURNS. I would endorse that completely, unless of course, members of the Committee have changed their minds, and I doubt if that is the case. But if that should be case, we'll learn about that within a very few minutes. Mr. Coldwell.

MR. COLDWELL. Mr. Chairman, I don't have any problems with Governor Gardner's idea that we go ahead with appeal on this. But I do think it might be well for the Committee to take a look at what Governor Wallich suggested, however. If Tom's appraisal of this matter bears any relation to where we come out, we may find ourselves [with] a December 1 release date if the Solicitor General refuses to take our case. In which case, we have a release problem immediately upon us.

MR. WALLICH. That seems to me the most likely single course of events.

CHAIRMAN BURNS. No, I would not say that. I think the chances are that we'll get a 30-day stay, but in case we don't, I don't see there's anything to discuss. If we don't, we have to observe the law as laid down by the Court of Appeals.

MR. PARTEE. Mr. Chairman, I do think that there are two possibilities, as I see it, [forcing] early release. One is that the Solicitor General will not take the case, and the other is that the Supreme Court won't take the case, which they often do not.

CHAIRMAN BURNS. No, but we won't know that immediately.

MR. PARTEE. No, but it would be--apparently they do it within the 30-day period. Is that correct, Tom?

MR. O'CONNELL. To the best of my knowledge.

MR. PARTEE. So it would mean that, sometime between December 1 and January 1, we might have another possible report date, and it seems to me that, just as a matter of defensive strategy, we might want to eliminate reference to a funds rate range in the current directive.

MR. WALLICH. We should examine, I think, how we could live under this. What are the techniques by which we could do this?

MR. PARTEE. I think we need a staff study--

MR. WALLICH. --recommend that we do--

MR. PARTEE. --and it might also be desirable to change this one. Since this one might be--

CHAIRMAN BURNS. Well, it might be, and there are other defensive devices, but I think what we ought to decide at this meeting is, I think we ought to accept--that's my strong recommendation to the Committee--what Tom O'Connell has suggested. And then depending on how events unfold, we ought to discuss--that is, if they go favorably, well, that's that. If they don't, we ought to get together over the telephone, possibly even have a special meeting, and then decide on what course of action to take. But I don't think we ought to try to do that this morning. The problem may not arise.

SPEAKER(?). Second.

MR. LILLY. Shouldn't there be some contingency planning in the interim here as to--?

CHAIRMAN BURNS. Yes, but let's not do it at this table.

MR. MAYO. Mr. Chairman, it seems to me that there are two parts here. I'm emphatically supportive of what Steve has said on the procedure on the legal side. I think we have an obligation to ourselves, if to no one else, in that regard. But I'm sensitive to Henry's point, too. But it seems to me this is a proper [project], of how we frame our directive at this table today--with an eye that maybe we will have to release it on December 1 and frame our directive accordingly. And that I think would--

CHAIRMAN BURNS. I'm a little concerned about that. I'm a little concerned about that. Changing the rules of the game--

MR. MAYO. No, I don't mean that, Mr. Chairman. What I mean is, the selection of a money market directive versus a monetary aggregates directive to me has some significance here with reference to this point of release on December 1. Whether we determine a midpoint in the directive or just state a range has significance, if we're going to get stuck, let us say, on December 1. I don't think that's changing any rules of the game.

CHAIRMAN BURNS. Well, I do think that staying within our rules and avoiding excessive specificity would certainly be wise.

MR. MAYO. That's what I mean.

CHAIRMAN BURNS. I take it that was what you had in mind.

MR. MAYO. Yes.

CHAIRMAN BURNS. And I think that is certainly a very reasonable and wise precaution.

MR. MAYO. But I would let that appear in our discussion of the directive today rather than having it necessarily done as part of the discussion as to whether we appeal or not.

MR. PARTEE. I think, Bob, even if you had the monetary aggregates formulation, that it would still specify the funds rate range.

MR. MAYO. Oh, it will--a range.

MR. PARTEE. What you could very well do is--now this would be some change in procedure. You could instruct the Manager--the last phrase of the directive could read, "The operational objective for the federal funds rate shall be modified in an orderly fashion from the prevailing rate of about 6-1/2 per cent."

MR. MAYO. Sure.

MR. WALLICH. I think that's quite possible.

MR. PARTEE. And there could be, you know, the Manager has--

MR. MAYO. That's what I have in mind, Chuck, exactly.

MR. PARTEE. Well, that isn't the way it's stated. Now it has a range--

CHAIRMAN BURNS. You mean omit the range.

MR. MAYO. No.

MR. PARTEE. Well, omit the funds rate range, yes.

MR. MAYO. Or you could omit the funds range.

MR. COLDWELL. [Unintelligible.]

MR. MAYO. Yes, you could, approximately.

MR. WALLICH. The market has a range in mind that, you know, we've been on a 1/2 percent range of late, and they'll assume that that continues.

CHAIRMAN BURNS. Gentlemen, I don't think we ought to do that. Or, if we do it, let's do it only after very thorough reflection. I don't like playing games with the law. Now, I think we ought to stay within our procedure. I think we ought to avoid as much specificity as we can, such as defining the midpoints, etcetera, the thought that Mr. Mayo has in mind. We may even want to drop the range later on. But at today's meeting, I think we ought not to do that. I think

we ought to examine the thing far more thoroughly before we reach any such decision. And we'll have a little time to explore the matter among ourselves and have the staff examine our alternative possibilities. We could communicate with one another. And no difficulty may arise; things may go well on December 1.

MR. WALLICH. Mr. Chairman, if we [chose not to pursue] an appeal to the Supreme Court, but then immediately responded to this mandate by that slight change in our directive, it seems to me we wouldn't be playing games with the law. We would be--

CHAIRMAN BURNS. If I were a congressman, I would whip you over the coals on the basis of such evidence.

MR. MORRIS. I don't think you would call that a slight change in the directive, Henry. I think that is a very major change.

MR. WALLICH. But this is a very reasonable thing to do. We respond to the court without going to a last ditch fight, so we are cooperative, and we do what we would probably have to do under the new mandate, namely, write the directive that doesn't give insiders a special advantage.

CHAIRMAN BURNS. There is another thought that I have, but I'm not ready to put it forward, and that is, I want to explore the precise, well [unintelligible] explore the implications, and that is, we could instead of issuing a directive to the New York Desk, we could make a suggestion to the New York Desk. And in actual practice, it isn't going to make much difference, or at least [it] isn't going to make much difference in the near future. Now, in time, something else might happen. We could do that, but I'm not ready to suggest that.

MR. LILLY. I'm not really concerned about--this is a 15-day period we've got. Well, it's going to be 15 days from this event before this directive will be released, if we lose. I don't think that that is a terrible state of affairs. But what I'm concerned about is that, on the first of December, we have contingency plans, [and] that we're all in thorough agreement that, if we lose on that date, we'll follow [those plans]. That's what's bothering me--that we wait until the first of December before we decide what our contingency plans would be.

CHAIRMAN BURNS. No, that was not my suggestion. My suggestion was first a negative one, that we not try to decide at this table this morning. Second, that contingency plans get under way immediately, and that we communicate with one another.

MR. COLDWELL. That's fine, Mr. Chairman, but with the one exception that you are going to write a directive out of today's meeting.

MR. MAYO. Today's meeting.

MR. COLDWELL. That's the one that would have to be released if we lost everything.

CHAIRMAN BURNS. All right. I say, number one, that we ought to proceed in a normal fashion but be aware, fully aware, of Mr. Mayo's word of warning.

MR. PARTEE. But I think, Mr. Chairman, that everyone's right that, since it will be 15 days, that this can't have much market effect. That is, whatever formulation that we have, what I was thinking of more, I must admit, is that we're going to lose this. Now I hate to be that negative, but I think there's a high probability that we're going to lose at some stage here. And I suspect that where we're going to lose is, the Supreme Court won't take the case. And [it] would be nice to have had in place a somewhat different directive before we were forced to release what would be the December directive, probably. It would have to be released at the very end of the year. And having had the precedent with a somewhat different November directive, there wouldn't be such a sharp break with a December directive. That was my point.

MR. BALLEES. Chuck, wouldn't the market, wouldn't observers generally very quickly note the fact that we had changed the content of the directive, and [so] we might well be subject to an accusation of deviousness--we have changed our procedures so as not to disclose as much as we had probably decided internally. I can see a bad reaction to that.

MR. PARTEE. Well, I think you may be right. But on the other hand, I think the Committee has the freedom to change its directive.

MR. MAYO. It seems to me it has. We've changed it many times.

MR. PARTEE. And if you say, you know, if they were expecting the aggregates within a particular range, and you're starting off on a funds rate, and the Manager ought to shade--moving above that rate or below that rate depending on how those aggregates come up--well, that's not too harmful.

CHAIRMAN BURNS. Well, I think what is being suggested here is very dangerous. We could be inviting a condemnation by members of the Congress, and some of them are very quick to jump. And worse than that, we could be inviting condemnation by the court, and that's far more serious than condemnation by Henry Reuss or another such character.

MR. MAYO. Mr. Chairman, let me make my point a little clearer here. I really don't subscribe to the idea of getting rid of the ranges. I think that would cause great attention right away. But we have used subtleties of words in widening of ranges in a statement of asymmetrical midpoints and zones of indifference so many times, I don't see that there's anything wrong, for instance, if we should decide today. I'm not proposing it. Supposing we decide that we want a full 1 percent spread in the federal funds range. Is that something that would [get] the court's attention or the Congress's attention? No. And this is the sort of thing that I have in mind, that is completely within our prerogative and can be established traditionally in our practices, [and] that we just keep this in mind as we go through our debate later today.

VICE CHAIRMAN VOLCKER. Perhaps in the interest of speeding this--now my inclination is very similar to yours in changing the directive. It seems to me, in any event, the kind of subtleties that Mr. Mayo is talking about, we can only determine in the light of what substantive decision we make here today--

MR. MAYO. Right.

VICE CHAIRMAN VOLCKER. --and I propose that this be deferred until we arrive at our decision and look and see how we want to word the directive.

MR. WALLICH. Well, I think this more basic [than] that. I'm surprised to hear that we seem to be so married to this particular directive that, if circumstances change entirely, namely, we tip off the market where previously we had relied on not tipping them off, we are compelled to continue doing just what we did. It seems to me, when circumstances change, namely, we [are about to] inform the market immediately, it does not have to be exactly the same kind of information that goes out.

CHAIRMAN BURNS. But the particular circumstance here is a decision by the Court of Appeals, and I don't think we ought to put ourselves in the position of being charged [with] circumventing the law and playing games with the law. I can't think of anything that could be more damaging to our future.

MR. EASTBURN. Mr. Chairman, may I ask Tom a very firm question on this? What is the court's attitude with respect to the spirit and the letter of this question? Because I think that's pertinent to this issue here.

MR. O'CONNELL. The court gave, I think, a creditable review of the historical import [of] the Freedom of Information Act, President Eastburn, [and] found that the Committee's position--that the exemption 5 language covered the document in question here--to be without merit. It cast aside our position that the legislative history indicated a congressional intent to protect [an agency that has] this type of information flow that might imperil, as we had argued, imperil the market, etcetera. The court disagreed with this and stated, "we note that the Committee releases this information at and immediately following its next meeting." Using that as a premise for saying [in effect], "so we can't see anything quite as sensitive as the Committee urged." In sum, I think the Court of Appeals opinion is to be read as purporting to have examined the legislative history, the wording of the statute, and the decisional basis, and rejected the Committee's position of the right of exemption under number 5.

MR. EASTBURN. How strictly would the court hold us to sticking to our present procedures?

MR. O'CONNELL. That issue wasn't in any sense either expressly or implicitly addressed in this opinion. My judgment is, the implicit change as suggested by President Mayo, that is, that the Committee's use of language to reflect its actions taken--somewhat changing the previous format of that language--would not contravene any sense or direction of the court. I'm now alluding to President Mayo's last statement of position, to which I think the Chairman agreed--

CHAIRMAN BURNS. All right, thank you. Mr. Kimbrel, we haven't heard from you, and then we'll hear from Mr. Willes, and then Mr. Roos.

MR. KIMBREL. Mr. Chairman, I would very strongly also follow the recommendations of Mr. O'Connell. It seems to me that we might very well anticipate many, many things that can come along, but I rather think that it would be wise to take these in a logical order; and to

attempt this, we still are able to get together to discuss these subsequently. I rather think it would be wise for us to kind of forgo trying to anticipate too much for the future and accept the recommendations that he made.

CHAIRMAN BURNS. All right, thank you, Mr. Kimbrel. Mr. Willes now, please.

MR. WILLES. Mr. Chairman, when this whole business started I was a very strong supporter of the System point of view. But experiences of the last couple of years, especially as I see what uncertainty does to the way people make decisions, kind of makes me wonder if there's anybody besides me who would like to reconsider our basic position. It's not as clear to me as it once was that things might not be, in fact, better if we stated fairly clearly and fairly explicitly what we were trying to accomplish rather than having, as we now do, a lot of people trying to guess--and sometimes they guess right and sometimes they guess wrong, and we get a fair amount of churning and other things in that process. So I just wonder if I'm way out in left field, or whether there's anyone who would like to examine the basic--

CHAIRMAN BURNS. Well, we'll have a show of hands. Is Mr. Willes out in left field or not? Those who think he is will raise their hands.

MR. PARTEE. He's moving in that direction.

MR. MAYO. He's left of center field. He's still in the ball park, let me put it that way.

CHAIRMAN BURNS. More seriously, how many would support Mr. Willes's position.

MR. WALLICH. Well, with modifications in the directive.

MR. PARTEE. I think there is a directive that we could put out--

CHAIRMAN BURNS. How many would support Mr. Willes's position? Well, it's not a majority, so we'll put that aside without further discussion. Now, Mr. Roos, you--

MR. ROOS. Mr. Chairman, I agree totally with the position that you've stated, appealing it, and doing everything we can with Congress. But in considering contingencies, is it not possible for us to review, in line with what Mark Willes says, whether our strategy should be based automatically on an assumption that we're doing the best for ourselves and for the world by attempting to resist what the court has mandated to the extent that we can? Or couldn't there be some effort quickly to at least test those who are in the market--traders and others--to see whether our basic strategy of playing the game as you have all of these years is sound? In other words, is it possible in developing contingency plans to at least take just a short look at the basic strategy of conducting ourselves with the uncertainty that Mark Willes refers to. I'm not trying to just belabor the point that he made, but I'm not sure that the sky will fall in if we change our policies, and that's--

CHAIRMAN BURNS. Well, we could discuss that at length. I think your suggestion is one--I see no reason why we shouldn't follow it up, but I think that is only a small part of the story, and in my universe, the less important part. But I see no reason why your suggestion

shouldn't be followed up by the staff in the course of our planning. And Mr. Holmes, why don't you do precisely that. All right. Mr. Black, please.

MR. BLACK. Mr. Chairman, along the lines of what Mr. Mayo suggested a while ago, I would think as a practical *modus operandi* in the interim that, when in doubt, we would tend to lean more towards an aggregates directive than a money market directive. For example, in today's meeting, I think a money market directive is appropriate, but if I thought this was going to be released within three to five days, I think I would want to expand the range a little bit more and the range of the aggregates a little bit more and make it an aggregates directive. And similarly, if we're forced to make these directives available immediately, I think that strengthens the case for looking further into the possibility of using a reserves target rather than a federal funds target, so that the interest rate movements in the federal funds market will not have this significance that they now do. With, perhaps, a proviso to limit the fluctuations beyond certain ranges.

CHAIRMAN BURNS. Yes. I understand your first. The second troubles me, not because I have any intellectual difficulty with it, but rather because I don't think we ought to change our procedure without thorough discussion, and I doubt that we'll be ready to--

MR. BLACK. I didn't mean to suggest that we do it now. I just mean over the future. I think it does strengthen the argument.

MR. PARTEE. Well, even your first point bothers me, Bob, because if you change to a money market directive because you have a lack of confidence in what the short-run aggregates numbers are telling us, and then you say well, since this court decision, we'd better go back to the aggregates directive, you really are going against something you would otherwise do on rational economic or financial statistical grounds.

CHAIRMAN BURNS. Gentlemen, you know, really, let's make the least favorable assumption, namely, that we have to issue a directive on December 1. We have 15 days, which is something quite different from issuing the directive immediately. If not, it's not a clean case. That's the least fortunate assumption, but it's not a maximum misfortune, even if you feel the way some of us do that this is a very undesirable action. We have a 15-day lag. So let's not exaggerate the difficulty of the least favorable outcome. My own feeling is that, except for Mr. Mayo's word of wise advice, we ought to proceed today just as we normally do. In any case, several members of the Committee have not yet spoken, and we'll hear from Messrs. Baughman, Guffey, Morris, and then also from Mr. Jackson.

MR. BAUGHMAN. Mr. Chairman, a question to Mr. O'Connell. I, of course read the court's statement strictly as a layman, but it seems to me they have said, if you want relief, it must be through the legislative channel. I found no reference there to the appeal process. They apparently felt they were rendering a final judgment on an interpretation of present law. Why does not their suggestion to us, that if we want to seek relief that it be through the legislative channel--

CHAIRMAN BURNS. Well, why not follow both routes, which is the present plan suggested by Mr. O'Connell?

MR. BAUGHMAN. Well, why does not that [suggestion by the court] open to us an avenue of request to [the court] and give us adequate time to pursue the legislative process as compared with the time which apparently is built into the legal proceedings, if we choose to go through the legal appeal process and question their legal judgment?

MR. O'CONNELL. President Baughman, the language in the Court of Appeals, I think, should be read much like in a parental circumstance, where mother says, "Ask your father." It doesn't necessarily mean that mother anticipates father's going to give any different answer or relief, but it's a way of mother being finished with the problem. The Court of Appeals, when it suggests you address it to the Congress, is mindful of the fact that there's nothing in its rule that states specifically "and you may come to us and ask for all the timing you need to seek this of Congress."

The court is aware that its time frame addresses itself only to the certiorari petition of the Supreme Court. I don't know, and I haven't had an opportunity to examine the possibility, that the court wouldn't consider a petition for extended time premised solely on the congressional approach. I will make inquiry in that regard. The rules don't contemplate it, nor was I able to find a previous instance in which the Court of Appeals granted extensions or continued extensions beyond the 30 days premised solely on the attempt to address the Congress.

MR. BAUGHMAN. But it is a foregone conclusion that they will blindly follow rules and not consider other things.

MR. O'CONNELL. No sir. Nor is their opinion to be read as a statement on their part that they know that they were absolutely right and that we won't pursue a petition to the Supreme Court, as I think we should.

CHAIRMAN BURNS. All right, Mr. Baughman. Mr. Guffey, we haven't heard from you yet.

MR. GUFFEY. Yes, Mr. Chairman, it seems to me that we have really only one issue that we should decide here this morning, and it's one that Tom has presented--that is, whether we appeal or not. And to pick up on what Steve Gardner's already very well stated, I think we have an obligation to do it. There isn't, I think, anything that attaches to you for pursuing your legal remedies. I think we have to.

As to what we should do with the directive today, if anything has been suggested, that isn't of great concern to me at the moment, I guess, because in listening to Tom's statement as to what time we have, the nearest being December 1, I'd rather suggest that we will go all the way through this upcoming period until the next meeting. Quite likely, the odds are very high, that we will not have to release before our December meeting, which means we'll then release this statement immediately following that. So I don't think what we do today makes a great deal of difference, and I wouldn't fool around with our directive.

Lastly, and equally as important, I got this on Sunday night and read it. It isn't clear to me what we can do to that directive, and there may be a lot of things that we can do that will permit us to release it today after the meeting or the day of the meeting. And I'd like to have more time

and would suggest that we have the [Sub]committee on the Directive set about the [task] very quickly of deciding what the alternatives are. And prior to the December meeting, that we do indeed consider whether or not we change the form of the directive, how we state--whether we state ranges at all, or whether we broaden the ranges, or whether we do something else.

CHAIRMAN BURNS. Well, I think that's a very, very reasonable suggestion. Any other positions you may have? Very well, Mr. Partee, your committee's charged with the responsibility promptly. Thank you very much, Mr. Guffey. Mr. Morris now, please.

MR. MORRIS. Mr. Chairman, I just want to say I support your position entirely. I'm very much concerned about changing the directive [in a way] that would eliminate the funds range, because this would require that this Committee no longer have an interest rate policy, that we have given the Manager carte blanche to move rates as he sees fit, and I don't think that in fact will ever be the case. I think that this Committee will always have an interest rate policy. We have always constrained the Manager, and I think if we fail to publish those constraints, we are really violating the order of the court. I think the directive committee ought to take this into consideration.

MR. PARTEE. Well, I agree with you. As a matter of fact, it can go into the opposite direction [of] what we intended to do. We'll have to see. Offhand, I can't think of a solution.

MR. WALLICH. Well, we have contemplated a nonborrowed reserves target, and it's perfectly possible, over a period of time--whether one would do that with or without interest rate constraints [is a] question that has to be solved on empirical grounds, to see what would have happened had one not done so.

MR. LILLY. Could I ask a procedural question? Because, as I understand this, the [Sub]committee on the Directive is trying to work on a new procedure to be followed in the event that the courts do not allow our case--

MR. PARTEE. We're going to present a report at the next meeting that the Committee--

CHAIRMAN BURNS. Which could quite possibly be--it may possibly be--that no new procedure is advocated.

MR. PARTEE. And we will talk about the pros and cons and possible alternatives.

MR. LILLY. But will a decision have been made by this Committee by December 1 as to what it's going to do if the court throws it out, or the Solicitor General--

CHAIRMAN BURNS. Well, I don't think we ought to try to prejudge them. Let's see how our own thinking develops. My own at the moment is that if we have to publish on December 1, it's not really terrible. It would have been a lag of 15 days. It's not a case of immediate publication.

MR. PARTEE. Well, the answer is we will have to publish what [we do] today. But we will still have the option of molding what we do at the December meeting.

CHAIRMAN BURNS. Well, we also will have the option of a supplementary instruction. Now, between meetings, we at times have changed our instructions, and we'll have that option.

MR. PARTEE. Well, that's one of the problems. I suppose, Tom, a supplementary instruction--of the kind that we have had sometimes in the past--will have to be communicated immediately under this same court decision. Is that right?

MR. O'CONNELL. I believe that the court's opinion contemplates that to constitute a substantive action of the Committee, amending its earlier directive, and must require it to be published.

MR. PARTEE. It's not usually a case where you're moving in one direction and then another; why, that really is more sensitive, in a way, than the meeting itself.

MR. GUFFEY. In that regard--

CHAIRMAN BURNS. I don't think we want to prejudge what we're going to do just a little before December 1. We don't know how to do it today.

MR. LILLY. We've got 20 days after December 1 to decide what you're going to do at the next meeting.

CHAIRMAN BURNS. Well--

MR. LILLY. All I'm driving for is that there be in train some very tough contingency planning for the December 20 meeting.

CHAIRMAN BURNS. Well, that is the instruction that we have just given to Mr. Partee as chairman of the [Sub]committee on the Directive.

MR. LILLY. All right. Well, that clarifies my question. We will have alternatives in case we lose.

CHAIRMAN BURNS. Not necessarily; not necessarily tough alternatives.

MR. PARTEE. We will give you a range of possibilities.

MR. COLDWELL. One of the alternatives the court suggested to us was legislative relief.

CHAIRMAN BURNS. Well, I'm not waiting even one day on that. By that I mean I started conversations that I'm going to continue. Now, my problem is to test the waters, you see.

MR. PARTEE. I think the assignment to the [sub]committee to be an operational assignment--that is, assuming that you publish, what are your options, what kind of directive changes might be desirable or appropriate--rather than a legislative matter or even the matter of a court strategy.

MR. MAYO. One more procedural question or legal question. Tom, is our instruction by the court to publish *the* directive? It isn't to publish the entire Record of [Policy] Actions?

MR. O'CONNELL. No. I interpret the court's move to immediately require publication of actions of the Committee, particularly, and it addressed itself to the directive and the targets. As I earlier noted, I believe that the balance of the policy record--constituting, as it does, adoption within 30 days--is not contemplated within this immediate--

MR. MAYO. Okay. Thank you.

MR. ROOS. Mr. Chairman, would the Chairman request Mr. Holmes that he communicate with the [Sub]committee on the Directive any possible conclusions that he might reach in terms of the basic advantages and/or disadvantages of changing our whole basic strategy? So that the [Sub]committee on the Directive does not do its work totally on the assumption that we want to change the directive to accommodate our present strategy, should Mr. Holmes come up with a different solution.

CHAIRMAN BURNS. Well, I think Mr. Holmes and others of the New York staff--just as Mr. Axilrod and others of our Board staff--will certainly be working, as a matter of course, with Mr. Partee's committee. Mr. Jackson now, please.

MR. JACKSON. Mr. Chairman, I think we need to appeal [the court's ruling], which is quite obvious, and at the same time I think the consequences are that we will be, prior to legislative actions, releasing our policies. I think those are the most likely prospects. I think that in the present state of the economy, we are unlikely to get a little test--this month, maybe even next month--of the consequences. However, I believe we're moving in the right direction. Do not change now, because I think that if the worst events occurred, it would be unlikely to damage the real economy of the United States and the world.

If that inconveniences the Federal Reserve, we've been inconvenienced before. If that inconveniences the money markets and the Treasury, the Congress will address itself to that issue in due course. It's been inconvenienced before. I hope we don't create dragons that are just fictions in our minds. Yes, it will probably be a disadvantage to us. Yes, we will make adjustments. Yes, the market will make adjustments. Yes, the Congress will probably ultimately do this, and these things will come out. But I would hope that in the process of all this, we don't create the impression that the Federal Reserve is a devious organization trying to circumvent what has become the national will, that government be done in as much sunshine as possible, as inconvenient as that might be.

So as the Committee goes forward, I would hope that we wouldn't do foolish things by adjusting our actual decisions on monetary policy to the market ramifications. The one thing I hope I've learned in this experience in this Committee is that markets are amazingly resilient. And as soon as we make one change, they will make another. And I believe we will get the job done. So please let's don't do the foolish thing like making sudden adjustments to avoid a court order or the practicality of a court order as we go forward.

CHAIRMAN BURNS. Thank you, Mr. Jackson. Mr. Balles, please.

MR. BALLEES. Mr. Chairman, I think all the points that I had in mind have already been said. I fully support using all avenues of appeal and certainly urge the [Sub]committee on the Directive to put this out on the front burner, hoping we can have a full-scale discussion of it, preceded by some staff papers, for our December meeting.

CHAIRMAN BURNS. Thank you, Mr. Balles. Mr. Winn now, please.

MR. WINN. Mr. Chairman, I concur in the feeling--explore the alternatives available to us here to postpone our decision. But I join with Mark [in] a feeling that conditions have changed. We ought to think through more than just the directive problem, if this requires release, but the implication. I have a feeling that the public interest in what we do goes far beyond the directive. And to the extent that we make that immediately available, then the whole discussion is going to be required. And then the political activities involved in our deliberations, I think, will be highly intensified as a result of this move. And we ought to think through what are the other implications, not only just the directive aspect of what we release, but what this does to us in terms of the economic anticipations behind this, and to what extent, then, you get greater and greater focus on our activities from other groups as a result of this.

CHAIRMAN BURNS. Thank you, Mr. Winn. Any other comment? If not, let me try to summarize what I think is the broad consensus. And if I'm mistaken, please correct me. First, I think that there is general support for a thorough reexamination of our procedure with regard to the directive by Mr. Partee's committee and [for] such a report to be made at the time of our next meeting. And we may want to devote a good deal of time to it. Perhaps meet a couple of hours on Monday before our regular meeting in December. Second, I think that there is general support for the legal recommendation made by Mr. O'Connell. Third, I believe that there is no objection to my probing the legislative opinion on this issue. And finally, I think that it may turn out to be wise to hold a special meeting or a meeting by telephone through the conference device before December 1. Any objection to these decisions or conclusions? Well, if not, we can--well, let's take a recess. We'll just stretch our legs for 10 minutes. And then drink coffee to celebrate the stretching of our legs.

[End of executive session]

[Coffee break]

CHAIRMAN BURNS. Let me test the consent of the Committee before we get under way. Would you like an expedited meeting, or do you want to take as much time as we usually do? That will help me in running the meeting. I will go either way.

ALL. Expedite.

CHAIRMAN BURNS. All right. I take it the minutes of this [the October 17-18, 1977] meeting are approved.

SPEAKER(?). Seconded.

CHAIRMAN BURNS. And we'll move to a report by Mr. Holmes, which will be brief, on current policy operations.

MR. HOLMES. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN BURNS. Thank you, Mr. Holmes. Any special questions for Mr. Holmes? I hear none. Mr. Holmes, do you have any recommendations?

MR. HOLMES. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN BURNS. The recommendation is that we codify our procedures, that nothing new be attempted, and that the codification, after it's been completed by our staffs, be submitted to the Subcommittee on Foreign Currency Operations for final approval and actions. Is that satisfactory to the Committee?

MR. MAYO. So moved.

CHAIRMAN BURNS. Any objections? All right, I take it that is adopted. Any other recommendations?

MR. HOLMES. That's all I have.

VICE CHAIRMAN VOLCKER. We're renewing the swap--it's implicit.

MR. COLDWELL. We are approving the actions of the Desk.

CHAIRMAN BURNS. Thank you, Mr. Coldwell. Now we will have Mr. Kichline's report on the economy.

MR. KICHLINE. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN BURNS. [Interrupting] Third quarter of a year ago? I thought the uptrend started the first quarter of this year.

MR. KICHLINE. Well, the recent low for the total was in the third quarter of 1976. You may be looking at dollars. I was looking at the--

CHAIRMAN BURNS. No, no, I'm not looking at dollars. All right.

MR. KICHLINE. If I'm wrong, I stand corrected and I will fess up later. [Secretary's note: This statement was not found in Committee records.]

CHAIRMAN BURNS. Thank you, Mr. Kichline. I suggest that we dispense with technical questions to the staff and that we confine ourselves to expressions of opinion about the economic outlook, indicating specifically whether we generally agree with the staff or are more optimistic or less optimistic with respect to economic activity and also the price level. Who'd like to speak first? Mr. Coldwell, then Mr. Wallich, then Mr. Mayo, Mr. Winn, then Mr. Volcker.

MR. COLDWELL. Mr. Chairman, I would merely comment, in the vein you ask, that the staff seems to be moving in a direction which I had thought was probably the likely outcome, a shading of the fourth quarter '77. You have only taken 2/10 off of it this time. I was kind of hoping you would take a bit more off, but I think, in terms of the outlook, I'm a little more bearish in the earlier part and a little more bullish in the latter part of the six-month forecast area. And you get out to the latter part of '78, and I won't even attempt to guess, but I suspect there will be a shading downward.

CHAIRMAN BURNS. Thank you. Mr. Wallich now, please.

MR. WALLICH. I think the staff is about right, Mr. Chairman--has a sense of a slight sagging in the speed of the expansion, but not seriously. I do note increasing imbalances--Mr. Kichline has referred to some of them. We now are at a relatively high level of the full-employment deficit, and that, barring other government action, [is] going to take about \$20 billion out of the economy over the next year or 15 months. That's counteracted, perhaps, by a decline of half that size in the state and local surplus. Then there's the continuing drop in net exports.

These things, I think, begin to go beyond minor blemishes in an otherwise balanced expansion, and one begins to wonder whether some real imbalances aren't beginning to evolve. The main hope on the upside is that the underlying need for additional plant and equipment spending will finally exert itself. There is nothing in the surveys to document that, but I think the case in terms of the magnitude of the capital stock and of capacity utilization ratios is not a bad one for some acceleration if there is a gain in confidence about reasonable tax proposals.

CHAIRMAN BURNS. Thank you, Mr. Wallich. Mr. Mayo now.

MR. MAYO. I generally concur with the staff projection. I think it's just about the same as my own. I would merely mention one other factor, which I dwelt on a little bit the last time, and that is that, at least in the eyes of many of our bankers in the Midwest, we do have a somewhat depressed state of agriculture in our District. We have this survey that we do quarterly on what bankers think or what their attitudes are. It's largely attitudinal, supported by some figures, but there is a higher proportion of bankers who are mentioning a deterioration in credit conditions than at any time in over a decade. Almost half of them now consider that their loan-to-deposit ratios are higher than they really desire. I mention that they are talking about figures in the 60 to 65 percent area, which may not seem high by urban standards, but they are by rural standards.

I would mention also that the sale of tractors in our District is down 38 percent as against only 25-28 percent nationally in September. [The sale of] combines is off 25 percent, as against 10 percent nationally, and it's even worse in Illinois and Iowa, by the way. These are, at least, things to keep in mind. I don't suggest they are serious, but they are a little bit unnerving at the moment. Land transactions--the prices of land in Illinois and Iowa--Illinois, particularly--have gone down 8 percent since the last quarterly survey. This doesn't, in itself, worry me too much because [the prices] are still at least double what they were just a few years ago. But to the extent that this gets built into the credit analysis, I think it does unhinge some of the bankers.

Most of the bankers we have talked to say that they think this trend, not only on land values but also on credit conditions, indicates some further deterioration.

CHAIRMAN BURNS. Thank you, Mr. Mayo. Mr. Winn now.

MR. WINN. Mr. Chairman I think I am a bit more optimistic than the staff with respect to the first half of next year. It seems to me the pickup in retail sales, and what we get in the field in this area with the very tight inventory controls currently in effect, gives rise to a typical kind of inventory cycle for next year to fill up the early part, together with the projected tax cut being factored into people's thinking as a prospect for keeping the consumer in our economy as a strong factor for the first half of the year. And [unintelligible] for the plant and equipment expenditures to pick up, I think is a sobering cloud, and that probably will have to be dependent on the last half of the year to have an impact. I think the first half of the year has a stronger element in it than the projection.

CHAIRMAN BURNS. Thank you, Mr. [Winn]. Mr. Volcker now.

VICE CHAIRMAN VOLCKER. I continue to feel that the staff projection is not at all unreasonable, but I also think it's on the high side of the range of probabilities that I foresee--progressively so as time goes on next year. Obviously there's time to still have a lot of things happen and affect the latter part of next year, but at present I don't think we see the kinds of developments clearly in prospect in either construction or the business investment side to make me think that the staff estimate, as time passes, becomes the center of the range of probabilities. Governor Wallich already pointed out that the budgetary situation, barring any tax changes, is running against, I think, renewed vigor in the latter part of next year. So I have a somewhat more cautious view than the staff, although their figures are certainly in the ranges of probabilities that I see.

CHAIRMAN BURNS. Thank you, Mr. Volcker. Mr. Baughman now.

MR. BAUGHMAN. Mr. Chairman, I substantially agree with the staff figures. I wouldn't offer any specific amendments in them. I would repeat what I said earlier; in so far as they may prove to be wide of the mark, my guess is that they will be low rather than high. It seems to me that I continue to see indications of some building strength in the economy and prospects for further out--for it showing up more generally.

With respect to the loan-deposit [ratio] situation, that's been referred to in the country banks. We see that situation also in the Southwest, but even in the Southwest, which I think could be characterized as a very strong part of the economy geographically, the banks in the larger centers still feel that they are overly liquid and that, unless they see a strengthening in business loan demand, that even against their better judgment they will be gradually moving to lengthen their investment portfolios. That, it seems to me, suggests that the aggressive shopping for loans, the giving of more favorable terms in addition to just lower discounting from the prime rate, is going to continue, and it seems to me that that's a supportive element in the prospects for the economy.

With respect to the commercial type of construction activity, there are reports of heavy inflows of foreign funds into these projects, again on favorable terms relative to terms on which domestic money is available. And I have also had reports from [real estate agents] that they cannot fill all the orders that are available to them for purchases of existing commercial properties, both office buildings and department [store] type buildings. And I'm advised that this is gradually seeping into the picture elsewhere in the country.

CHAIRMAN BURNS. Are you talking about Houston or a broader geographic area?

MR. BAUGHMAN. Well, I am speaking primarily about the Southwest, but I am told by some of the builders who are domiciled there, but who work countrywide and even internationally, that this is gradually appearing elsewhere in the country as well. And I view that as both a favorable situation, given our balance of payments picture, and also a supporting element in our economy. I have the impression that there's a good deal of life left in this particular expansion that we're in.

CHAIRMAN BURNS. Thank you, Mr. Baughman. Mr. Black now.

MR. BLACK. Mr. Chairman, I'm in pretty close agreement with the projections of the staff, assuming no significant change in the level of business confidence. But in view of what I perceive to be excesses in the economy, if we should somehow or another miraculously resolve some of these doubts we've got about energy and regulatory policy and taxation and inflation and so on, I think we could have substantially more strength than is now apparent in the forecast.

CHAIRMAN BURNS. Thank you, Mr. Black. Mr. Balles, please.

MR. BALLEs. Mr. Chairman, reflecting on the staff views on the outlook, we continue to be in general agreement, at least through the first half of next year, although a little dubious about whether we'll see as much strength in the second half of '78.

But laying that aside, as I have thought about what the key weak spots in the economy are-- and we could tick off a long list--whether it's the steel industry or agriculture or less ebullient growth in capital spending than we would like to see, or whether it's the state of business confidence, it seems increasingly clear that none of these would really be fundamentally helped by an easing in monetary policy. And your speech in Spokane is an excellent illustration of that, showing the difficulties. As a matter of fact, an easing that we might engage in right now, in view of these weak spots, might in fact have a counterproductive effect in aggravating the difficulties if any easing were to generate a rise in inflationary expectations that drove up long-term interest rates.

It seems to me we have been especially fortunate in that [the] approximately 200 basis point rise in short-term interest rates since spring has not carried through [to] the long-term rates. And if the long-term rates begin to rise, then I would really be concerned, in view of the impact on areas of the economy we know are especially sensitive to that, whether it be housing or whether it be capital spending by business. On the other hand, there seems to be no particular reason to tighten right now. But it seems to me that, all things considered, we're at a stage of

this mature expansion where the problems that many of us are concerned about, which have been widely advertised, don't particularly lend themselves to treatment by monetary policy.

CHAIRMAN BURNS. Thank you, Mr. Balles. Mr. Kimbrel now, please.

MR. KIMBREL. Mr. Chairman, I think our views do not differ substantially at all from that projections of the staff. If we [saw] any weakness, it might be that we would anticipate slightly less strength in the housing starts than the staff suggests.

Visiting with our businessmen reveals interesting differences--they generally expect a rather good, strong 1978, but [are] extremely uncertain--almost bordering on unhappiness--that relates to certain government policies, energy, tax reform, and minimum wage decisions. Interestingly, a group of predominately black college professors visited with us the last week at the Bank. The most outspoken part of their discourse was with their unhappiness with the minimum wage increases. It came as something of a surprise to us because they were anticipating that the black youths were going to be losing the jobs and would be creating social problems.

Generally, though, I think we would come out pretty close to the staff projections and with the feeling that '78 is not going to be such a bad year.

CHAIRMAN BURNS. Thank you, Mr. Kimbrel. Mr. Guffey next, please.

MR. GUFFEY. Thank you, Mr. Chairman. I think that our views also do not differ substantially from those that the staff has projected, particularly through the first half of 1978. However, as Mr. Black observed, it is, I think, a real possibility, with the right kind of a statement from the Administration, that we could have a very good year in 1978, that things are poised in such a way as '78 could likely be much better than what my staff projects--that's a personal view, I guess.

With respect to another area that has been mentioned by Bob Mayo, I was interested to observe in the Redbook their comment with respect to a turndown in the agriculture sector in that District--something that has occurred in the Tenth District over a period of two years. We are more oriented toward wheat and cattle, both of which have been very depressed over the two years in which, I believe, Bob, your agricultural endeavors, [which] are more toward corn and [soy]beans and pork, have held up quite well. So what they are experiencing there we have already experienced.

To the contrary, however, what has occurred now in the Tenth District seems to be some stabilization, because the wheat prices, for several reasons--not the least of which may be the Russian proposal to buy--have increased over the most recent past. Cattle prices have increased, and the prospects are looking up. And lastly, the banking situation in that area, which has been strained to meet agricultural credit demands, may have some relief. The government program--wheat subsidy program--which, it is now estimated, [will pay out] \$1.2 billion in the latter part of this month and early December to wheat producers--[will send] about a half billion dollars into the Tenth District. Thus, there will be cash for liquidity relief in those agricultural banks. Lastly, I would say that the credit situation in those banks is still extreme. They are

sending their customers who need liquidity to government entities such as the PCAs [Production Credit Associations] and others for their longer-term credit now, but are still quite prepared to meet the short-term needs of the agricultural community.

CHAIRMAN BURNS. Thank you, Mr. Guffey. Mr. Partee now, please.

MR. PARTEE. Well, Mr. Chairman, I have nothing special to contribute. I agree that the tone is a little better than it was a month ago. And I think the better retail sales--the retailers have been talking about it for some time, but the statistics only showed them yesterday. It's part of it. I was surprised [when I looked] at the Greensheets [the tables section of the Greenbook]--I hadn't really focused on this--I noticed that federal purchases, which is only part of this story, were up at a 23 percent annual rate in the second quarter and a 24 percent rate in the third, and the rate of increase is now projected to diminish materially. And that could be having some effects on the current situation.

I have the same feeling I did a month ago--which, I guess, is just exactly the inverse of the one that Ernie expressed--that is, that the staff projection is reasonable; if it's in error, I would think it would probably be on the high side, and we might get a little lower result for the year. The increase for the year averages only 4.6 percent in the current staff projection, which is 4/10 below what I understand to be the target projection of the Administration for the year, with a 5 percent desired growth rate.

The problem is in the second half, really, more than it is in the first half of the year. And there, too, I think if it continues to look as if the second half is going to tail off, well, we are going to have a problem that we're going to have to deal with in the government generally and in the Federal Reserve also. As we get closer to the date--but I am reminded that it's been characteristic of economic forecasting for some considerable number of years to project the six-month, with nine months to a year out [to show] a diminishing in the rate of economic growth. It's been a rather typical thing, and I think we have to guard against taking these figures too solidly. Now, it could happen; indeed, it could be much lower than a 4.2 or a 4.1 growth rate in the second half of next year. But I don't think we ought to bank on it at this point.

And so I think it's too early to react with alarm at what appears to be the prospect of a tailing off next year. In another couple of months, why, we may be able to see it more clearly. As of now, I know Frank is very much in favor of long-term forecasting and has expressed that view, and other members have. I just don't have confidence in our ability to project out that far very well. That's all I have.

CHAIRMAN BURNS. Thank you, Mr. Partee. Mr. Roos next, please.

MR. ROOS. We basically find no substantial disagreement with the staff projections. The economy is strong in our District. We find in conversation with businessmen that their main concern is uncertainty--not only uncertainty with government actions; it also includes uncertainty about inflationary expectations. We would find a 4.1 or 4.2 [percent] rate of output growth in the latter part of 1978 to be quite satisfactory in relation to historical progression.

We do have one local situation that might be of passing interest to you, and that is, in the state of Tennessee a couple of months ago, the Tennessee Supreme Court ruled that the top permissible interest rate in that state should be 10 percent. As a result of this, consumer finance companies have fled the state almost totally, and bank installment credit has dried up, and automobile sales--just to give you an example of how these things work--are off more than 20 percent in Tennessee. Any consumer financed items have shown a severe decline in volume. And that really has very little to do with national policy, but it is of interest in terms of what happens when something goes haywire in court rulings, not only as they pertain to the Federal Reserve.

CHAIRMAN BURNS. Thank you, Mr. Roos. Mr. Willes now, please.

MR. WILLES. Thank you, Mr. Chairman. I appreciated Chuck's comments on the longer-term outlook. I guess it seems clearer and clearer to me that what actually happens depends more and more on what we and other branches of government do between now and then. I have two interesting comments that were made to me that I think are indicative of that. One is, [an executive of] a firm in our District that is an international supplier of capital goods equipment made a comment the other day that I found a little surprising. He said, if in fact there is a clarification of national economic policy, and some of the uncertainties are reduced, our biggest question is how would we [deal] with the onslaught of orders that our potential customers are talking to us about. His impression was that flood gates were just kind of there, and if anything triggered that, business would be a lot stronger than we are apparently expecting.

On the other side of that, one of his colleagues, also [at] an international supplier of capital goods equipment, said, if you guys don't get those money supply numbers down so that the outlook for inflation looks better, we are going to take what is now a 100 percent increase in our capital budget and reduce it by 50 percent. So, what we do and what other parts of government do in this particular environment is going to have an awful lot to say about what the second half of next year in fact really looks like, and maybe even sooner than that.

CHAIRMAN BURNS. Thank you, Mr. Willes. Who'd like to be next? Mr. Gardner, please.

MR. GARDNER. I'm pleased that so many of you have been optimistic. I believe in a sequential analysis. And I look at the length of this recovery and recognize that, all through the recovery, we've had the troublesome question of lack of business confidence, business investment; consumer confidence has varied. I don't find that too strange in view of where we were when the recovery started and the great shocks that have occurred in the economy. And then, almost immediately, the engagement of a political campaign for the Presidency and then maybe nine months to inspect the new Administration and what their initiatives were, and they flowed quite freely.

But now we find a little drawing back. I expect that the energy program will be addressed by Congress in the Joint [Economic] Committee, and then eventually we will have some energy policies finally put in place. Not as extensive as some might wish, but perhaps not as macro in some respects, as others claim is necessary. I see uncertainties clearing up. I see uncertainties

about the intent of the Administration when a revised Humphrey-Hawkins agreement is reached. Now Social Security bothers me, but at least it has come out of the unknown and into the known.

I look at all of this, and I see the staff slightly improve the fourth quarter, and that's exactly what I wanted to do at the last meeting. At the last meeting, I said, fortunately you have to get through the fourth quarter before you get to 1978. What I meant by that comment was simply this: I see that the propensity of people to remain in a confused, uncertain, and conservative mood has certain time limits. Life is not infinite, and I expect that if we do have this reasonably good fourth quarter--in fact, I expect it to be a little better than the staff does--but even if we do, I expect that this will have some impact on business and consumer attitudes in 1978.

Now underneath all of this is a very large pent-up idea that optimism breaks through at some point--the clouds part. We haven't had the benefit of that in any part of this recovery. I totally agree with Chuck Partee that the propensity of people to reduce their forecast [according] to the length of the forecast is a natural and human characteristic. So I see some chance for not only the good '77 fourth quarter but the continuance into '78. And if I'm correct--and some of these things brighten, and some of the confusion is cleared away, and some of the fear of macrogovernment policy is reduced--gentlemen, we have an opportunity, we may not all welcome it, but we do have an opportunity to see a second phase coming into this recovery, where there is less pessimism, more realization of the gains we have achieved so far, and an opportunity, clearly an opportunity, to increase economic activity.

I'm not predicting that yet. I'm just saying I think the fourth quarter will be good, and that'll influence the next year--and further, that sequentially, that will have a significant impact on our best estimates in 1978. Now this sounds like an optimist talking, but I've tried to sort out the background and reasons why I feel there is a latent opportunity for further strength in '78. That becomes part of an emotional analysis that has to do with the propensity of people to not go on [being] forever beset by confusion and fear and reluctance.

CHAIRMAN BURNS. Thank you, Mr. Gardner. Who'd like to speak now? Mr. Jackson.

MR. JACKSON. I share the sentiment that the staff has that the progress of capital investment will continue to be the real question. I think that the time lapsed since 1975 has begun to generally erode the risk aspect of the profit expectations that various enterprises will have in their minds before they commit [themselves to] long-term major projects. However, unfortunately, we are having several things that would work against that generally positive movement. Generally, I would think that, as the distance [from] the traumatic experiences of '75 [lengthens], people's memories would dim and they would get a little more optimistic and realize that, in many cases, they have neglected opportunities that have come their way in the meantime, and they'd better step forward.

But unfortunately, there are some things that will influence that. First, I share the staff's concern that we are likely to get a general shock in inflationary expectations around the first quarter of next year. Which strikes me--we're less likely to get any benefits from agricultural price levels. Yes, we've gotten nightmare situations where government, instead of being the chief engine to arrest inflation, is the chief culprit; and I think this will hurt expectations and

increase, potentially, long-term interest rates, which will be a very material adverse factor in this situation. Yes, nonfinancial circumstances could become more certain. But these types of influences will be difficult to offset.

Unfortunately, I think we have to face the realization that social policy is going to be very difficult to interpret in the economic environment. We are rapidly getting into a two-class society in which those that have any experience and have a job will be in short supply--already probably are, in my judgment. And I guess this is a very unscientific way to do it, but I have been looking at the want ads for employment in nearly every city I go to, and I find that it looks like there is a heavy demand in nearly every case for anybody with any experience. And, except at the very lowest job-entry level--busboys, some waitresses, etcetera, there's practically no demand. And so, unfortunately, from our social policy, we are going to have a very difficult time trying to equate these two aspects of our society, and this breaks down not only racially but ethnically, and urban versus rural, and so forth and so on. I think these types of stresses will make it difficult.

On balance, I think yes, we have a real opportunity with an expectation that we'll move forward, but the uncertainties will stay with us throughout the year, and therefore the course of economic progress will move haltingly forward instead of breaking into the new environment of which we have the potential. The ramifications for this organization will be that we will continue to be in the forefront of discussion, and while we have an opportunity to be put on the back burner and more or less ignored, it's unlikely to take place.

CHAIRMAN BURNS. Thank you, Mr. Jackson. Who would like to be next. Anyone? If not, just let me say one word. I think the members of the Committee know my views on the economic outlook. The only thing that I would add is, I talked a good deal about taxes recently, and let me add a footnote to what I've had to say. The Administration thinking is moving increasingly away from emphasis on reform and moving toward an accent on tax reduction for business and individuals. Reform is playing a diminishing role, apparently, in the Administration's thinking.

Now, I think we can move ahead, since no one else would like to speak at the present time. Mr. Sternlight, we'll have your brief report now on open market operations.

MR. STERNLIGHT. Thank you, Mr. Chairman. [Statement--see Appendix.]

That's all I have.

CHAIRMAN BURNS. Thank you, Mr. Sternlight. Any basic questions to put to Mr. Sternlight?

MR. LILLY. I had to defend the actions of the Desk in a couple of meetings around the country in the last week. As a matter of intelligence that I should have ascertained before, when was the last time we sold against the Treasury auction?

MR. STERNLIGHT. Well, we have made moves in the funds rate during Treasury financing periods on a couple of occasions. I don't know that I can recall when we took this

specific action of selling Treasury bills outright in the market during a financing operation. But I think, last spring and the spring of the previous year, we were moving up the funds rate in the midst of a financing.

MR. LILLY. It also was alleged that we had done the same sort of thing as little as a month or six weeks ago.

MR. STERNLIGHT. If you mean by the same thing as sale of outright bills in the market, I think--

MR. LILLY. During the auction.

MR. STERNLIGHT. I can't recall the details of that.

CHAIRMAN BURNS. I think it would be helpful to supply an answer to Mr. Lilly's question in writing. Any other questions? Yes, Mr. Holmes?

MR. HOLMES. Mr. Chairman, one thing I wish you would just add for the Committee's information. We have got a favorable ruling [from] the IRS [Internal Revenue Service] on the matched sale-purchase agreement. We just got it yesterday morning, and [unintelligible] during the interval before the next committee meeting, we'll have the memorandum with a recommendation in setting out the various options that stand before the committee.

CHAIRMAN BURNS. All right. Thank you. I move that we approve the operations of the Desk. Motion has been made. Second?

MR. BROIDA. Seconded.

CHAIRMAN BURNS. Seconded. I think if there's no objection, I will have a brief report from Mr. Axilrod.

MR. AXILROD. Mr. Chairman, in the interest of time, I would just like to summarize the first part of my report, which was to the end of indicating that strong credit demands were a major force in picking up interest rates in the second and third quarters of this year. According to the flow of funds accounts, funds raised by nonfinancial sectors had moved up to 18 percent of GNP, in contrast to 15 to 15-1/2 percent of GNP, in early '77 and '76. Part of this represents intense financial [unintelligible] because of such things as advance funding by state and local governments on their debt, but it still is a figure which indicates the strengthening of basic credit demands.

We expect credit demands to remain at their recent relatively high levels over the next few months but not to strengthen further. This itself suggests no additional pressure on interest rates. However, efforts to curb growth in deposits from their recent rate of expansion would tend to be a countervailing force exerting upward pressure on rates. This potential upward pressure may be limited in the period immediately ahead, if it appears at all, that investment by the public in market instruments--in what may have been a temporary and, over the longer run, unwanted

surge of demand deposit holdings--naturally tends to hold down monetary growth at current rates.

The deposit data for early November in any event suggest that growth in M1 will be very low for the month. However, a considerably more rapid growth rate has been projected for December in the expectation that underlying demand forces for money will be reasserting themselves. Thus, it seems likely that any pause in upward rate pressures may be short lived, assuming that credit demands at least remain near recent levels and do not drop off significantly further, and deposit growth is restrained to within the FOMC's longer-run range.

CHAIRMAN BURNS. Thank you, Mr. Axilrod. Any questions of Mr. Axilrod? Yes, Mr. Balles.

MR. BALLEs. Steve, as I am sure is the case with you, one of the most frequent questions that comes to me from directors and other interested parties is, what insights do we have in this peculiar behavior of M1 during this year, with the surges on a quarterly basis not being offset by subsequent declines. I know it's a terribly difficult question. I am not really hopeful that you'll have an answer, but if you do, I hope you'll share it with us.

MR. AXILROD. President Balles, I think I've said in the past that it's difficult to explain the exact timing--that is, why [did we have] a strong growth in April, a strong growth in July, and a strong [growth] in October. I think it is less difficult to explain why you had something like a 9 percent rate of growth over the past six or seven months. I think there, it seems to me that part of the explanation--for the second quarter, at least--was that you did have a strong rate of growth in nominal GNP. In the third quarter, you don't have that explanation, and I think both the second and the third quarters have been affected also by what might be called sort of a structural readjustment. That is, you [have] had a sharp downward shift in the willingness to hold demand deposits, for many of the reasons that the Committee knows about, since late '74. People did not expect that to go on forever, and we seem to have had, for the past six or seven months, an ending of that downward shift--a readjustment of the public, which may have gone too far in the past, to adjusting their demand deposit holdings to what they need at current income levels.

Whether this is going to be a temporary phenomenon or one that's going to be followed by further downward shifts, or even going in the opposite direction, is something that I don't have a very firm opinion on. We have assumed that this is in part a temporary phenomenon, you see, a temporary re-adaptation; that there will begin to be further downward shifts as the economy again begins to develop substitutions for money and as uncertainties that have developed in the last two or three months are being resolved.

CHAIRMAN BURNS. Thank you.

MR. WINN. Could I piggyback on that question a bit? Again, looking at this demand for money and trying to use what evidence we could--using the demand deposit survey data, it looks like consumers have been very stable in their holdings in this [unintelligible], with the very violent swings in the financial corporation area. And you sort of scratch your head to see what is really happening on this.

MR. AXILROD. That's right, it is in the financial business area that there have been swings. We have not found anything in that survey to pinpoint any particular sector, and it's very difficult to find a strong, compelling reason why that particular sector did swing, is volatile. That survey has, of course, statistical problems, float isn't netted out. But we found nothing in there to pinpoint corporations or consumers.

SPEAKER(?). That's quite right.

MR. BAUGHMAN. Mr. Chairman, possibly linked to this, although I'm not sure, a conversation with some bankers, which I referred to earlier. They indicate that, as they've been waiting for the expected rise in business demand for funds, they have, in an effort to utilize funds, developed loans to financial institutions in substantial volume, in banks where they normally would not be engaging in any significant way in that type of activity. Now, whether one can move on from that, which I construe as being a partial explanation of the surge in demand deposit balance, I don't know.

MR. PARTEE. You would think, of all groups, financial institutions would be the most likely to utilize their cash balances promptly, putting them in overnight markets or something like that.

MR. WALLICH. Somewhat on the same theme, I see that the increases in velocity are projected to reach--in alternative B by third quarter '78--6.7 percent, and this is to come partly out of the normal growth of velocity and partly out of a rise in interest rates projected from 6-1/2 in the funds rate to 7-3/4. And this really assumes a pretty sizable rise in the absence of an interest rate increase, namely something of the order of 4 percent, I think. It presupposes again that we get a downward shift in the demand curve.

MR. AXILROD. It has two additional assumptions to those you made. One, that there is some further downward shift in the demand curve. And, in a sense, almost saying the same thing, at least my belief, that this 9 to 10 percent expansion over the past four months in M1 is in some sense going to prove unwanted. That is, it is simply going to be, for whatever reason that we got it out there, it is going to be reinvested, and that will cause an increase in velocity also. So I would just add that to this other assumption of a downward shift in the demand curve.

MR. PARTEE. I note that you've got a decline in velocity, an indicated decline in V1 in the third quarter; that's the first decline since the recession low in the first quarter of '75. It does seem like there would be some storing up in velocity.

MR. WALLICH. There could also be as we accelerate from the slack of the third quarter to the fourth quarter. But still, these numbers seem very high to me, and of course they are predicated on a 5-1/4 M1 target.

MR. AXILROD. Midpoint of the range.

MR. WALLICH. If we went to the upper edge of the band--6-1/2--all these velocity numbers would come down by a little more than 1 percentage point.

MR. AXILROD. That is correct.

MR. ROOS. Steve, is not a possible factor that the money was pumped in to keep short-term interest rates from rising more than they have? We don't mention that; isn't that a factor that conceivably could have caused this bulge in M1?

MR. AXILROD. I was assuming, President Roos, that that money would be in large part unwanted over the long run. It may have had a temporary effect, moderating interest rate pressures. To the degree that it is unwanted over the longer run, it could be either invested in money market instruments or other assets, which would put downward pressure on interest rates; or of course it could be spent [and] put upward pressure on GNP. I've been assuming in large part it will be invested, but I think to a certain degree it will support GNP expansion more directly.

CHAIRMAN BURNS. Gentlemen, I think we are ready for our discussion of monetary policy over the short run. Let me make just two observations. I hope that we will proceed--I would like to emphasize, I very much hope that we will proceed--in the normal fashion and that our thinking will not be distracted by the recent court decisions. Second, my suggestion to the Committee would be that alternative B looks quite reasonable. I would prefer a slight variation in the growth of the monetary aggregates: 1 to 6 [percent] or 1 to 7 for M1 and corresponding changes for M2, but the figures as given under alternative B are also acceptable to me.

MR. BLACK. Mr. Chairman, what would be the figure for M2?

CHAIRMAN BURNS. Okay, I haven't given that.

SPEAKER(?). Yes. Corresponding change.

MR. PARTEE. You'd cut by a half.

MR. BLACK. You'd cut 1 point on each end?

CHAIRMAN BURNS. Perhaps, or a half.

SPEAKER(?). Mr. Chairman, what was the M1 figure you suggest?

CHAIRMAN BURNS. Well, the figure as given under alternative B is acceptable to me. I would prefer a range of 1 to 7 [percent] or 1 to 6. Who'd like to be first? Mr. Volcker, please.

VICE CHAIRMAN VOLCKER. I continue to be quite satisfied with the compromise we struck in recent meetings. And now, with projections, at least for the money supply, a little more conservative, I see no reason to make a change. And the suggestions you made are certainly along the lines of my own thinking. I do think we ought to not move off the 6-1/2 [percent midpoint of the federal funds rate range] very readily, particularly in the downward direction. I was going to propose 1 to 7 for M1, partly to reinforce the point of not moving down very readily.

Let me make a statistical point. An examination that we made recently of the range of fluctuations of M1 as compared to M2 suggests that if the 4 point range for M2 is appropriate, a 6 point range for M1 is appropriate. That gives about the same chances of running outside the range for both of them, according to recent experience, so that's kind of an additional reason for the 1 to 7, or thereabouts, proposal.

CHAIRMAN BURNS. Thank you, Mr. Volcker. Mr. Eastburn next, please.

MR. EASTBURN. Thank you, Mr. Chairman. I continue to worry about the growth rates we've had in the past for M1, because I think that we're going to find, looking back, that we have followed a procyclical policy. However, the recent performance has been more satisfactory, and furthermore, I think there are uncertainties now that we haven't faced so much in the past. One is the business, the economic situation itself, and the other one has to do with this discussion we just had about the uncertainties in velocity and the demand for money. It seems to me that when you face uncertainties of that kind, you stick pretty much to what we have. I think alternative B would be satisfactory, but given my basic concern about the excesses in money that we've had, I'd like the 1 to 6. I think that would be very good.

CHAIRMAN BURNS. Thank you, Mr. Eastburn. Mr. Morris next, please.

MR. MORRIS. Mr. Chairman, last month I dissented because I thought we had no evidence that we had reached the level of the funds rate which would be consistent with beginning to attain control of the aggregates. And I think the evidence of the last two weeks shows that finally things are beginning to move our way. It's obviously not conclusive, but I think it's sufficient to me to suggest that a stand-pat policy is appropriate this month, whereas I didn't think it was last month. So I think alternative B is acceptable to me, and I would buy your and Mr. Volcker's downward shift of the lower limit of M1.

CHAIRMAN BURNS. Thank you. Mr. Kimbrel now.

MR. KIMBREL. Mr. Chairman, I too think that the ranges suggested in alternative B are desirable. As earlier indicated, I have been, and am, disturbed about the uncertainties that continue to haunt the financial markets. I would think that the very best we could do would be to provide some small measure of stability, and I'd like to suggest that we maintain that posture. I obviously do not want to ignore the continuing inflationary expectations or possibilities, and for that reason I would be rather reluctant to see the funds rate drop below the 6-1/2. But I still think that, at this time, maybe the range suggested there would be desirable.

CHAIRMAN BURNS. Mr. Coldwell next, please.

MR. COLDWELL. Mr. Chairman, it seems to me that today is the day for some stability--no change. I like Paul Volcker's 1 to 7 [percent] range [for M1]. It gives a little more outside movement, and it doesn't threaten having to go off of our 6-1/2--I don't want to go above it unless we're forced by some pretty high figures in the aggregates. So I'd be just happy to adopt that 1 to 7 [range].

CHAIRMAN BURNS. Thank you, Mr. Coldwell. Mr. Partee next, please.

MR. PARTEE. Well, that's agreeable to me too, Mr. Chairman. I don't quite understand how we've gotten this stability, but we do seem to have it, right at the moment, and it might be well to continue it for a while.

CHAIRMAN BURNS. Let's enjoy it.

MR. PARTEE. The aggregates are very difficult to interpret, as usual. And Frank, it could be telling us something, it could be telling us that it's under control, or it could be telling us that there's been a change. We may start worrying about a low number, believe it or not, if it continues for a period. Now, a 1 percent lower [limit] on M1--assuming that November is going to turn out around 1 percent, which is a fair assumption--would mean, in December, 1 percent too, and I suspect we'd be getting a little nervous by the end of the two-month period in which we have been getting 1 percent. But I think that's all right because we've had such overshoots in recent months. And we could still have averages, for any period that can be calculated--that longer period--that would be quite satisfactory.

The statistical analysis does suggest that there's some basis [for] recent deviations from projections, that there should be about a 2 point larger range in M1 than in M2, and so I'm inclined to choose the 1 to 7 [percent] for that reason also, like Paul, and also because I so well recall that December is a very difficult month. And it could be that we would have considerable problems with the month as it develops, simply because of the Christmas effect and the weather effect and all that happens to you as you get into the winter season. The funds rate at 6-1/4 to 6-3/4, centered on 6-1/2, where we are now, sounds fine to me.

I think, with this wide a monetary range, that we could go back to the aggregates directive, although it's a little early to do so given the fact that we still don't [know] what's moving these figures. But with this wide a range, I think we can afford to do it.

CHAIRMAN BURNS. Thank you, Mr. Partee. Mr. Jackson.

MR. JACKSON. I would agree with alternative B as stated [in the Bluebook] and would prefer that we not go down to 1 percent. The primary reason is that, while I would recognize the uncertainty of December that Governor Partee outlined, the truth is that we will have limited information on December 20, when we next meet, as to what the real ramifications of the entire month will be, and much of our December emphasis will be on projections rather than on actualities. And if our projections were to indicate that we have had the first two-month period in which the M1 aspect of our aggregates is that low, it will be the first time in--I believe since I've been here--that we've had anything close to that low, which would indicate that maybe some of our actions have had some more real substance than we understand. And if it were to result in going down a magnificent amount of 1/4 percent on the federal funds rate, I wouldn't get upset.

CHAIRMAN BURNS. Thank you, Mr. Jackson. Mr. Lilly next.

MR. LILLY. Well, tranquility having been achieved, I certainly am not one to want to change the pleasant state of affairs. However, I agree with Phil Jackson, [and] I'm guessing that in the longer run you are going to look at a funds rate that's going to fluctuate more. I would say

I would like to see the 2 to 7 [percent for M1], just on the basis that, maybe if the funds rate does have to go down there, it's not a bad situation. So I'm for alternative B with 2 percent [lower limit on M1].

CHAIRMAN BURNS. Thank you, Mr. Lilly.

MR. ROOS. Mr. Chairman, I would support the Chairman's alternative B with a 1 to 6 [percent] M1 range. I would just remind the Committee that in spite of last night's football game, Mr. Chairman, we don't have the St. Louis football team in the Super Bowl. And [likewise] I'm not sure--recognizing that we had an 8.6 percent average growth in M1 over the last three quarters, even using the projected figures of the staff, accepting those--that we should feel too comfortable as a result of the last week or two that we're out of the wilderness. So I would support alternative B [with] 1 to 6, but I don't think I would want to go home and boast to my wife that I'd got the job done as yet.

CHAIRMAN BURNS. Thank you. Mr. Mayo next, please.

MR. MAYO. A 6-1/4 to 6-3/4 [percent range for the federal funds rate] is fine with me. I have a slight preference for the 1 to 7 [percent range for M1] and the M2 that goes with it.

CHAIRMAN BURNS. Thank you, Mr. Mayo. Mr. Guffey next, please.

MR. GUFFEY. Thank you, Mr. Chairman. When coming to this table, [I was] prepared to support alternative B and thought that the only real question was what kind of a directive you liked, what to get to the Desk, and was prepared to push for a money market conditions directive to achieve the stability that everybody around the table seems to want. Broadening the range, I think, lessens my concern as to which kind of a directive it is, and I like the idea of going to the 1 to 7 [percent range] on M1, with either kind of directive.

CHAIRMAN BURNS. Thank you, Mr. Guffey.

MR. BLACK. Well, I, like everyone else, fall into this B category. I think the question of ranges depends largely on whether you select a money market directive or an aggregates directive. If we go with a money market directive, in view of the shortfall we're expecting in November, and our staff thinks it may even be a negative number, I'd be reluctant to go as high as 7 percent [on M1] because that would entail a tremendous increase in December before you really move. So I would think maybe 0 to 5 percent would be better. I don't attach much importance to the lower limit; the upper one is the important one.

And 5 to 9 sounds good to me in the M2 part of it. Since '72, we've had more stability in the time and savings deposits portion of that, as banks apparently have been actively pursuing the portion of time deposits when the savings deposits have run off. So that hasn't fluctuated as much since '72 as we've been accustomed to having, so I think it may be a little higher than we think there.

And if we should go to the aggregates directive, I think that 2 to 7 [for M1], or something in that neighborhood, would be much better.

CHAIRMAN BURNS. Thank you, Mr. Black. Mr. Wallich next.

MR. WALLICH. I continue to be concerned about the shortfall that I anticipate in the achievement of the velocity that the staff expects, so I'm concerned with setting ranges that I think are on the low side.

Now, since I can sense the ideas of the group, I don't want to argue very strongly; I do want to remind us that we really shifted to a permanent money market conditions directive by adopting a 1/2 percentage point spread on the funds rate. I would like to get back to [using] the aggregates [directive]. I don't despair of M1; it needs adjustments, but I don't think these adjustments are beyond our comprehension. So I would go for a funds rate of 6 to 7 instead of a narrower range, and I would up the M1 aggregate slightly. I would go for 2-1/2 percent to 7-1/2 just to make it a little higher than the staff has it. But in general, [alternative] B is acceptable to me, and the monetary aggregates [directive] is what I would like to see.

CHAIRMAN BURNS. Thank you, Mr. Wallich. Mr. Baughman.

MR. BAUGHMAN. Mr. Chairman, my inclination when I came here was to move for just a slightly higher federal funds rate, in the interest of getting somewhat lower aggregates, but it's quite acceptable to me to use the other approach--lower the aggregates targets and use the existing funds rate. It seems to me you'd come out at about the same place, so I'm prepared to go with your recommendation. However, if the aggregates as stated in [alternative] B were to be accepted as targets, then it seems to me that it would be desirable to raise the funds rate a little bit along with that to be sure that you get some move.

In this connection, I'd like to mention that it seems to me that, with just the beginning of a suggestion of some movement of funds between different accounts in the banks in the time area, it might be appropriate for us to consider lifting the [Regulation] Q ceilings a little bit so as to not start dictating to the banks where those funds rest in the bank deposits. And it seems to me that it would be better to make such a move before the rates come under significant pressure and before you begin to see the rates structuring the market. And it seems to me that the results would probably be salutary for the residential construction sector.

CHAIRMAN BURNS. Thank you, Mr. Baughman. Mr. Gardner.

MR. GARDNER. Gentlemen, I have no problems. I would like to adopt alternative B and I won't dissent if you modestly adjust it. I don't think it's time, yet, Ernie, to proceed on [Regulation] Q.

CHAIRMAN BURNS. Thank you, Mr. Gardner. Mr. Willes, please.

MR. WILLES. Thank you, Mr. Chairman. I'll be very brief. We have a little bit of a credibility problem in our District--I'm speaking now just for our District. When we publicly announced growth ranges that they have indicated to me they wanted to take seriously, they keep questioning why we can't [hit] them.

SPEAKER(?). "They" refers to whom?

MR. WILLES. Businessmen. And I give the usual responses as to what happens and so on. What that suggests to me is that, while I would love to kind of relax and enjoy what's going on, I'd feel better if we took advantage of the opportunity to do whatever we can to get the numbers down to a more reasonable level. So I would have a strong preference for your 1 to 6, or even for the radical suggestion of Bob Black of 0 to 5. And my guess is, that could be accommodated within the federal funds range that was listed under alternative B.

CHAIRMAN BURNS. Thank you, Mr. Willes. Mr. Balles, please.

MR. BALLEES. Mr. Chairman, I liked your modification to the ranges of both M1 and M2, 1 to 6 and 4 to 8. Because, as I look at the Board staff's projections of both M1 and M2 and then average those out over the usual 13-week moving average, as I'm in favor of, it's evident that, if those forecasts should come true, we'll be above the range on M1 and only slightly below the upper end of the range on M2. For that reason, while I agree with the federal funds range staying the same as it is, I think we may continue to be faced in terms of average growth of the aggregates with being near the upper end or over the upper end of our 12-month growth ranges.

CHAIRMAN BURNS. Thank you, Mr. Balles. Mr. Winn.

MR. WINN. Mr. Chairman, I really have nothing to add. I would be in favor of widening the [M1] range a little bit, 1 to 7--use this as an opportunity to get it expanded a little bit and stay with the aggregates objective, not a money market.

CHAIRMAN BURNS. Gentlemen, on the basis of the views expressed by members of the Committee, I think it would be reasonable to suggest to the Committee that we vote on the following: a range for M1 of 1 to 7 [percent], a range for M2 of 5 to 9, a range for the federal funds rate of 6-1/4 to 6-3/4. I'm uncertain, however, about the language of the directive, since not all members of the Committee have expressed their views. Let me have a show of hands on the part of the members of the Committee who prefer a money market directive, which is what we had last time.

SPEAKER(?). Against the 6-1/4 and 6-3/4?

CHAIRMAN BURNS. Right.

SPEAKER(?). Governor Wallich--

MR. WALLICH. I want an aggregates directive.

MR. BROIDA. Four, Mr. Chairman.

CHAIRMAN BURNS. No, let's test that expression. Members of the committee who prefer a monetary aggregates directive will raise their hands.

MR. BROIDA. Four. Mr. [Gardner]?

MR. [GARDNER]. Five.

CHAIRMAN BURNS. Now we'll try again with the first, the money market directive.

MR. PARTEE. What's this?

CHAIRMAN BURNS. The money market--those who prefer it.

MR. BROIDA. Four.

CHAIRMAN BURNS. Well, the vote is very close. Anyone who hasn't raised his hand would like to do so?

MR. PARTEE. I would take either. I can see some advantage--I think honesty really does indicate, as somebody said, that we are on a permanent money market directive, and perhaps we ought to take it for that reason. On the other hand, I think the ranges are wide enough to justify an aggregates [directive], so I would take either that the Committee would prefer.

CHAIRMAN BURNS. Well, we are somewhat divided on the issue, as you can see, but I could take either, and I don't want to produce a tie, certainly.

VICE CHAIRMAN VOLCKER. I could take either, too, Mr. Chairman. The only thing I would say if we run an aggregates directive, I would like it interpreted as a rather sluggish aggregates directive--that we didn't move too fast.

MR. PARTEE. Do you see some advantage to a money market directive? Did I understand you to say that's the way you would go?

CHAIRMAN BURNS. I see a very, very tiny advantage, but you know, I don't believe in fine tuning, and taking these specifications altogether, one is just about equivalent to the other.

MR. BLACK. Mr. Chairman, may I make an observation? If you have a money market directive and the staff is right, and you get a 1 percent expansion in M1 in November, then in order to trigger any action on that, you've got to get 15 percent in December before you begin moving the rate up.

MR. PARTEE. No, now we've begun moving before it gets to the top.

MR. BLACK. Not too much before that. But to me, the decision [is], if you take a money market directive, you want narrower ranges; and if you take an aggregates directive, you want wider ranges.

CHAIRMAN BURNS. That is logically the thought of the money market directive, but in practice I don't think there is any significant difference or any difference that I can really define with any confidence. Could you define the difference with confidence, Mr. Holmes?

MR. HOLMES. I think, with the specification, either form of the directive is about the same.

CHAIRMAN BURNS. We've had a little discussion. Let's have a show of hands once again. The money market directive, those who would prefer it.

MR. MAYO. Why don't you ask the question, Mr. Chairman, would anyone object to a money market, or to an aggregates--

CHAIRMAN BURNS. Well, I would rather not. My business is not to invite dissents.

MR. MAYO. Sorry about that.

CHAIRMAN BURNS. Those who would prefer a money market directive--

MR. BROIDA. Five.

CHAIRMAN BURNS. Those who would prefer a monetary aggregates directive--

MR. BROIDA. Five.

CHAIRMAN BURNS. Well, who has not voted.

MR. LILLY. I haven't. I'll go for the money market.

MR. MAYO. Mr. Chairman, might I raise one point on specificity--a very good word; I can't pronounce it. Would there be any advantage in our rephrasing our statement, under either directive, to say "at about current levels," rather than saying "at about 6-1/2 percent" when we're describing the central point of our directive? Lines 31, or 81-82, or 63-64? I would think, in view of our earlier discussion, there might be some advantage, but it's--

CHAIRMAN BURNS. You're pointing to line 67?

MR. MAYO. --63-64, where we describe the central point at 6-1/2 percent. Would it be better--I think we have as good a case as we'll ever have for doing it this time, to say "at about current levels."

CHAIRMAN BURNS. I see no difficulty myself. Does anyone see any difficulty in adopting Mr. Mayo's suggestion? There may be a slight advantage. Well, I hear no objection. Lets proceed the Mayo way.

Well, let me repeat, we'll be voting on a money market directive, a range for M1 of 1 to 7, a range for M2 of 5 to 9, and a range for the federal funds [rate] of 6-1/4 to 6-3/4. Unless there is a question or comment, we are ready for a vote.

MR. BROIDA. Mr. Chairman, may I just call the Committee's attention to the proposed revision of the statement on retail sales in light of the new data.

MR. MORRIS. I think that's entirely appropriate. I move that that change be incorporated.

CHAIRMAN BURNS. Even unread?

MR. MORRIS. I've read it.

CHAIRMAN BURNS. All right, is anyone in doubt about the change [in the statement on the retail sales data]? All right, that will be made. Are we ready for a vote? Apparently. Mr. Broida would you be good enough to call the roll.

MR. BROIDA.

Chairman Burns	Yes
Vice Chairman Volcker	Yes
Governor Coldwell	Yes
Governor Gardner	Yes
President Guffey	Yes
Governor Jackson	Yes
Governor Lilly	Yes
President Mayo	Yes
President Morris	Yes
Governor Partee	Yes
President Roos	Yes
Governor Wallich	Yes

Unanimous

END OF MEETING