



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

CONFIDENTIAL (FR)  
CLASS II - FOMC

TO: Federal Open Market Committee

DATE: August 15, 1984

FROM: Normand Bernard *NB*

Enclosed are the greenbook and supplementary information prepared at two Federal Reserve Banks.

Enclosures

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FIRST DISTRICT - BOSTON

SPECIAL DISTRICT REPORT  
ACADEMIC PANEL

Professors Houthakker and Samuelson were available for comment this month. While acknowledging recent data suggesting that the economy may be weakening, Samuelson cautioned the Fed against easing monetary policy. In his view slowing retail sales and a one-month drop in the index of leading economic indicators is insufficient evidence that the economy is cooling off. He noted that because M1 has been well-behaved in recent weeks, the Fed has room to ease up later if it chooses.

Houthakker was much more emphatic in his belief that final demand is still strong and that the Fed should not loosen credit at this time. He believes that monetary policy is more or less on the right track and supports the reduction in target growth ranges adopted for 1985. He praised Chairman Volcker for continuing to pressure Congress to reduce federal budget deficits.

STRICTLY CONFIDENTIAL--(F.R.)

AUGUST 1984

SECOND DISTRICT--NEW YORK  
FINANCIAL REPORT--FINANCIAL PANEL

This month we have comments from James O'Leary (U.S. Trust Co.), Francis Schott (Equitable Life Assurance Society), and Robert Stone (Irving Trust Co.):\*

O'Leary: The rate of increase in real GNP so far this year, spurred by the massive Federal deficit, the very high rate of private credit expansion, and strong consumer spending, is clearly unsustainable. Federal Reserve policy must be directed firmly to assuring that the rate of business expansion is reduced markedly in the months immediately ahead. There are, fortunately, signs that the pace of the economy may be slowing, but the forces for expansion are still very strong and there is serious danger that any slowing will be short-lived.

For the time being, the inflation picture remains very favorable. This makes it tempting for the Federal Reserve to accept a continuing high rate of total credit expansion. If the authorities yield to this temptation they will be blinding themselves to the bitter lessons of the past twenty years. Interest rates will come down as the rate of business expansion falls to a sustainable level. But until that occurs, the role of the Federal Reserve must be to curtail the excessive rate of credit expansion.

Schott: The sudden improvement in the tone of the financial markets represents long-due recognition of a greatly improved inflation outlook. However, the strong momentum of the expansion and the current

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\* Their views of course are personal, not institutional.

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growth rates of the aggregates suggest the need for further gradual restraint if inflation is to be kept down. Institutional attitudes toward long-term investment will improve only slowly as long as huge Federal deficits remain on the horizon.

Stone: While there is no absence of difficult problems-- budget deficits and LDC debt among others--few if any of them can be satisfactorily resolved by monetary policy. At the same time, a number of factors of primary concern to the Fed are moving or behaving about as one would wish. Applying the dictum, "If it ain't broke don't fix it," I think the Fed should continue in its present posture.