



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

TO: Federal Open Market Committee
FROM: Joe Coyne via Nancy Steele *MSL* DATE: May 16, 1986

I have attached for your information a copy of the first page of Ben Weberman's April 4 newsletter purporting to reveal the mood of the FOMC meeting of April 1. The report obviously goes beyond the information that is made available prior to publication of the policy record.

Attachment

Reporting on Governments...

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Weekly Fixed Income Market Analysis

INTEREST RATE TRENDS
MONETARY & FISCAL POLICIES
THE ECONOMIC OUTLOOK
SHORT TERM & LONG TERM INVESTMENTS

Ben Webberman, Editor
New York and Washington Bureaus

New York City, April 4, 1986

Dear Subscriber:

We don't know how peaceful the week's meeting of the Federal Open Market Committee was, but to hear central bankers tell it, all was honey and roses.... There was no dissension, no mindless argument.... The meeting was "collegial," says one Fed staffer....

The reports seemed to have been orchestrated and rehearsed to provide journalists with material portraying a policy-making body atoning for the previously failed palace revolt.... It was emphasized that there were no stronger efforts to impose a monetarist viewpoint and certainly none from Manley Johnson for a supply-side policy.... Johnson is a leading vice chairman candidate....

The official effort to defuse the differences comes as the economy remains sluggish and it can be argued that monetary policy should be eased beyond the measures adopted several weeks ago when the discount rate was cut....

In the long run, the economy will do well.... Low, very low, interest rates will spur all kinds of activity.... Record increases of the stock market and the bond market will put plenty of spending power in pockets of consumers and businessmen....

The exercise was designed to show that Board Chairman Paul Volcker is still in charge.... As, indeed, he has always been.... Especially in the Open Market Committee which includes five Fed bank presidents as voting members in addition to the governors....

The point is that the Board must show solidarity.... All governors are agreed to that.... It is crucial to do so at this time when the dollar is teetering at critical levels.... The Fed, as well as the IMF, has revised its projections of economic growth upward.... Against this background, the Fed is concerned that it may lose power to Treasury Secretary James Baker, in particular, and the administration in, general....

Among the four recalcitrant board members who voted against Volcker on the discount rate cut, Preston Martin has resigned, effective after his term as vice chairman ends, Seger remains stubbornly anti-Volcker, Angell evolves as an individual without strong convictions who is willing to be swayed, and Johnson comes out as well balanced analyst who can express ideas convincingly.... Johnson would make a good vice chairman....

The pro-Volcker show is necessary more for foreign impact than for domestic purposes.... The U.S. economy, while sluggish, is doing well and is expected to improve as a consequence of lower energy costs even if the Fed does little to help.... This does not mean that the Fed won't assist.... It will....