

Federal Open Market Committee

Conference Call

May 1, 1991

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Black  
Mr. Forrestal  
Mr. Keehn  
Mr. Kelley  
Mr. LaWare  
Mr. Mullins  
Mr. Parry

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Alternate Members of the Federal Open Market  
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the Federal Reserve Banks of Philadelphia,  
Dallas, and Minneapolis, respectively

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Mr. Coyne, Assistant Secretary  
Mr. Mattingly, General Counsel  
Mr. Prell, Economist

Messrs. Beebe, Lindsey, Promisel, Siegman,  
Simpson, and Slifman, Associate Economists

Mr. Sternlight, Manager for Domestic Operations,  
System Open Market Account  
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Mr. Wiles, Secretary of the Board, Office of the  
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Transcript of Telephone Conference Call of  
May 1, 1991

CHAIRMAN GREENSPAN. Good morning, everyone. I noticed that the fact that we had a conference call yesterday was reported in The Wall Street Journal this morning. It's important that what I'm about to discuss not appear in the newspapers because this is highly confidential information on the G-7 meeting and what led up to it. If we can't keep it confidential, we're going to have to find another way to disseminate this sort of information in a more tightly held procedure. I'd be most appreciative if everyone could keep that in mind.

The G-7 meeting that occurred on Sunday in many respects was really the most interesting meeting I've attended in the years I've been here. I think the best way to describe the meeting itself is to start with Nick Brady's fairly extensive trip around Europe in which he met with a very large number of private and public people--all the finance ministers and a lot of bankers--and essentially was putting forth his world interest rate scenario, of which I'm sure you're all aware. As he was doing his visits he began to pick up what I think we have been picking up: mainly, that there are increasing cracks occurring in the underlying European system. And he takes that as verification that things are getting increasingly bad. I think his diagnosis per se is not all that inconsistent with what the events are. But his solution--that is, seeking coordinated cuts in rates--is creating a very significant backlash in Europe and abroad [generally]. Indeed, after he had a meeting in London with the finance ministers as part of the European Bank for Reconstruction and Development's initiative, I got calls from

who had heard about what was going on. And they were really quite disturbed. When the Secretary got back and he started to think through the G-7 meeting, I think he became aware that pushing coordinated [interest rate] cuts was not going to make it and that it could very well turn out to be unproductive. Nonetheless, there was an endeavor initially to have a fairly gloomy communique, essentially suggesting significant cuts in rates. The communique drafted by the deputies of the finance ministers reflected this to a substantial extent, even though it was filled with all sorts of graphics implying alternate types of wording. The press had suggested, and I have no reason to disbelieve, that Mr. Brady was getting support from the French, the Italians, and in a limited, hesitant way from the Japanese. Indeed, when looking at the early versions of the communique, which was constructed initially by the deputies, the communique did not basically contradict that. Very interestingly, what happened in the meeting is that the [support] of people was really an illusion; in the event, the French, the Italians, and the Japanese were really not supportive of Mr. Brady. They weren't negative but they clearly did not in the discussions or in dealing with the communique come out in favor of some of the language he was supporting. The crucial one, for example, was that Brady was supporting the substitution in the communique of "low inflation growth" for "non-inflationary growth." This clearly would have been a major signal with respect to the position of the G-7. And there was no support for that, as best I can judge.

We finally ended up with the operative policy statement even though there was, in my mind perhaps properly, a lot of caution about

the outlook. Nonetheless, the operative policy statement was "Against this background, ministers and governors emphasized the importance of monetary and fiscal policies which provide the basis for lower real interest rates and a sustained global economic recovery with price stability. They believed that such a medium-term strategy was the best way of reducing potential risks and uncertainties in the current outlook." That operative sentence was written in the meeting and was a substantial change from several of the earlier versions. The pattern within the meeting on economic issues was not to convey a sense of differences amongst the G-7 for fear of market responses. There were considerable interventions by almost everybody that if we came out of the G-7 meeting with an apparent significant split within the meeting, it could be significantly counterproductive to the marketplace. Basically, the notion that there could be a substantial market effect if there were real dissension I think drew Mr. Brady off pressing his position because I think he realized that the votes were not fundamentally there.

In retrospect, what happened in [my] perception is that probably has significant influence over the deputies and probably brought to the table a somewhat stronger view of what the support was for the United States Treasury position than was actually held by the finance ministers themselves; I think that's what clearly showed up. There was even the possibility that since there was a new Canadian finance minister that the anti-Brady forces--the UK, Germany, and Canada--might lose one of its members. In the event, that did not happen; the Canadian finance minister was as strong as Michael Wilson, basically, on that particular issue.

Prior to the meeting the Group of Seven went over to the White House for coffee with the President, who was very cordial and actually quite muted. He did indicate that he thought it might be useful to have lower interest rates for world recovery but he gave a sense of "I'm not too sure about what the dimension is and I certainly wouldn't press a point with all of you experts," etc., etc. It was a very soft sell. He did not, for example, pick out Germany, which had been the center of the Treasury's pressure. All in all that meeting went reasonably well, I think. The subsequent luncheon that we had here at the Board for the G-10 governors indicated fairly clearly that they were all rather relieved that the meeting came out the way it did rather than the way a lot of us expected it might end up. And in that meeting there was a general acknowledgement of the softening and the problems that exist in the ERM. I indicated yesterday an increasing desire on their part to have the deutschemark actually strengthen within the ERM even though a number of them have been somewhat relieved [in terms of their own economies]; because of the weakness of the deutschemark they have been able to ease domestic interest rates, especially in France. The result of that meeting, coupled with meetings I had subsequently, is that the aftereffects of the G-7 meeting have been, unfortunately, quite negative. I think there has been a lot of cracked china in the process; I was dragged off to the side on numerous occasions in the couple of days, with my colleagues--both finance ministers and governors--expressing their concern about being pressured. I don't think there's any lasting problem there but it was an episode that I don't think turned out as well as it could have. But considering how bad it could have been, it was a major improvement from the worst expectations.

I would say, however, that if the European economy starts to erode and if problems in Germany get increasingly poor, and if our economy fails to turn up, then I think there are going to be significant changes in the G-7's general outlook. I got the impression that they were all quite nervous about the outlook but felt it premature to change the official stance. And that could conceivably be altered. In other areas, there was very little discussion on exchange rates within the G-7 meeting. There was a lot of discussion in the G-10 governors' luncheon on Monday. Aside from rather vague concerns about the dollar being stronger than some of them would like, there really was no notion or desire for intervention or action in any particular way. So, that issue at this moment is dormant, I would suspect. But I do get the impression that if the dollar were to run up to and through 180 on the mark, there would be considerable pressure from the Bundesbank for us to do heavy mutual intervention with the support of Europe and Japan. However, short of that, I didn't sense much of an appetite for concerted intervention. But I did sense that there would be a lot more should the dollar start back up again, and my sense of it was that the desire for intervention was stronger than anytime that I remember in the recent past.

There were a lot of other minor issues, [such as] strong support for the Uruguay round; there was a lot of discussion on the Soviet Union and Eastern Europe but nobody could figure out what to do to be helpful in that area. As a consequence, nothing emerged in the communique of any moment. A lot of other technical issues were discussed with respect to the IMF, specifically the Japanese request to increase the amount of SDRs. Nobody even responded to that and it didn't get into the communique; there was basically no further discussion. So, that's the general outline of what went on. It was a rather interesting set of meetings. I'm prepared to answer any questions anyone has.

MR. ANGELL. Alan, I would understand and not be surprised by the desire that we buy D-marks at 180. But if we're to be in the buying frame and we don't want our inventory of D-marks to grow without limit, there would have to be some possible [hedge] in which we would be able to sell D-marks.

CHAIRMAN GREENSPAN. Well, basically, I raised exactly that issue with Poehl and suggested off-market reversals. He shook his head; I don't know what that meant, but--

MR. ANGELL. You mean he shook his head yes or no?

CHAIRMAN GREENSPAN. He shook his head yes. I interpreted that to mean that he'd be willing to take a look at that. Look, if we agree to intervene, I don't see how we can possibly accumulate any more deutschemarks unless we sold them in off-market transactions.

MR. ANGELL. In other words, there wouldn't be an [opening] at, say, 160 for us to be able to sell openly?

CHAIRMAN GREENSPAN. Well, there might be. But I would say that my desire, as you know, is just to get rid of them. Whether we do that through the market or off-market transactions, I'm less interested.

MR. ANGELL. Well, it just seems to me that someone needs to work out with us some arrangement to make certain that we can get rid of them if we are to buy them.

CHAIRMAN GREENSPAN. Yes, I think the Treasury is on board for getting rid of them off-market. And so long as we have that opening, then I think that's fine. If we have to sell--if we have to be on both sides in the market--the only way we could do it is if the dollar starts to plunge, in which case obviously we would sell. The ideal way of getting rid of all that is try to take profits as the market goes down.

MR. ANGELL. Well, of course we not only have that, we also have the earnings on the D-mark and [unintelligible] that in itself--

CHAIRMAN GREENSPAN. Yes, but Sam is working on trying to get rid of a lot of this. Sam Cross, are you on the call?

MR. CROSS. Yes, I'm on the call.

CHAIRMAN GREENSPAN. Could you bring us quickly up-to-date on where that stands?

MR. CROSS. Yes. We have had some discussion with the Germans about mechanisms and we have been looking at ways in which we might find some opportunity to get rid of [these deutschemark holdings] as conditions permit us to do so. There are a number of technical and other questions to work out quite apart from the question of the willingness of the Germans and possibly others to do it. And we also are trying to talk to the Treasury to make sure that this is something that they are interested in too. So, we're working on it but I can't say that we have answers to it at this point.

MR. ANGELL. I just want to emphasize that if the United States is more apt to be in an easing mode than other countries and is ahead of other countries, then eventually our economy is going to be cyclically stronger than other countries. And we thereby are going to run into a period in which the dollar is very strong against the mark.

MR. CROSS. Well, that is certainly one of the things that could greatly affect this. We have been thinking of various possibilities, both on-market and off-market, and we've been canvassing other central banks. We are trying to make sure we have canvassed everyone and are trying to proceed to see if we can work something out on this side. But, certainly, that's true. If exchange rates move the other way, we can be a little more quick to try to dispose of some [of our foreign currency holdings].

CHAIRMAN GREENSPAN. Okay. Any other [questions]?

MR. MULLINS. How would you characterize the new Canadian finance minister? Also, what is your assessment of the role that Lamont of the United Kingdom played?

CHAIRMAN GREENSPAN. Well, the Canadian finance minister, Don Mazankowski, is still deputy prime minister. He is, as they say, a self-made man. He has had no formal education as I understand it; he's obviously very intelligent and sharp. And he walked into that

meeting as though he had been a steady member for quite a long period of time. And there was very little loss of step between Michael Wilson and "Mas," as they apparently call him. His economic philosophy is the same as Wilson's; his basic argument is that they have essentially committed themselves and have no intention of backing down at this particular stage. He said it would be political suicide for them, after having taken all the pain, to then throw in the sponge before the results are there. I got the impression that Lamont was unhappy for very much the same reasons. My concern basically is that I think [redacted] is pushing the Secretary and I don't get the impression that the Secretary's general view is confrontational in these types of meetings. It certainly is not; he ran the meeting in a highly non-confrontational manner, and considering the fact that I don't agree with some of the positions that he was advocating, I thought he handled himself exceptionally well. And he made as good a case as one can make for what he was advocating. It struck me really as quite a different sound than I was getting from the newspapers about his going around breaking china in Europe. It turns out, as best I can judge, that it is [redacted] who has been pushing that; in part I have a suspicion that the Secretary may be getting the rap for some of that. But all in all it turned out to be unnecessary friction, I thought; it's not a big deal, but I think it could have been done better. Any other comments or questions? If not, thank you very much, everybody.

END OF SESSION