

**FEDERAL OPEN MARKET COMMITTEE
CONFERENCE CALL
November 9, 1993**

PRESENT: Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Keehn
Mr. Kelley
Mr. Lindsey
Mr. McTeer
Ms. Phillips
Ms. Stern

Messrs. Broadus, Forrestal, Oltman, and Parry, Alternate Members of the
Federal Open Market Committee

Messrs. Hoenig, and Syron, Presidents of the Federal Reserve Banks of
Kansas City, St. Louis, and Boston respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel

Messrs. Lindsey and Siegman, Associate Economists

Mr. Fisher, Manager for Foreign Operations, System Open Market Account
Ms. Lovett, Manager for Domestic Operations, System Open Market Account

Mr. Checki, Executive Vice President, Federal Reserve Bank of New York
Messrs. Beebe, J. Davis, and Dewald, Senior Vice Presidents, Federal Reserve
Bank of San Francisco, Cleveland, and St. Louis respectively
Mr. Kos, Vice President, Federal Reserve Bank of New York

Transcript of Federal Open Market Committee Conference Call
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MR. BERNARD. Because the matters to be discussed at this conference call are of a sensitive international nature, staff attendance here at the Board is being severely limited, and the Chairman urges that the Reserve Banks also limit staff attendance to those who absolutely need to be in attendance.

Secondly, I would like to mention that this conference call is being electronically recorded.

CHAIRMAN GREENSPAN. In the event that you wish to reshuffle who is on this call, I will just wait for a minute or two.

MR. BERNARD. President McDonough has not arrived yet in New York. He is on his way from the airport. Mr. Oltman is present.

CHAIRMAN GREENSPAN. As I suspect most of you assume, considerable difficulty is beginning to emerge in Mexico with respect to the pending vote coming up on NAFTA. Originally, as of four or five days ago, they had approximately \$23 billion in reserves; through yesterday they were down \$4.7 billion. Charles Siegman, do you know of any intervention?

MR. SIEGMAN. No intervention today.

CHAIRMAN GREENSPAN. There has been none or you do not know of any?

MR. SIEGMAN. There has been none today as of an hour ago.

[Secretary's note: This telephone conference was called on short notice and took place late in the afternoon.]

CHAIRMAN GREENSPAN. As you can probably observe on Reuters or elsewhere, there has been a significant shift in the normal range of the peso, which is basically at the lower limit of the crawling [exchange rate band]. As a consequence of that, you can imagine that there is very considerable nervousness, and [Mexican authorities] have been in consultation with the Treasury Department here. What I thought I would do is to turn [the floor] over to Charlie Siegman, and he will bring you up-to-date on the details of what has been happening in recent days. He will also discuss alternate suggestions that we and the Treasury are in the process of considering [pursuant to] certain requests that [Mexican officials] have raised with us. Charles.

MR. SIEGMAN. Thank you, Mr. Chairman. For quite a while the Mexican authorities have succeeded in keeping a stable exchange rate without necessarily much support on a permanent basis. However, last week the pressures mounted and the authorities allowed the rate to depreciate slightly, but it required a very sizable amount of intervention as was just pointed out. Nevertheless, they held [the exchange rate] in the vicinity of 3.15 pesos per dollar. When they abandoned the internal band on the level of the peso, the rate has moved today to 3.24 and it is steady at this stage. So they have more room for depreciation within their now enlarged band.

The pressure on the financial markets also has spread over the past week to the stock market. Whereas previously the stock market had a very sizable run-up, part of that run-up has been erased by sizable losses--losses of 1 to 2 percent--in recent days. Today, however, the stock market is up slightly. But [Mexican officials] are not very hopeful that they can withstand the mounting pressures partly associated with the uncertainties regarding the NAFTA debate. They are fearful that additional pressures will mount unless there is some sense in the market that they have both the resources and the public support. They approached the Treasury for a financial support package, a multilateral one, but emphasized that they would not necessarily want to draw on that facility.

What they are looking for is a multilateral support facility, which the Treasury is considering, in the range of _____ from the G-10 countries--including the United States--and Spain. The Treasury is considering in thinking about this that the U.S. participation would be in the \$5 to \$6 billion range.

With regard to Federal Reserve participation, there are two aspects. One, which is for the moment the item of immediate [concern] at least, is to consider allowing the Mexican authorities to draw on the \$700 million swap line that is currently in existence. In order for the Federal Reserve to take a part of the proposed U.S. share of this larger facility, we would obviously have to enlarge the swap line, which is a separate issue; but that might come up as developments proceed.

MR. ANGELL. The swap line between the Treasury and the Fed?

MR. SIEGMAN. The Treasury has a swap line of \$300 million, which they are prepared to enlarge.

MR. ANGELL. Okay, but you are not talking about enlarging the swap line between the Fed and the Treasury?

MR. SIEGMAN. No, no. This is between the Fed and the Bank of Mexico.

MR. ANGELL. Yes.

MR. SIEGMAN. For the moment it is a \$700 million swap line, and that is what we have to talk about. The purpose of raising this issue with you is to bring you up-to-date and to alert you that there is a possibility that either an activation of the existing swap line or potentially an enlargement of the swap line might be forthcoming.

CHAIRMAN GREENSPAN. Let me interpose that in both instances there is still the question of whether it would be

So far the requests from the Bank of Mexico have been only for window-dressing because basically they have approximately \$18 billion in reserves and do not obviously need [the additional funds]. They are essentially looking for support not of a financial nature but of a policy nature coming from the BIS and very specifically from us. The Treasury is prepared, if asked, to answer a question about today's apparent devaluation, which they are now no

longer calling a devaluation. Charles, why don't you read what they put together?

MR. SIEGMAN. The question: "What is your reaction to the depreciation of the Mexican peso today?" Proposed answer: "The United States believes that Mexico is pursuing sound economic policies. It is apparent, however, that financial markets are responding to the uncertainties regarding NAFTA. The Mexican authorities have responded within the framework of their current approach to foreign exchange markets by introducing temporarily greater flexibility in the peso exchange rate. We believe that this is an appropriate step in current circumstances."

The Mexicans also raised interest rates today, to 23 percent on their overnight rate. And the auction that is scheduled for tomorrow is likely to show an increase as well in long maturities because in the new offerings the rates already have increased by 2 to 3 percentage points. The overnight rate increased from 15 percent yesterday to 23 percent today. So, they are taking additional support actions internally. They have approached the IMF for a support statement and Michel Camdessus is prepared to offer a statement to the effect that they are pursuing sound policies and that they are doing well as far as the policy environment is concerned. They are not considering drawing in a standby arrangement, but they are considering having a first tranche drawing, which would give them approximately \$600 million of additional liquid funds.

CHAIRMAN GREENSPAN. Unlike previous episodes, this is the type of case for which the swap lines were originally constructed in the sense that their implementation [was envisaged for times such as this when] we believe, as indeed I think we probably do, that financial and economic policies in Mexico have been remarkably sound considering where they were coming from and what they are doing. So if this is going to be an aberration which is not a direct result of their particular policies and we think it's a temporary affair, then it is an obvious [case for] central bank action. The one caveat I would put to that question is that the extent to which the real exchange rate has been rising is unclear. We have discussed that with them on numerous occasions. If one takes the exchange rate and uses the consumer price index, [the rise] is obvious. Their argument is that the export sensitive industry prices are not moving in that direction. I have no way, frankly, of verifying whether that statement is true or false. But it is clearly something which the Finance Ministry and the Bank of Mexico have believed. So one can possibly argue that this [market disturbance] might have popped in any event at some point, but it is not clear. What is clear is that their fundamental policies, even in the sense of constructing this crawling peg, have been very sensible. Indeed, at least as far as I can see, they have done the best job of the LDCs that we have seen in quite a while.

MR. SYRON. It seems that there is one other issue here that is related in a broader sense, which is that their current problem is one that we got them into.

CHAIRMAN GREENSPAN. One can say it was President Salinas who initiated NAFTA and not us, but there is certainly a joint problem of responsibility.

MR. ANGELL. It would be helpful in regard to our reaction to this information if you would tell us what the vote on NAFTA is going to be. [Laughter]

CHAIRMAN GREENSPAN. I have it right here, Governor Angell, but I can't seem to find it! This is, needless to say, not the most appropriate time for this event to occur.

MR. LINDSEY. The real question you are asking, though, is whether after the vote on NAFTA we expect the Mexican peso to return to a normal value or not. It is not a yes or no vote on Mexican policy in the past, which we all agree has been excellent. It is whether or not this new random event, which is going to take place down the road, will change the fundamental value of the peso.

CHAIRMAN GREENSPAN. You mean from the 3.15 that--

MR. LINDSEY. Right.

CHAIRMAN GREENSPAN. My own impression is that if they allow it to go back to 3.15, they are crazy--that this is an ideal opportunity, basically, to enable an adjustment process to take place.

MR. LINDSEY. It is 3.15 but they have allowed it to go to 3.24?

MR. SIEGMAN. About 3.24.

CHAIRMAN GREENSPAN. If, however, they are right in that the true price deflator to adjust the exchange rate is being misrepresented by these general price indexes [unintelligible], then there is a perfectly sensible argument [that the rate will] come back. But they have to make that argument, as far as I am concerned, or else I think it would be foolish to go back to 3.15. It is an opportunity to make the type of adjustment which they probably need. The difficulty with that is that they are dealing with potential inflationary pressures and with lots of other problems. I frankly would not second guess them.

MR. LINDSEY. Wouldn't provision of the swap line simply work to encourage them to stay at 3.15?

MR. SIEGMAN. They have moved from 3.15 already.

MR. LINDSEY. They have?

MR. SIEGMAN. They allowed it to go to 3.24 but they have more room to go. They shifted the entire band.

MS. PHILLIPS. How wide is the band?

MR. SIEGMAN. The upper limit is close to 3.30.

MR. ANGELL. The upper limit for the dollar against the peso?

MR. SIEGMAN. Peso, right.

CHAIRMAN GREENSPAN. Actually it got to 3.30, didn't it?

MR. SIEGMAN. It got there and bounced back.

MR. ANGELL. So the high is 3.30 for the dollar. What is the low?

MR. SIEGMAN. For them the upper limit is 3.05, but that is for the moment irrelevant because they are reaching the [lower limit].

MR. ANGELL. Right. Did they take both sides of the band?

MR. SIEGMAN. No, they only widened the [internal] band.

MR. ANGELL. They just widened the band.

CHAIRMAN GREENSPAN. They widened the band. And what has been quite remarkable--and I think it has been a big plus for us--is how successful they have been in holding the rate in the context of where it has been so far from their lower limit for so long.

MR. ANGELL. It may be that they've been successful because of the anticipation of NAFTA--that there has been a capital inflow, which has been driving the rate.

CHAIRMAN GREENSPAN. Let me tell you what we do know. Obviously, if their reserve balances have been going up, as they have very sharply, [in a period when] they have been intervening against the dollar, it means that the capital flow has been very substantial.

MR. ANGELL. Right.

CHAIRMAN GREENSPAN. Now, whether that is a NAFTA effect or not, I am not sure we know.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, this is Bill McDonough; I just came in. It seems to me that one could argue that 3.15, say, was an equilibrium rate before this nervousness [arose]. As you put it, they've sustained the rate; they've actually increased their reserves in the process, so they certainly weren't propping it up artificially. If NAFTA is voted down, one might argue that economic theory would lead us to believe that the equilibrium rate would be a weaker peso. But at the present time, especially since they have been smart enough to allow the rate to move to the 3.25 area, I think they have handled it rather well and that it would be very difficult to argue that they are maintaining an artificial exchange rate.

CHAIRMAN GREENSPAN. I agree with that. I think what they did was this: They waited for a few days to see whether it would settle down, decided there was a limit to how much they would allow reserves to run down, and they made a decision.

MR. LINDSEY. But if they are not running an artificial exchange rate, why increase the swap line?

CHAIRMAN GREENSPAN. What they are concerned about is that there is a very large potential irrational body of opinion which could temporarily run against the peso.

MR. LINDSEY. Well, then let those people who are irrational lose money in the market. If people want to move the peso to 3.50, and we all think it should be 3.20 or 3.30, let them--

CHAIRMAN GREENSPAN. Because that has effects internally in Mexico which are very difficult to reverse.

VICE CHAIRMAN MCDONOUGH. I agree with that. I think it would be unfortunate for us not to support them and to let the rate go --even though it would be in response to market forces, but essentially irrational ones--and then wind up on the 17th with NAFTA [passed] and some damage done that would be very hard to reverse.

MR. ANGELL. It also runs the risk that it might affect the vote on NAFTA. That is, a significant depreciation of the peso running into [the time of the vote on] NAFTA might be exactly the argument that some would use to say that the United States will be the loser because of the shift in trade. It seems to me that it would be very, very unacceptable to have the shift to a free market--

CHAIRMAN GREENSPAN. To a devaluated peso.

MR. ANGELL. Right, toward a devaluated peso, because it could affect the vote outcome.

MR. KELLEY. [Unintelligible] on the wrong side of the scale.

MR. SYRON. I think Governor Angell has a very good point there in a broader sense. Like a lot of people I am very skeptical, I must say, of intervention in many cases. But it seems to me that if one were to look for a case that falls out of the traditional norm, if there is any such term, this would be the one. It is one where in some sense the United States is in the process of entering into this treaty and a lot of confusion has been created about it. It is an extraordinarily political issue. There are a lot of things going on here that are not fundamental economics. I think as a nation we bear some responsibility for all of this and I don't think it's quite the same as supporting ordinary intervention in markets.

MR. SIEGMAN. To repeat, the issue under discussion is not really to use the Federal Reserve--

MR. SYRON. I know that. Look, we're giving them the money so they will be able to say they can use it or else we wouldn't be giving the money.

MR. SIEGMAN. They are considering using their own reserves for a while. There's talk that another of their own reserves may be needed. But they would like to have that moral support for the moment and So the intervention is their own intervention.

MR. ANGELL. So our specific swap line goes from where to where?

MR. SIEGMAN. To a special New York Fed account.

MR. ANGELL. But what is the amount?

MR. SIEGMAN. For the moment the size of the swap is \$700 million. If we participate with Treasury in the order of magnitude they are talking about, then we might temporarily enlarge the swap line by an additional \$1.8 billion.

MR. ANGELL. So that would take it up to \$2.5 billion.

MR. SIEGMAN. \$2.5 billion.

MR. KEEHN. This is Si Keehn. Is it clear that the addition would be shared equally between the Treasury and the Fed?

MR. SIEGMAN. That is what the Treasury is proposing, yes. They are asking us to--

MR. SYRON. Charlie, what do you think would happen with the other G-10 countries in the multilateral program, assuming we go ahead and do this? Do you have any notion?

VICE CHAIRMAN MCDONOUGH. There was certainly no discussion of it at all at the BIS meeting, which I literally just walked in the door from. There was a presentation yesterday to the governors by the four Latin Americans--the number two man from Mexico, the Argentine, the Columbian, and the Chilean. [Unintelligible] impressed by that. These were four people who were saying such incredibly sensible things and seeking to follow such excellent policies that this seems to me to give us an opportunity, when a situation has been created partially because of the peculiarities of our own political system, to support one of the best behaving nations at a time when it would be very useful to them. Certainly it would send a very positive signal that these virtues that we have been preaching about over the last many years are something we still believe in. I'm not suggesting that it should create a precedent for other countries that have a problem. But NAFTA is something peculiar to Mexico at this stage.

MR. MCTEER. This is Bob McTeer.

CHAIRMAN GREENSPAN. Yes, Bob.

MR. MCTEER. I agree with what Bill just said. I have a question, though. Are we talking about just trying to get something out of the announcement effect right now? And if so, who would do the announcing? Would it be the Treasury or the Federal Reserve?

CHAIRMAN GREENSPAN. It would probably be a joint announcement. But that is still premature because the issues have not crystallized as yet. It is at this point solely an announcement effect,

MR. MCTEER. I would hope that Secretary Bentsen will be personally involved in that announcement.

CHAIRMAN GREENSPAN. He will, indeed. Let me say this. If we move in this direction,

As for how this whole thing would be stated, I am not yet clear. But prior to going into negotiations with the Treasury on any of this, before it goes very far down the line, I thought it was important for this group to discuss the various options that are available to us.

MR. FORRESTAL. Mr. Chairman, this is Bob Forrestal. I certainly agree with the comments that have already been made. I think we are at a point where it is essential that we support the Mexicans in this endeavor. But I don't think I heard the answer to the question of whether we are getting the international support to the tune of that was mentioned earlier.

CHAIRMAN GREENSPAN. That issue has been very recently [raised] by Charlie. Why don't you [speak to that].

MR. SIEGMAN. We learned about the initiative for this multilateral support arrangement around noon. We are in touch with the BIS to alert them.

CHAIRMAN GREENSPAN. The initiative, or the request, is coming from Mexico?

MR. SIEGMAN. From Mexico, right. We ourselves have not received a formal request from the Bank of Mexico. This was done through the Finance Ministry of Mexico. But we have alerted the BIS that this is on the horizon. Part of the problem, we hear, is that speed is of the essence. If it is going to be helpful to Mexico at all, they are thinking about this [being ready] by the weekend. So we have informed [the BIS]. But [Mexican officials] have not contacted anyone yet because [it's after] the close of business in Europe.

MR. FORRESTAL. Is the thinking at the Fed and at the Treasury that if for any reason the international support did not come along that we would go it alone and increase our swap line anyway?

CHAIRMAN GREENSPAN. I would think so. In fact, if the international support did not come along, I think it would be all the more important that we have some form of moral support coming from the United States government.

MR. FORRESTAL. I would certainly support that. I think it is extremely important that we give them support.

MR. ANGELL. I don't quite understand this
I thought a swap line was there to be used
when it needed to be used.

CHAIRMAN GREENSPAN. The Mexicans have \$18 billion in front of it.

MR. ANGELL. I know, so why isn't this just a straight swap [line increase]?

CHAIRMAN GREENSPAN. Mainly because that is [what] they requested. In other words, it is at their request that not on our demand.

MS. PHILLIPS. Would it go to some central source so that the monies from all of these countries would then be in one pot? Is that part of this?

MR. SIEGMAN. We would act as the agent, typically.

MS. PHILLIPS. Okay.

MR. SIEGMAN. [Unintelligible] the account.

MR. ANGELL. I just want to know what the legal distinction is between a swap line where we say we will lend up to \$2-1/2 billion if you wish to draw upon it and one where someone

I do not understand that distinction.

MR. SIEGMAN. From the Mexican perspective it is the size of the swap facilities [that matters]; it would have the announcement effect.

MS. PHILLIPS. So it increases their--

MR. SIEGMAN. It increases [how much] the international community is supporting them.

MR. ANGELL. I know, but why draw on it

SPEAKER(?). It shows on their books as dollar reserves.

MR. ANGELL. Oh, I see; they want to go ahead and put it on--

CHAIRMAN GREENSPAN. It's strictly window-dressing.

MS. PHILLIPS. That is a little different.

CHAIRMAN GREENSPAN. It is the window-dressing issue; that's what they are requesting.

MR. SIEGMAN. If they draw it at all.

CHAIRMAN GREENSPAN. It is a window-dressing issue they are requesting. They are not requesting real funds.

MR. ANGELL. Why don't they just request us to announce that the swap line has been increased?

MR. SIEGMAN. That is what they are asking. That is the primary request.

MR. KELLEY. Then they will not draw the money in the traditional sense.

MR. ANGELL.

VICE CHAIRMAN MCDONOUGH. I think the reason for what may appear to be not altogether logical, Governor Angell, is that the capital flight that the Bank of Mexico is very much worried about is the flight of capital owned by Mexicans. I would suspect that they are probably better at [understanding] the psychology of their

countrymen than perhaps we are and that the existence of a pot of money sitting presumably at the Federal Reserve Bank of New York would be more likely to impress their fellow citizens than swap lines that they wouldn't altogether understand. I think we are dealing with posturing and flag-waving here in essentially a psychological battle.

CHAIRMAN GREENSPAN. The truth of the matter, if I were looking at it from their point of view, is that it is not going to make any difference to them whether

because they are not going to run through that [\$18] billion [in reserves] that they have. They are going to be forced to float well in advance of that. So, their actually drawing against our balances is not even remotely conceivable. Therefore, they are asking us for something where they are basically saying:

MR. MCTEER. This is Bob McTeer again. I believe I heard Charlie Siegman say earlier that this was just to alert us that this [request] might come. Would we not have to approve this?

CHAIRMAN GREENSPAN. Yes. As I understand it, [a drawing on] the existing \$700 million [swap line], because that line has already been approved by the FOMC, does not require a specific vote, but it does in a sense have to be "cleared" by the Committee. Now, don't ask me what that term means; I asked and I got eyes glazed over. If, however, we expand the swap line by \$1.8 billion, then it does require a vote of the Committee.

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, I think it would also be a good idea, if the Committee [so] voted, that it give permission for you and the [Foreign Currency] Subcommittee, which consists of you and me and David Mullins, the authority to use that [enlarged facility]. We have some limits on drawings; they can be no more than \$300 million in a given day, for example. Since the Mexicans do not plan to use the funds, that limitation may not be particularly relevant. But if the Committee is going to authorize the enlargement of the line, we might want to have them enlarge the use thereof, because one could argue that if [the funds] were drawn down then we would need the [clearance] of the Committee because of the amount involved.

MR. BOEHNE. Mr. Chairman, this strikes me as a minimal request on the part of the Mexicans. I really do not think we have a major hurdle to get over here. I think we ought to support them on this. From my point of view, given the way these international things move--they move very quickly--I would be prepared to authorize the subcommittee that handles this to have the necessary authority to [activate] the \$700 million and also to expand the line by \$1.8 billion. I'd give the subcommittee enough flexibility to deal with this. It is very awkward to get 19 people on the line in the midst of an event like this that could move very quickly; circumstances change sometimes by the hour if not by the 10 minutes. So, I'm in favor of the substance of what is being [proposed]. I also would like to facilitate a procedure of the kind that I just suggested.

CHAIRMAN GREENSPAN. Let me say that neither Governor Mullins nor Governor LaWare is here, but I spoke to them earlier and obtained

their proxies for whatever purpose we would need them. They indicated they would be willing to go that far at this stage. I had not been prepared to make that request at this particular moment, but I will say that President Boehne raises an interesting question about how these things move. Are there objections to moving in this direction?

MR. ANGELL. It does seem to me that the Committee needs to act on two [matters]. First of all we need to increase the swap line from \$700 million to \$2.5 billion. If we decide to do that, that is one issue. Then it seems to me we should authorize the [Foreign Currency Subcommittee] to clear a drawing on the swap line

MR. MATTINGLY. Mr. Chairman, it might be premature to take the first vote. You are not quite sure how much [they] want; it may be more than [\$2.5] billion. Isn't that right?

CHAIRMAN GREENSPAN. What is your read?

MR. SIEGMAN. The Treasury was talking about U.S. participation of \$5 to \$6 billion. That is the order of magnitude we are talking about, but [a drawing] is always subject to the conditions and terms that we impose on it. Any enlargement [of the swap line] does not mean automatic access. They still have to request [a drawing]. The question is whether [the Committee] wants to give this preliminary ex ante approval with judicious use of it, as President Boehne suggested, or come back for another meeting at the end of the week.

VICE CHAIRMAN MCDONOUGH. I think we should give the Chairman the full authorization of the amount that has been discussed so that he can go about negotiating with the Treasury and with the Mexicans.

MR. SYRON. We have had too many problems in this whole affair with having to go back and ratify things in a broad sense. So I would support what Bill McDonough just said.

MR. KELLEY. A question to Charlie. If the Treasury decides to go to \$6 billion, will they be looking to us to go to \$3 billion?

MR. SIEGMAN. If participation is 50/50, that's what the arithmetic is.

MR. KELLEY. While I am perfectly prepared to do either, we are going to have to decide which.

MS. PHILLIPS. Why don't we go up \$2.3 billion [more].

MR. KELLEY. It's \$3.0 billion.

MS. PHILLIPS. We already have \$700 million.

CHAIRMAN GREENSPAN. Remember, in either case [the added facility] is temporary. We are not voting on a permanent change. When we say temporary, it means how long?

MR. SIEGMAN. The last time we had a special supplementary facility it was for one year.

MR. ANGELL. But I do not understand why we should limit it at all. If it is going to be
It seems to me that at some point in time we have to face the real question, and the real question is the drawing on the swap line--

CHAIRMAN GREENSPAN. For real!

MR. ANGELL. For real!

CHAIRMAN GREENSPAN. That is not on the table.

MR. ANGELL. That is the real question. I don't think we should be under any illusions that we might not have to face the real question.

CHAIRMAN GREENSPAN. I think that is correct. But it is nowhere near on the horizon because they have a very large chunk of cash [in reserves]. The only thing that is on the table at this stage is this specific request. I am not sure we want to go much beyond it. In fact, I am not sure that we want to approve it here.

MR. SIEGMAN. You can make it shorter, too.

CHAIRMAN GREENSPAN. I would be willing to go to \$3 billion but require--we could renew [the addition] if necessary--that it would go back to \$700 million after whatever [we deem] is an appropriate time. A year is much too long.

MR. LINDSEY. Don't we have a critical day coming up? Isn't this whole thing a charade to get through next Wednesday? We are trying to give a vote of confidence that our elected representatives are unwilling to give. What we are being asked to do right now is to cover the United States' foreign policy commitments because the House of Representatives will not. I propose that we make it no longer than Wednesday because that is when the Congress is going to speak.

CHAIRMAN GREENSPAN. That makes it too narrow. I'd say three months or so.

MR. ANGELL. Yes, 90 days; three months is fine.

MR. KELLEY. Right.

VICE CHAIRMAN MCDONOUGH. Why don't we make it 90 days and that would mean that we have an automatic period to look at it again at either our December or February meeting in Washington?

MR. ANGELL. But why not go ahead and approve the additional \$2.3 billion in the swap line?

MS. PHILLIPS. Why don't we say up to \$2.3 billion [more]?

MR. ANGELL. Which [raises the total] to \$3 billion. That gives the Chairman the backing within which he might want to negotiate.

CHAIRMAN GREENSPAN. Okay.

MR. ANGELL. And then give the Chairman the authority to if he deems it desirable.

CHAIRMAN GREENSPAN. Do you want that to be my authority or the authority of the Foreign Currency Subcommittee?

MR. ANGELL. The Subcommittee.

SPEAKER(?). The Subcommittee.

CHAIRMAN GREENSPAN. Okay. That is satisfactory with me. Does anybody out there object?

MR. KEEHN. This is Si Keehn. Given the circumstances, I certainly support the operation and would be comfortable with a higher limit. The only possible question, and it's a detail that I'd raise, is this: Given the political nature of the NAFTA issue, might we not be better off if we let the Treasury take the lead on the announcement so that we are riding clearly behind them?

CHAIRMAN GREENSPAN. I think it will be very clear in that event that it is the Treasury's initiative, as indeed it should be. [The Mexicans] approached the Treasury; they did not approach us.

MR. ANGELL. It seems to me that the Treasury would be making a mistake if the Treasury and the President do not use this in regard to the vote.

CHAIRMAN GREENSPAN. In fact, I suggested at a meeting yesterday that in the event that something of this nature occurs, I would frankly be concerned about the position of U.S. exports to Mexico, which is a very major [factor] in this whole thing. Look, it strikes me that we have a consensus here and I think we do need a vote on this. General Counsel.

MR. MATTINGLY. The vote will be then on a motion to authorize the Foreign Currency Subcommittee to increase the swap line from \$700 million up to \$3 billion.

CHAIRMAN GREENSPAN. Yes.

SPEAKER(?). Temporarily.

MR. MATTINGLY. For 90 days. And again at the Subcommittee's concurrence to draw on that line in view of--

MR. ANGELL. Virgil, I thought it might be more appropriate for the Committee itself to increase the swap line.

VICE CHAIRMAN MCDONOUGH. Governor Angell, that's the way it should be done, [I might say], since I used to have that job. The FOMC should increase the swap line and then authorize either the Chairman or the subcommittee to [act on a request to] use the swap line so it isn't hung up [by the process of getting clearance from the full Committee.] Also, we renew all the swap lines normally at our February meeting, so rather than 90 days I think we should adjust the motion to take us through to the February FOMC meeting.

MR. BOEHNE. May I ask a question? If we follow that procedure, does that mean that this action has to be released to the public a week from Friday on our normal release day? And would that present a problem?

MR. ANGELL. I think the answer is yes.

MR. KOHN. Actually, I was just asking Norm Bernard that question as you spoke, Ed. Normally that would be the case. I think that is the only argument I can see for not taking a formal vote. You may not have to vote. Nothing may happen.

MR. SIEGMAN. We have not received the formal request from the Bank of Mexico, for example.

MR. KOHN. You have had a thorough discussion, the Chairman has the sense [of the Committee's position], and we can do [a notation] vote by telex or fax or whatever modern invention we use these days for that. Then, if it is not necessary, nothing ever gets announced because the Committee never voted on it.

MR. BOEHNE. Do we have to take a formal vote, say, to delegate [authority for action] to the Foreign Currency Subcommittee? Does that also require a formal vote?

CHAIRMAN GREENSPAN. Yes it does.

MR. KOHN. I think anything that would increase the swap line or change the terms and conditions of the swap line would require a formal vote.

MR. ANGELL. As far as the minutes--

MR. BOEHNE. My concern here is that this thing could move over the weekend and it is conceivable that it could be difficult to get a quorum of the Committee together. That is the other side of the argument. What do you think, Mr. Chairman? Suppose we have this formal vote that is now on the table, which actually I supported. Now I am wondering about releasing it a week from Friday. Suppose we don't need it? Is that a concern to you? How do you take that into play?

CHAIRMAN GREENSPAN. In the event that we don't need it, I think it is best that we not have it on the record because moving forward with this raises a very big question about the size of the problem in Mexico. Suppose all of a sudden, for reasons that are not clear to us, we find that the peso begins to firm and that this has been a very short-run hiccup and the Mexican government manages to get through this without any indication that they were on the edge of a crisis. If then we come out--

MR. BOEHNE. I think we ought to leave it that we have a thorough understanding that you have the authority to follow through and that [you may call upon us] on very, very short notice through whatever means we can communicate with each other at any time over the next few days. We probably should hold back on a formal vote in order to avoid a potential embarrassment a week from Friday.

MR. ANGELL. I guess I am always uneasy when we in a sense have voted to do something and then we decide not to vote to do it because we do not want it to be public. It causes me to come back and ask: What is the downside risk if the peso is stronger than we anticipate and it is subsequently known that the Federal Reserve saw fit to make a swap line available which was not used? My goodness, the United States has a \$32 billion swap line out there that we do not use. I do not see any downside risk.

MR. LINDSEY. Why did we increase it?

MR. ANGELL. We increased it because we were asked to increase it.

MR. LINDSEY. We have not been asked to increase it.

CHAIRMAN GREENSPAN. Ordinarily, I am fully sympathetic with the view that you mentioned. I have been on numerous occasions. I am not sure that this reaches the horizon that you are concerned about because, indeed, we have not been asked. And we may inadvertently be creating a problem for [Mexico], which would be unfortunate and would be a mistake. We would then have to explain how bad things got. If they could have gotten that bad, even if they appear to be improving, it raises questions about how stable the system may be.

MR. ANGELL. But then why not have another conference call? Even if everyone cannot be brought together, why not have a conference call and act when we are ready to act?

CHAIRMAN GREENSPAN. That is fine; that is perfectly agreeable to me.

VICE CHAIRMAN MCDONOUGH. It's agreeable to me, too.

CHAIRMAN GREENSPAN. Why don't we do that then, okay? Thank you all. Hopefully we will not have another conference call. If we don't, we will see you at our meeting next Tuesday. Good night, everyone.

END OF SESSION