

Meeting of the Federal Open Market Committee
November 16, 1993

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 16, 1993, at 9:00 a.m.

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

Messrs. Broaddus, Jordan, Forrestal, and Parry,
Alternate Members of the Federal Open Market
Committee

Messrs. Hoenig, Melzer, 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
Mr. Patrikis, Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. R. Davis, Lang, Lindsey, Promisel,
Rolnick, Rosenblum, Scheld, Siegman,
Simpson, and Slifman, Associate
Economists

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

Mr. Winn. ¹ Assistant to the Board, Office of
Board Members, Board of Governors
Mr. Ettin, Deputy Director, Division of Research
and Statistics, Board of Governors
Mr. Madigan, Associate Director, Division of
Monetary Affairs, Board of Governors
Mr. Stockton, Associate Director, Division of
Research and Statistics, Board of Governors
Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of
Governors

Mr. Beebe, Ms. Browne, Messrs. J. Davis, T. Davis,
Dewald, Goodfriend, and Ms. Tschinkel, Senior
Vice Presidents, Federal Reserve Banks of
San Francisco, Boston, Cleveland, Kansas City,
St. Louis, Richmond, and Atlanta, respectively

Mr. Guentner, Assistant Vice President, Federal
Reserve Bank of New York

1. Attended portion of meeting on the review of FOMC practices with regard to recording and transcribing FOMC meeting discussions and the release of information about such discussions.

Transcript of Federal Open market Committee Meeting of
November 16, 1993

CHAIRMAN GREENSPAN. Good morning, everyone. As you know, the first item on the agenda is a review of FOMC practices with regard to recording and transcribing FOMC meeting discussions and the desirability of preparing more detailed meeting records for eventual public disclosure. There are basically two issues to be covered. The first is the question of the release of certain FOMC records to the public, specifically the meeting transcript or some alternative detailed document going back [in time] and the discussion record going forward, including of course the question of whether or not to continue to record the discussions. The second is the Committee's response to Chairman Gonzalez's most recent request for all tapes and transcripts going back to 1976. I would presume that the decision made with respect to item one will in turn provide the basis for the response to Chairman Gonzalez. To start us off, I believe you have documents sent to you from both Virgil Mattingly, who will brief us on the legal issues, and from Don Kohn, who will discuss considerations related to various options before the Committee. Which of you gentlemen wishes to start? Virgil.

MR. MATTINGLY. I will, Mr. Chairman. Mr. Chairman and members of the Committee, there are two federal statutes that bear on the issues before the Committee this morning of public access to the existing transcripts of FOMC meetings and to tapes, transcripts, or other types of records of future FOMC meetings, should those detailed records be prepared in the future. These are the Freedom of Information Act (FOIA) and the Federal Records Act (FRA). FOIA governs what information the FOMC must release to the public and when. The FRA governs what records the FOMC must maintain. As explained in the memo, I believe that under FOIA the Committee is entitled, but not required, to withhold from public disclosure most of the material in each of the existing transcripts as well as in memoranda of discussion (MOD) type documents, should they be prepared for future meetings. There are two relevant provisions in FOIA. Exemption (4) would protect confidential information from [foreign] central banks and from individual businesses. I don't think there's any question about that. Exemption (5) would protect the Committee's deliberations. By that I mean the discussion and debate among the Committee members before they reach a decision on the directive or other monetary policy matters. This would cover the recommendations by staff as well as views and recommendations of individual members leading up to the time of decision. Factual portions of the transcripts would have to be released, however, where they could be reasonably segregated from the deliberative materials. These types of factual materials would include the vote, the attendance, and material that was already public or non-confidential. The view that public disclosure of the transcript is not required by FOIA is supported by the 1976 decision in the Merrill case against the FOMC. There the lower court, the district court, held that the FOMC was required by FOIA to disclose only the reasonably separable factual portions of the two memoranda of discussion at issue in that case. The great bulk of the material--running as high as 85 to 90 percent of those documents--was in fact withheld under the deliberative exemption.

I should note at this point that FOIA does not protect the transcripts or any information of the FOMC from Congress. I'm only

talking at this point about release to the public. While FOIA literally protects most of the transcripts, the Committee needs to consider the new FOIA policy recently announced by the President and the Attorney General. That policy is designed to promote maximum disclosure of information within the Federal government. Under the new policy the Justice Department has stated it will not defend an agency's decision to withhold information unless the agency reasonably foresees harm to important governmental or private interests protected by the exemption that is claimed by the agency. In accordance with the Committee's instructions, Ernie Patrikis and I discussed the impact of this new policy on the transcripts with the Justice Department official responsible for administering the new policy. We described to him the Committee's deliberative process and the Committee's view regarding the need to protect from premature release confidential information as well as information regarding its deliberations in order to maintain the high quality of monetary policy decisionmaking. The Justice Department official's response was quite positive. He stated that the new policy was intended to end automatic invocation of FOIA exemptions and instead require a careful, case-by-case consideration of the harm that might result from discretionary disclosure. Based upon our description, the Department official stated that it appeared that the Committee could satisfy this new policy. He also agreed that exemption (4) would cover the central bank information and that exemption (5) appeared to be relevant to cover the deliberative materials. I judged from what he said that the Department would defend the nondisclosure by the Committee of transcripts or other records of its meetings, certainly meetings for the more recent years. As the memo points out, there is an issue that at some point in time the sensitivity of deliberations in older transcripts might diminish to the point where the harm to the deliberative process of the Committee is outweighed by the benefits to scholars and other members of the public from access to these documents.

If the Committee decides to prepare and release, with a time lag, MODs or edited transcripts for past or future meetings, the issue arises as to whether a tape or transcript used to prepare the final document must also be retained. The Federal Records Act governs this issue. The FRA states that an agency record may be discarded only with the approval of the Archivist of the United States. To obtain that approval the agency must prepare and submit to the Archivist a schedule which the Archives is required to publish for public comment. The staff has had several discussions with the Archivist's office--the last as late as yesterday--regarding whether transcripts or tapes need to be retained under the Federal Records Act if an edited transcript or MOD type document were prepared and retained. Our discussions indicate that there is a different treatment for the past transcripts than for those that may be prepared for future meetings. Based upon our discussions, it is likely that for future meetings, after an MOD type document is prepared and approved by the Committee on a fairly contemporaneous basis, the Archivist would find that the tapes and transcripts used to prepare the MOD were merely temporary working materials and could be dispensed with once a schedule was approved by the Archivist. This advice was based on our description of the MOD as a near transcript-like document reflecting all of the substance of the deliberations of the Committee.

With respect to the existing transcripts for the past 17 years, the Archivist's staff felt that they were the best historical record of the deliberations of those meetings. The staff was not at all receptive to substituting for those raw transcripts an MOD type document because such documents would not have been contemporaneously prepared and then reviewed by the meeting participants. Without contemporaneous review and approval, the Archivist's staff said that the accuracy of any edits could not be verified and that there could be no assurance that the MODs were truly reflective of the Committee's deliberations. The Archivist's staff was also concerned about the temptation of participants or others reviewing transcripts well after the fact to rewrite history with the benefit of hindsight. Based on these comments, our staff feels it is unlikely that the Archivist would approve the schedule allowing for the raw transcripts of the past 17 years to be discarded in favor of MODs. The Archives staff suggested that rather than editing the raw transcripts the Committee could produce an annotated version in which the Secretariat would note potential or likely inaccuracies in the raw transcripts. They did leave the door open to approval of a schedule to substitute a lightly edited transcript for the raw transcript, as long as nothing substantive was deleted. And they would have to review that [lightly edited transcript] and compare the two documents to make sure that in fact nothing substantive was deleted. I should note that these are the preliminary views of the Archives' staff and a final decision could be made only after a proposal was submitted and published for comment.

MR. KOHN. The questions of what to do about the existing transcripts and about release of information regarding deliberations at future meetings involve subtle and complex considerations. As background for your discussion of these matters, the staff supplied you with a series of options. Obviously, we didn't exhaust the possibilities, but we thought the ones we listed would highlight the main issues you confront.

The options were presented in two groups--one for disposition of existing transcripts and the other for release of information about this and future meetings. Nonetheless, decisions with respect to one may interact with the other. The critical consideration is the effect of the options chosen on the deliberative process going forward. Therefore, a decision concerning the disposition of past transcripts doesn't necessarily mandate your actions going forward. For example, you could decide to release the transcripts, edited or not, going back in time, without necessarily committing to do so in the future.

Virgil has outlined some of the legal considerations bearing on these decisions, and the Committee has in the past debated extensively the effects of various options for the monetary policy process and its interaction with markets. By now, many of these arguments are well known to the Committee and I won't repeat them in detail as I review the options. However, there is an important third class of considerations that has been highlighted by the hearings and their aftermath--that is, the public's perception of the FOMC information release process, and the implications of that perception in the political sphere. The Fed was already viewed as insufficiently open--and our reasons for current practices somewhat inscrutable--by many in the press, Congress, and the markets. The existence of the transcripts has no logical bearing in terms of the effects on markets

and monetary policy of what we do going forward, but it has heightened public and Congressional awareness of current practices and seems to have placed additional pressures on us either to change practices or come up with more convincing explanations. Against this general background, I will review some of the issues raised by each alternative on the outline you received.

With regard to the existing transcripts from 1976 through September, one alternative was for no release in any form until the transcripts were transferred to the National Archives in thirty years. This would provide maximum protection for participants who had no idea their words were being saved for later public release, many of whom have no way of reviewing the transcripts for accuracy. Any release of the transcripts--edited or unedited--will be unfair to some degree to these past participants. However, this option would seem to have legal and public perception problems. Legally, it may be difficult to convince the Justice Department to defend against a FOIA request for very old transcripts on the grounds that it would harm the deliberative process. This defense could be more difficult if the Committee were to decide not to tape meetings in the future, since in those circumstances one might argue that release of past transcripts could not affect future deliberations.

The second alternative was for release of the raw transcripts after a considerable period--perhaps from 5 to 10 years--deleting only the most sensitive information about international developments or individual domestic firms. The longer the lag, the greater the protection for unwitting participants. Release of raw transcripts avoids our trying to divine what people really intended to say, since we would not correct the material. This course would seem to be defensible under FOIA, though some of our critics would question the lag. In the past, the Committee has deemed a 5-year lag, albeit for an MOD, sufficient to protect the deliberative process. An important additional problem would involve obvious errors in the transcripts--the "not" where it doesn't belong and was never intended. Such miscues result in misrepresentation of what people were saying at the meeting. Reasonable users of the transcripts would undoubtedly interpret each sentence or thought in its context--in effect, doing the type of editing we would do for a lightly edited transcript or MOD. But we may not be able to count on such reasonableness. This option avoids the problem of placing an FOMC imprimatur on the document. The Committee could state that this transcript has not been reviewed or approved by the FOMC and is therefore not an official publication.

One way to address the problem of transcription errors would be through the annotation process mentioned by Virgil. Another would be lightly edited transcripts--the third alternative, which would correct such obvious errors of transcription as well as smooth through some of the more severe syntax problems and remove some clearly extraneous material. But no change of substance could be made. Only under these circumstances would the Archivist consider a schedule allowing for the raw transcripts to be discarded as the edited versions were completed. They stressed their need to carefully compare the lightly edited transcripts against the raw transcripts before they could approve the procedure. The question that arises with edited transcripts is whether it is fair or appropriate to represent such a transcript, which would involve some deletions as

well as attempted corrections of remaining errors in transcription, as the language of the speaker--as would be implied by the transcript form--especially when the speaker has not had the opportunity to review what is being released.

The fourth option--an MOD--was suggested to deal with this concern. The MOD would involve a more complete editing to remove further problems and get at the underlying intent of the speaker, but would put the results in third-person format. The difficulty with the MOD for meetings in the past is that the Archivist is not likely to approve a schedule allowing us to discard the raw transcripts once the MOD was completed. We could make available an MOD and a raw transcript at the same time; the MOD would represent the Federal Reserve staff's attempt to make the transcript more comprehensible and useful. The cost of an MOD is greater than for a lightly edited transcript--more than twice as high according to the cover note from Mr. Bernard.

The outline also raises issues associated with review of a transcript or MOD. An awkward situation may arise if parts of a transcript are edited because some participants are still able to do so, while other parts are not. Perhaps the cleanest approach would be to have the staff do the editing of transcripts for past meetings without review by any participants. Each transcript, edited or not, would carry a statement noting that these were not official records of the FOMC, had not been reviewed by participants, and likely contained errors of transcription. Since they would not be official records, the FOMC could consider not publishing them officially, but rather making them available to interested parties.

Options for meetings going forward are presented in Roman II on page two. The first option would have the Committee continue to release only what it does now and turn off the recorder. Any tapes and transcripts prepared could not be discarded under the National Records Act, and would be subject to subsequent FOIA or other requests for release. Premature release or threat of release of a transcript could have adverse effects on the deliberative process. As an alternative to taping and transcribing, the Secretariat would need to take notes to use in preparation of the Minutes; it is possible that these notes would be subject to the Records Act. The quality of the Minutes might suffer to some extent--depending on the extent and accuracy of notes--and today's mostly reliable source for determining exactly what occurred at FOMC meetings would be lost, for those rare occasions when such questions arise. Finally, if this option were chosen, the Committee would need to consider its repercussions on the public's view of the Federal Reserve and on Congressional attitudes about the need to strengthen our accountability. The extent and seriousness of these repercussions is subject to differing judgments, and might depend in part on whether we were able to tell our story more convincingly and, in addition, how forthcoming we were with the existing transcripts.

Alternative two--enhanced minutes--might help ameliorate some of the reaction, although this issue would still need careful consideration. The exact nature of the enhancements could take several forms. The one suggested in the outline would be more attribution of individual policy views to encompass those in the majority as well as those in the minority who now file dissents. This

would be consistent with Board practice in which individual Governor's views are often covered in the minutes of the meetings. In addition, the Board occasionally publishes concurring views with its decisions, when those voting with the majority wish to emphasize different rationales or concerns. Adopting these practices would go a considerable distance toward satisfying requests for greater accountability. It would, however, detract to an extent from the idea of collective responsibility for Committee decisions. The public would be getting more information than it currently does. In particular it would get a better sense of the nuances among the views of the policymakers and probably a more complete idea of all the arguments brought to bear on the final decision. The tape also would be turned off for this alternative, with the implications discussed above. Moreover, the enhanced minutes would still not reveal to scholars the full detail of the reasoning that went into policy decisions.

Alternatives three or four--the MOD or lightly edited transcripts--would give that detail. As between the two, the greater expense of the MOD would need to be weighed against the additional constraining effect the members might feel a transcript would have on the free flow of Committee deliberations. If the MOD or edited transcript contained all the substance at the meeting and was subject to review by participants shortly after the meeting, we are reasonably sure the Archivist would treat the raw transcripts as working documents that were no longer needed once the final record had been completed. In both cases, confidential information would be redacted from the publicly released document. A number of members have supported the production and release of MODs in their letters and public statements, with appropriate lags and redaction. The Federal Reserve itself produced such documents and later had no major objections to laws that would require them. Most of those favoring the MOD, however, expressed considerable concern about protecting it from public release for a substantial period. No law can guarantee against a Congressional request, including a subpoena. However, as Virgil noted, it now appears that the chances are quite high that we could protect MODs against premature release to the public under existing FOIA, assuming an appropriate lag for release to the public. Obviously though, there can be no guarantee against a judge with a different interpretation or a Justice Department with more extreme views on this matter in the future.

One aspect of FOMC information release that we did not treat in the outline, which may have some bearing on public perceptions, was the publication of the directive or the Committee's policy stance. Our current policy of delay, while soundly based in my view with respect to the potential effects of other alternatives on the flexibility of decisionmaking, certainly contributes to the perception of the FOMC as a secretive organization. The Committee may not want to rule out considering once again the costs and benefits of the current practice, especially if it decides not to produce edited transcripts or MODs going forward, but still wants to improve its reputation for openness.

CHAIRMAN GREENSPAN. I am most concerned, as I suspect the rest of you are, that the openness and free exchange of views so essential to monetary policy will be unduly compromised if we are forced into a premature, detailed disclosure of our deliberations. We

will only succeed in stifling originality, new ideas, and speculative notions, which so often open us up to new insights for the Committee as a whole.

We are authorized by statute to fashion and implement the monetary policy of this country. We are also required by both statute and tradition to maintain the maximum amount of disclosure consistent with our ability to deliberate effectively. The Congress has given us the authority to decide within limits the scope of disclosure. As you all know, we have been struggling with this issue for quite a long while, trying to find the right disclosure [practices] to maintain records for scholars and others interested in our deliberative process. As part of our decision we have to address the policy change at the Justice Department, which we discussed via telephone conference last month, and issues raised more recently by the National Archives. We must recognize that whatever course of disclosure we choose, we will have to divert key policymaking personnel to the endeavor and accordingly incur significant costs in the process.

From previous discussions of this matter it's clear that there are many views within this Committee on the appropriate way to approach this issue. I'd like to start off with my general view of how to approach this and then open up the floor to questions for the three of us, followed by individual positions announced by the individual members of the Committee. As a result of the preliminary discussions that Virgil outlined with respect to both the Justice Department and the Archivist, I personally believe that we meet our responsibilities under FOIA and the Federal Records Act, as well as the requirements of the deliberative process, if we go to an MOD for future meetings, releasing deliberations with a lag of three or more years. Thus the meetings of 1994, for example, would be published at the end of 1997 or later. Tapes and transcripts employed in developing such MODs could, upon completion of the MODs, be dispensed with. If we adopt such a recommendation or something similar and find in the months ahead that we are unable to protect the deliberative process in these meetings, we will have to consider altering our rules and returning to a much earlier procedure of detailed note taking. I recognize that if we move in that direction, the Congress may choose to legislate a different procedural change in our disclosure policies. That is, of course, their prerogative. Should that occur, I assume it would be the judgment of this Committee that the quality of monetary policymaking would be impaired. Should hearings be held leading up to such potential legislation, I and others will surely endeavor to make that case.

With regard to the transcripts that have accumulated since 1976, I would recommend that we release lightly edited versions with a five-year lag. I think, for example, if three years is appropriate going forward, a longer delay is required for the [historical] transcripts since the individuals, as has been pointed out, were unaware that what they said would be disclosed. For reasons I raised in my letter to Steve Neal, which I presume has been circulated to all of you, I'm uncomfortable with releasing these transcripts. But the Archivist informs us that the documents must be maintained and that these documents at some point would be subject to public disclosure under FOIA. As I indicated at the beginning, the answer we communicate to Chairman Gonzalez after this meeting with respect to the transcripts will depend, of course, on what decisions we make here

this morning. I would now like to open the floor for questions to either Virgil, Don, or myself. President Boehne.

MR. BOEHNE. I'm not sure who will answer this. I understand that if we move to a lightly edited transcript, going back, then the unedited transcript and the electronic recordings could be dispensed with under the Archivist's preliminary judgment. Is that correct?

MR. KOHN. If the lightly edited transcript faithfully includes all the substance of what happened at the meeting and didn't change or even guess at what people's intent was in what they said.

MR. BOEHNE. Going forward would that same policy then hold for a memorandum of discussion?

MR. MATTINGLY. Yes.

MR. BOEHNE. And what is the logic of the distinction between going forward and going back?

MR. MATTINGLY. Going forward we would have the participants immediately review what was said for accuracy.

MR. BOEHNE. I see.

MR. MATTINGLY. And we'd have the tape.

MR. BOEHNE. I see. Thank you.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. In terms of the past meetings, it seemed to me that what you were [expressing] as something of a preference is alternative three. Is that correct?

MR. KOHN. Yes.

MR. PARRY. Okay. And would you explain why you prefer that over alternative one?

CHAIRMAN GREENSPAN. One being that there's no release?

SPEAKER(?). No release.

CHAIRMAN GREENSPAN. Well, I think the question here really relates to whether in fact we can avoid eventually releasing the transcripts. Basically we can't dispose of them under the Archivist's regulations; and under FOIA, eventually, as they age they will clearly be made available by some judge or other. And I think we do have an obligation to try to make as much [information] available as possible. While, as I indicated, I'm uncomfortable with a lot of this largely because of all the technical problems involved in releasing transcripts for which there is no means of evaluation, I nonetheless have concluded that our choices are extraordinarily limited; and I would much prefer that the decision as to what we do be ours and not the court's or the Congress's.

MR. PARRY. May I ask a second question? I assume in terms of the future meetings that whatever alternative we come up with would apply equally to the conference calls?

MR. KOHN. I would guess so.

CHAIRMAN GREENSPAN. I see no way to avoid that. In other words, a conference call by its nature, unless it's strictly a conference call that is not relevant to deliberations of the [FOMC] is part of the record and would have to be included.

MR. PARRY. But it seems to me that there wouldn't be much problem leaning over to the side of greater exposure of [the contents of] these conference calls. I don't see any [resulting] damage; even if we were getting updates on issues, it probably would be something that would be in the spirit of greater openness. And I can't see any damage that would result from that.

CHAIRMAN GREENSPAN. The only reason I would argue, frankly, is that it is costly to transcribe all of this. And under certain circumstances--for example, if we have a telephone conference in which the sole purpose is the staff reading a report of some form--it may be far cheaper merely to transcribe part of it, such as the Q&As, and have the physical report sent on. So my concerns are not on the issue of openness but on the issue of costs.

MR. PARRY. Thank you.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Virgil, you and Don both mentioned Congressional subpoena. Could you describe that process in more detail and how it might relate to tapes and transcripts that are prepared in connection with doing a Memorandum of Discussion even if we had a procedure whereby once that MOD was approved the tapes and transcripts could then be disposed of pursuant to authority from the Archivist? Further, if there were legislation that specifically protected us under FOIA with respect to public release with some appropriate lag, would that have any bearing on Congressional subpoena power?

MR. MATTINGLY. Well, I'll try to answer your question. The way the subpoena power works in the House is that the House has delegated to its committees the authority to issue subpoenas. And in the House Banking Committee they haven't delegated it further. Therefore, the Committee would need a majority vote to authorize a subpoena. Once the subpoena was issued, in the House there's no procedure in the law to challenge that subpoena. As I indicated, the exemptions under FOIA do not protect information from the Congress at all. If a statute were passed that protected MODs or MOD information from public disclosure during the three- or five-year lag period, that would, of course, help immeasurably with the FOIA problem. But it would not help technically with the Congress although, as I think Don Kohn pointed out, the enactment of such a statute would indicate Congressional agreement that this process was too important to be unnecessarily disrupted and the FOMC would get some at least moral support in your arguments to fend off a subpoena.

MR. MELZER. So, in theory, it would be possible, say, in extreme circumstances, or under any circumstances, [for Congress] to subpoena tapes and transcripts on a real time basis?

MR. MATTINGLY. Oh sure.

MR. MELZER. Okay.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Don, when you outlined your alternatives you mentioned releasing the raw transcripts with, I presume, a warning label on them as well as a warning label on the [MOD]. Then you [discussed] separately the release of lightly edited transcripts. You then gave us some advantages and disadvantages. Did you consider an alternative of releasing both a lightly edited and the raw transcript?

MR. KOHN. No, I did for the MOD, but it would be the same thing. I think that's possible. As I mentioned for the MOD, we could do the raw transcript [and] the MOD, with the MOD then representing Norm Bernard's attempt to make sense of the raw transcript. Then scholars could use it or not and compare it or not. I think the same arguments would go for the lightly edited transcripts. Certainly we could do both. The reason I raised it with the raw transcript and the MOD is that the Archivist would absolutely force us to do that. If we did an MOD, we'd have to do the raw transcript; with the lightly edited transcript we wouldn't have to do both but, sure, we could.

MR. ANGELL. But one of the disadvantages of the lightly edited transcript is that someone might say that it really wasn't [accurate], that it was really a rewriting of history.

MR. KOHN. Right.

MR. ANGELL. And one of the disadvantages of the raw transcript is that someone says "Here's what happened" and isn't very careful--

MR. KOHN. There can be a miscue or someone [misperks] or is quoted out of context and that sort of thing. So the light editing would be an attempt to smooth through that and avoid some of that [problem], although we're never--well, an unscrupulous scholar or other person would always be able to take sentences and pieces out of context. The light editing we thought would help a little.

MR. ANGELL. But you didn't visit with the Archivist or get impressions as to which [he would prefer], if he had both a lightly edited and the raw transcript. I would think that most people would find it much easier to read the lightly edited one.

CHAIRMAN GREENSPAN. I think that's right. It's easier, actually, to read the Memorandum of Discussion in that respect also.

MR. ANGELL. I know, but it would be somewhat more expensive, I think, to do that back [in time].

CHAIRMAN GREENSPAN. Oh, no question. Governor LaWare.

MR. LAWARE. What authority is represented by the current request from Chairman Gonzalez? In other words, this is not a subpoena but I thought I heard you indicate that our ability to deny a request of Congress for information is limited. In other words, how do we respond to the immediate situation?

MR. MATTINGLY. My view of the most recent correspondence from Chairman Gonzalez is that he is asking this Committee to turn those documents over on a voluntary basis.

MR. LAWARE. Well, he didn't use that kind of language.

MR. MATTINGLY. I know, but that is the substance of what he's asking. He may take issue with what I've said, but there are only two ways to get material: He either asks for it [to be given] voluntarily or he uses the legal process, which is the subpoena.

MR. LAWARE. All right. If he should be dissatisfied with whatever answer we give him on the basis of the current request and he reverts to a subpoena, do we have the right to deny the confidential information and so forth in responding to that subpoena?

MR. MATTINGLY. No. I would point out [as an example] the B&L case where the Chairman refused to turn over the examination reports, which were replete with confidential information. Chairman Gonzalez then obtained subpoena authority from [his] Committee and we were forced to turn over the examination reports.

MR. LAWARE. Third question, if I may: What constraint is his Committee under in terms of subsequently releasing that confidential information--making it public or leaking it or some other publication of it?

MR. MATTINGLY. I don't know.

MR. LAWARE. I would judge then that the best we can do retrospectively with regard to these transcripts is to try to satisfy his request by offering something other than the raw, unedited transcripts that we have on hand in order to try to protect that confidential information. Is that where we are? We're in a--

CHAIRMAN GREENSPAN. I think [unintelligible] satisfy the Committee's request. The subpoena--

MR. LAWARE. All right, it's the Committee's request but it's coming from--

CHAIRMAN GREENSPAN. It's a Committee document, a Committee subpoena.

MR. LAWARE. Well, we haven't been subpoenaed yet.

CHAIRMAN GREENSPAN. No, I'm really referring to [the fact] that the subpoena is of the [House] Committee--

MR. LAWARE. I understand.

CHAIRMAN GREENSPAN. --not the Chairman.

MR. LAWARE. I understand, but the current request is from the Chairman.

CHAIRMAN GREENSPAN. I'm trying to say that, as Virgil indicated, the authority has not been delegated to the Chairman as I understand it. Is that correct?

MR. MATTINGLY. That's correct.

MR. LAWARE. All right, thank you.

MR. KELLEY. May I make sure I understand the answer? Virgil, did you just say that if there is a subpoena that requires us to turn this information over and we do so, then there is nothing to protect that information from release by the [Congressional] Committee?

MR. MATTINGLY. Well, that's correct. But Chairman Gonzalez in the past has exercised care when he thought the materials were of a confidential nature. He has not released, for example, examination reports.

MR. KELLEY. But that would be at his discretion?

MR. MATTINGLY. It would be his judgment, yes.

MR. LAWARE. But he has read top secret documents on the floor of the Congress.

MR. KELLEY. He certainly has.

MR. LAWARE. Into the Congressional record.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Well, most of my questions have been answered because I wanted to ask about this Congressional situation. But let me just follow up with one other. Is it the judgment of the staff that a subpoena would issue from the Committee in this situation? In other words, do you think Mr. Gonzalez will be successful in persuading the other members to issue a subpoena?

MR. WINN. Bob, I don't think there's any way I can give a clear answer to that question. I think to some extent it depends on the decision the FOMC makes with respect to the release of the transcripts or how we may make those transcripts available. But I would say that Chairman Gonzalez does make a distinction--at least he has in his letters so far--that while he is interested in the public release of these documents in some orderly way and it appears that there would be some time lag, he is asking at the same time that the raw transcripts be turned over to his Committee. So, even if we decide on a program for the public, he is still interested in our turning over all the transcripts and tapes to his Committee. And he may pursue that. To some extent how the whole Committee would feel about a demand for the raw transcripts may depend on what we decide to do in terms of their release to the public.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. A technical point, Mr. Chairman, or a reasonably technical point: The issue of our ability to obtain voluntarily [from contacts in our Districts] proper and confidential information has to weigh an awful lot in this. I will tell you that anyone listening to this would have a hard time concluding that we're going to have the same kind of information presented to us by people in our Districts or anywhere else that we had some time ago. So, we're in a damage control situation here.

On the question Bob Parry raised of whether going forward we would keep records of conference calls, I would differentiate that. If there's a decision or a vote, as you were suggesting, there's a need to do that. But in the cases in which there is pure discussion, very many of those situations have been where you or others have been bringing people up-to-date on [matters that involve] confidential information. So, for purely economic information or your telling us when you come back from an international meeting what happened there, I would think we'd want to treat that substantially differently.

CHAIRMAN GREENSPAN. I think that is an open question and I grant that you have a point there. I frankly don't have a position; I could be persuaded in either direction. I would argue that it is not automatic that of necessity we would tape and transcribe every single meeting. We haven't done that in the past; it has not been the practice of this Committee to do it in the past and it's a judgmental question as to what is proper and what is not.

MR. SYRON. The technical question I have [relates to] what you talked about as an approach before. I'd be interested in why you feel that we want a five-year window, if I can call it that, going back as compared to a three-year window going forward? It seems to me that there are two considerations. One is that it's hard to say if those past discussions can put a chilling effect on this because they've already happened. But on the other hand, there are rights to preserve.

CHAIRMAN GREENSPAN. It's the rights--

MR. SYRON. It's the rights issue, okay.

CHAIRMAN GREENSPAN. It's the rights issue. As I described in my letter to Steve Neal, these [raw] transcripts are essentially hearsay in the sense that they are transcriptions by individuals of what they heard on the tape. And as we all know, in such situations [words] get garbled and put in different positions. And the person who [made] the remarks does not have any capability of editing them or making certain that the tape was heard [correctly] and checked against the transcript. So there is a privacy issue here which I find disturbing. I've indicated that before this Committee many times and I've indicated that both in public and in letters to Steve Neal.

MR. SYRON. Thank you.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Most of my questions have been asked but let me ask one follow-up question. In these two proposals, one for the MODs going forward and then the lightly edited transcripts going back,

you're talking about release to the public, not to the [Congressional] Committee?

CHAIRMAN GREENSPAN. That is correct. These are decisions that in my judgment have to be made by this Committee as a result of the responsibilities that we have under the law. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. In the [briefings] by Virgil and Don, I believe Virgil mentioned that when he was speaking with the Archivist a suggestion made from that quarter was that we use an annotated version of the [raw] transcript. Could one of you explain why you feel that a lightly edited version is preferable to an annotated version? I must admit when you described it that I found myself rather attracted to the annotated version.

MR. MATTINGLY. Well, the annotated copy has the benefit of preserving the historical record, but in a marginal note the staff can indicate that this comment may [reflect a transcription] error or something because it's obviously not consistent with the rest of the discussion. A note can be made like that. In a lightly edited transcript, I'm not sure that the Archivist would allow us to change what was actually said [or what the transcriber thought was said] unless it was very obvious from the existing transcript that a mistake had been made.

VICE CHAIRMAN MCDONOUGH. That's exactly why I found the annotated version to have a more attractive aspect.

MR. MATTINGLY. We could go through it--

VICE CHAIRMAN MCDONOUGH. It says somebody said something 29 years ago that really doesn't appear, in the context, to make much sense. And we'd say that. Whereas if we lightly edit we cannot--

MR. KOHN. Well, I presume we can do a combination of lightly edited with annotation. But I think an advantage of a lightly edited transcript is that we can take out some extraneous material, jokes and the like, and clean up the syntax a little to make it flow better so that the underlying meaning becomes a little clearer.

MR. ANGELL. It's desirable that we appear more intelligent than we are?

MR. KOHN. It's more articulate, Governor Angell.

CHAIRMAN GREENSPAN. If the jokes are any good, I don't see any reason why--

MR. MULLINS. They're old jokes.

CHAIRMAN GREENSPAN. They're old jokes.

SPEAKER(?). All jokes are old jokes.

CHAIRMAN GREENSPAN. I'm sorry, did you finish?

VICE CHAIRMAN MCDONOUGH. Yes.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. To follow up a bit on Governor Phillip's question, we really have two issues before us: How we respond to Mr. Gonzalez and the issue on releasing this to the public. If I understand it, one of your options is to release lightly edited historical transcripts to the public. Is it an option to generate the equivalent of a memo of discussion and hold the raw [transcript] 30 years? Or is that--

MR. KOHN. Going back you mean?

MR. HOENIG. Yes, in order not to be releasing even lightly edited transcripts to the public that could be misinterpreted just six years back, could we say we'll prepare memos of discussion going back and we'll hold the raw [transcript] for 30 years. Is that an option?

MR. KOHN. Well, my understanding from Virgil is that once we release the memoranda of discussion, which have all the deliberative material in there, we would not be able to fight a FOIA request for the raw transcripts.

MR. HOENIG. Okay, for the raw transcripts. So that's what gets--

MR. MATTINGLY. That would be the issue.

MR. HOENIG. I see.

CHAIRMAN GREENSPAN. That's the reason why a memorandum of discussion, which a number of us discussed as a plausible alternative, going back doesn't seem--

MR. HOENIG. That's because once we've done that, we'd have to release the [transcripts], the way it looks under FOIA.

MR. MATTINGLY. It would be likely that you would have waived your deliberative privilege and you'd have to turn over the raw transcripts. That's an argument, of course.

MR. HOENIG. Okay, and that's not the case with a lightly edited version? The Archivist is saying that if we release a lightly edited transcript, then we do not retain the raw [transcript]?

MR. MATTINGLY. Right.

MR. HOENIG. Okay.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Just a follow-up for Virgil along the lines of Governor LaWare's question. Does a subpoena imply wrongdoing and, if so, what wrongdoing are we being accused of?

MR. MATTINGLY. No, I think they could delegate authority to issue a subpoena and it would [imply the need for an] investigation as to whether additional legislation is appropriate. It doesn't imply that there has been wrongdoing.

MR. MCTEER. Why would they investigate us?

MR. MATTINGLY. Well, again, I don't know that. Conceivably one basis would be to determine whether the minutes that the Committee has released since 1976 accurately reflect what actions transpired during the meeting.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. In talking about a delay of, say, three to five years, somehow we seem to have gotten to a very short fuse right off the bat. Is there an argument, if we're going to do this, to use a longer time period before release at least at the outset? I think three to five years gets to be very, very short right at the beginning.

CHAIRMAN GREENSPAN. Going back? Three to five years? Well, I think three years is too short; I was recommending five.

MR. KEEHN. Why not ten as a start?

CHAIRMAN GREENSPAN. Basically it's a judgment call. I think it's a question essentially of what types of FOIA requests we may get and what the Justice Department would be willing to support us on. My guess is that five years is an easy one and would be more appropriate than ten. It's strictly a question of [deciding] what the statute enables us to do.

MR. KEEHN. Secondly, if I could, looking ahead: What's our sense of the real interest within the Banking Committee in terms of making a fundamental change here? I must say that out in the Districts this is an absolute non-issue. I haven't heard--

CHAIRMAN GREENSPAN. You're talking about the disclosure question?

MR. KEEHN. Yes.

CHAIRMAN GREENSPAN. It's Chairman Gonzalez who feels very strongly about it. I assume that there are others in the Committee, but at the hearings where I have been testifying I have not heard anything resembling a groundswell of support. But I really don't know that. In other words the issues have not materialized except at these most recent hearings. And there weren't enough people who commented on this for me to derive any reasonable judgment as to where the House Banking Committee stood as a group.

MR. KEEHN. Does that say, therefore, that if we change our operating procedures a bit in [the way] we develop the current minutes, it's entirely possible that we might not have to make a fundamental change in the way we record our proceedings?

CHAIRMAN GREENSPAN. Sure, if we change our operating--

MR. KEEHN. To wit: If we don't have a recording, if we don't have transcripts going forward, we need not necessarily change what we do and the way we do it.

CHAIRMAN GREENSPAN. As I indicated in my opening remarks, I think we can, as a consequence of the discussions that Virgil has had with the Archivist and the Department of Justice, successfully maintain our deliberative processes with an MOD three or more years forward and five years or more or, say, just five years going back. If that does not work, if in fact we find that under a regime such as that or something comparable we cannot maintain an effective deliberative process, in my judgment we would not be carrying out our statutory requirements to fashion and implement monetary policy. In that case, I think it would be incumbent upon this Committee to find a means by which we are within the law and which enables us to maintain effective deliberations. The Congress obviously always has the choice, if it wishes, to construct its own set of rules as to how we deliberate. We do have the issue of accountability, which I think is important for us to meet; but the ultimate choice in that respect would be Congress's. I think it is we who have the best capability of making a judgment about what the appropriate tradeoff is between efficacy of our deliberative process and the making of monetary policy on the one hand and the requirements for accountability in a democratic society on the other. I say that basically because we have the most experience in dealing with this. We know how the system works; we know where, if we are constrained, the usefulness of our discussions breaks down. At the extreme the issues that we confront are sufficiently complex that we have over the years been seeking each other's views. It's not an easy process. I don't think people outside of this Committee understand the nature of the subtleties of the process anywhere near as much as we do, and as a consequence they cannot be expected to make an appropriate decision on the level at which I think it is really incumbent upon us to make.

The Congress has given us the authority to [make that decision] within limits and I think we have the responsibility to do that. If we take a position in this regard which is perceived to be outside the realm of what the Congress has conveyed to us as our limit of authority, we probably would confront some form of legislation which will override the position that we take. And I must say that's the reason why I made the suggestion that I did. In the context of the discussions that Virgil has had with the Archivist and the Justice Department, I do think that we should be able to implement successfully what we have to do. I may be wrong on that. If I am, I would be very much open to see what changes we would have to make, because our fundamental statutory imperative is the making of monetary policy. If we can't do that, the issue of accountability is irrelevant. We have to keep that in mind so that our first order of business is to make sure that our deliberative processes are protected. The recommendation that I made [reflects] my judgment, having been here for more than six years, that we could do it. But, as I said, I may be wrong. And when I say that, I mean that if we adopt something of this nature and find two or three meetings down the road that it is not working, I think we are required to change it.

MR. MATTINGLY. Mr. Chairman, just a point of clarification: My understanding of your recommendation is that, going back or going forward, confidential central bank information and confidential business information would be redacted from the copy made available to the public.

CHAIRMAN GREENSPAN. Of course. I'm sorry; I did not make that point explicitly in my opening remarks but clearly that was my intention. Governor Mullins.

MR. MULLINS. And I assume the Archivist agrees that that would be appropriate?

MR. MATTINGLY. Absolutely.

MR. MULLINS. I have several questions. With respect to the subpoena you mentioned, what does the process in the House require--a simple majority of a quorum?

MR. MATTINGLY. Yes.

MR. MULLINS. Okay, so what is a quorum?

MR. WINN. A majority; [it] would be 26 of the 51.

MR. MULLINS. So it's 50 percent, so it takes a little over--

CHAIRMAN GREENSPAN. Fourteen members could--

MR. MULLINS. It takes a little over a quarter of the Committee. You mentioned that in the House this subpoena authority has been delegated to all committees. In no case has it been delegated to an individual chairman?

MR. WINN. I think there are instances, at least in the past, where committees have delegated to the chairman.

MR. MULLINS. Okay.

MR. WINN. That is not the current set of rules in the House Banking Committee.

MR. MULLINS. But in theory, a committee could delegate it to the chairman?

CHAIRMAN GREENSPAN. Sure, they could delegate to anybody.

MULLINS. And what is the procedure in the Senate? Is it the same?

MR. WINN. I'm not clear on that.

MR. MULLINS. Okay. Just as a technical point: Have we received any correspondence or request for this material from any other member of Congress or other government officials?

MR. KOHN. We have about half a dozen FOIA requests, but--

MR. MULLINS. Mostly scholars?

MR. KOHN. Scholars who work for American Banker and The Wall Street Journal and--

MR. MULLINS. They're interested mostly in '76 and '77?

MR. KOHN(?). Yes.

MR. MULLINS. Okay. In talking with the Archivist, what is the process in other parts of government where sensitive information and transcripts are kept routinely, as they are kept presumably by the National Security Council or the like?

MR. MATTINGLY. They are required to turn those transcripts over to the public unless they can claim--

MR. MULLINS. When?

MR. TRUMAN. [In] 30 years.

MR. MATTINGLY. Upon request.

MR. TRUMAN. Thirty years. He's asking about the redaction of material that would be confidential--that relating to foreign governments or proprietary information. And that would be redacted for 30 years, is that true?

MR. MATTINGLY. Well, there is a schedule whereby material is turned over to the Archives. It has to be turned over in 30 years.

MR. MULLINS. It has to be turned over in 30 years?

MR. MATTINGLY. Yes, but--

MR. TRUMAN. No later than 30 years?

MR. MATTINGLY. Correct.

MR. MULLINS. Do we know what the State Department does or what the White House does? What is the process in White House meetings with senior staff discussing sensitive foreign policy or economic matters?

MR. MATTINGLY. Well, once it's turned over to the Archives, you can still retain the confidential nature of the information if you can support that.

MR. MULLINS. Okay. Finally, I'd like to explore your thinking, Mr. Chairman, of going forward with an MOD versus some sort of edited transcript. Of course, we do have a long history of MODs and we would link into that. But I wonder if an edited transcript does not have the sense that it's less sanitized, more dangerous to release, easier to defend. I suspect that in the National Security Council's deliberations and the like transcripts exist; that seems more like the sort of thing other sensitive parts of government would have whereas an MOD to me sounds a bit more sanitized, safer to release. It sounds a bit like minutes--not that I think this is a big difference--and might be marginally harder to defend when they come after us, as they will. Was there any special reason for recommending an MOD as opposed to something like an edited transcript going forward if in fact, as I take it, the substance of it would be exactly the same?

CHAIRMAN GREENSPAN. Frankly, I had thought, but merely from hearsay, that the MOD was a significantly contracted version of an edited transcript. I found out from the examples that have been proposed here that that is factually false. The difference is really very negligible; for all practical purposes an MOD has all the information that is on the transcript. It's frankly easier to read and in many respects, if the purpose is scholarly, probably is more useful to the public. But if you're asking me do I have any strong opinions, that's--

MR. MULLINS. So that's not based upon any strong opinion?

CHAIRMAN GREENSPAN. No.

MR. MULLINS. With the edited transcript we might provide some sense that we're being more forthcoming even though it conveys the same information as the MOD. Okay, thank you.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I wanted to come back to the MOD and its relationship to FOIA. I guess this would be a question for Virgil. Even if the Justice Department agreed with the procedures we intended to pursue and therefore presumably would defend us in the future against a denied FOIA request, assuming policy or personnel didn't change, isn't it likely that we would in fact have a lawsuit? In other words, if we decided to do an MOD going forward, it seems to me that at some point--sooner or later, and probably sooner--someone would test that in the courts, whether the lag with respect to its release was three years or five years. We'd have the litigation and ultimately be subjected to some judgment in the courts. That's part of the question. The other part of my question is: As the FOMC has considered this in the past, is the only way that we could really be sure we would be adequately protected is if we had specific legislation on that?

MR. MATTINGLY. I think that's right. I can't give you any assurance that some judge--or not a judge so much as the Justice Department--might decide that a five-year lag would be too long under some circumstances. The only sure protection is legislation.

MR. MELZER. One other question, Virgil: If we adopted the MOD procedure going forward, do you think the likelihood of litigation is fairly high?

MR. MATTINGLY. I can't make a comment on that. The possibility certainly is higher than it is now. But as I indicated in my comments, I think we have a very strong legal argument that this material is exempted. And the FOIA statute doesn't have a time limit in it. It says that if [the information] is deliberative, it's protected forever.

MR. TRUMAN. Thirty years.

MR. MATTINGLY. Thirty years because of the statute.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. It seems to me that we have two separate issues here. One is how we respond to this [House Banking] Committee request through Chairman Gonzalez. And then if we're going to make the material available to that Committee, do we also release that material to the public on some sort of a schedule retrospectively? Is that what is contemplated here?

MR. KOHN. Yes, our--

MR. LAWARE. That's certainly something to be considered, is it not?

MR. KOHN. Our thought was that whatever the Committee decided about releasing to the public, the Chairman would write a letter to Chairman Gonzalez saying that the Committee met, decided this about releasing to the public, and we assume this takes care of your problem. Obviously, this is the Committee's choice, but the thought was that we wouldn't give something to Chairman Gonzalez that we weren't releasing to the public at the same time, at least as an opening shot here.

MR. LAWARE. Well, let me understand that. Is what is being proposed that we suggest something that we're going to release to the public in the hopes that he will then change his request from unedited transcripts and tapes to accept whatever we have proposed?

MR. KOHN. Our hopes in that regard weren't very high but we thought that if the Committee had something that could be sold and looked reasonable that his odds on getting the rest of his Committee to go along with the subpoena, if he then decided to request it, would be much lower. In effect our letter back to Chairman Gonzalez is really a letter to the other 50 members of the Committee saying what our decision was and defending it as reasonable in the circumstances.

MR. LAWARE. Yes. And if there is some prurient interest in these unedited transcripts and tapes retrospectively is that going to prompt them to ask us to share with the [House] Committee unedited tapes and transcripts prospectively as part of their oversight of monetary policy? I understand the rationale in the sometimes opaque language in these letters; it's all under that oversight umbrella. So if they needed all of this to overlook the historic performance, will they not insist on having it prospectively?

MR. MATTINGLY. Chairman Gonzalez's letter says he wants to work out an agreement on that with this Committee.

MR. LAWARE. So it seems to me that that's another issue we have to address: Not just what we're going to release to the public, possibly in the form of a Memorandum of Discussion, but whether in fact there's going to be a demand that we continue to release tapes and transcripts as they are generated in the process of doing the Memorandum of Discussion, regardless of what the Archivist says. [I say that] because, as I understand you, Congress can ask for anything it wants.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Virgil, I wonder how much more comfort we might have if it were possible to get something in the way of a firm official position from the Justice Department relative to FOIA and the Archivist relative to the [Federal] Records Act. You have very interesting but very preliminary expressions of opinion from them. To what degree do you think we can be comfortable that that's where they would come out if they were to opine formally. Would they formally opine at all?

MR. MATTINGLY. I think they would not until a lawsuit was filed. That was what he said. But I thought the Department of Justice official we spoke to--Ernie [Patrikis] can speak up--was very positive that they would defend this Committee on these materials, certainly the recent ones. When I say "recent" I mean five years, or maybe even longer. But he was very positive on that. Now, that was based on our description of--

MR. KELLEY. Right.

MR. MATTINGLY. So I think our description is accurate.

MR. KELLEY. And you feel that's as much as we can get prospectively?

MR. MATTINGLY. But that is more than I expected to get.

MR. KELLEY. Yes.

MR. MATTINGLY. As for the Archivist--Dave Lindsey can speak up--he was more forthcoming than I thought he was going to be about our ability to substitute an MOD for these raw transcripts going forward. He was very positive on that and he was very positive on maintaining an historical record.

CHAIRMAN GREENSPAN. Let me just state this: Clearly, if we run into the type of concerns that Governor LaWare was raising, I think it would be appropriate that the [Federal Open Market] Committee request a hearing before the [Banking] Committee and try to explain in some detail what it is that we do and why we do it and why it is so important for us to [protect] this deliberative process. I don't sense an inability on our part to carry our case before the Congress, and I think we should not be in any way restrained in our endeavor to do so. So, rather than fail to make our case, I think we should seek Congressional hearings and other public forums because this is a very crucial issue for this country. It would be a mistake for us not to be as supportive as we can of our basic underlying procedures, which have carried this Committee as far as they have. I must say, as I have said before, that I have been very impressed with the way this Committee functions; I think it's an extraordinarily efficient Committee. I have sat on an awful lot of private boards and public boards, and there is nothing as effective in the deliberative process as this Committee has been in the past six plus years. And I think that is a case we have to make to the House Banking Committee, to the Congress as a whole, and to the public at large because we, more than anyone else, know the implications of a deterioration in that deliberative process. We are the central bank and we have to speak for ourselves. There is no one else out there who is sufficiently

involved, except at the periphery, with what we do and we must be very forthcoming in addressing this particular subject. President Boehne.

MR. BOEHNE. No, I don't have any comment.

CHAIRMAN GREENSPAN. Any other questions? The floor is now open for individuals to express their views. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. Well, I'm glad that the opportunity to speak came immediately after the Chairman's declaration of our need to go public and fight for our cause. It seems to me that what is really at issue here is the ability of the Federal Reserve to make monetary policy and execute it properly. And that ability to carry out our most basic responsibility has to be protected. We cannot continue to fight a battle in which we get letters of evermore pejorative tone released to the press and then we reply as gentle persons. I think the right place to take our arguments is to the public, and asking the House Banking Committee for a hearing is the right place to start. Beyond that it may be necessary for the Chairman and others of us to seek opportunities to speak out on this subject. It really seems to me that our ability to carry out our most basic mission is what is seriously in question.

As to the specifics of the Chairman's recommendation regarding [what we should do] going forward and going back, I think there could be a modest benefit to going in the direction of an edited transcript instead of a Memorandum of Discussion simply because it does give the impression of being, and in fact is, marginally more forthcoming and therefore beneficial to us. Going back, I think that the five-year period is appropriate largely because of the rights of individuals who did not know that their remarks would be made public. Therefore, we should insist as much as we can on the five-year period. And I think the lightly edited transcript is the appropriate form.

CHAIRMAN GREENSPAN. And three years going forward?

VICE CHAIRMAN MCDONOUGH. Three years going forward.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. It seems to me that we do need to be somewhat forthcoming to Mr. Gonzalez in addition to the three- and five-year proposal. As we go to the hearing it seems to me important that we come forward laying some [proposal] on the table [to the effect] that we would expect him and his staff to maintain the privacy [of FOMC materials provided]. I think we should make a deal before the hearing so it doesn't appear that we're fighting everything and then explain why it is that we're asking the Committee to keep [the materials] private.

In regard to the future, the Memorandum of Discussion is acceptable to me with a three-year [lag]. I think there's some advantage of having the organizational improvement [of an MOD] as compared to the lightly edited transcript. I think a Memorandum of Discussion is unacceptable going backward because we don't have all the members [available] to concur. I would prefer for the past that we have both the lightly edited and raw transcripts. Now, when I say raw, I mean raw redacted according to the General Counsel's

privileges. And I would presume, Virgil--tell me if I'm incorrect--that references to individuals by name that in a sense weren't necessary could be left out. Even in the raw transcript could names be left out?

MR. MATTINGLY. They could if they invade personal privacy, things like that.

MR. ANGELL. Thank you.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Well, this proposal is basically fine. The greatest concern we all have in this is [the possibility of] a misunderstanding with the public and the Congress. This is one of these issues. That's the reason I don't have that much concern with somewhat greater release, done properly. When people see what is actually done it will work to a substantial degree to our benefit. Having said that, going backwards I initially had a preference for three years but I am quite convinced by your statement. What we've done in going back is that we've changed the rules on people. When you change the rules on people, that makes a big difference because the real question is whether you should do it at all. That certainly argues for a five-year period. I would go with a lightly edited transcript. I like Governor Angell's suggestion of accompanying that with the raw transcripts so that people see what has been done. And going forward I think there's a lot to be said for an edited transcript over an MOD because it has as much information. Unfortunately, what is generating this whole thing is an attitude of misplaced suspicion and mistrust, which would make it difficult to provide an MOD rather than a transcript.

CHAIRMAN GREENSPAN. In other words, you'd do a transcript both forward and backwards?

MR. SYRON. Right.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I have three general points I'd like to make and then I'll cover my thoughts on what we ought to do. The first point is that past practice can and should be separated from what we do in the future. Don made that point and I agree with it. First of all, I think the existence of transcripts which have not been used in general for any purposes of the FOMC beyond preparation of the policy record or minutes, depending on what we called them at a point in time, should not require that we continue to tape and transcribe. Secondly, I think the President's new policy with respect to FOIA should cause us to review our future practices. In other words, that is a significant change; and regardless of what may be going on in terms of a general legislative debate about FOMC disclosure, that should cause us to review what we're doing. It's unclear to me what the outcome of litigation would be with respect to an MOD. Even if we were taping and transcribing, there is the possibility of a FOIA request for tapes and transcripts, which would in effect freeze that process. Now, I appreciate what Virgil said about the position we have, but we just really don't know where litigation is going to come out. And we would have that overhanging our deliberative process for some considerable

time as we fought it out through the courts. So, really, the only way to protect tapes, transcripts, and so forth going forward is through legislation. That's the only way we can be sure that the deliberative process is protected.

My second general point is that I think we need to resolve today what we want to do with respect to the release of information about past meetings. We just have to do that. Because of the importance of decisions with respect to future meetings we may want to consider what we do further and decide later, albeit promptly--in my mind certainly no later than the December meeting.

My third point is that as a general matter I think it would be desirable from a public information point of view to consider doing something in the future which provides greater disclosure without adversely affecting the deliberative process. I'll get to that briefly at the end.

With respect to past meetings, Alan, I favor what you recommended: lightly edited transcripts with a five-year lag. And I would be inclined to release those for 1988 as early in 1994 as we could and then establish some schedule for release of the earlier ones, which would really be determined by the availability of staff to prepare them. And I'd just make those available according to some predetermined schedule. As people have said, I think they would be more open than an MOD looking back would be and I think the cost is considerably more reasonable. I'd favor review by the Secretariat staff only in the interest of getting this information out on a timely basis. And one final point with respect to releasing them with a five-year lag: The precedent of what we did with the old MODs is what we ought to look to in terms of setting that timeframe; five years would be consistent [with our past practice].

With respect to future meetings, I would favor our current approach to keeping minutes. Don, I don't know which alternative this is of yours; I guess it would be your alternative one, the current minutes with no taping or transcript and with any notes of the Secretariat staff made in connection with preparing the minutes disposed of on approval of those minutes. That would be, in my view, normal practice for that sort of function. My general view is that the FOMC ought to be held accountable for its decisions, not the details of its deliberations. And in my view the minutes are more than adequate in that regard and include details of how individuals voted. Secondly, our procedure of taping and transcribing is not required in any way. In effect, it has only been for the convenience of the Secretariat staff. And that raises questions that have been touched on before with respect to retention of these records--tapes and transcripts--under the Federal Records Act. Third, I think tapes and transcripts, as I've said before, would be subject to FOIA litigation and [would result in] considerable uncertainty overhanging the Committee for some period of time. Finally, as has been pointed out, tapes and transcripts would be subject to immediate Congressional subpoena, which would be a form of oversight that goes well beyond the semiannual Humphrey-Hawkins testimony and could raise questions in financial markets of the Fed's independence. Another point on this approach, which I think has considerable advantages, is that no legislation would be required in order to make sure that our deliberative process was protected going forward.

My final point would be, and I touched on this at the beginning, that I do think in a public information sense we need to take steps to be more open and should consider such things as either enhanced minutes or prompt release of the directive in connection with the approach that I laid out.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. Mr. Chairman, I certainly agree with the general thrust of your recommendations. Going forward I agree with you that an MOD is the best way to go with a three- to five-year lag. I know there's not a huge difference between an MOD and an edited transcript but, frankly, I have a fairly strong preference for an MOD. It would eliminate a lot of extraneous commentary and I think it would make the atmosphere here better. And it would in that way minimize the negative impact on the deliberative process that an edited transcript might entail. Going backward, for the past, I also agree with your recommendation. I have the same very strong feeling you do about the privacy issue. I think of my predecessor and his 20 years here. But trying to avoid the release of these transcripts is going to make it look as if we're trying to hide something. The fact is that we don't have anything to hide, or at least nothing to hide that is of lasting significance in my view. The great advantage of releasing transcripts is that it makes that point very clearly and emphatically and puts us in a better position to deal with what I think is the real threat here, and that is the opportunity that this situation presents to people who want to paint us as secretive and manipulative and interested in issues of concern to the few rather than the many. We need to act decisively to keep that kind of sentiment in check because I think that's the central threat and problem here.

As far as the particulars are concerned, again I would release the transcripts. Along the lines of Governor Angell's recommendation, I would release both the lightly edited version to make them intelligible and also the unedited version to make it clear that we're not using the editorial process to hide anything. As far as the length of the lag time is concerned, I came to the meeting thinking that probably three years was the right amount of time. Your argument for five years makes some sense to me but, frankly, I'm not sure we would buy that much additional privacy by going to five years and three years is a bit more forthcoming. And finally, so far as the review process is concerned--I think you discussed that briefly in the memo, Don--it would be nice if we take this route to give the people who participated in these meetings an opportunity to make comments and review them. But I think speed is of the essence; if we're going to be forthcoming, we need to move quickly. And I don't think we can do that unless we restrict the review to the FOMC Secretariat, so I would go with that approach.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. Thank you. I like your idea of explaining the position of the Committee before the Congress and I hope you will pursue that as a way to explain all the dimensions of this. As for the past, frankly, I think it's wrong ever to release transcripts of meetings that people didn't know were being made at the time, but that doesn't seem to be an option. So my first choice would be along the

lines suggested by Tom Hoenig's question that we prepare Memoranda of Discussion for the past and release the raw transcripts to the Archives after 30 years. If that doesn't give us protection--if the judgment is that that's not going to do it--then your proposal on lightly edited transcripts is sort of a third best if that's what we're stuck with.

Going forward my first choice would be enhanced minutes with no tape and no transcripts, Don's number 2, but frankly I think the chance of getting away with stopping the taping and transcribing now after we've been doing it for 17 years or more is not likely to be successful. So the question then of Memoranda of Discussion versus lightly edited transcripts released after a lag I think has to be decided along the lines that Dave Mullins suggested, as to which one is most likely to withstand protection without legislation. And if that comes down to the side of lightly edited I would favor that; otherwise I would favor Memoranda of Discussion. Certainly if we had legislation, I would prefer Memoranda of Discussion.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, I think it's very important as we have this discussion to keep in mind what you've already indicated and that is that the thrust of what we're talking about today is the ability of this Committee to formulate and implement monetary policy. That is an activity under the law that has been delegated to us by the Congress and if we were to fail in any way to keep the deliberative process and, therefore, impede our ability to make monetary policy we would be failing very, very severely in our responsibilities under the law and to the public. Congress did not delegate this authority to an individual member of Congress. And, if I might say, in my experience in the Federal Reserve System, I think one of the mistakes that we have made has been being far too forthcoming and far too amenable on the whole to satisfying the particular requests of individual Congressmen. I certainly understand the political necessity to do that at times, but when essential issues are involved I think our responsibility is to the Congress and to the duly delegated committees of the Congress and not to individual members. But having said that, if whatever the decision turns out to be is not satisfactory to [members of] the public, I think we ought to endure the defense, if we can, of a FOIA suit and take that on. And we ought also to take our case to the Committee and to the Congress generally and to the public. In other words, whatever we decide, we ought to draw a line in the sand and not go beyond that if we possibly can.

On the particulars of the proposal, I think the lightly edited version of the transcripts going back with a five-year lag is quite appropriate and I would support that. I don't think it's necessary to have an MOD. And going forward, I have favored an MOD in the past and I so indicated that to Chairman Gonzalez in at least one letter. I think they do have value. And while there are some difficulties in terms of resources in preparing those MODs, I think it would be appropriate to do that. I'm not sure that a three-year lag is really long enough; my preference would be for a five-year lag. And, if I'm not mistaken, I believe that was the lag with the previous MODs, so I think we do have some precedent to rely on.

CHAIRMAN GREENSPAN. Actually, I might say that the last version of the lag under the 1984 bill, which as you know never got through the Congress, was three years, was it not?

MR. KOHN. Five.

MR. WINN. Mr. Chairman, the '84 bill would have released transcripts that were between four and five years old.

SPEAKER(?). Transcripts or MODs?

MR. WINN. I'm sorry, MODs between four and five years old. The '79 bill was--

CHAIRMAN GREENSPAN. Oh, it was the '79 bill which was--

MR. WINN. The '79 bill would have released them between three and four years.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Well, as several other people have commented, I start from the position that we really have nothing to hide. So in terms of what we release, I don't see a lot of danger, at least going back, aside from privacy considerations. Going forward, of course, we get into the issues of the deliberative process and I'll comment on that, but in general I have favored Memoranda of Discussion. In listening to the conversation this morning, I think what we're talking about in looking at the distinction between MODs versus lightly edited transcripts is really a question of quality. I think the quality of the Memoranda of Discussion is going to be higher and, therefore, the documents are in some sense more useful. [It's higher quality] versus the openness, or at least the appearance of [greater] openness, if we confine ourselves to lightly edited transcripts. And I must say the more I look at that, the less the issue seems to be very clear to me. So I can live with either alternative going back. And I'd have no problem if we wanted also to provide the raw transcripts, again with the appropriate lags. People who wanted to do that kind of comparison could then see what [editing] work was done. Going forward, I think--

CHAIRMAN GREENSPAN. And on the timing going back?

MR. STERN. Well, five years or more as far as I'm concerned. I think that's sort of a tactical question. Going forward, again I started with a presumption in favor of Memoranda of Discussion, but I must say I don't feel the distinction between those and the lightly edited transcripts is all that great. I have a mild preference for the Memorandum just because I think the quality of the document is higher.

I don't think this is the right time, frankly, to change our procedures with regard to taping and transcripts. In a way I think that would be self-defeating in the sense that while we're trying essentially to be more open, that would give the appearance at least that we were becoming less open. [The elimination of taping and transcripts] may be worthy of consideration down the road, but at the moment I don't think that's the way to go. And I do think, though we ought not try to resolve this today, that we should consider the

question once again of when we release the directive or the policy decision because, as I consider that issue, I don't think our current practices are necessarily optimal.

CHAIRMAN GREENSPAN. And going forward [you favor a lag of] three years?

MR. STERN. Or more.

CHAIRMAN GREENSPAN. Okay. Governor LaWare.

MR. LAWARE. Mr. Chairman, I fully subscribe to the proposition of making available to the [Banking] Committee edited transcripts, eliminating the confidential information that we would find sensitive. I'm less concerned about the time lag. It seems to me three years on the retrospective part is adequate. And though we haven't addressed this specifically, I don't think it's practical to go back and try to get every living person who ever participated to review something that they may have said 15 years ago. So I would let the staff do the editing. And I don't think I could possibly justify in my own mind trying to do a Memorandum of Discussion of all of those ancient meetings because the person attempting to do so simply wouldn't have the proper environment in which to interpret what was being said.

On the [going forward] side I strongly favor the Memorandum of Discussion simply for accuracy. You can read, as we did in the example that was circulated, the kind of gibberish that one of those transcripts contains. It's almost impossible to tell what individuals were really trying to say in any given speech. And that leads me not to be in favor of releasing both an edited and a raw transcript because it seems to me that then somebody can raise the question of whether we interpreted that bit of gibberish correctly. So, I think the edited transcripts retrospectively are right; and prospectively in order to eliminate inaccuracies the Memorandum of Discussion should be used, which would be subject to the review of the participants. And as I understand current Archival practice, we would be allowed to discard the tapes and the transcripts from which that was prepared. And until that is challenged and found inoperative as far as a court was concerned, I would think we would be adequately protected in using that procedure on a prospective basis. And I hope that kind of procedure would satisfy the [Banking] Committee and not encourage them to try to seek our working materials, our working papers if you will, on a prospective basis.

CHAIRMAN GREENSPAN. I missed it; your going forward time [lag] is what?

MR. LAWARE. Three.

CHAIRMAN GREENSPAN. Three years for the past?

MR. LAWARE. One would be satisfactory to me but I sense that I'm way out of line with everybody else on that.

CHAIRMAN GREENSPAN. So you have three and three. Is that right?

MR. LAWARE. Yes.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I have just a couple of general points. We've talked a lot about the deliberative process this morning and how important it is for the quality of the decisionmaking process. I think it's important to underscore that this deliberative process evolved over a long period of time; it was not made in a day or a meeting or one generation of Open Market Committee people. And one can undermine that and weaken that process much more quickly than it took us to get it to the point where it is. So, we all have to look not just at our short-run issues but also at this longer-run view of our effectiveness.

The second general point is that the deliberative process is not unique to the Federal Reserve. The Executive Branch and other independent agencies have to have an effective deliberative process for every major public policy decision. I make this general statement, and I'm sure others are more factually aware of it, but I suspect that the kinds of things we are talking about today if they were applied to the rest of the public policy decisionmaking units in this city throughout the Executive Branch would give them a great deal of trouble also in carrying out the kinds of quality decisions that they have to make. I think one can make the case that central banking is different, but we don't want to be different on the side that we have less of an environment to be deliberative than [others making] public policy. And I think it would be helpful to us if we compared the practices elsewhere in Washington to our own; we may not be as much of an outlier as we think we are. And the way that we are moving may in fact result in our short-changing our ability to deliberate compared to other agencies.

Having said that, we have to deal with the [issues at] hand. In general what you proposed, Mr. Chairman, makes sense to me. I think going back five years with a lightly edited transcript is the way to go. I would not go back and ask everybody who has been a part of this to sign off. That would be a time-consuming and probably not very effective process. The document ought to say that the staff did it and used their best judgment; there may be errors in it, but here it is. And we ought to move on releasing these as quickly as we can, given the resources.

Going forward, again I think your general proposition makes sense. Nevertheless, when I went back for the first time in a long time and actually reread parts of a Memorandum of Discussion and then compared it to the lightly edited transcript, there was not a great deal of difference. My recollection of the Memoranda of Discussion was that they were somewhat shorter and somewhat more summarized, but after just going back and reading one it seems to me there isn't a lot of difference. And while I can support the Memoranda of Discussion going forward, since a lot of our problem is one of perception--and we almost surely will have to defend this in a FOIA suit at some time in the future--I wonder if we ought to err marginally on the side of more openness. So I could easily accept, and in fact have a marginal preference for, going with an edited transcript instead of the Memorandum of Discussion going forward. But I don't feel that

strongly about it and I can certainly accept your proposition if that's the majority view of the Committee.

One other point: This is not the time to consider it, but going forward I think this Committee ought to keep a very open mind about the kinds of minutes that we now put out--whether they ought to be enhanced and how they could be enhanced. I also think we ought to keep an open mind about the schedule on which we formally release our decisions.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, I would start by perhaps echoing a little of what President Boehne said. Whatever proposal we come forward with, if it is not accepted we should take the opportunity to present our case again in a hearing before the full Committee. I think it needs to be reiterated that we are indeed the most open central bank in the world and that we do release very detailed minutes now. I don't think that is appreciated as much as it perhaps should be.

CHAIRMAN GREENSPAN. I tried to make that point at the hearings.

MR. HOENIG. I understand that. And I'd say that if what we propose gets no acceptance whatever, we should take the opportunity to present our case again before the whole Committee and reiterate those points. We just absolutely have to. It's very important to show how open we are and how detailed our minutes are. What is happening, and we can see it now, is the very beginnings of disrupting the process. What one may say in an open discussion, what may be a speculative gesture for discussion purposes, is likely to be taken out of context if this information is released quickly after a meeting. So, I think that's very important.

As for your proposals then, given the answers to the questions that have been asked, I see that we probably must go back and release lightly edited transcripts as you are suggesting with the proper redactions and so forth. I favor five years minimum going back because there are [issues] of privacy here. And there is the fact that very detailed minutes have been released in the past. Going forward, appearance is an issue; and if there is not a big difference between Memoranda of Discussion and lightly edited transcripts, perhaps lightly edited is a better way. However, the Memorandum of Discussion is fine with me. I feel very strongly that [the lag] should be five years, not three years, because the longer the time period the less disruptive it will be to the process, which is so important. That's why I would go for the five years.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Thank you, Mr. Chairman. Somewhat along the lines of Jerry Jordan's comments, I believe that we have a rather significant obligation to current and past members of the Committee. And that leads me in terms of the past meetings to Memoranda of Discussion and a five-year lag. However, I certainly wouldn't be against lightly edited transcripts; I just have a preference for the Memoranda knowing full well that they would be quite expensive to

provide. But I think we do have a special obligation to people who didn't realize that this would ever see the light of day even in a lightly edited fashion. In terms of how that would be constructed, I think it's only practical that the Secretariat staff have an overwhelming share of the responsibility but I would hope that in some instances where there might be a need they could consult with participants who are currently in the Federal Reserve System if there is a real question as to what was meant by a particular comment.

With regard to future meetings, I must admit that I found the enhanced minutes to be quite interesting. One of the things it clearly does is give accountability, and I thought accountability was the major issue. The other thing I like about it is that it seems to me a pretty low-cost way to deal with this accountability issue. This is [an option] I hadn't thought about much until I got Don's memo; I had a short discussion with him [after] that and I find it attractive. If that were rejected, my second alternative is the Memorandum of Discussion and my preference would be for a five-year lag if that were the case.

CHAIRMAN GREENSPAN. It's pretty clear that we are going to be moving on through lunch and into the afternoon before we get through, so why don't we take our regular 11:00 a.m. break at this point.

[Coffee break]

MR. KELLEY. Mr. Chairman, proceeding along as we have, I certainly concur with what I've been hearing from virtually everyone that it's time to be pro-active. I think the regime that we are under now and have been under has been the best way to make public policy. But I'm afraid that I have come to the conclusion that that's not viable any more, given the evolution of FOIA and the understandings as to what FOIA means. So looking at what might be done, first of all for the past meetings I concur with your proposal and I don't think there's anything further that I can add to what has already been said about that.

As for going forward, I prefer alternative number 4, which provides for the lightly edited transcript. Substantively I don't see a great deal of difference between a lightly edited transcript and a Memorandum of Discussion. I see some moderate advantages and disadvantages to each but nothing compelling either way. But in my judgment I am afraid that a Memorandum of Discussion type document is just not as acceptable as it was in the past. It should be perfectly acceptable but I'm not sure that it is. We live in a somewhat different age than we did in the '70s. I regret it. We live in an era of suspicion of government. Appearance has become enormously important even to the detriment of substance in many cases, which I think is enormously regrettable and not warranted but nevertheless is the case. And I am afraid that today's reader will wonder in the case of the Memorandum of Discussion if he's not getting a little spin and he will be uncertain that he is receiving [an account of] the proceedings with full accuracy. Now, I'm perfectly comfortable myself that they would be [accurate]. I don't have the slightest doubt about that. But if we are going to be forthcoming, and I think we must be, we would be more satisfactorily forthcoming to go the route of the lightly edited transcripts. Consequently I would prefer that for that

reason. I would have a strong preference for a lag of five years over three for reasons that President Hoenig and others have expressed. But if we have to go to three, I don't think that would necessarily be a deal-breaker.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, I'm certainly more concerned about what we do going forward than what we do about the records of previous meetings, and I certainly hope that nothing we do with regard to the existing transcripts is going to affect our [deliberative] process adversely. I must say, as kind of an aside, that I have a group of people--some ten people or so--that I talk to before I come down to the FOMC meetings. I sent each of them a copy of my [October 19] testimony after I got back just so they'd be aware of what was going on. And in my calls this time, getting ready for this meeting, I must say that one of the conversations turned out to be very different. It was with a man who runs a very large manufacturing company in our District. Normally we have a 15 to 20 minute conversation; this time it was about 5 to 6 minutes. And as I went through that process I just had a feeling that maybe he had talked to a lawyer and came forward with quite a different message. So, I think there is a risk in this that the information we get and the way we use it is going to have an impact on the way that we develop policy.

With regard to the existing transcripts, I would favor the lightly edited transcripts. Clearly I would state here, and it doesn't have to be repeated, that all the confidential information should certainly be deleted from them. I'd prefer to have the staff do it as opposed to going to the principals; I think it's just easier to have the staff go through them and clean them up. I raised the question about timing earlier. If we start off with a short time, it's not going to get longer; they're always going to chop it down. I'd prefer starting at longer than five years, but if we got to five years on the existing transcripts I think that would be okay.

Going forward, I would far prefer the current procedure. I must say that I think the current minutes are a very detailed, excellent record of what has taken place, what has been said, and what information we are looking at. They are certainly more detailed than the minutes of most other meetings that all of us are familiar with. And it seems to me that if we move away from that, it's going to have an effect on the way that we develop policy. So I would prefer Don's alternative number one. I would cease the recording and I would cease the transcripts. I would rely on greater secretarial support to produce the minutes. It's probably going to mean that we're all going to have to work a little harder in cleaning them up, but that's the way it is. A couple of people have mentioned that the timing of a decision to cease our recording and transcripts now would be awkward; I don't think it would be at all. After all, we are having a meeting in which we are discussing the process. In the years I have been here we have never had this kind of full discussion. It seems to me only reasonable that as a result of it, it's very likely that we would make a change. And this is the change that I think would be appropriate.

CHAIRMAN GREENSPAN. You're staying with the existing minutes and--

MR. KEEHN. I'm staying with the existing minutes, no recording, no transcript.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Looking backward, I could live with your suggestion for lightly edited transcripts. But I think it's important for us to be as forthcoming as possible and I believe providing raw transcripts with some notation on the side that there are some obvious difficulties here and there and so forth might be perceived as a bit more forthcoming.

CHAIRMAN GREENSPAN. That's as distinct from lightly edited with annotation?

MR. MCTEER. Yes. Let people see the garbled stuff; let them see how incomplete the raw transcripts are.

MR. SYRON. Both or one?

MR. MCTEER. One.

CHAIRMAN GREENSPAN. So you want a raw, annotated transcript?

MR. MCTEER. Raw, annotated would be my preference. Primarily because Chairman Gonzalez asked for it, I'd be inclined to go back only three years for protection rather than five, although I would personally prefer five. I think we've got to be as forthcoming as we can be. And looking forward, I rather agree with what Governor Kelley said. I don't think there's a lot of substantive difference between a Memorandum of Discussion and an edited transcript, but I think the edited transcript would be perceived as an improvement over past practices and as more forthcoming. And I think it could be advertised as more forthcoming than pre-1976 [practices]. And in order to diffuse the other issue, I still believe that it would be helpful to combine whatever we do with an early announcement of the decision of the outcome of the meetings. These are shadings of preference; I'd be willing to go along with your recommendation in the spirit of consensus.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Well, with respect to the past transcripts, I must say that I have considerable discomfort with changing the rules of the game for all of those people who sat around this table. So my preference is no release, but I take it that that's not sustainable. Assuming that it's not sustainable, I'd go with the lightly edited option, and as a second choice raw transcripts, annotated. I'd have the Secretariat review it and state that it might contain errors. I'd go with a five-year delay because of privacy [concerns].

Going forward, I would prefer the minutes the way that we are doing them and could see some enhancement of them. But I could live with an MOD, which I have a slight preference for over the light editing. I'd go for a three-year delay. I also think that we're into this tit-for-tat, going back and forth with these letters, and that it would be good to seek hearings so that the only form of discussion is not letters back and forth.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, I must say that I've become quite cynical about the process. I think we've been negotiating with ourselves; there's no one on the other side of the table where people on the other side of the table refuse to [bind] themselves. The court's decisions can be overturned by a decision by the President and the Attorney General. So my basic suggestion would be to do whatever you think is best. I think it's entirely a tactical call. I think it's tragic that the rules can be changed and people's rights can be reversed ex post facto; that's my most important concern. In that regard I would prefer that the tapes never be released. Failing that, I would prefer 30 years; failing that, I'd prefer 29 years. My 26th choice would be 5 years. How does one function in a world where there are no property rights and laws can be changed willy-nilly? I would note that in Chairman Gonzalez's letter he did not necessarily stress the process; he wanted the results of the meetings out earlier. I really think that is what is key [for him]. There's a good reason why we value the process of how we got there, and I think that's important for us to protect. They value the results. I think if they had the results they wouldn't give a fig how we arrived at them and no one would bother to read through 150 pages of unedited transcripts. I would suggest, therefore, giving them the raw transcripts with a five-year delay. I think the key to getting out of this mess is that we really have to change when we release our decision.

CHAIRMAN GREENSPAN. Going forward?

MR. LINDSEY. Five years.

CHAIRMAN GREENSPAN. I'm sorry, I thought that was the past; I missed it.

MR. LINDSEY. Five for both.

CHAIRMAN GREENSPAN. Five for both?

MR. ANGELL. And what's the form going forward?

MR. LINDSEY. Raw transcripts. If you want to have this annotation and what was the term--recision--to take out?

SPEAKER(?). Redaction.

MR. LINDSEY. Redaction. Yes, so redact and annotate. But if anyone can go past a hundred and so pages of that raw transcript, more power to them.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. Most everything has been said, but I think the key objective is to try to create a situation going forward which does not compromise the deliberative process. I don't think the options are very attractive, but I thought I'd put it through one last reality check just so we're aware of the consequences of what we're doing. As I see it, going forward, it's unrealistic to believe that either an MOD or edited transcripts with attribution of views can be protected. Even with legislation--and we've talked about that--it can't be

protected from Congress. Especially when we start to raise rates Congressional critics can subpoena it. We've seen it even with the legislative protection on examination reports. There are criminal penalties if examiners release information; Congress can get it. And by the way when [the subpoena] happens, I think the objective will be to identify the agitators. And then I think it's not unrealistic to expect that members of Congress might write letters to individual Committee members who expressed strong views and perhaps call them to testify; they will basically zero in and apply pressure.

Obviously, I think this would do very substantial harm to the deliberative process. Even at the Board we have open and closed meetings now and the quality of the process is quite different just as it would be here, I suspect. The quality here would change, even if it didn't change immediately. It would just take one of these episodes. The future is a long time and I think this is quite certain to happen. I feel safe in saying it's quite certain to happen because the future is a long time and I can't be disproved! If you think about it, first of all the character of some of these [Congressional] committees is changing through time, and changing in a way which I think makes it more likely or easier to get a subpoena. And if one thinks about the rate scenario we might be facing in the near-term future, much less what the Fed went through in the late '70s and early '80s, as soon as we start doing MODs or edited transcripts for release going forward basically the deliberative process is put at risk. And the die is cast when that happens. It's very difficult to try to put a stop to it once it gets going; and sooner or later it will be compromised, although I suppose we can try to fight.

Is there any way to avoid this? Ideally I would like a process in which we're not harboring secrets because I think the harboring of secrets in our files--documents which are kept secret for years--is an irresistible attraction to political opportunism. It gives us the bad image of having things to hide. And there may be no politically feasible way to avoid this. My first preference, clearly, is to have a process of extensive minutes--enhanced minutes which capture the full discussion, including all the issues and all the arguments but without attribution. And I'd release it immediately, six weeks after the meeting, or whatever time it takes to produce it. I think this could be managed under the Federal Records Act. Basically we would have no taping but we would have note-takers. The note-takers also would have to avoid giving attribution. Now, in the political process when you compare that--basically the full discussion [in the form of enhanced minutes without attribution] produced very quickly--with an MOD and the promise of a full discussion with attribution later, it seems to me the only [significant] difference is the attribution. And the only reason why one would prefer the attribution is to bust open the process and find out who's doing what early on. And that certainly may be the objective of some of our harshest critics. But it's not clear to me that the bulk of Congress would favor that, especially because I've seen very little interest in this issue.

Now, maybe it's unfeasible to try to do that given where we are today, but at least we ought to consider the stakes. Given the stakes, it seems to me it might be worth a try. Essentially we have to believe what we're doing now is sufficient or else we wouldn't have been doing it all this time. So one consideration is: Shouldn't we

try to enhance that to have a shot at least at a sustainable process going forward instead of going with an option which I think forever puts the deliberative process at risk? I am willing to accept that this may not be feasible. I must say it's unfortunate that we seem to be willing to do this in response not to a broad-based Congressional criticism or public outcry on these issues but in response essentially to the harangues of very few critics. That's not a healthy precedent. Nonetheless, I am willing to accept reluctantly the summary judgment that we have no chance of protecting the process. But we ought to go into it with our eyes open because once we start this process, it seems to me highly likely that sooner or later it will be busted open. And then I think the process will be damaged. I also would support consideration of a change in the timing of the release of the directive. I think [the delayed release] does us much greater public and political harm in terms of perceptions than possibly its value. I think it's time to reweigh those pluses and minuses.

Now, if the enhanced minutes idea is simply not feasible, I would prefer for the past just edited transcripts with [a lag of] at least five years. For the future I generally agree with what a number of people, including Tom Hoenig, Ed Boehne, Mike Kelley, and Bob McTeer have said. I don't see a lot of difference between an MOD and an edited transcript. It's an issue of quality versus the ability to defend the thing. In terms of quality, maybe I don't have enough experience with an MOD to recognize its superior quality. I wouldn't feel strongly, but I don't see why we would want to differentiate ourselves from these other agencies by having an MOD. And I do think at the margin that an edited transcript would be easier to defend. I would prefer to try to defend it for five years rather than three. Again, I don't see why we can't make this--

CHAIRMAN GREENSPAN. I'm sorry, are you talking past or forward?

MR. MULLINS. Forward and past [I'd favor] five years. I think we ought to link it to the same sorts of considerations that must be weighed in similar discussions with respect to foreign policy issues and other issues. If it's a transcript of a meeting, it seems to me that we ought to be able to defend something like five years. I could live with three, but I think we have to be realistic about it: It will be three until the going gets tough and then it will be immediate. And then I think we have a real problem especially when one looks around at how other central banks operate. It's an unfortunate situation we're in. I would be willing to go along with, and would have a marginal preference for, the edited transcripts going forward.

MR. PARRY. Could I ask a question?

CHAIRMAN GREENSPAN. Sure.

MR. PARRY. In terms of your preference for the enhanced minutes you stressed non-attribution.

MR. MULLINS. Yes.

MR. PARRY. What about the wrinkle that Don put on it that at the end, I presume, there would be some accountability in terms of the decision that is made so that--

MR. MULLINS. Well, my view on attribution is that if you want attribution, you dissent. But--

MR. PARRY. Well, I guess you had some discussions with people and Congressmen--

MR. KOHN. No, the attribution idea was not from the discussion with Congressmen; the attribution idea really came from the Board's current minutes. And also the notion of accountability--

MR. ANGELL. Do we have current minutes?

MR. KOHN. Yes.

MR. ANGELL. With attribution?

MR. KOHN. Yes. Now, for the discount rate, for example, I think those minutes are released with a longer lag than the--

MR. PARRY. Oh, from the Board's current minutes. I see.

MR. KOHN. The Board's current minutes, I'm sorry. And there are concurring statements in those minutes when people vote in favor but differ on the reasoning. It doesn't happen very often.

MR. MULLINS. Yes, any time anyone wants attribution themselves it seems to me they can dissent, have a concurring statement, etc., etc.

CHAIRMAN GREENSPAN. We've never had concurring statements.

MR. SYRON. We've never had concurring statements at the FOMC.

MR. MULLINS. Yes, I know, we haven't; but we have at Board meetings.

MR. SYRON. Mr Chairman, can I ask an information question?

CHAIRMAN GREENSPAN. Sure.

MR. SYRON. I must say, I'm sort of intrigued by something that David said here and it's an information question. It's a judgment question for you, I guess. Suppose in the relatively near future, [and by that I mean] very near, we were to say that we are going to do two things or a package of things. One would be that we would do something on this notion of enhanced minutes. I might call them something different than enhanced minutes; I'm trying to come up with a new term of art. And if we were to combine that with immediate disclosure any time the Committee acted on the directive--[I stress] "acted," not just going asymmetric--if we were to do this pretty quickly with the kind of lags that David talked about, I must say I hadn't thought about this at all, do you think there's a chance that that would significantly change things? [Would it be viewed as] an

offering where we would seem to be coming forth with quite a lot and would it give us the ability to do away with keeping things which inappropriately could be subpoenaed and--

MR. MULLINS. One issue is whether it would satisfy a particular critic, and my guess is it would not. But a broader question is would it essentially satisfy FOIA--

MR. SYRON. That's the question I'm asking.

CHAIRMAN GREENSPAN. Well, I must say, I'm not as pessimistic about this as Governor Mullins. We are confronted with an immediate problem, which is essentially the transcripts, that has to be resolved. I think we've got to come to grips with how we handle ourselves in the future, and I am not of the opinion that if we do something now and it's not working the way we want, that we can't change it. Remember, nobody here is talking about [releasing] tapes or transcripts immediately. If it turns out that we are unable to hold onto our deliberative process, I think it is essential that we change [our procedures]. And that would be a unilateral change. It is something that does not require legislation. My own view is that legislation is not going to turn out to be necessary. Frankly, the reason that I have argued the way I have is that I happen to think it's the appropriate policy. I had that view before the transcript issue came up. So, I personally am not responding to any of our recent problems with the House Banking Committee. I just think it's good policy to do something about the way we [make information available]. Frankly, I hadn't focused at all on the past transcripts because I thought they were FOIA-protected as staff operations and it never entered my mind. But moving forward to do something which is more forthcoming is something I myself have been supportive of for quite a long time. I have problems with the immediate release of minutes because I do think that's real stuff and their immediate release would in my view fundamentally alter the way we do business. But I must tell you I can't get overly excited about the question of [whether to release] transcripts three, four, or five years out. That's because basically the business cycle lasts three or four years and it's hardly likely that anything we're saying [currently] is going to get compromised by positions we took in an earlier period.

But let me just say that the most important issue here is that I'm not sure how Congress is going to behave one way or the other. David may be right; it may be getting worse. I'm not sure that is necessarily the case. But the point that I would raise [relates to] the presumption that whatever we do--aside from what we do with the historic transcripts--once we do it we're locked in concrete. I don't think we ought to view whatever it is we do going forward as locked in concrete because these laws are evolving. The Archivist is evolving, the Justice Department is evolving. It may turn out that presumptions relevant to this are inappropriate. And I would have no hesitancy myself to argue for change even if it's six months from now or three months from now. So I don't see that we have to be judging [anything] at this point other than the necessity under all conditions of protecting the deliberative process, which I hope is the unanimous view of the people around this table. Aside from that, which is our number one unquestioned priority, how we do it is variable. And in my judgment the recommendation I made solves it for my purposes. Would I like enhanced minutes? I would say that in the

event we cannot hold our confidentiality with tapes and transcripts, I would very readily go to enhanced minutes with no tape, because I think that would be necessary. I don't think we'd have any choice but to move in that direction. But I don't see that as a highly likely outcome at this point. Governor Angell.

MR. ANGELL. I agree with the thrust of your arguments. This Committee has a lot of capability to maintain a deliberative process even if it doesn't seem exactly ideal. I can't imagine, whatever happens, that we're going to let ourselves change that much.

CHAIRMAN GREENSPAN. My impression basically, knowing the people around this table, is that they may start to become hesitant but they're going to be unable to maintain it. [Laughter]

MR. ANGELL. But we can go in more directions than one and [the differences in] one alternative versus the other alternatives are not that significant. And I agree with you that changes can be made if they need to be made. But I do believe that we need to decide today what we're going to do. The longer we go without deciding, the more it's going to appear that somebody else is pulling our chain.

CHAIRMAN GREENSPAN. Absolutely.

SEVERAL. We all agree on that.

CHAIRMAN GREENSPAN. Let me [move toward a decision]. Even though I've taken extensive notes here-- [Laughter] It would be tough to write a transcript, but they would actually be usable. We have a number of different issues on the table. And the question basically is [how to proceed]. If they were all fundamentally independent, then as good mathematicians we could vote on them one at a time. But, for example, on the issue of [what we do] going back, in anybody's mind is the choice of raw transcripts or edited transcripts a function of the timeframe or the judgment on the length of time before we would make them [available]?

MR. ANGELL. No.

SEVERAL. No.

CHAIRMAN GREENSPAN. I thought not. So what I can do is ask for preferences. Well, it's a little more complex going forward, so let me start with the historical setup. I'll ask first that we literally go around the table and have individuals respond to a first choice and "could accept" type question. We're talking now about the raw transcript with annotation, a lightly edited transcript with or without annotation--

MR. ANGELL. And both.

CHAIRMAN GREENSPAN. --releasing both, and Memoranda of Discussion. So how many is that?

SPEAKER(?). That's four.

CHAIRMAN GREENSPAN. That's four [choices].

MR. LAWARE. Are you talking retrospectively?

CHAIRMAN GREENSPAN. Retrospectively.

MR. ANGELL. No one mentioned MODs going backward, did they?

MR. SYRON. Yes, it has been mentioned.

MR. KELLEY. Going back?

MR. ANGELL. Well, by only two people I believe.

MR. BERNARD. Yes, by some.

CHAIRMAN GREENSPAN. Is that acceptable? Okay. It's easier to go down [my list]. Vice Chairman, can I ask for a quick sentence?

VICE CHAIRMAN MCDONOUGH. My first choice would be light editing without annotation and my second choice would be the raw transcript with annotation.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. My first choice is releasing both [lightly edited and raw transcripts] with redactions.

CHAIRMAN GREENSPAN. Well, redacting is for all of them. That goes without [saying].

MR. ANGELL. Right. So my first choice is both; my second choice is the raw transcripts.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. My first choice is light editing without annotation but with a note on the [cover] page that says this was done by the staff and it may or may not be accurate. My second choice would be a raw transcript with some annotation.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. My first choice would be lightly edited transcripts without annotation; my second choice is raw transcripts with annotation.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. My first choice is lightly edited transcripts; my second choice would be [releasing] both raw and lightly edited transcripts.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. My first choice would be lightly edited transcripts; my second choice would be lightly edited transcripts with annotation.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. My first choice is raw transcripts with annotation; and lightly edited is fine.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. First choice is annotated raw transcripts; second choice is lightly edited.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. My first choice would be [releasing] both; and I could accept either raw or lightly edited.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. First choice would be lightly edited; second choice would be [releasing] both.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. First choice would be lightly edited and second choice would be raw transcripts with annotation.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. My first choice would be [releasing] both; my second choice would be raw transcripts with annotation.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. My first choice is lightly edited transcripts without annotation and my second choice is raw transcripts with annotation.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. My first choice is lightly edited without annotation; my second is raw with annotation.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. My first choice would be lightly edited without, and my second raw with, annotation.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Lightly edited is my first choice; my second choice is raw with annotation.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. I guess my first is the Memorandum of Discussion and my second is lightly edited.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. My first choice would be both and my second choice would be raw, annotated.

CHAIRMAN GREENSPAN. The consensus is lightly edited. It's unclear as [to the issue of annotation]. Let me put it to you this way: I assume that the question of annotation is a secondary issue relative to the other. So it is lightly edited and what I'd like to do is get a show of hands on annotated or--

MR. ANGELL. Well, I guess in terms of the count we have a multiple choice here and we ought to boil it down to the two highest and have a vote-off on the two highest.

CHAIRMAN GREENSPAN. Well, when you start to do that it bothers me--

MR. LINDSEY. Mr. Chairman, are you going to be negotiating with Chairman Gonzalez on this?

MR. ANGELL. Well, why?

MR. LINDSEY. We're just going to make a decision and then--

MR. SYRON. That's what we should do.

MR. ANGELL. I mean multiple choice voting--. You really need to find out among the two highest choices--

MR. LAWARE. We have a majority for one choice though.

MR. ANGELL. Listen, Robert's Rules of Order provides for always determining a majority; you can't do anything without a majority.

MR. LAWARE. Well, if you have a majority--

MR. ANGELL. But you don't have a majority first choice for light editing.

CHAIRMAN GREENSPAN. Yes, we do.

MR. LAWARE. Yes, we do.

MR. FORRESTAL. Yes.

MR. ANGELL. Well, what was the count?

CHAIRMAN GREENSPAN. Amongst the members it's one, two--

MR. ANGELL. First choice?

CHAIRMAN GREENSPAN. --three, four, five, six, seven, eight.

SPEAKER(?). Well, that's it. Let's go to the next issue.

MR. ANGELL. Well, I sure didn't--. I heard a lot of raws and I heard a lot of boths as first choice. How many raws were there for first choice? Were there three?

CHAIRMAN GREENSPAN. Two among the Committee members and for both there were two.

MR. ANGELL. Okay, so it's the voting members. I see. All right.

CHAIRMAN GREENSPAN. The nonvoting members are also roughly the same; there's not a big distinction between them [and the voting members]. If there were, I think we'd want to think about it. Unless somebody questions my accounting, I got a majority.

MR. ANGELL. Well, that's fine if there's a majority.

CHAIRMAN GREENSPAN. There is a majority. All I'm asking, since some of you didn't say whether or not it was with or without annotation, is for a show of hands, first without annotation.

MR. KEEHN. Could I ask what you mean by annotation?

CHAIRMAN GREENSPAN. Annotation is basically comments in-- Well, rather than give my view, why doesn't the person who would annotate it [tell us].

MR. KOHN. As I understand it from Virgil, if we saw a "not" where clearly it didn't belong, the Archivist would hesitate to allow us to take it out but he would allow us to put a footnote there and say: "Editor's note: Read in context this word doesn't seem to belong."

MR. SYRON. You couldn't take the "not" out with the light editing if it is clearly indicated--

MR. MATTINGLY. If it was very obvious from the transcript that the "not" was an incorrect transcription you could take it out, yes. In other words, if the transcriber typed "adversary" and the word really was "emissary" and it was clear that the speaker meant "emissary," you could change it.

MR. ANGELL. You have to annotate unless you put the original out.

MR. KELLEY. This is a very knotty question.

CHAIRMAN GREENSPAN. It's an interesting question. It also depends to a large extent on who is doing the annotating. Remember what annotation means. Annotation means that somebody has gone over this and decided whether it is right or wrong. Now, the problem unfortunately is that whoever is annotating is not going to capture all the wrongs but they will be certifying that they are right.

MR. ANGELL. I hate to tell you this but the reason you want to do both is because if you have both of them there; that solves that problem.

MR. LAWARE. It just complicates it.

MR. ANGELL. No, because somebody is free to interpret as they wish and say "Look, here's the way the experts thought it should be."

MR. KELLEY. But the errors get preserved.

CHAIRMAN GREENSPAN. Well, it's an impossible situation. We don't have real-time evaluations of whatever it is we're doing and we're trying to make guesses [about] the past. Frankly, while I was originally attracted to annotation, my concern is that if we have annotated, the presumption is that if it's not annotated it is accurate.

MR. SYRON. Correct.

CHAIRMAN GREENSPAN. And I'm not sure that that's factually correct.

SPEAKER(?). Isn't that also true of editing?

MR. ANGELL. Once you've edited, you've doctored it.

MR. KELLEY. Yes, definitely.

CHAIRMAN GREENSPAN. Well, this is where the Archivist is relevant. If he decides that the editing does not do violence to the raw transcript, the raw transcript can be dispensed with. If not--

MR. SYRON. But the edited transcripts still might be misleading. And what I thought [about] was that it could be interpreted, since you've edited it, that you've somehow "certified" it, if I can use that phrase. And editing may or may not fix things.

MR. ANGELL. And [for] some member of the Committee who is no longer living, I just think it's better to have some doubt in regard to whether the [editor] fixed it or not.

CHAIRMAN GREENSPAN. Let me put it this way: There is no good answer to all of this. We did take the vote. Where we are at the moment is a decision on annotated or not. So, all those who prefer unannotated? [Secretary's note: In a show of hands a majority indicated a preference for no annotation.] I think we solved that problem.

The next question is the time [lag] involved. There appears to be a heavy [leaning toward] five years but I'm not sure and I'd like to go over that again. Let's do the first and second choice, okay? Vice Chairman.

VICE CHAIRMAN MCDONOUGH. Five years; second choice, three years.

MS. PHILLIPS. Is this for the past?

MR. ANGELL. I don't understand the first and second choice. How do you count the first and second choice? Are you counting both choices?

CHAIRMAN GREENSPAN. No.

MR. ANGELL. You're just counting the first choice?

CHAIRMAN GREENSPAN. The [issue] wholly is that if the first choice doesn't get a majority, we can move to second choices as to

whether--. I don't think this is a [big] issue or anything, but go ahead. Governor Angell.

MR. ANGELL. This is on the future?

SEVERAL. The past.

CHAIRMAN GREENSPAN. The number of years. The past.

MR. ANGELL. The past. All right. Five is first choice; three is second choice.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. Five, first choice; three, second.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Ten, first choice; five, second choice.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Five and three.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Three and five.

CHAIRMAN GREENSPAN. Poor four! Governor Lindsey.

MR. LINDSEY. Infinite and five.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Three and five.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. I would say ten and five.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Five and three.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Five and three.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. Three and five.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Five and three.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Ten and five.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. Thirty and five.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Five and ten.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Ten and five.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. [Five and] three.

CHAIRMAN GREENSPAN. One interesting aspect of all this is that five shows up in everybody's [answer], just not in the same place. It looks to me as though five is the best--

SPEAKER(?). I think the more-than-fives clearly--

MR. KOHN. President McDonough, you said five?

VICE CHAIRMAN MCDONOUGH. Yes.

CHAIRMAN GREENSPAN. The fives have it, as best I can read.

MR. MCTEER. May I make a comment or raise a question before you call for that?

CHAIRMAN GREENSPAN. Sure.

MR. MCTEER. Earlier someone said that the Memorandum of Discussion looking back hadn't been mentioned, but you do recall that that's one of the proposals in Mr. Gonzalez's letter. It seems as though we might be passing up something that's more beneficial to us than what we're really going for.

MR. MULLINS. We can't protect the raw transcript from FOIA.

CHAIRMAN GREENSPAN. Other than our own concerns, I'm not sure that we ought to be adjusting to anything other than what we think [is appropriate].

MR. MCTEER. I guess I was assuming that we really would prefer a Memorandum of Discussion but are voting otherwise because we think it's not acceptable.

SEVERAL. No, no.

CHAIRMAN GREENSPAN. I didn't get that sense. That's certainly not my point of view.

MR. MCTEER. Okay.

CHAIRMAN GREENSPAN. Let's go to the hard part. It's called "from here on." Oh, I'm sorry, there's another question out there, the question of who does the editing. I sensed for those who raised the question that [it would be] the Secretariat, not [the FOMC members]. In other words, we would not as a Committee oversee any of this process. Basically these are unofficial records of the Committee and would be handled as such. And as a consequence they could be delegated to the staff for these purposes.

MR. LINDSEY. And so noted on the cover.

CHAIRMAN GREENSPAN. Yes.

MR. ANGELL. But the emphasis is upon light and we must define what light means.

CHAIRMAN GREENSPAN. Light means the type of editing which in the view of the Archivist is such that [the option of] dispensing with the raw transcript is available. That's what that means.

MR. ANGELL. Does that mean non-sentences become sentences?

CHAIRMAN GREENSPAN. That's a good question. I think the standard would be, to a greater or lesser extent, something closer to but not quite to the [type of] editing that goes on for Congressional hearings. You can't change the substance.

MR. ANGELL. You can't change the substance and I presume every sentence that's there has to be left there.

CHAIRMAN GREENSPAN. Unless it's gibberish. I know when I go over my Congressional testimony--I haven't done it since I've been here--but when I was in the private sector there were sentences which were utter gibberish. Even I didn't know--

MR. ANGELL. But even though we voted not to do annotated, if there's a sentence that's not [included] would there be an annotation saying "sentence unintelligible"?

CHAIRMAN GREENSPAN. I think the criterion has to be--

MR. ANGELL. Just solve it by the Archivist standards?

CHAIRMAN GREENSPAN. That's the only objective standard I could conceive of. Is it agreed then that the Secretariat does it?

SPEAKER(?). Right.

CHAIRMAN GREENSPAN. Okay, next. Now, again--here I'm going forward--is anybody's view of the vehicle a function of the timeframe in which it takes place? So let's start off in the same manner, first and second choice, going forward. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. Edited transcript first choice; MOD second choice.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. MOD first choice; lightly edited second.

CHAIRMAN GREENSPAN. I take it in all cases that we're talking about lightly edited. Let's stipulate that. President Boehne.

MR. BOEHNE. Edited transcript first choice; MOD second choice.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Current minutes first choice; enhanced minutes second choice.

MR. ANGELL. What are enhanced minutes? I thought the current minutes were enhanced minutes.

MR. SYRON. Well, [more than when] they were last enhanced--

SPEAKER(?). Put a little more pep in them.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Lightly edited transcript first; MOD second.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. MOD first; and lightly edited transcript fourth or fifth.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. I'm going to go with Sy Keehn.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Lightly edited transcript first; MOD second.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. Enhanced minutes first; edited transcript second.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Enhanced minutes first; edited transcript second.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. MOD first; edited transcript second.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. MOD first; edited second.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORESTALL. MOD first; edited transcript second.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Edited first; MOD second.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. Enhanced and MOD.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Enhanced minutes first; current minutes second.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Enhanced minutes first and MOD second.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. I didn't understand that enhanced minutes was one [of the options]. Is this enhanced minutes with a five-year lag?

CHAIRMAN GREENSPAN. We're voting on it independently of the timeframe.

MR. MELZER. It's prompt release like [the current minutes].

MR. SYRON. It's enhanced minutes quickly.

CHAIRMAN GREENSPAN. I don't think enhanced minutes has any timeframe [unintelligible].

MR. MELZER. It's the same as what we do now.

MR. SYRON. Is that David Mullin's proposal?

MR. MULLINS. Yes, the same as what we have now except that we probably go further--

MR. SYRON. Okay, I see. Enhanced minutes; edited transcript.

MR. ANGELL. What was the count on the MOD?

CHAIRMAN GREENSPAN. MOD as first choice? I haven't voted yet; I need to decide--

MR. ANGELL. I thought that was your proposal--the MOD.

CHAIRMAN GREENSPAN. Oh no, the [unintelligible] influence my vote! [Laughter]

MR. BOEHNE. The deliberative process at work here!

MR. ANGELL. Well, how did you vote?

CHAIRMAN GREENSPAN. I'm trying to get the voting members first.

MR. MULLINS. I got three MODs first.

CHAIRMAN GREENSPAN. Three. And four--

MR. MULLINS. Four edited transcripts first.

CHAIRMAN GREENSPAN. We ought to have lunch.

MR. SYRON. What time are we eating dinner tonight?

MR. ANGELL. Can we vote for lunch?

SPEAKER(?). Is that one of the choices?

CHAIRMAN GREENSPAN. As I interpret it--this is not an easy type of vote and if anybody objects please speak up--looking at the first and second choices, basically, it is between an MOD and an edited transcript. It's not clear-cut; we're all over the place on a lot of different things.

MR. ANGELL. Does either one of them have seven votes?

CHAIRMAN GREENSPAN. No.

MR. ANGELL. Then I think we really have to go around a second time.

MR. PARRY. How did enhanced come out?

MR. MELZER. How do enhanced and current minutes taken together come out?

MR. MULLINS. Well, that's four Committee members.

CHAIRMAN GREENSPAN. Two voting members are for enhanced minutes.

MR. MELZER. And current?

MR. BERNARD. It's two and two.

MR. MELZER. So it's four.

MR. PARRY. Two current and two enhanced?

MR. KOHN. It's four for everything.

MR. LINDSEY. To enhance enhanced, I'd switch from current to enhanced.

MR. KEEHN. Yes, I would too.

SPEAKER(?). It's still got four votes; there are four enhances.

CHAIRMAN GREENSPAN. Well, rather unfortunately, if I stay with an MOD, for the voting members it's four, four, and four.

MR. SYRON. Any swing vote?

MR. ANGELL. Well, then it seems to me that someone needs to move some motion and see if it passes or gets amended or something.

VICE CHAIRMAN MCDONOUGH. May I ask a question for clarity?

CHAIRMAN GREENSPAN. Sure.

VICE CHAIRMAN MCDONOUGH. The enhanced minutes has a very different timeframe than either the MOD or the--

CHAIRMAN GREENSPAN. That's right. Let's take a minute because this is what I was expecting might happen. Let's define what we really mean by enhanced minutes. What concerns me is that the MOD is unambiguous and the edited transcript is unambiguous, but I'm not certain that the view of this Committee of what we mean by enhanced minutes is unambiguous.

MR. ANGELL. Does enhanced minutes have attribution in it?

SPEAKER(?). No.

MR. MULLINS. No. My view of it is that it wouldn't but it would capture every issue and argument--

CHAIRMAN GREENSPAN. But we do that now.

MR. ANGELL. Yes, we do that now.

MR. SYRON. Is your enhanced minutes the MOD without attribution, essentially?

MR. MULLINS. It should have all the substance in it that an MOD or edited transcript has but without attribution.

MR. SYRON. So it's the MOD without attribution?

MR. MULLINS. I think we could vote on whether you'd like that sort of [document] or an MOD or an edited transcript and that would dispose of it.

CHAIRMAN GREENSPAN. No, wait a second. My own problem is that to have a fully detailed MOD without the names on it--

SPEAKER(?). That doesn't make [sense].

MR. MULLINS. Well, [the current minutes] are pretty close to enhanced.

CHAIRMAN GREENSPAN. Well, the point is this: I've thought that what we do now is about as complete [coverage of] what we talked about as one can imagine. The only meaningful concept of enhancement, as far as I can judge, is adding names.

MR. PARRY. On the vote.

MR. BOEHNE. We have names on the vote.

SPEAKER(?). We don't have views on the vote, though.

MR. ANGELL. Mr. Chairman, maybe that's what we need to decide. Some of us want to have attribution and some don't. Maybe we need to decide that first. That's either a yes or no.

CHAIRMAN GREENSPAN. But wait a second.

MR. MELZER. Well, you could have the opportunity to--

CHAIRMAN GREENSPAN. There are several who have been in favor of enhanced minutes. I think we ought to go around quickly and get a one sentence description of what that means to each of you.

MR. MULLINS. I would suggest that we take the current minutes in which we have gone a pretty long way [in covering the meeting discussion] and go as far as we can in the same way--in other words, just talking about the issues and arguments and not doing a detailed MOD. Basically the argument would be that we've been going in the right direction; we believe that this is sufficient or else we would have been doing something else.

CHAIRMAN GREENSPAN. Does that mean shutting off the tape?

MR. MULLINS. That would shut off the tape in the sense that we'll simply take notes. The notes will be without attribution so the staff can produce the minutes. The minutes are released. There is some sense maybe of an improvement over the current practice in terms of the amount of information in there, but essentially it is in line with the current practice. And I think it has not harmed the process at all to release those ideas.

MR. ANGELL. Rather than discussing this, Mr. Chairman, I would move that we have attribution first of all. And then we'll decide what form the attribution will take afterwards. I think that's the disagreement here.

MR. SYRON. There's another disagreement here. We may be talking apples and oranges. I said I was in favor of enhanced minutes. But being in favor of enhanced, which I still am, in my view is part and parcel in a broader sense expecting that we won't have to have verbatim recordings in the future. Also I must say in terms of the public appearance issue--though I'd vote for it separately--that I would favor combining the enhanced minutes with immediate disclosure when we did something.

MR. ANGELL. Does yours have attribution in it?

MR. SYRON. No, my preference was without attribution.

MR. MULLINS. Well, couldn't we vote on that sort of process, which is essentially an expansion of the current process, or vote on an MOD?

CHAIRMAN GREENSPAN. Can I suggest that there is a more important question? The really crucial question is whether the tape is turned off or not.

MR. SYRON. That's right.

CHAIRMAN GREENSPAN. All the other issues are really irrelevant because, if you turn off the tape, you automatically go to enhanced minutes. If you leave the tape on, then doing enhanced minutes doesn't get you anything.

MR. SYRON. Correct.

CHAIRMAN GREENSPAN. I will just tell you that my own view is that this is the wrong time to turn off the tape. There may occur a later time when that is the desirable thing to do. I think it's premature. It's an action at this stage that I don't think is warranted. It's unnecessary. It may become necessary. But the question has nothing to do with enhanced minutes because if we do enhanced minutes and leave the tape on, I don't know what the purpose of that would be.

MR. SYRON. Right. To see this in the totality and how it would affect FOMC deliberations, I think one has to look at this meeting; it has obviously been impacted [by the prospect of releasing a transcript]. It may be less impacted if it shows that we can't--myself particularly--be quiet as time goes on. So in two days [the inhibiting effect] may have all worn off. But in terms of the totality of the impact on the deliberative process, I would favor a package--I hate to call it a package--of immediate disclosure when we take actions, combined with enhanced minutes and not taping. I would consider any of those things individually but in the totality--and it's a political judgment to some extent as to what can be done--I think that's a far better solution going forward in terms of meeting our responsibilities.

MR. MULLINS. So, no secret materials basically?

MR. SYRON. No secret materials.

MR. LINDSEY. Release everything.

SPEAKER(?). Except you've said [you would redact material] that's secret.

MR. MELZER(?). No legislation would be necessary.

CHAIRMAN GREENSPAN. Go ahead, Tom.

MR. MELZER. Thanks, Alan. Well, I would just make two points. One is to reiterate what I said earlier: This is very important with respect to the future functioning of the Committee. I think the most important decision we need to make today is the one with respect to going back. I think it would be helpful to make one going forward but if we can't do it with the sense that there is total comfort in the decision, maybe we shouldn't. Maybe we should think about it more and decide--

CHAIRMAN GREENSPAN. Well, I have no intention of moving forward with a vote that is very close.

MR. MELZER. The other point I wanted to make--and reasonable people can differ on this--is that I don't feel we have as much flexibility to change going forward as you do. [If we were to decide] to go to an MOD now, we would be announcing that publicly. I think the perception would be that we've moved toward further disclosure because we think it's appropriate; some in Congress certainly feel it's appropriate. Then, if within a short period of time--months or even years--we decided that we didn't think that was appropriate any more, I doubt that [a change] would be accepted very well. [The perception would be that] we made a move toward further openness and then all of a sudden, presumably as soon as the heat was turned up and we got a Congressional subpoena for tapes and transcripts, we immediately changed our procedures. I think changing our procedures at that time would be even more difficult than changing them now.

CHAIRMAN GREENSPAN. Let me make the following suggestion. As I suspected, this is a very close vote. There is no way, I can tell you, to squeeze a significant consensus out of this easily. Because it is difficult, I think a suggestion that Don Kohn made earlier is probably the appropriate one. My own recommendation at this stage, having heard this, would be to enlist Don in his recommendation.

MR. KOHN. My recommendation, Mr. Chairman, after hearing the initial discussion, was for the Committee to vote on the past and get those transcripts behind us so we've got a clear--

MR. ANGELL. I thought we did that.

CHAIRMAN GREENSPAN. We did that.

MR. KOHN. Essentially we did that already.

CHAIRMAN GREENSPAN. Not essentially, we did it.

MR. ANGELL. We did it. Now what?

MR. KOHN. The next part of the suggestion was to tell Chairman Gonzalez that the FOMC is looking at different means to enhance our openness and disclosure [practices]. We would not tell him exactly what we're planning to do because it didn't seem that we had a consensus; but we would make a commitment that after the December FOMC meeting we would tell him what we're going to do. Part of [the reasoning behind] that was to reconvene the Mullins' Subcommittee so it could make recommendations to the FOMC at its next meeting. That was my recommendation.

MR. LAWARE. With the momentum that he will gain by our acquiescence to [releasing the transcripts], he will then say: Well, this is what I want you to decide to do.

MR. ANGELL. Absolutely.

MR. LAWARE. He's going to back us right into a corner.

MR. ANGELL. It is essential that we go forward. I don't know what the majority is on this attribution/non-attribution issue. I don't know what the majority is on keeping the tape recorder on. But let's find out. Let's vote.

CHAIRMAN GREENSPAN. Okay, I'm willing to--

MR. MULLINS. [We might first] have a vote between this question of something like minutes that we release quickly or an MOD or edited transcript--those two options--which is essentially your attribution versus non-attribution question.

CHAIRMAN GREENSPAN. I might suggest that the first one is really: Do we keep the tape on or turn it off?

MR. ANGELL. That's fine. Mr. Chairman, I would move that we leave the tape recorder on. All right?

SPEAKER(?). Second.

MR. SYRON. You'd leave the tape recorder on?

MR. ANGELL. Yes. That's what we're moving. Vote it down if you don't want it.

MR. KELLEY. I think they're bundled. That's Larry's word and I think he's correct. I think if we go one route, turning the tape recorder off is a much more sensible way to go. If we go with either alternative number 3 or number 4, then I think we leave the tapes on and get permission to erase them from the Archivist.

MR. ANGELL. But, Mike, one person thinks one way and one thinks the other. A motion has been made and seconded. Now, if you want to make a substitute motion and reverse the order, that's your privilege.

MS. PHILLIPS. What motion has been made and seconded?

MR. ANGELL. That we leave the tape recorder on.

MR. MULLINS. Putting it that way may--

MR. SYRON. Oh Wayne, this is not a legislative body.

SPEAKER(?). That's right.

MR. SYRON. We're here trying to discuss as a Committee the best way to deal with this issue.

MR. ANGELL. But when the discussion doesn't lead to determination as to where the majority is, a motion is a very handy way to find out where the majority is.

MR. SYRON. I don't disagree with that. But the issue here is that what I call the "Mullins proposal" for lack of a better term--

CHAIRMAN GREENSPAN. Let me say this: I don't want an official vote. I request that you withdraw the motion on the grounds

that we're not necessarily trying to find [a consensus on] a series of events but a series of choices--or I should say on a specific fixed issue. Look, turning on the tape or not turning on the tape is not a decision on what we're going to do. It is a vehicle to determine where people want to be. I think it's helpful but it can't be a binding vote. It has to be a preference because people can--

MR. ANGELL. Of course. All votes are--

CHAIRMAN GREENSPAN. Well, I'd just as soon not have [a vote] in an official sense, if you don't mind. I think it's going to create--

MR. SYRON. Confusion.

CHAIRMAN GREENSPAN. --more problems in trying to come out [with a decision] on this.

MR. ANGELL. Well, Mr. Chairman, I don't care which we vote on first. I'm open to voting on--

CHAIRMAN GREENSPAN. Can I tell you what the best vote at this stage is?

MR. ANGELL. Okay.

CHAIRMAN GREENSPAN. Whether we delay until the December meeting or whether we do something at the present one.

SEVERAL. Yes, that's right.

MR. MULLINS. At the December meeting or the Humphrey-Hawkins meeting so we can explain it? [Laughter]

CHAIRMAN GREENSPAN. Let me get an unofficial show of hands as to whether we should delay until the December meeting or act now. First, to delay until the December meeting.

SPEAKER(?). This is prospective?

CHAIRMAN GREENSPAN. Oh yes, obviously. One, two, three, four, five, six.... And we have twelve. That does it.

MR. ANGELL. No, not unless--. Are we doing this as voting members or are we doing it with everybody?

CHAIRMAN GREENSPAN. I thought the voting members had it. Let's do voting members very specifically. Voting members only.

MR. ANGELL. Delay?

CHAIRMAN GREENSPAN. Delay. One, two, three, four, five, six, seven.

MR. ANGELL. Six or seven?

CHAIRMAN GREENSPAN. Seven.

MR. ANGELL. Okay.

CHAIRMAN GREENSPAN. That solves the problem. Let me tell you: Of all the issues that I have been involved in, this is the closest vote that we have had. I would submit to you that if we tried to work our way through today to find a reasonable consensus we would be here until 5 o'clock this evening. This is a very complex issue and I think the ability to focus on this [unintelligible]. Having had this very broad discussion, returning it to the subcommittee for [filtering], if I may put it that way, is the least worst of the choices we're confronting. I don't know any way at this point to get a general consensus where everyone would feel comfortable. I'm appreciative of the fact that we have solved [the issue for] the past. And in certain respects I think developments over the next several weeks may change some of the things that are going on. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. I'd like to make a comment because I was not one of the seven. The reason I was not--and I have to be very direct despite my normally very high opinion of Mr. Kohn--is that he expressed his recommendation in such a way that I think it is very dangerous. It is far, far too defensive.

CHAIRMAN GREENSPAN. Well, I don't disagree with that. The only thing we voted on was delay, not--

VICE CHAIRMAN MCDONOUGH. Correct.

MR. KOHN. I certainly regret anything I said! [Laughter]

VICE CHAIRMAN MCDONOUGH. My positive sense is to go back to the [statement] that you made earlier, which I rather belligerently endorsed. It was that we have to go on the offensive now. It's tough to go on the offensive when we say: "Well, we're thinking about what we're going to do next." It's not impossible, but I think--

MR. KELLEY. I would agree.

CHAIRMAN GREENSPAN. It's a lot more difficult if you don't have a consensus.

VICE CHAIRMAN MCDONOUGH. I agree. I just want us to understand that if we're going to ask for a hearing and we're going to start defending ourselves, which I really think we have to do, deciding to wait--and I think you're right that deciding we need to wait in order to form a consensus has great wisdom, but it creates a difficulty for you or anybody else--

CHAIRMAN GREENSPAN. No question.

VICE CHAIRMAN MCDONOUGH. I just hope we understand that.

CHAIRMAN GREENSPAN. There's no question that if we could get a consensus in this Committee on going forward that would be far superior to not [reaching a decision]; I don't deny that. Just remember that the issue of hearings is essentially not to be terribly much involved in precisely how we go forward. The really crucial point is to try to emphasize how crucial the deliberative process is and [to urge] its protection. That's only partially related, if at

all, to the decisions we will be making with respect to what we go forward with.

MR. LAWARE. Mr. Chairman, we've been here for 3-1/2 hours discussing this one issue and have only decided maybe a third of it. I wonder if there's any merit, rather than cluttering up the next Open Market Committee meeting when we're supposed to be making monetary policy, in having a separate meeting on this subject and resolving it no matter how long it takes.

CHAIRMAN GREENSPAN. A thoughtful thought.

MR. KELLEY. Somewhat to back up Bill McDonough, if we do decide to delay, it wouldn't surprise me a bit if we all got a letter by the day after tomorrow asking for our independent--and undiscussed with anyone else--opinion of what we would like to see done going forward.

MR. MELZER. I think it would be appropriate in that case for the Chairman to say that this is an issue that the Committee has to focus on and the Committee will respond through the Chairman when it has completed its deliberations.

CHAIRMAN GREENSPAN. Absolutely.

MR. SYRON. There is something to John's suggestion, though. We wouldn't have to wait until--

CHAIRMAN GREENSPAN. I think that's a very good [idea].

MS. PHILLIPS. If we do that, it would be a good idea to have your subcommittee [report] so that we have [options to consider] and we're not arguing about definitions of what "enhanced" means and so forth.

MR. MULLINS. That's actually an advantage of the delay.

CHAIRMAN GREENSPAN. Absolutely. Does anyone strongly object? Another problem we may have is scheduling.

MR. BOEHNE. Thanksgiving Day. We're all free. [Laughter]

MR. ANGELL. Mr. Chairman, my confusion here is this: We had a discussion, which seemed to be much more in one direction than I anticipated it would be. Then all of a sudden we had a discussion about, well, we can do it this way or that way, or we can make it work. Many of us--I can go several different ways--can be satisfied with more than one [approach]. I don't feel strongly about which way we come out. But I do feel very strongly that this Committee is going to be disadvantaged if, after you've written your letter and you say you can't answer his letter about these tapes until the [next] FOMC meeting--

CHAIRMAN GREENSPAN. No, he didn't ask [unintelligible].

MR. ANGELL. Is that all he requested?

CHAIRMAN GREENSPAN. The only thing he requested was the historical--

SPEAKER(?). So we're responding to that.

MR. FORRESTAL. That's what we're responding to. We're responding to the request in his letter. We've taken care of that. If I may, Mr. Chairman, I'd just like to say that while there is some advantage, obviously, to moving forward, it seems to me that it would be very dangerous to do so, given the differences of understanding as to what we're talking about and the differences of opinion. I think we would be even more disadvantaged if we moved forward with a vote in that kind of environment. We're talking about the future meetings of the FOMC; we need to be very, very clear about what we're talking about. And it's in that connection that I'd like to support what Governor Phillips said. Whether we have a special meeting or not, we need to have some kind of staff document that clarifies exactly--

CHAIRMAN GREENSPAN. I absolutely agree with you, Bob. I think we will find at the end of the day that through proportional voting or representation or what have you, we will come out with a consensus of this Committee. The combinations here are too complex to simply put forward [proposals] and start working through the confusion. And I don't think we should pressure this process; it's too important. I think John LaWare's recommendation is very sensible. I would ask the Secretariat to survey all of the members to see where we could possibly squeeze in [a meeting], even if it comes out to be an evening or, if absolutely necessary, a weekend. But what we need first is a document, then a date; and then we will just stay until we get the issue resolved. Governor Phillips.

MS. PHILLIPS. I agree with that. I just wanted to ask if we have in fact taken care of what Gonzalez has requested via the votes. Have we responded?

CHAIRMAN GREENSPAN. We have.

MR. ANGELL. To every part of his letter?

MR. KOHN. Well, he has made suggestions about what you should do before. He suggests you release an MOD after 60 days and raw transcripts after--

CHAIRMAN GREENSPAN. I think we have to respond to him precisely [in terms of] the content of this meeting.

MR. SYRON. That's right.

SPEAKER(?). He asked for the transcripts and--

MR. KOHN. His demand is for the past [transcripts].

CHAIRMAN GREENSPAN. I assume that if he requested that we voluntarily offer the transcripts, the answer of this Committee is "no." Is there any dissent to that? That's the impression that I've gotten from all the members. It is our basic view that we've done it appropriately in the manner we suggested; that is an issue that we

have made a decision on. If the Congress chooses to override us, that's their prerogative.

MR. ANGELL. I don't think I understand what you're saying. What decision have we made?

CHAIRMAN GREENSPAN. We've made the decision to release the lightly edited transcripts after five years.

MR. ANGELL. Yes. But what decision have we made in regard to his request to give [the raw transcripts] to him? I thought that was a separate question.

CHAIRMAN GREENSPAN. I think the [unintelligible].

MR. ANGELL. Virgil, is that a separate question?

MR. MATTINGLY. As the Chairman said, yes.

MR. ANGELL. So what is our decision on that?

CHAIRMAN GREENSPAN. As I understood the context of this discussion, the answer to that question is "no."

MR. ANGELL. Oh, I just didn't think that had been discussed and deliberated and voted on.

MR. FORRESTAL. That's what I was voting on.

MR. ANGELL. I thought we were voting on what we were releasing to the public and we decided to do [lightly edited transcripts] with a five-year delay.

CHAIRMAN GREENSPAN. We did. If you wish to go around and--

SPEAKER(?). It's the same.

MR. ANGELL. Well, what I'm wondering is whether or not there would be a possibility of your going to him and asking him if we could make them available to him as a Committee Chairman and keep them private and still have our five years. Do you think that's an option? I thought, Virgil, we had to deal with the fact that he's the Chairman of the Committee and--. Are we saying "no" to him? Is that what we've [agreed]? Okay.

MR. KOHN. This is very similar, Governor Angell, to what Chairman Burns replied to Chairman Patman in 1975--

MR. ANGELL. I see.

MR. KOHN. --who asked for the last five years of unpublished MODs and Chairman Burns said no.

MR. ANGELL. Well, I do want to dissent from that decision.

CHAIRMAN GREENSPAN. Okay, let me ask: Are there any other dissents in the Committee or amongst the nonvoting presidents?

MR. LAWARE. I think that's the right course of action, but it seems to me that inevitably that is going to trigger a subpoena and he will [get] the unedited tapes and--

CHAIRMAN GREENSPAN. If a subpoena is issued, we will have to deal with it. One possibility is that we could go up and discuss these other alternatives with them.

MR. ANGELL. Could I ask you this question? Do you think there's any chance that he would be open, after you've told him we're releasing these lightly edited transcripts with a five-year delay and that means we're going to get out the--. Are we following the suggestion that we start with 1988 first? Is that the order?

CHAIRMAN GREENSPAN. Yes.

MR. LAWARE. And work back.

CHAIRMAN GREENSPAN. I got the general impression that we would do the early ones as quickly as we can feasibly turn them out.

MR. MULLINS. And tell that to the Committee.

MR. ANGELL. Yes. Now, after telling him that--that we've been forthcoming and the Committee has voted--do you think there's any chance that in negotiation with him he would be open to proceeding in the direction of having them himself with one staff person to review them and not go the subpoena route?

MR. KELLEY. And do what with them?

CHAIRMAN GREENSPAN. I, frankly, do not know the answer to that.

MR. ANGELL. Well, I just would prefer we not get caught in a subpoena if we can negotiate our way out of a subpoena.

CHAIRMAN GREENSPAN. I don't see the means by which we basically can negotiate our way out.

MR. PARRY. Shouldn't our agreement to release these lightly edited transcripts with a five-year delay buy us some votes in the Committee anyway?

MR. MULLINS. Yes, if the argument--

MR. PARRY. I would think that that would be significant and that the chances of Chairman Gonzalez getting his way with his own Committee would not seem that high.

MR. ANGELL. Well, my fear is that we will have kicked and screamed all the way, and he will end up getting all of this [despite] our kicking and screaming and it will really put us in a very bad light with the public. I at least wanted a discussion of the alternatives to going that route.

MR. SYRON. What would you do? What would your approach be then?

MR. ANGELL. My approach would be to authorize the Chairman to release to [Mr. Gonzalez] whatever FOMC materials he wants to see, if he will agree that only he and one staff person will look at them and that they will return them to you within a reasonable period of time--

CHAIRMAN GREENSPAN. I can't--

MR. SYRON. That's a dangerous precedent.

SPEAKER(?). A dangerous precedent.

MR. ANGELL. So that's impossible?

SPEAKER(?). That's impossible.

MR. SYRON. Given the choices, I would prefer to stay here for the next two or three days and work out what we're going to do going forward rather than do that.

MR. KELLEY. So would I.

CHAIRMAN GREENSPAN. Can I suggest this? Unless I hear something to the contrary, the answer to Chairman Gonzalez is "no." We will release the transcripts in lightly edited form. We will do that starting with five years back and do the remainder as quickly as is feasible. If that is the case, and unless I hear something to the contrary, we will now move to the next item on the agenda.

MR. ANGELL. Wonderful.

SEVERAL. Is it lunch?

MR. LINDSEY. A working lunch?

CHAIRMAN GREENSPAN. That's a good question.

MR. LINDSEY. I move that we work through lunch, Mr. Chairman.

CHAIRMAN GREENSPAN. Let's do that. Why don't we just get our food and come back here.

[Lunch recess]

CHAIRMAN GREENSPAN. Would somebody like to move [the minutes]?

SPEAKER(?). Move it.

CHAIRMAN GREENSPAN. Is there a second?

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. Without objection. Peter Fisher and after you, Ted Truman.

MR. FISHER. [Statement--see Appendix.] Mr. Chairman, I'd be happy to answer questions on my report or to move on to Agenda item 4.C. as the Committee wishes.

CHAIRMAN GREENSPAN. Why don't we first see if there are any questions. Questions for Peter? If not, you may move on.

MR. FISHER. The System's reciprocal currency arrangements come up for renewal at this time of year, including the existing \$700 million swap with the Bank of Mexico, which is relied upon as part of the package being prepared. I have no changes to suggest in the terms and conditions of the existing swap arrangements and I request that the Committee approve their renewal without change. I'd be happy to answer questions on the renewal of the existing swap arrangements. Ted has something to say about the Mexican package being worked out now. [We can proceed with] Ted or questions, either way.

CHAIRMAN GREENSPAN. Why don't we have Ted go first.

MR. TRUMAN. Just briefly the state of play is as follows: As you know, last week we put in place, in the sense of being ready to go, a bilateral package between the U.S. monetary authorities and the Bank of Mexico, and because of the favorable behavior of the financial markets it wasn't necessary to use that. Meanwhile, we have been working with the Bank for International Settlements and their backing central banks to put in place as a contingency a package in which the [United State's] participation would be the same \$6 billion. The Federal Reserve's [part would be] \$3 billion: the existing swap line of \$700 million that Peter just referred to and the special swap arrangement of \$2.3 billion. Our aim is to put all this in place on a contingency basis by tomorrow--to have it ready to go sometime after 8:00 p.m. Eastern standard time if things should turn out poorly, but not to do anything unless things should go poorly and the Mexicans decide to activate the arrangement. In that connection I would request that you maintain contact with Norm Bernard, telling him where you are. In particular, I think we need to know where you might be between 8 and 12 tomorrow night; or if that's too inconvenient, you might give Norm your proxy. Our hope and the Mexicans' hope too, obviously, is that none of this will be necessary and it will all go away by early Thursday morning.

CHAIRMAN GREENSPAN. Questions for either gentleman?

MR. JORDAN. The last time we had discussions about reciprocal currency arrangements either late last year or early this year--I don't recall--the response to a question about these swap lines was this: That we had a new Administration that had been either just elected or just inaugurated and until they had been there for a while and we could get acquainted and find out what their attitudes and moods were, we couldn't really address this, so for the time being we would go ahead and just continue what we were doing before. We've never had that report. It's a report I still look forward to getting as to what is the attitude and what is the [purpose] of even having these kinds of arrangements with all these different banks. If we could, I'd really like to have that discussion.

MR. TRUMAN. Well, your memory is probably better than mine, President Jordan. I don't think there was a commitment to review

whether we needed to do away with the swap network. The commitment was that we needed to work on the question of balances, and that work is continuing. We have had some problems getting the Treasury to focus on that, but I understand that is a continuing effort. But if the Committee would like us to prepare a report on whether the swap network should be continued as it is, we can do that. I feel that it is probably one of those things that is easier to retain than to do away with.

MR. JORDAN. The Vice Chairman might recall that [as] the then Manager [with oversight] for foreign operations in response to a question about under what circumstances he could foresee implementing a swap with certain minor central banks said that he couldn't imagine any. He also said that he thought it was an appropriate topic to address once the new Administration was in place and conversations had taken place. [Unintelligible] to hearing the report.

VICE CHAIRMAN MCDONOUGH. I do recall making such a statement. The likelihood of our having to use the swap line with Mexico obviously says that it is possible that these things can be used and, therefore, I suppose puts some merit in discussing their [continuing] existence. I'd probably come out essentially where Ted Truman just suggested and that is that they are alliances that have been in place since the 1960s and it becomes an immense dog that didn't bark in the night if we decide to deconstruct what was put together at the time. And we would have to have a whole new view of what we wanted to do on international currency arrangements and what we would put in place of these reciprocal relationships which we've had for so long. Personally I wouldn't put an immensely high priority on what we'd get out of such an exercise; if other members of the Committee thought it would be a good idea, I wouldn't oppose it. But again, I'm not sure just how much we'd achieve by doing it.

MR. FISHER. I'd like to add that I think the question of whether we would use them, given the current high level of balances, is a very different one than whether we would want to have them available for other central banks to use. It's essentially a question of cooperation and whether having them in place isn't a good idea as a sign of central bank cooperation.

MR. JORDAN. I think that is the question.

MR. TRUMAN. The other part of it as far as I'm concerned and the reason I reacted the way I did--and I obviously misunderstood or misremembered, President Jordan--is that I don't see this as a matter for the Treasury Department at all. It is true that since it's the FOMC that maintains the swap network, the FOMC can do away with it. I think it is probably fair to say that if we were to move in that direction, we might want to have some consultation because over time we have used that cooperative [approach]. But essentially what we do with those things is not a Treasury decision. The balances side is a bit more [of an] ongoing [issue]. I would note that both last year, in September, and this summer there were approaches from some of the European central banks about possible use of the swap network. It is also fair to say, as this current episode with Mexico illustrates, that if one really wanted to help the Danish National Bank--I can't remember the size of our swap network with them but Peter can tell you because it's right there in his table--it's hard to imagine that it

would cover more than half a day's worth of the Danish National Bank's intervention. Is it \$100 million--?

MR. FISHER. \$250 million.

MR. TRUMAN. But it also [should be noted] that these mechanisms are there and they are a form of central bank cooperation; they are the basis on which we receive and provide information to other central banks. And if the need [arises] they provide a framework where we can easily augment [balances] either for our own use or for their use under appropriate [conditions]. But, as I said, if the Committee would like us to take another look at this question, we will be glad to do so.

MR. LINDSEY. If that's the case, why are we voting suddenly to authorize it now?

MR. FISHER. They're renewed annually. They are one-year swaps which are renewed each year. And at this time the Committee authorizes the manager to renew them for the coming year.

MR. LINDSEY. Oh, I see. So it just happens that the last time we did this was 12 months ago?

MR. FISHER. Yes. It's fortuitous.

MR. ANGELL. Well, I agree with the Vice Chairman of the Committee that there are not likely to be issues here [in terms of] the Committee wishing to make this kind of change. It seems to me that we've already expressed sentiment in regard to careful and judicious use of these instruments. But I would tend to favor their being retained as a part of the arsenal under the arrangements in which we're very careful as to how they're used. So I don't really see that much benefit, Jerry, of the Committee engaging in that study.

MR. MCTEER. I'm not sure that a study of the swaps per se is necessary; but since I've been attending these meetings, over 2-1/2 years, we really haven't had a discussion of our views on intervention versus nonintervention. I don't know what the FOMC's opinion is on that subject and I do think it would be worthwhile at some point when the crises are over to review the whole subject.

CHAIRMAN GREENSPAN. That's a very useful notion. I didn't realize it was that long; but if it is, it's longer than it should be.

MR. ANGELL. Yes, it was about 1989 or 1990 when we had our last--

MR. SYRON. It was 1990.

CHAIRMAN GREENSPAN. Ted, could you see that that gets on the agenda?

MR. TRUMAN. I noticed that President McTeer qualified it, saying once we get beyond other more pressing matters--

SPEAKER(?). Yes, that's a big qualification.

MR. TRUMAN. --but I hear the directive.

MR. MCTEER. Yes, I don't think it's the top item on the agenda.

CHAIRMAN GREENSPAN. No, but I think it's a useful one. Anybody else want to come forth in this discussion? If not, would somebody like to move the renewals?

MR. SYRON. So move.

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. All in favor say "aye."

SEVERAL. Aye.

CHAIRMAN GREENSPAN. Opposed? The "ayes" have it. Joan.

MS. LOVETT. Thank you, Mr. Chairman. In the interest of time I'm going to dispense with some incredibly interesting statistics on the Treasury's fund-raising operations in the market over the intermeeting period and the reception of the refunding and composition of the debt unless someone has questions about it. [Secretary's note: Statement in its entirety is shown in the Appendix.]

I'd just conclude, Mr. Chairman, with a request for a temporary increase in the intermeeting leeway from \$8 billion to \$11 billion. As I noted earlier, upcoming reserve needs at this juncture are expected to be sufficiently large and persistent as to warrant a cushion beyond the normal limit.

CHAIRMAN GREENSPAN. Questions for Joan? If not, we need two motions. One is to ratify the actions of the Desk of the past month. Would somebody like to move that?

MR. BOEHNE. So move.

CHAIRMAN GREENSPAN. Without objection. And secondly the leeway request.

MR. SYRON. So move.

MR. KELLEY. Second.

CHAIRMAN GREENSPAN. Without objection. Thank you very much. Moving on, Mike Prell.

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

CHAIRMAN GREENSPAN. Any questions for Mr. Prell?

MR. FORRESTAL. Mike, if I read the Greenbook correctly, you're anticipating a tightening of policy later in 1994. I was a little confused or baffled by that in light of the deceleration of GDP, a relatively high unemployment rate, and a deceleration of inflation. Could you comment on that?

MR. PRELL. Well, we have not assumed anything significant happening within 1994. We have the notion that things might start in that direction and then continue on gradually through 1995. I don't think the precise pattern is critical here. Basically we've stretched our forecast horizon out through 1995. We would anticipate that as we move through 1995 into 1996, not knowing what will happen on important things like medical care and so on, there will be alleviation of some of the negative elements in the economic picture [at a time when] fiscal policy will no longer be exerting quite the drag it will through 1994 and perhaps into 1995. We expect that we will have worked our way further through the overhang of unoccupied commercial space and multifamily residences and so on and that by then there would be some assurance that foreign industrial activity will have picked up. In general we think there may be an emerging stronger thrust to activity and that some tightening of policy may be called for in order to hold aggregate demand at a level that would be consistent with maintenance of some marginal slack in the system and thus the conditions that will promote some gradual further movement toward price stability. This is in essence a matter of design, trying to capture at least in a rough way the objectives of the Committee over the intermediate term.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mike, one characteristic of some of the recent Greenbook forecasts has been a relatively lean inventory picture, particularly business inventories; and I think there were even discussions about just-in-time inventories, etc. It seems as though things have changed dramatically in this current forecast in that there is anywhere from \$10 to \$20 billion a quarter more in nonfarm inventories. I wondered what has changed your thoughts?

MR. PRELL. I don't think there is a change in any fundamental way. There are two things that we had in mind in this forecast. One was we had to live for all practical purposes with the set of third-quarter data that existed. Our suspicion was that that level of inventory investment in the third quarter was overstated by BEA. They didn't have data for September, and that's why I focused some attention on that a couple of minutes ago. As things turned out, it does appear to us, as best we can do the arithmetic--and this isn't easy--that there will likely be some downward revision to nonfarm inventory investment in the third quarter. And we noted in a little subtle footnote in the Greenbook that using our best change approach, which addresses what the growth contribution of inventory investment would be, the numbers written on the green sheets are artificially high relative to our belief of what would be happening. Basically we think that inventories are at reasonable levels now. There are some sectors where they may be a bit lean, particularly at the manufacturing level. We don't see large shortages; we don't see any real impulse coming here in the way of longer lead times and expectations of rising prices that would lead companies to want to stock up rapidly. Essentially, with this adjustment we have inventory/sales ratios in the aggregate probably declining slightly over the forecast period. And I think that's a continuation of the just-in-time modifications of inventory practices and so forth.

MR. PARRY. But the '94 number is probably about twice what it was before?

MR. PRELL. Well, we're always constrained in terms of those level numbers but we don't think we have an exceptionally high rate of inventory accumulation here. If some of those upside surprises that I suggested came about, those might be circumstances in which we might also get besides the extra final demands some greater inventory investment. But we just don't see inventories as a tremendously dynamic element in the forecast; it contributes only a small fraction of a percentage point to GDP growth over the coming year.

MR. PARRY. Thank you.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. At meetings I attended in 1992, there was a public or outside perception that the Committee implemented its policy actions in the short run based on what the monthly nonfarm payroll employment numbers were doing. And I thought that that was undesirable and had implications that could be troubling down the road. We've gotten away from that and I think it's very healthy and very desirable that we've gotten away from that. But when I looked at this Greenbook and the one before--it's emphasized more in this one--I was concerned about this input to our deliberations. And Mike's response to Bob Forrestal enhances my concern. On page I-13, with the first look at 1995, you say: "We have assumed an increase in short-term interest rates that we believe sufficient to hold real GDP growth to 2-1/2 percent." I've never thought that the role of monetary policy is to put an upper limit on real growth. It was troubling to me in past times when the idea was that the role of monetary policy was to foster or stimulate certain kinds of real GDP growth. And it's just as troubling to suggest that the purpose is to put an upper limit on it. The next sentence says "With continued slack in labor and product markets, core inflation...." Again, the idea that we're directing monetary policy with the intent of maintaining slack is very troubling. However we come out on our discussions about deliberations in the future, as I understand it the Greenbook is released to the public with a five-year lag. And this exposition about the criteria for implementing monetary policy I find very troubling.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Mike, just a pure information question: Is the BLS changing the definition of unemployment somehow? I heard something about a one-time change which is going to bump the measured unemployment rate by a significant number of tenths next year.

MR. PRELL. Yes, the BLS had a press conference this morning. There are a number of changes that will be taking effect with the January household survey. Some of these have to do in essence with concepts and the way various questions are asked and how the responses might be interpreted. Others have to do simply with the mechanical procedure of the survey--the use of computers which will permit them to check out what the person in that household who has been in the survey in prior months had been saying; they have found that that sometimes alters the responses. They've run this experiment now for the last year and they indicated this morning that the result of that experiment was that the unemployment rate they were getting for this overlap sample was 7.6 percent versus 7.1 percent on average for the regular series. Whether this is a unique period of some sort that

might make this 1/2 point differential unrepresentative, one can't know for sure. And there will be, I gather, a number of analyses of the difference issued over the coming year. But it does appear that the methods they will be using will raise the measured rate of unemployment. The question for us will be: Is there any reason to assume anything other than that in essence the natural rate has risen 1/2 point and we just need to adjust our thinking, with due recognition of President Jordan's remarks, about what inflationary pressures might be implied by a given level of the unemployment rate.

MR. SYRON. So, after the first of the year, will they be reporting the number both ways for some period of time?

MR. PRELL. I don't believe so, and there's not going to be any endeavor to do historical revisions.

MR. SYRON. So conceivably people are going to see something that says the unemployment rate is a half point higher?

MR. PRELL. Yes, and I'm sure [BEA] will be engaged in an educational effort. But I suspect we'll have one confronting us, too, in February when we present the Humphrey-Hawkins report. Now the public will be trying to educate us as to what we've missed all along.

MR. SYRON. Well, it is going to be [unintelligible] because in the whole forecast period if we don't change what we assume, we would have an unemployment rate, [with the revised] measures, of more than 7 percent.

MR. PRELL. Presumably, if we were to adjust our forecast today, we would just tack 1/2 percentage point on there for lack of any alternative rationale.

SPEAKER(?). Ouch!

CHAIRMAN GREENSPAN. Further questions for Mike? I guess we don't like the answers! [Laughter]

MR. PRELL. Let me remind you that the change in the survey has not changed anything in the realities of the world. It's a matter of how we understand them and perceive them.

SPEAKER(?). Well, it's a political reality.

SPEAKER(?). Yes it is.

CHAIRMAN GREENSPAN. Who would like to start our Committee [discussion]? President Hoenig.

MR. HOENIG. Mr. Chairman, our District's economy continues to grow at a moderate pace as it has for several months. There are really no major changes. Construction remains strong with most of the growth in housing. Nonresidential construction will slow a little because of some major infrastructure projects coming to completion, but I don't think that will have a significant effect on our region. The energy sector has slowed slightly because of lower prices. Our services and retail areas remain solid. The manufacturing area remains sluggish but there are some signs of improvement, especially

in the non-durable goods portion of it. As we look ahead we think that [the regional economy] is going to continue as it has in recent months with moderate growth. We expect to see housing starts continue to do well. Energy activity should remain steady although we don't see any real boost there. Agricultural incomes should be good both from crops and in the livestock area. Manufacturing should remain steady with perhaps some signs of improvement. So overall it is going to continue as it has in the past.

On the national level we are expecting [activity] to be somewhat stronger than the Greenbook shows going into next year and throughout the year. And for us that means GDP growth of around 3 percent or a little more. We also see because of that perhaps a little more pressure on inflation. So that will be a major concern of ours as we go forward in terms of our projections and what that means for policy. For now our fourth quarter looks about like the Greenbook. That's all I have.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, in the interest of time let me simply say that in the District there really hasn't been a great deal of change since the last meeting. But I do think, to a modest [extent] at least, that the underlying level of activity has increased. The steel business is going to finish the year on a pretty strong note and [our contacts in that industry] are preliminarily looking for an increase in shipments of 3 to 4 percent next year, so they're feeling pretty good. The auto industry currently is having perhaps the best quarter in a sales sense that they've had since the first quarter of 1990. The production schedules for the first quarter of next year have been preliminarily set some 7 percent ahead of [those for the first quarter of] this year, and this is invariably a pretty good quarter. So, they're looking currently and ahead at a continuation of good business. I must say that the retail side has been a very pleasant surprise. I talked to one retailer--they have nationwide activity--who said their sales in October had been simply fantastic. Total sales were up 20 percent and on a [same] store basis they were up 12 percent, so he has an underlying feeling that the level of confidence of retailers and consumers is building. I mentioned the last time that in terms of commercial real estate some tentative signs of stability are emerging. I think that trend is continuing. I'm told that there really is an awful lot of capital that is moving into that [area]--again for the wrong reason. The fundamentals aren't better but the investment alternatives are such that real estate in a yield sense is looking better. And it's now beginning to have an effect on rent conditions, which are slowly beginning to improve at least on the margin. We're a long, long way from new construction, but we have to go through this phase before we get to new construction. The only negative that I'd report certainly is in the ag sector, for reasons that are well known to the Committee. Particularly in our District, we have been very hard hit by growing conditions this summer. The [harvest] is about completed on soybeans and seventy-five percent complete on corn, and we really have had a significant reduction in the production of both corn and soybeans. While that's bad enough this year, it really does mean that the pressure on next year is going to be very, very heavy. If we had two bad years in a row, it would be certainly very tough.

Turning to the nation, I think our [District] outlook is consistent with what we see in the national economy, namely a modestly building growth consistent with the staff forecast. It may be even a touch stronger than that. But I must say the marketplace pressures are continuing to restrain price increases so that our outlook for inflation is very consistent with the staff forecast.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Thank you, Mr. Chairman. States in the Twelfth District are moving along two distinct and divergent paths. The California economy continues to weaken according to most statistics that we see. Employment has fallen 5.1 percent or by 642,000 in the state since July of 1990. In the last 12 months it has fallen 1.3 percent. In fact, if we look at California's employment losses and what they do to the national totals, actually instead of the 1.6 percent increase, employment in the nation outside of California has really risen 2 percent, which is a fairly significant difference. California's unemployment rate is 9.8 percent in October. The volume of loans at large banks in California continues to decline although at a somewhat diminishing rate. And loan growth in the rest of the Twelfth District is positive. [Hawaii is reporting] weakness as a result of the problems in California and Japan. The rest of the District's states are reporting relatively strong economic conditions. Utah remains the fastest growing state in the nation and Nevada is reporting robust growth. Three major projects will have added 10,000 new hotel rooms by year-end in Las Vegas, and contacts report that the major hotels are 100 percent booked for weekends through April of 1994. Arizona and Oregon are reporting solid year-over-year employment gains in September of 1.6 and 1.9 percent, respectively. And anecdotal reports suggest even more strength since September. Contacts report a shortage of construction workers in Phoenix while Tucson is experiencing a building boom with rapidly appreciating home prices. I should note that there are some companies moving into the Tucson area like Hughes Aircraft. Similarly, a contact in Portland reports that three major new office buildings are being planned and it seems very likely that at least two of those will be constructed. Finally, while western Washington's economy has slowed because of all the cutbacks at Boeing, which you've heard an awful lot about, the eastern part of the state is reporting a boom.

If I can turn just for a moment to the national economy, we basically agree with the Greenbook's outlook for moderate growth in real GDP over the next two years as tighter fiscal policy is counterbalanced by relatively low real interest rates. However, I am a bit surprised that the Greenbook shows such a small decline in inflation next year and the year after. Given the expectation that output will grow only modestly over the next two years and that the unemployment rate is likely to remain at roughly the present level, based upon past relationships it wouldn't be surprising in my view to see labor market slack of this size reduce the CPI inflation to a lower number than that included in the Greenbook.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Well, Mr. Chairman, economic activity in our District is picking up again. I've been reporting for the last couple of meetings that we were doing a little better than the rest of the

nation but that the differential was declining. That seems to have turned around again. Momentum is picking up. What's interesting to me is that the sentiment among business people is much more positive than it has been. It had been cautiously optimistic for some time but almost universally the business people that I talk to are fairly positive about the outlook. While they complain bitterly about competition and not being able to get prices increases, their own businesses seem to be doing pretty well. And I think that sentiment is supported by the economic data. Consumer spending, for example, has been quite good. The apparel people have been increasing their sales, and production has gone up. Automobile sales fell off a bit in the summer but they're still well above the pace that we saw at this time last year. And retailers generally, not just the automobile people, are expecting a fairly positive Christmas season. The number that I hear most commonly is sales [increases of] between 3 and 5 percent over last year. We continue to benefit from the strength in housing. Residential construction is quite strong in the District and all the industries associated with housing are continuing to do well because of housing. Commercial truck production is also up in the District, responding to order backlogs. Producers of medical equipment and supplies are also reporting increased shipments. Vacancy rates have been declining all year but I think there is now a concern on the part of realtors that consolidation is going to reverse that course and that absorptions will not continue at the rate they had been running. We're also seeing on the negative side some cutback in paper producers' production and weak demand from foreign markets both in that industry as well as in the chemical industry, particularly in Louisiana. Our employment growth is continuing to outpace that of the nation, and we have no signs of price increases at all or of wage pressures. Prices of raw materials are pretty much what they were, although we have had reports recently about increases in lumber prices which we thought were going to be temporary but that temporary period seems to be stretching out a little. Loan demand is still fairly weak in the District but it is picking up a little, particularly in the consumer area. So in general the momentum in our economy in the Sixth District is picking up and the signs are quite favorable for 1994.

With respect to the national economy, we haven't revised our forecast significantly since the last time. However, we do see GDP somewhat stronger than the Greenbook. We think GDP growth is going to be a bit over 3 percent on a fourth quarter-over-fourth quarter basis. For that reason we see the unemployment rate drifting down just a little more and inflation somewhat higher. In fact our inflation number is about 3-1/2 percent for 1994. One of the interesting things here to look at--and the Greenbook does allude to this--is what's going to happen to consumer spending. With the workweek and hours worked moving up, it's a question as to how long employers are going to be able to maintain this level of employment. So I think there is a possibility that employment will increase and, therefore, income and consumer spending. The other thing that's interesting to me is the question of whether or not income growth is being underestimated due to the number of self-employed people and small business formations that are occurring. If these people are not being captured [in the surveys] and if income growth is actually stronger than the numbers reveal, then consumer spending could be fairly ebullient. On the other hand, if one charted [unintelligible], the jury is out on that score, so there is a possibility that consumer spending might not be

as strong as our forecast has it. Another risk to the economy and to the forecast, it seems to me, is the external sector. We all know that the projected recovery of the European economies has been repeatedly put off until later in 1994 and that represents a risk to the economy. But generally speaking I think things are relatively on track.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. First with regard to the District, I've reported for a long that the District economy has been fundamentally sound, and that continues to be the case. The one exception is the exception that has also been the case for some time now and that's the areas of agriculture that were affected by the flooding. We did have a meeting in the Bank about a week or so ago with a group of business leaders from the Twin Cities representing a wide range of businesses. I will comment on that briefly because they did hold some views with great conviction; they were very adamant about it. Three themes emerged and I will just report to the Committee on those. One was that they were pretty much of one mind that there is no inflationary pressure around whatsoever. And they were quite vociferous about that. Secondly, they were very concerned about the health care proposals, particularly from the point of view of what they meant for prospective employment and costs of employment. I would say that they were almost universally negative about that. Thirdly, while they agreed that in many respects the latest statistics on the aggregate economy and what they were seeing in at least some of their own businesses were more favorable--and maybe a good deal more favorable--than what we were seeing earlier in the year, they continue to think that the expansion is very fragile and could easily be disrupted. The one exception to that was people in the real estate business, especially in residential but even to some extent in commercial. Clearly, residential has had a very good year in the District, and commercial activity has started to show at least some signs of improvement. But outside of those areas, I think it's fair to say that there was still a view that the expansion is quite fragile.

With regard to the national economy and the economic outlook in the Greenbook, clearly this expansion has moved in fits and starts and it looks as if another start is under way. But starts have been followed by periodic fits, and that's what the Greenbook seems to be envisioning again. I don't know that I would take very strong exception to that but I do have some sense that maybe at this point the economy really is starting to build a little momentum. And that, coupled with the anecdotes that we've been getting for quite some time about the lack of inflationary pressures, leads me to speculate at least that while we may get the same kind of path for nominal GDP in 1994 as envisioned in the Greenbook, we might have a somewhat more favorable split between real growth and inflation than is envisioned there. I can't say that with any great conviction at this point but I do have a sense that it wouldn't take a lot for things to turn out that way. But other than that, I don't have any sharp departures from the outlook as depicted in the Greenbook.

CHAIRMAN GREENSPAN. President Broadus.

MR. BROADDUS. Well, it seems clear in our District that economic activity is picking up, as seems to be the case in a number

of other parts of the country. We have a substantial amount of manufacturing activity in the Fifth District, especially textiles and furniture but a lot of other things as well. And for the first time since the beginning of the year we're seeing and getting information about increased orders and increased shipments. A lot of this, especially again with furniture and textiles, is being driven by the apparent increase in housing activity--sales and construction--not only in our District but around the country. And we are definitely seeing some significant strengthening in the housing sector in our region with a few local exceptions in places like Charleston, South Carolina and Norfolk, Virginia where the defense build-down is a problem. I would just summarize [my comments] on the District by saying that over the years I've found that the general tone of comments at our directors meetings is a pretty good coincident or maybe slightly lagging indicator of overall conditions, and those comments have been decidedly more optimistic for the last couple of meetings.

I'd like to take this opportunity to congratulate Bob Forrestal and the Sixth District for getting a Mercedes plant even if it was at our expense. We're comforted somewhat, though, by news that Mickey Mouse is going to build a historic theme park about 30 miles down the road which may [deflect] some tourists from Orlando to northern Virginia. We need a little more congestion!

With respect to the national picture, the upward revision in the Greenbook projection for the current quarter certainly seems reasonable, given the broad evidence now that aggregate demand may be heating up a bit. Frankly, I wouldn't be terribly surprised to see something even in excess of 4 percent for one quarter. I also continue to believe that the risk of error in the Greenbook projection for '94 is at least somewhat on the up side. I recognize, as Mike and the Greenbook rightly point out, that the recent tendency for consumer spending to outrun income growth is not sustainable over the long haul. But in the context of the permanent income model of consumer behavior, I think one can interpret the recent behavior as perhaps indicating that households have revised upward their thinking about future income prospects. If that's a correct interpretation, then it's quite possible that the increase in demand will be sustained well into 1994. And I wouldn't be surprised to see real GDP growth next year at 3 percent or perhaps even a bit higher, compared to the 2-1/2 percent projection in the Greenbook. In that regard, the recent backup in long-term interest rates is, for my money at least, the most discouraging development recently. I think it's primarily due to a concern in the markets that the recent strengthening in economic activity is going to be allowed at some point to put upward pressure on inflation. And my sense is that that perception is increasingly widespread. As we all know, nothing could hurt this recovery more completely and quickly than a big jump in long-term interest rates. So I think we need to remain vigilant.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. Let me be briefer than usual in light of the hour. Although the Philadelphia District continues to lag the nation, the improved trends that I noted at the last meeting continue largely for the same reasons that we're seeing nationally. Manufacturing is stronger; the orders there are better. Residential construction is

stronger. And the retailers, who usually are never happy, seem less unhappy; and I think that's a positive sign for the District. Attitudes are still cautious largely because of the employment situation--employment growth is flat to very modest--although I do sense that people seem to be more receptive to good news than they did a few months ago.

On the national scene, we have a sawtooth pattern that has prevailed in this recovery now for several years. When we see a blip upward, as we're seeing now--4 percent growth seems likely in the current quarter--there's a tendency to expect that that may continue, just as when things soften it tends to go down. My sense is that we are still largely locked into a 2-1/2 to 3 percent growth pattern overall with this sawtooth trend line that we see, largely I think because of the slow employment growth. And my sense is that what will keep the economy from growing much faster than that is that the [strength in] consumption, which has [supplied] a big upward push, is not sustainable [without] faster income growth, and I doubt that we'll see the faster income growth that would be necessary. So, I think we do have a stronger second half but I don't expect that trend to continue; next year I think we'll be back into the 2-1/2 to 3 percent [growth] area. On inflation I might just echo what has been said. There just is no sense out there that there's an inflationary problem or that prices are rising; it's quite to the contrary. I might also say that the subject of interest rates is a non-topic.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Well, I'll just continue the chorus here. Over the period of the last couple of meetings there has been a definite improvement in our economy. And we see this across the economy. Actually, in some ways the manufacturing sector has improved somewhat but a tension exists there. Output in the electronics sector is starting to do somewhat better. Semiconductors and testing equipment are a fair bit stronger and the software business is strong. Everyone says they are [producing] components; the computer box business is dead essentially. But that growth is working against the downward tension of defense, where the feeling is that defense procurement reductions are coming along a little faster, at least in these [electronic] industries, than people had expected. We have a lot of auto-related small suppliers; they are doing quite well. But a number of them report continued year-to-year price reduction pressures in talking about the Lopez era at General Motors. And they report an expectation, when they contract at the end of whatever period it is, of 2 to 3 to 4 percent reductions in unit prices year-to-year. Real estate and the housing sector have strengthened; and even in the non-residential area, though there is not [much] activity, vacancy rates have declined a fair bit in greater Boston. That leads one to the question of "Why?" since we're not seeing it in other figures. And yet a significant number of start-up companies do seem to be coming along. It's purely anecdotal information, but we have a large patent attorney office as a tenant in our building and they say they've never been busier. And there are some more broad-based data that are consistent with that. The retail area is doing relatively well, with some improvement in appliances in white goods consistent with a strengthening in the housing market.

In the context of all this, though, everyone we talk to in the production sector is focusing continuously on productivity improvements and on what they can do. Everyone, [when] they see stronger demands for their products, talks about: "How can I [meet them] without making commitments for employment?" I would say that the mood swing--this is not consistent with what Ed said--has been a pretty strong one to the favorable side by lots of people. Actually it outstrips the data by a fair bit; whether it outstrips reality is less clear.

As far as the national economy goes, I would agree quite a lot with the Greenbook. I would think that the forecast there is probably center-weighted in terms of risks. I believe this notion of thinking about the economy on a sawtooth basis has something to it. We've been waxing and waning, [moving in] fits and starts, or whatever you want to call it. And until we get evidence that our employment numbers are somehow suspect and there are other reasons to expect income generation that would be consistent with a rising level of sales, we could see some slowdown in the consumption sector. And beyond that, I'm just sort of struck by how much moods have changed in New England. Six months ago everyone thought we were going into a triple dip; now people are talking about boomlets. While I'm not quite sure that reality changes as fast as moods--and I was just looking at the quarterly standard deviation in GDP--I'm wondering how much of this is a long-term shift and how much a short-term variation; that is something we've got to see.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. There are still some areas of the District that are reported to be flat but they're what I would call fairly isolated. Most of the District reports growth. There is no new information of a negative nature, of things being weaker than before or weaker than expected. There are a number of aspects that are positive and strong --stronger than before, stronger than expected--especially real estate, commercial lending, and manufacturing generally, particularly capital goods industries. And of note is that while at one time the machine tool industry in the Great Lakes region was thought to be headed to oblivion, they're feeling pretty good; there's quite a bit of optimism starting to build in machine tools.

Turning to the national [economy] and the Greenbook, when I look at the nominal and the real GDP [forecast], based on the experience of the fourth quarter of last year I think the Greenbook is wrong. I just have no idea in which direction or how big. And when I look at the inflation [forecast] it's unacceptable in that progress on inflation has been pushed out over 48 months. The current number for the end of '95 is above the number for a year ago as of this time. So to go out to the end of '95 and still have inflation above where it was projected a year ago to be at the end of '93 I think has to be viewed as unacceptable.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. The Eighth District economy has been buffeted by floods, strikes, defense cutbacks, and corporate restructuring over the last year. Cutbacks in defense spending and auto production have adversely affected the Missouri economy. These cutbacks were

especially noticeable in the St. Louis area. Flooding along the Mississippi and Missouri Rivers and persistent rainfall reduced the District's production of both corn and soybeans while foreign demand for District agricultural products remains soft. District employment gains have been offset somewhat in southern Illinois and Indiana by a coal strike that is now more than six months old. This strike has reduced U.S. coal exports by 25 percent and depressed barge traffic along the Ohio and Mississippi Rivers. Lacking domestic supply some utilities in coastal areas are now reported to have stepped up their coal imports from South America and Asia.

Despite these factors, Eighth District economic activity improved this year and the prospects for next year are encouraging. This has been confirmed by the tone of comments I have been hearing for the last couple of months. Payroll employment is above year-ago levels and while highly variable it should grow on average by approximately 2 percent in 1994, near its long-term average growth. The Kentucky, Tennessee, and Mississippi economies all continue to expand and diversify with numerous reports of new industries, robust loan demand, and higher bank earnings. In September unemployment rates in the District's four principal states, Arkansas, Kentucky, Missouri and Tennessee, were at or below the national average. Some areas report shortages of qualified workers. Small businesses throughout the District report generally strengthening demand. Sales of existing homes and residential construction remain strong, and bank lending continues to grow. The District is the country's largest rice-producing area. Strong Japanese demand for California rice has caused rice prices generally to double in the last month and may bolster the District's rice production next year.

With respect to the national economy, our outlook is similar to that for the Eighth District. Nationally the unemployment rate has fallen by more than a full percentage point from its cyclical peak and all indications are that it will continue its downward trend. Despite growing at a rate significantly below potential during the first half of the year, output grew at 2.8 percent in the third quarter and 2.7 percent during the past two years. Moreover, in my view the prospects for a strong fourth quarter are excellent and we anticipate that much of this strength will carry over into 1994. Indeed, the economy now appears poised for a significant period of average growth at or above potential.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. The economy in the Second District remains very flat as it has been most of this year, with our part of New Jersey going a little south and New York State staying at about even. The financial services industry and such people as lawyers who work for them are doing very well, so the yuppie restaurants are crowded and that tends to give a feeling of affluence and prosperity about the city that Mr. Giuliani is about to take over. But we now read that the level of the homeless has been underestimated. And New York City, I think, is very much getting to be a Disraeli two-nation phenomenon that is going to be tougher and tougher to govern and could be a good-sized challenge for a mayor who I think will respond to his election by getting tougher on the criminal classes, or those who are alleged to be by the people who voted for him. It could be an interesting situation.

At the national level, we're right with the Greenbook on the fourth quarter of this year and a bit higher, at about 2.9 percent, for 1994. The difference is spread pretty much throughout the forecast; our forecast is just a little more robust in general. Our forecast for the CPI is exactly that of the Greenbook at 3.1 percent. But if anything that's eyeball adjusted up a bit; if we applied purely the analysis we'd probably have it at 3.0 or conceivably even 2.9 percent. I suppose the concern that we have in general, and I in particular, is with the robust fourth quarter and that if for some reason the first quarter of next year should start out with a more positive feeling I wonder if businessmen will try to take advantage of the situation to experiment with getting some price increases to stick. My guess is that the possibility of that could be quite high; that would mean that even though normally one would expect that a 2.9 percent growth forecast and inflation--without the eyeball correction--coming down would not demand a monetary policy response, I think it could well shape up that fairly early next year we will be challenged by some price actions which we would have to respond to.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. In the Eleventh District the mood has been more upbeat and the numbers seem to be following it up. Within the District, New Mexico is somewhat stronger and our part of Louisiana somewhat weaker than Texas. New Mexico is benefitting from an influx of a good many new industries. Louisiana has been hurt by weak chemical demand from Europe and Japan and weakness in the energy extraction business recently. The state has lost 6,600 energy extraction jobs since January of '92. Louisiana is still about 20,000 jobs shy of regaining its peak levels of employment way back in 1981. A bright spot there is river boat gambling, primarily in the Shreveport area. Within Texas most major metropolitan areas are strengthening and are fairly strong. Houston is the major exception. At least temporarily energy seems to be a plus rather than a minus. The rig count, after reaching a 50-year low last spring, is up about 25 percent from that. The main employment strength we have is in the area of construction--single-family homes and apartments. In some areas in the state that's up 50 percent compared to a year ago. In our board meeting last Friday, Amarillo was referred to as [wild] and Victoria as having a mini boom. So things are really getting lively in the construction area. Several bankers noted an improvement in loan demand, but all admitted that too many banks were aggressively seeking to fill that demand. There is not much talk of a credit crunch anymore. Clouds on the horizon include the depressing effect of health care reform, weakness in the Mexican economy, the prospects that NAFTA may not pass, and at least from a local point of view, the fear that Iraqi oil production will resume.

CHAIRMAN GREENSPAN. That will create some interesting consequences. Governor Mullins.

MR. MULLINS. In my view we have moderate growth, as we've had for 2-1/2 years now. The last seven quarters have averaged 3 percent and the last four quarters have averaged almost 3 percent. So I conclude we have 3 percent growth even though we may have fits and starts. It's pretty clear looking back that the initial force of monetary ease clearly went to financial repair and it's increasingly evident that we're turning the corner or have turned the corner from

repair to renewed spending. We now see a very traditional pattern of interest-sensitive spending emerging: business investment spending and consumer spending on durables and housing. I think recent data and the market response to them do raise the question of whether there is evidence of a significant acceleration of growth. Based upon currently available data I see no convincing evidence of a significant shift in the underlying mean, although there may be some increase. My underlying mean is a bit higher than the Greenbook's, more like 3 percent. It is true that strong consumer spending has outstripped income growth and that's unsustainable and has been for many quarters now. That raises the question Bob Forrestal raised, and which we talked about at the Board a while back, which is the question of measurement. And Al raised this question of whether people may be feeling a bit more secure about their job prospects or their job security and their sense of permanent income, and then there are the wealth gains in the markets. But I don't think we have the potential for explosive consumer growth as we did in the early '80s.

There is one real change in my view and that is that mortgage refinancing has given way to housing investment. That is something that's new. It's long overdue and I doubt that it alone is enough to take us off the track here. There remains the ample supply of contractionary influences, the usual suspects. But more generally, one interesting thing to assess is this economic climate. Up until now despite the recovery, my sense is that consumers, businesses, and financial institutions have remained chastened and cautious. And there is some evidence, such as what Bob McTeer just reported on, that that's starting to change now. I do think we'll probably register a very strong fourth quarter. We did last year. But so far at least I'm not ready to shift up my mean fundamentally although it's clear that mean is already a bit above potential. Why this sharp bond market response in recent weeks? Very little has happened. We had third-quarter growth of 2.8 percent and the bond market changed. It is true that we anticipate a strong fourth quarter. We've had three or four strong quarters in the past two years, but we've never had an anticipated strong quarter; fourth-quarter growth was 5.7 percent last year but no one expected it so we couldn't enjoy it. This is the first quarter that I can think of where--

SPEAKER(?). A rally.

MR. MULLINS. Right. And we're still not so sure but there is some of that anticipation. Of course, just a few weeks ago we had abject pessimism on the economy and euphoria in the bond markets. One obvious factor is just the bond market dynamics of [people saying] we've had a long good run in the long bond, let's capture those gains before the end of the year and not be a pig. I think the other factor is this truncation, perhaps temporarily, of a pessimistic tail of assessments. Despite 2-1/2 years of growth this is a Rodney Dangerfield recovery: It's never gotten any respect; it has been denied, criticized, or bad-mouthed through the full 2-1/2 years, and this has been fed recently by the weak first half of 1993. I think the recent data make it increasingly difficult to sustain an outlook of economic deterioration. The recent evidence confirms that the expansion, though it is moderate, does appear durable and sustainable. It may be slow but it appears at least to people in the markets less fragile, less likely to be punctured by tax increases or fears about health care. And rather than creating a realistic expectation of very

robust growth, this confirmation tended to extinguish the pessimistic tail of distributions, and the market responded to that.

There is also talk of Fed tightening in the markets as there were fantasies of Fed ease just a few weeks ago when everything was terrible. Should this market reaction be a concern to us? Al mentioned it. I don't think sustained moderate economic growth should be a cause for concern. I agree with Jerry that we shouldn't be opposed to growth. Rapid money and credit growth could portend trouble; we don't have that in my view, not yet at least, although M1 is still strong. Economic growth crashing against resource constraints would certainly concern the staff, but we still have our measure of slack. And the investment boom and productivity growth suggest the prospect for growth without those concerns. And again, growth so fast that businesses and workers feel free to seek price and wage increases, the possibility that Bill McDonough mentioned, would be a cause for concern. I think evidence [of that is not apparent]; for example, if you look closely at the purchasing managers' reports, the price diffusion index is still below 50 percent. My sense is that competitive conditions remain tight although there's a possibility of this sort of speed effect if we have two good quarters. Inflation still seems to be on a marginally downward path. The fundamentals, including a disinflationary world economic environment, support the prospect for some additional progress. And those fundamentals at least would suggest some more progress than the Greenbook is projecting, as Bob Parry mentioned, given the outstanding slack.

Having said all of that, I still believe we maintain an accommodative stance. Because of the long lags associated with inflation it is necessarily our job to look into the future. If we wait until the inflationary pressures are established and evident, it's pretty late in the game. Mike Prell gave the upside scenario; with capacity utilization already at 82 percent, we might not have much room left especially because I think growth next year could easily be 3 or 3-1/2 percent. Moreover, though, I think our objective ought to be to continue to make progress on reducing inflation--core inflation has run 3 percent over the past 12 months--in order to secure a sustainable low interest rate environment and the associated benefits. In my view our objective should not be simply to avoid a re-acceleration or an upturn in inflation. I think there's a real payoff not just from stabilizing inflation in the 3 to 4 percent range but in moving lower.

Finally, I do think we should take these markets seriously. The long bond rate has moved up 40 basis points. There's a legitimate question as to how long we should wait if the long bond rate continues to move up--how long we should artificially constrain the short end. If the bond rate does move up, we're going to have to consider whether a move on the short end might be necessary and beneficial to confirm that we're on the job and to limit the damage of inflationary expectations on the long end. After all, this is still an investment-driven expansion, dependent on the long rate for its thrust. So I think we ought to be sensitive to the risks associated with maintaining an accommodative stance too long, including the lost opportunity to secure lower inflation. But it does seem to me that it's relatively early in the game. The long bond rate is up 40 basis points but it seems to have stabilized and it's still 30 basis points below its level last summer after the budget deal passed. So it went

way beyond the budget deal period. And, of course, we've had very little increase in the implied forward rates in the long end of the curve; much of it is intermediate.

Nonetheless, when considering when to switch from accommodative to neutral I would note that the current favorable outlook for stronger growth does provide a credible environment in which to consider such a move at a time when I think many people would suggest the risks are on the up side. I will also simply say that it's worth noting that the Administration forecast is, of course, for short rates to go up above inflation next year. Thank you.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Well, Mr. Chairman, I'm about where I've been for some months now. I see very little evidence of an important change. My definition of that in my lexicon would be a moderate growth expectation, fits and starts, a surge perhaps here in the fourth quarter but not sustainable, with a slow acceleration--in fits and starts--over time. I think there are enough positives in the forecast to sustain that growth, not the least of which would be a continued reduction in your famous head winds. In all probability all of the positives will sustain that moderate growth path. I think we have to recognize that there exist considerable restraints in that forecast that should prevent an upside breakout, [including] fiscal restraint, the further impact of new taxes, and a saving rate that is already at the bottom of its historical range. Also, restructuring continues and defense [outlays] will continue to decrease; net exports will not be helpful and may decrease or get worse as well; and intermediate and long rates have shown some spontaneous rises. I emphasize that I come out on the positive side of this, but I do think we have to recognize that there are some pretty powerful restraints out there.

I'll relate one anecdote that I would share with those who weren't there. The Federal Advisory Committee was in here a week or so ago and they were asked what their forecast for the economy was. They had a very, very strong consensus at between 2-1/2 and 3 percent centering on about 2.8 percent. Just to see what it might elicit, we said: Okay if that's the consensus, think contrarian a little bit and tell us where you would see the risks to that forecast. Interestingly enough, the way I heard it--others who were there may have heard it differently--they were almost unanimous in seeing the risks on the down side, not the up side, for whatever that's worth.

On inflation, I just don't see any pickup visible. Inflation is still falling on a year-over-year basis by almost every measure. We still have slack in the economy, although capacity utilization may have to come off of that list with this latest report. But certainly [we have slack] in labor markets and world activity generally and sentiment continues to be weak. So, I see no reason to look to a short-term move in that regard. In short: Steady as she goes.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Well, for the first time in a long time I don't find myself in congruence with the Greenbook in terms of all of the elements of [the growth forecast]. I am much closer to the

Greenbook's version of inflation but for an entirely different set of reasons. A growth rate in the economy overall of closer to 3 percent or slightly better for next year is more in line with what I see developing. I think that housing markets are likely be a little stronger. I think we've been overly pessimistic on the exports side. I just can't see that dip and deterioration there in spite of the common current outlooks for some of our major trading partners. The other part of the trade balance that bothers me a little is the expected and continued high growth of imports. I think at least the consumer side of the import market is going to be rather weaker than we perhaps expect. Now, given the fact that the unemployment figures might go down somewhat under that kind of scenario, then I think the 3.1 percent projection for inflation may not be an unreasonable one.

Having said all that, I think there is an opportunity here for us to blow an aneurism in this economy through its most fragile part, and that's the financial markets. The full impact of higher taxes at least for some major segment of the investor market, a perception of higher costs for a lot of things because of excise taxes, and the possibility of paying higher premiums for health care and so forth and so on, may in fact cause a lot of nervousness that will lead people to retreat from the more speculative parts of the market. And I just believe that the values there are high enough and the market nervous enough that it looks for chances or opportunities or excuses or rationales to trade. And if the trading ball gets rolling down the hill, I think we could have a serious contraction in both the equity market and the bond market, which could affect all these other differences that I have had. So I really don't want to be right--I want the Greenbook to be right--because of something like that. But at the same time that's a part of the economic puzzle that remains very worrisome to me.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. For the first two-thirds of what John was saying I was almost exactly in agreement and thought maybe I didn't need to talk very much, but then it turned out that--

MR. LAWARE. Mark your calendars! This is the first time we've been in agreement in about four years or something like that.

MR. ANGELL. It seems to me that the sentiment expressed around this table is surprisingly strong. That is, there were those of you who were somewhat concerned on the down side who now seem to lack that same concern. And certainly some of you who had a more placid outlook now seem to be reporting more vigor in regard to the rate of economic activity. I think some of us--particularly I do, having had such a bullish view a year ago--have to ask ourselves: Well, what about this year? Will there be another downturn? First of all, this recovery statistically does not have more variability than any previous recovery. There aren't any fits and starts in this recovery; there are fits and starts in people's perception of it. But the quarter-to-quarter variability is really just about right on. Industrial production, which is a somewhat independent measure, indeed seems to me to be on a pretty steady upward progression.

But economies don't get into difficulty because it gets to be January. This January we do have this significant tax phenomenon, but

I've decided that maybe the impact of that tax phenomenon is mis-measured. It's true that some people underwithheld in [1993] and they have to make it up in their actual 1993 tax payments and will have a significant increase in their estimated tax or withholding in 1994. But it seems to me that the people for whom that occurs are people with high incomes and they are well educated, and I just can't imagine that there's any surprise of fact. Indeed, I think the political rhetoric--that is, the American people's dissatisfaction with government--continues to cause in some sense an over-assessment of the tax impact so people even in high income tax brackets probably are over-reacting and have already taken those tax effects [into account] in regard to their own permanent lifetime income notions and wealth present values. Many Americans are not going to have tax increases. The political rhetoric has been that they will; consequently, maybe we'll have a little surprise. People will find out that [the new tax] isn't as bad as they thought it would be, and only a surprise, it seems to me, is apt to alter the activity level. And it seems unlikely to me that we're going to end up with the same inventory condition in that we do not have the year-end boom this time, which subtracts out of the first quarter because of [efforts] to get [expenditures] in one tax period as compared to another. So I think we ought not take it for granted that the economy will do a little dip next year.

I'm not disagreeing with Mike Prell's forecast in regard to GDP; it's a very reasonable forecast. But it seems very unlikely to me that the economy will be softer than what Mike has outlined. I think there's a considerable chance that the economy will be somewhat stronger, or maybe surprisingly stronger, than that forecast. But none of us has a crystal ball to be able to see that and to know for sure that that's going to happen. The Federal Reserve has a great deal of credibility at this time. We have quite a bit of esteem. There are people who believe we're the only game in town because those who have such a disdain for their government tend to look to us as being somehow or other the people who get it right. So we're in a rather preferred position and yet our responsibility is to continue to pursue a monetary policy that continues this disinflation. If we [lose] that--that is, if bad news or an unanticipated shock effect cause the rate of inflation to zoom upward without any action on our part--there will be some penalties.

As for the inflation forecast--and here again I'm not quibbling with that because it does seem somewhat reasonable--I would point out that it [shows] very, very meager [progress]. And it's very meager [compared with other countries] in the world. I was looking at the G-10 group and I believe we are only slightly ahead of the United Kingdom and probably a percentage point and a half ahead of Italy. Other than that, all other G-10 countries have a better forecast, according to our staff, than we do. This to me produces some vulnerability because as long as there are expectations of continued disinflation then I would expect good bond market behavior. The bond market does have more potential for stronger bond prices and lower interest rates at the intermediate and long levels. But that's not guaranteed; that's very difficult at this stage of the cycle. And we have to be very conscious of the fact that if we are perceived as moving before people thought we should move--indeed if there were some notion of "What in the world is the Fed doing?" in such a move--we would probably get a very good long bond response and thereby not

damage the growth prospects. On the other hand, if there were a pickup in activity and if world growth were to pick up somewhat and world commodity prices were thereby adversely impacted and we were seen as moving in a laggard fashion, then I think we could have a very significant upward movement in interest rates in the intermediate and long areas. And that could [induce] some vulnerability in the markets. I am somewhat bullish in regard to the equity markets. I think the equity markets probably haven't had that last boom and bubble that often accompanies such moves. The opportunity cost of being in the equity market is very, very small. So if the economy is a little stronger and inflation about as we expect, the equity markets may have a somewhat supportive upside potential. World growth has to be a very significant factor for an economy with our trade balance and its impact on us. I'm not optimistic about Japan. I'm not optimistic about Europe, but I'm not that pessimistic either; it seems to me that they may very well have reached bottom and we may have seen the worst of the impact on our exports in that market. Mexico does provide some downward risk due to the monetary tightening that is inevitably accompanying the difficulties there, and that will have some adverse effect. But China and other Asian countries and parts of Latin America may offset that to a great extent. That about summarizes my view. It is that the economy has the potential to be much stronger, but I think hardly any chance of being weaker than we've forecast.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Well, smoothing through the quarterly or maybe the half-year ups and downs, it does appear that we've returned to a path of slow or moderate growth. The good news about this growth is that it does appear to be generally self-sustaining, which we haven't been able to say with a great deal of confidence. But after all, this growth has continued and in fact strengthened in the second half of this year despite floods, drought, tax increases, defense downsizing, restructuring, a weak international economy, and the health insurance uncertainty. The economy has a lot of good things going for it. We have low interest rates; we're seeing pretty good business investment, which is giving us the spending, obviously, but also a productivity kick. Consumers are spending; maybe it's mostly on cars and houses but they are spending. Corporate profits are reasonably strong. The financial sector is strong and able to assist in financing so we're not having bottlenecks of credit unavailability either in the direct financing markets or through the banking system. I think it's a little ironic that we're now seeing much more acceptance of a growth rate of about 2-1/2 percent. Maybe even a year or so ago we would have said that was not an acceptable growth rate for this economy compared to what we've seen in previous cycles. Now, going forward, maybe this is not as acceptable as many folks would like, but I'm having a hard time seeing that we're going to move much off of that growth path. And that's indeed what the Greenbook is suggesting. Job growth is not strong enough to lower unemployment. We're still having this question of job quality, which seems to be affecting confidence. There is this question of whether or not the income growth we're seeing will be less than the increases in spending and thus whether that [spending] can be sustained. We're seeing a lower saving rate. And we still have the continuation of all of the [factors] we've talked about in the past that tend to slow growth: the restructuring, the fiscal drag, and so on. So I'm having a hard time seeing what is

going to move us much above this 2-1/2 or maybe 3 percent growth rate. But at least it's a slow to moderate growth path.

On the inflation front, we've seen continued progress on reducing inflation, albeit the rate of improvement has slowed down. Labor costs don't appear to be causing pressure. We've even seen some decline in unit labor costs because of the productivity increases. We clearly have a ways to go on inflation, and it seems to me that the proper approach is to keep our eye on the ball here because there are pressures. We're seeing some pressures, perhaps somewhat late, in the commodity prices and taxes. But it seems reasonable and appropriate to me to focus on keeping the slope of the movement of inflation going downward. I've been really quite heartened recently to see articles in the popular press talking about how [a firm] can survive when it can't increase prices. And there has been a lot of discussion around the table about not being able to increase prices. So I'd hope that we would continue to focus on keeping the [inflation] slope going downward.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, just about everything has been said. I'd just add, first of all, that adding a child has taught me something. I did the checkbook last weekend and calculated that a significant fraction of the decline in the national saving rate was caused by the Lindsey household in October! [Laughter] So, I imagine that's going to be a temporary phenomenon. My other comment is that I was asked a question at breakfast about CRA and I have a document here for anyone who wants it. And that's all I have to say.

CHAIRMAN GREENSPAN. Thank you. Mr. Kohn.

MR. KOHN. Mr. Chairman, you'll be relieved to know that I'll be considerably briefer this time than in the previous briefing. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Mr. Kohn? If not, let me get started. It strikes me that in part the fits and starts were not something that was going on in the economy but something that was going on in the data. One way of looking at that is to ask whether other measures are giving the type of volatility that the GDP data have given. It's clear, for example, that gross domestic income--granted a somewhat inferior measure--in exactly the same context has been a good deal smoother than the GDP. It's also hardly credible, with two independent estimates of increasing work hours during the first half--both the payroll and the household surveys--that productivity measured against GDP, not the nonfarm business product, could have gone down. It's just not a credible economic phenomenon. That leads one to conclude that this recovery has been smoother than the data show and it raises some interesting questions about whether it is self-sustaining, which a number of people have commented on, and whether there is any significant breakout here that we seem to be observing. It is certainly the case that industrial production has shown some definite strength of late. And the November data, just looking at the weekly numbers on motor vehicles and a number of other related weekly industrial components, indicate that [the] November [index] is already up significantly.

The obvious question that we have to ask ourselves is: What is it that's going to induce an acceleration much beyond the Greenbook [forecast]? And I think the argument has to be that the missing link in all of this is the inventory patterns. We have seen a very significant contraction in inventories in terms of days' supply, largely reflecting just-in-time [inventory management and the resultant] increasingly evident compression. And the compression is being driven to a large extent by quality control requirements which relate in turn to the issue of the competitive pressures. One of the interesting insights that I learned from your Vice Chairman when I was out there was this notion that when inventories are very low, the just-in-time pattern [allows] fairly rapid movement from one segment of a production process to another or from one establishment to another. The finding of a fault in a particular product or a particular element in the fabrication process means that it can get fixed relatively quickly. In other words, you don't have two months' worth of widgets which are slightly off. If it's just-in-time, you have three days' [supply]; so you don't lose the quality and you don't lose the production. And that pattern is apparently driving a very substantial part of this inventory issue.

Historically, we never would perceive of any inventory acceleration in a business cycle sense until we began to see the process of lead times on the deliveries of products begin to stretch out. The normal cyclical process that we used to observe fairly consistently from cycle to cycle was that we would begin to get some slight pressure on capacity, which would cause delivery lead times to stretch out. The purchasing managers, being concerned about the now longer lead times, would then start to order more and build up their so-called safety stock. That in turn would overload the system even more and create a still greater increase in lead times and still more ordering, and you'd get the standard inventory process which was characteristic of much of the business cycle before this one. There is no evidence at this stage that any of that process has begun. The lead times as we measure them off the purchasing managers' reports or their equivalent delays in deliveries are remarkably quiescent. That doesn't mean they're going to stay that way. It does mean that if we are apt to see some semblance of acceleration, one of the signs may well be some lead times beginning to move, some industrial commodity prices beginning to move, as for example steel scrap has been doing of late, which is an interesting but at the moment the sole indicator coming from the commodity markets. We also, I suspect, have to see some credit expansion. No matter how we look at these numbers, they are not the credit numbers of a boom. So, I would find it hard to believe that we're going to see anything resembling a significant pickup unless we spot it in the lead times or in the credit numbers. And it's more likely to be in the credit numbers because they move somewhat faster; it's not that they are a better advance indicator but they're more current. And I think we may find--excuse the expression --that M2 might turn out to have certain elements of information in it just as we have buried it. But I think the more important question is the [domestic] nonfinancial [sector] credit, which has been quite quiescent even though it has shown some modest improvements.

The foreign markets look awful and I think the Japanese economy is scary. The German economy doesn't seem to be going anywhere and I think the Japanese economy is demonstrating basically that the cycle of balance sheet strains, which the UK went through, is

very evident in Japan. And since the depth of it is so much greater than ours, the presumption that they're going to pick up I just find noncredible. So I think that we're not going to get very much of anything from the export markets. Finally, with a five-week intermeeting period, it seems to me that there's very little that could happen to alter significantly anything that we are working on so far as policy is concerned. I'd conclude that a symmetrical, no change directive until the next meeting is a "gimme putt." Ed Boehne.

MR. BOEHNE. "B" symmetric.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. "B" symmetric.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. "B" symmetric.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. "B" symmetric.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Concede the putt.

CHAIRMAN GREENSPAN. It's about time!

MR. KOHN. This would be an easy one to write up with attribution.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. "B" symmetric.

CHAIRMAN GREENSPAN. Governor Phillips.

MR. PHILLIPS. "B" symmetric.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Alan, I'm going to spend a little longer on this. I favor alternative "B" with a bias toward a greater degree of reserve restraint. The economy is gaining momentum, which is reflected in faster GDP growth and faster albeit still sluggish growth in the broad monetary aggregates. Nominal interest rates have also risen. If this rise in interest rates is sustained--along the lines of what David was saying before--monetary policy will automatically shift toward a more inflationary stance under a federal funds rate operating regime. Accordingly, the funds rate must at a minimum be allowed to move up with market interest rates over time. Moreover, the thrust of monetary policy as measured by the growth in M1 and reserves has been quite stimulative throughout the current expansion. M1 has grown at an 11.8 percent annual rate from the second quarter of 1991 to the second quarter of 1993 and reserves have grown at an 11.6 percent annual rate. Even after allowing for technical factors, which have temporarily increased the demand for M1 and reserves at times,

the growth rates have been very high. The effects of this stimulative policy on inflation will be felt only with considerable lags, probably not for another 6 to 12 months or more. Accordingly, one can not take much comfort in current rates of inflation though they appear reasonably stable. In addition, the 3 percent annual increase in the CPI, which many forecasters believe is the lowest rate we will achieve in this cycle, can hardly be viewed as representing price stability.

CHAIRMAN GREENSPAN. President Broaddus.

MR. BROADDUS. I have a lot of sympathy for what Tom just said but for now "B" symmetric.

CHAIRMAN GREENSPAN. Bob Forrestal.

MR. FORRESTAL. "B" symmetric.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. "B" symmetric.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. My preference in this situation, in which the fed funds rate is at 3 percent and it really ought to be at 4 percent, is to be at a permanent symmetric position. I would agree that this isn't exactly [the time]--I'd like to have a little better opportunity for timing than doing it today--but that's my preference. A 4 percent fed funds rate just seems to be much more likely to be associated with stability in commodity prices, the price of gold, and a more neutral monetary [policy] position away from the accommodative [policy position] that we're in. And I just doubt very much that we have an adequate ability to call the turn at the time. So, I'd just feel a lot more confident with 4 percent but, Mr. Chairman, I don't know how to get there.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. Even if I wanted to choose alternative A or alternative C, I could not do so based on the criteria set forth in the Bluebook because it says the choice of alternative A is based on unacceptably slow real growth and alternative C on unacceptably high real growth. And I think those criteria are relevant for making the decision between "A" and "C," so I'm stuck with "B."

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I favor "B" symmetric. I have some sympathy for the issue of how we are going to know when the right time to deviate from this path is. But we can't avoid that responsibility, and my best judgment is that this is not the time.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. "B" symmetric.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. "B" symmetric.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. "B" symmetric.

CHAIRMAN GREENSPAN. Let's try "B" symmetric.

MR. BERNARD. "In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint or slightly lesser reserve restraint might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with modest growth in M2 and M3 over coming months."

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|-------------------------|-----|
| Chairman Greenspan | Yes |
| Vice Chairman McDonough | Yes |
| Governor Angell | Yes |
| President Boehne | Yes |
| President Keehn | Yes |
| Governor Kelley | Yes |
| Governor LaWare | Yes |
| Governor Lindsey | Yes |
| President McTeer | Yes |
| Governor Mullins | Yes |
| Governor Phillips | Yes |
| President Stern | Yes |

CHAIRMAN GREENSPAN. [Unintelligible] if we ever find an appropriate time. The next meeting for monetary policy is December 21. We'll be in touch very shortly.

END OF MEETING