

Meeting of the Federal Open Market Committee  
December 21, 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, December 21, 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.<sup>1</sup> 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  
  
Ms. Pianalto, First Vice President, Federal Reserve  
Bank of Cleveland  
  
Messrs. Beebe, T. Davis, Goodfriend, and Ms. Tschinkel,  
Senior Vice Presidents, Federal Reserve Banks of  
San Francisco, Kansas City, Richmond, and Atlanta,  
respectively  
  
Mr. McNees, Vice President, Federal Reserve Bank of  
Boston  
  
Ms. Meulendyke and Mr. Thornton, Assistant Vice  
Presidents, Federal Reserve Banks of New York and  
St. Louis, respectively

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1. Attended part of the meeting.

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CHAIRMAN GREENSPAN. Governor, since you're standing, will you move the minutes of the last meeting?

MR. LINDSEY. Yes, I so move.

CHAIRMAN GREENSPAN. Without objection. I think you're all familiar with the memorandum dated December 17th that relates to the delegation of responsibility for Decisions on Appeals under the Freedom of Information Act of denials of access to Committee records. Is there any discussion on this issue? Any questions? Would somebody like to move the delegation of this responsibility?

MR. LINDSEY. So move.

MR. KELLEY. Second.

CHAIRMAN GREENSPAN. Without objection. Thank you. The next item on the agenda is an interesting analysis by Dave Stockton and Jack Beebe on the relationship of price stability and economic performance, which I believe was initiated at a System-wide conference a while back. And I turn [the floor] over to you gentlemen.

MR. STOCKTON. [Statement--see Appendix.]

MR. BEEBE. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. I know that we've done very considerable work in the United States to weed out the statistical effects, which I'm sure exist in other countries, of the normal noise in the variables that creates an inverse correlation between price change and real GDP when we look at the implicit price deflator on the one hand and the gross domestic product in constant dollars on the other. In other words, if you have an independently estimated nominal GDP and an independently estimated set of prices and you consider that there is noise in those variables, you're going to end up picking up some negative correlation. But for the United States I think we've done enough in this area to demonstrate that even adjusting for that by [using] industrial production versus price, which is not subject to this problem, still creates a very robust relationship. The causation question is where the big debate is. So I was just curious: Have we run Granger-causation tests on U.S. data? I've forgotten what came out of that.

MR. STOCKTON. On the work carried out here at the Board we've done some of those types of statistical causality tests and there does appear to be some indication that inflation causes productivity growth. But the lion's share of the negative correlation between inflation and productivity growth occurs contemporaneously. So the evidence, one would have to say, is that it is possible that there's some causal relationship but it certainly doesn't show through strongly in the data. Most of the correlation appears to be contemporaneous, raising questions about that [relationship].

CHAIRMAN GREENSPAN. Well, it doesn't necessarily follow that the causation must be in one direction or the other. It can be both.

And so the concurrent relationship could be consistent with unit labor costs being pulled down and hence the price level. But do you recall whether or not in a strictly statistical sense the Granger-causation results were significant?

MR. STOCKTON. I think the answer to that is yes, they were significant running from inflation to productivity. But the magnitude of that relationship looked relatively weak in terms of the lagged part. You're absolutely right in terms of the contemporaneous relationship; it could in fact reflect causation running from inflation to productivity growth. But a skeptic could look at that evidence and say: But that doesn't prove, of course, that it isn't going in just the opposite direction as well. There appears to be a tantalizing correlation in both these cross-country studies and in the time series data. The difficulty is that in presenting that to a skeptical audience, I think whatever regression or result you put on the table you couldn't feel confident that somebody else wouldn't come along with another and demonstrate that that particular regression wasn't fragile to a variety of different minor modifications as best--

CHAIRMAN GREENSPAN. I assume that the contemporaneous increase in productivity is not of an order of magnitude that is so large that it is far more than the price inflation decline which, therefore, couldn't explain it. In other words, I assume that what we're looking at is something in which an argument that productivity increases cause low inflation is not refuted at that level.

MR. STOCKTON. It's not refuted at that level, that's correct.

CHAIRMAN GREENSPAN. Other questions?

MR. PARRY. The question I have is that it seems to me that in terms of the price distortion effects of inflation, there are pretty strong results. The effect of that on productivity, etc., doesn't show up too strongly. Is that correct?

MR. STOCKTON. That's correct.

MR. PARRY. But aren't there strong theoretical and analytical reasons to think that there would be a negative effect? The fact that the quantitative results are not always very strong to me focuses too much on the data, which can be affected by so many things. I would say that if you can establish something theoretically or analytically--and I think that's been done--it's very, very [probable]. So I would say that in some respects your results are much stronger than you've portrayed.

MR. STOCKTON. It's certainly the case that in our review of the literature that examines the effects of inflation on the pricing system and relative prices, the overwhelming majority of the studies come to the conclusion that in fact inflation does introduce distortions of price [signaling]. And I think that is strong evidence that inflation has detrimental effects.

MR. PARRY. And analytically from that conclusion [inflation leads to] a lot of problems in terms of productivity and probably also growth.

CHAIRMAN GREENSPAN. Yes. I think there is fairly widespread acceptance that inflation rates over 10 percent are clearly disruptive; and probably a very large majority [believe that] from 5 percent upward. The crucial question is what happens to the academic evaluation about inflation of 5 percent [or less]; there [views] start to spread all over the place.

MR. PARRY. But I think their work indicated that at moderate rates of inflation the price distortions are statistically significant.

CHAIRMAN GREENSPAN. Can I ask: Have we or has anybody ever tried to isolate the impacts by trying to subtract out of the GDP the costs of fighting inflation?

MR. STOCKTON. No, that hasn't been done; and that was an issue raised at our conference as a flaw, in some sense, of the studies we've done to date relating inflation to growth in output. That would be something on our research--

CHAIRMAN GREENSPAN. You can basically raise the GDP by finding something in the reservoir of water, because I will tell you the GDP of the District of Columbia went up when the water pollution question came up because of all the retail activity and everything else that went on. And one questions what the measured GDP actually means, especially in this particular context.

MR. PRELL. Mr. Chairman, I think one could also note that because of the interpretation we made of what the System conference wanted in the way of an emphasis here we sort of set aside all the questions of what damage might be done in terms of the welfare lost from unanticipated inflation because people were not saving enough for their retirement. There's a whole array of welfare costs that might go with high and unpredicted inflation. So there's a whole other area to explore if one wanted to look for reasons one should be concerned about non-zero inflation.

CHAIRMAN GREENSPAN. But I think Bob is right that if you can set up an analytical model, cause and effect, and can demonstrate at the crucial points that there is micro evidence, such as the relationship between inflation and the price dispersion [effects] of uncertainty and the relationship between uncertainty and the cost of capital and growth, then you can build the argument, even if the data at a macro level are insufficient largely because those data have a very considerable amount of noise in them. If indeed a very forceful and very tight inverse relationship exists, it is quite possible that if there's enough statistical noise in your data system you can bring 100 percent R square down to .2.

MR. PRELL. Well, we recognize that it's been very hard to establish, as it is on any macro issue, anything definitive out of this research. But there were some analytical points that argue that low inflation could conceivably be better than no inflation. We tried to experiment, but we also thought the mission was to try to put some empirical flesh on these analytical [bones]. Some progress was made but we have to concede that the lack of certainty--

CHAIRMAN GREENSPAN. Well, I thought the memorandum was really quite useful. I think the results that were obtained showed a fairly extensive advance in the state of knowledge in this area.

MR. BEEBE. I might add that the survey data even at moderate rates of inflation--U.S.-type rates--do indicate that the standard errors and the uncertainty of the forecasters rise with the level of inflation. So even at reasonable rates of inflation there is some evidence now that the level of inflation and inflation uncertainty are related. And that gets back to the distribution issue that Mike alluded to.

CHAIRMAN GREENSPAN. Other questions? If not, before we go on to the substance of our meeting, the conventional [agenda], Sandra Pianalto is here for the first time and we'd like to welcome her. Where is she? There she is. Welcome, Sandy. And as I think we're all aware, this is the last official meeting for Governor Angell. We will at our next meeting have a going away bash for him. I just want to say today that you may leave here but your philosophy will remain in this organization largely because, perhaps subliminally, you have implanted ideas amongst your colleagues that they now think are their own. And as a result they will cherish them immensely. But for those of us who have observed you over the years--and I've had the privilege of doing this--you are going to be sorely missed for a lot of reasons. Most important to me is the extraordinary integrity that you have exhibited in this group and the absolute adherence to the issue of principle and what is appropriate and important public policy for a central bank. We're going to have somebody else sitting in your seat but he or she will not have replaced you. We will all officially wish you well at a later time, but I want to say that personally and professionally I will miss you. But that doesn't mean I'm going to give you a couple of extra strokes the next time we play tennis!

Shall we go on to our normal procedures? We'll start with Peter Fisher and the Foreign Desk.

MR. FISHER. I will be referring briefly to two pages of color charts which Carol was kind enough to put on the table in front of you this morning. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Peter? If not, is there any objection to the request that the Desk made with respect to [the disposition of] currencies? If not, I will assume that you have authorization to move as required. Let's go to the Domestic Desk and Joan Lovett.

MS. LOVETT. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Thank you. Questions for Joan? If not, I would entertain a motion to ratify the actions over the [intermeeting] period.

SPEAKER(?). So move.

CHAIRMAN GREENSPAN. Since there's a second, without objection. Let's now move on to Messrs. Prell and Truman on the economic report.

MR. PRELL. [Statement--see Appendix.]

MR. TRUMAN. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Thank you. Questions for either gentleman?

MR. JORDAN. I have a couple of questions for Mike. When I look back at the Greenbook projections for '93 starting from a year ago, on balance they are very encouraging. Even though the intra-year pattern on growth as currently reported is different, we all know that's going to be revised away anyway, so let's not pay too much attention to that. But the cumulative effect over the year is that real growth this year, even if we get 5 percent in the fourth quarter, is going to be about what was projected a year ago. And inflation is probably going to come in slightly less, as measured by the consumer price index, which looks pretty good. But then when I look at your current projection for 1994 versus a year ago, output growth is now projected to be slightly less than you thought a year ago for next year but inflation quite a bit more--1/2 to 3/4 percentage point more on consumer prices. I've read what you have written and I've listened to what you have said and it's still not clear to me why you think that inflation in 1994 and into 1995 is going to be at a higher level than you thought a year ago.

MR. PRELL. Well, the price performance this year relative to our expectation a year ago depends on which series you look at. The GDP fixed weight price measure is now expected to be 3/10ths of a point higher than we expected for '93 a year ago. So there are some crosscurrents in the price data. There has been a modest--though we think significant in terms of whether it is consistent with our expectations of deceleration--slowing in core inflation over this past year. We now are at a somewhat lower level of unemployment and a higher level, I think, of capacity utilization than we expected to be at this point. We see in the compensation data, which we consider another important measure of some underlying costs trends, no really clear evidence of ongoing deceleration even over the course of the period when unemployment was higher than it is now. So we are not perhaps as sanguine as we might have been before about the prospects for ongoing substantial deceleration as we move on out through 1994. We're re-calibrating some things as we move along here. And we are looking at some different initial conditions than we expected to see as we enter [1994]. Now, one could certainly argue from a variety of econometric models built on the Phillips curve--one you're not particularly fond of--that there could be more significant deceleration. If you have a view, as some do in using this model, that NAIRU is 5-1/2 percent, we have a significant output gap; and normal rules of thumb would produce more deceleration in prices than we have. On the other hand, I think there are many people who would say that the prospects aren't quite as rosy as we're forecasting them to be. But our basic notion is that we think the most likely direction of the trend on inflation through 1994 will be downward.

MR. JORDAN. Let me follow up on that because everything I've seen, including Ted's report, is that outside the United States virtually everything has been, if anything, much, much weaker in '93 than was expected as of a year ago. So in the global marketplace in your model, your framework, you should have more slack, more excess

capacity than you thought a year ago that you would have at this time. And so in a global economy you would say there is less price pressure than a year ago you would have thought at this time.

MR. PRELL. Well, there is going to be some significant competitive pressure from imports in a number of sectors of the economy, [though] not all sectors. All sectors are not as susceptible to that influence in the same degree. But as I noted, the import price prospect is one of the things that makes us hopeful that we can continue a downward [inflation] trend. We have not had import price pressure over the last year. This isn't an element that in our forecast is going to move in a [significantly] more favorable direction over 1994; if anything, the prospects might infer a less favorable contribution from the import price side. But we're splitting hairs. I think the picture is essentially the same and it doesn't really make a very big difference as we go forward in terms of the rate of deceleration.

MR. JORDAN. Okay, one more point, which may just be a technical question. Historically the gap between the GNP deflator and the CPI has been about 1/2 percentage point, and I noticed that you [widen] it to about a percentage point in '94 and carry it out through '95 at almost a full percentage point. What's giving rise to that?

MR. PRELL. I think the major story here is the ongoing increase in the relative importance of computers, whose prices are decreasing at a very rapid rate.

MR. JORDAN. Translate that for me as to which one is wrong.

MR. PRELL. Well, they are different measures. I think the deflator is not an optimal measure of prices but even broader measures of consumer prices are going to be affected by this computer pricing.

SPEAKER(?). As a technical matter the computers have a much smaller weight in the CPI than in the deflator for gross domestic product. So the weight of this one item, this fall in price, is small in the CPI and it's relatively large in the deflator.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mike, in the 1992 GDP revisions some of the discrepancy that we thought we saw initially between hours worked and output was removed and, of course, GDP was increased very substantially. In the first half of 1993 there were some of the same phenomena in the numbers but [that could change in] the revision as well. If one had sort of a pro forma revision, making it similar to what occurred in 1992, what are the implications for the amount of slack that we would have at this point? Or how would you [view that]? Toward the end of your presentation you mentioned a few concerns and cautionary measures [unintelligible]--

MR. PRELL. Well, I don't have a strong conviction about the likely magnitude or direction of revisions in GDP, the personal saving rate, or some of the other key variables and how we would look at the gap between potential and actual real output. In the first half of this year, to be sure, there was some evidence from the income side of somewhat more rapid growth than was registered in the GDP numbers.



But it isn't a night and day difference. I don't think I would make a great deal of that at this point. We are at least as leery about defining precisely the GDP gap as we are in looking at the unemployment gap. It's a difficult number to construct. So I don't think looking at anticipated revisions here would loom large in our thinking about the inflation risks.

There has been some discussion, I might just note, of possible revisions in the industrial production measures and capacity utilization. We may have stirred things up by indicating in our release--I guess it was a month ago--that in February we hope to be publishing annual revisions. Some in the markets took this as an indication that we anticipated major changes. At this time we don't really have a good fix on this and don't have a real predilection toward reducing or raising capacity utilization based on the evidence we've been able to process to this point. So we're agnostic on this for now; we'll be looking at this in a couple of months.

MR. LINDSEY. Could I ask a question about the fiscal model on this last green page in the first Greenbook section? I assume the default, which would be a no law change model, in the first, third, and fourth quarters is essentially a 5 percent increase in receipts. I'm reading across the top line. So we have, say, a \$15 billion increase Q1 '94 over Q1 '93 and in Q3 it's a \$17 billion increase, etc. And that carries through. What I'm puzzled about is the timing, where what we have is a \$49 billion increase Q2 '94 over Q2 '93. And I'm even slightly more puzzled about the Q2 '95 over Q2 '94 where the percentage increase is more than in the other quarters. Could you briefly explain the way the timing is scored on government receipts?

MR. PRELL. You're talking about the actual unified--

MR. LINDSEY. Unified budget receipts.

MR. PRELL. Yes, the receipts.

MR. LINDSEY. Now, if these come from OMB, okay. But I didn't think they did.

MR. PRELL. No, in this case they don't. I'm not sure I can give you a good answer off the cuff here. We have put into this our forecast of the effects over '93. We have some modest differences with the OMB and CBO estimates. We've been a little more conservative in the sense of allowing for a bit greater behavioral response, diminishing the income tax receipts that will accrue. But in April we're expecting to see a substantially higher level of non-withheld income tax payments than we had in the 1993 second quarter. And that's the key feature of the year-to-year movements in revenues apart from what is being generated simply by the ongoing increases in economic activity which are boosting both corporate and personal income. For 1995 I'd have to look into that more closely. I see a lesser gain from the second quarter to the second quarter in '95 than in '94, which seems reasonable to me. But I can't be very specific at this point.

CHAIRMAN GREENSPAN. Well, this is a technical question. Why don't you just have somebody do it.

MR. PRELL. Sure.

MR. LINDSEY. That would be great, thanks. At any rate, that kind of bump I assume is unlikely to affect consumption patterns because it is pretty much anticipated.

MR. PRELL. Well, that isn't precisely how we're viewing it. As things have progressed, we've moved a bit in the direction of thinking that there could be a larger effect in the first half of 1994 than we had initially allowed for. We've made some shift in that direction. Yes, it's true that a lot of people knew that tax increases were coming; they began to adjust their behavior at least in the timing of their income receipts in late 1992, which showed all those bonuses coming in then. But looking at the behavior of consumption this year, one is hard pressed to discern any anticipatory effect. And it's not entirely clear that everyone behaves totally rationally in terms of gauging their lifetime income stream and adjusting their expenditures quickly. There probably will be a number of households that are going to be somewhat liquidity constrained at tax time. And we're anticipating that there will be a disproportionate effect in the first half of 1994 as people really calculate and confront their tax bills.

MR. LINDSEY. Thank you.

CHAIRMAN GREENSPAN. Any further questions? If not, who would like to start the Committee discussion? President Broadus.

MR. BROADDUS. I moved over to this table about a year ago and over most of the time since then I've been in general agreement with the Greenbook projections. I've often thought the risk of error was a bit on the up side, but the staff projections have usually struck me as being generally reasonable and sort of within my own confidence interval. But I can't really say that as strongly this time, at least when we get out beyond the current quarter. A number of things make me think that the Greenbook forecast this time may be significantly underestimating the growth of the economy and economic activity as we get out into 1994.

First, I think there's a good chance the projected sharp deceleration in consumer spending won't happen, especially for durable goods. We may get some deceleration but I don't think it's going to be as sharp as the Greenbook is projecting. Among other things the Greenbook expects fiscal restraint to exert a fairly considerable drag on consumer outlays next year. And maybe it will, but it seems to me that the upper income people who are most likely to be affected by the tax increases could reasonably have seen these things coming as long as a year ago, certainly by the middle of last year. So it seems quite likely to me that these taxes have already worked their effect and have already had whatever impact they're going to have on the path of spending going forward. More broadly, nothing in the recent data suggests to me that the economy generally is about to pull back because of fiscal drag and fiscal restraint. It seems to me that the current acceleration in activity, which is quite strong, is basically being driven by the interest-sensitive sectors of the economy: housing, consumer spending on durable goods, and producer spending on durable equipment. That suggests to me that the decline in real interest rates that has been going on now for some time is perhaps

finally showing through in a rather fundamental way to the economy generally. And unless there's a very sharp backup in interest rates, especially long-term rates, I would expect these sectors to continue to bolster economic activity in the period ahead. Also I'm less pessimistic than the Greenbook about the prospects for net exports, although I get from Ted's comments that maybe I read the Greenbook in this particular framework as more pessimistic than it actually is. We have had significant reductions in interest rates in a number of other industrial countries and it seems to me that they could give us a somewhat stronger recovery in the G-6 countries than the Greenbook appears to expect.

But from my standpoint the most compelling reason I would have for questioning the staff forecast this time is the anecdotal comments we're hearing in our own District, none of which suggests any real diminution in activity going forward. On the contrary, the sense we're getting virtually from all of our directors and all of our business contacts is that the economy is gaining momentum pretty much across the board. Just to give you a couple of examples: Our Baltimore directors, a pretty good cross section of people, have been pessimistic until their last meeting. In their last meeting they were positive about the outlook for the first time really since the recession in '90-'91. The same thing [is true] in Richmond and Charlotte; they've been somewhat more optimistic for several months, but at their last meeting they were much more positive about the current situation and the outlook than they had been for some time. And we're getting much stronger comments from our business contacts. We have a lot of manufacturing activity in our District and we're in contact with those people. Many of them are telling us for the first time in a long time that they plan to bring on new workers within the next six months. We haven't heard that to a significant and broad degree until recently. Also declining vacancy rates for commercial property in a number of areas in the District have increased optimism among commercial builders and real estate developers. A year ago these guys were all saying it would never get better. I should add that the acceleration in general economic activity has begun to raise some concerns about inflation among at least some of our contacts, though it's not terribly widespread yet. I think you mentioned something, Mike, about pricing power. Several of our business contacts have told us that while they did not believe until recently that they could make price increases stick, they're beginning to think they can do that within the next six months.

So, overall, I can't remember a time over the years that I've been here--maybe with one exception, in early 1983--when I've seen such a broad accumulation of positive information about the economy both nationally and in our District. And I think that has important implications for our policy decision today. I think--I hope--we've known all along that if the economy really began to gain some strength, we were going to have to let real short-term interest rates move up above zero. For my money I believe we're there now. And, frankly, if we defer action on the funds rate any longer, I think we could jeopardize the credibility of our commitment to price stability and all the good things that credibility does for the economy and long-term interest rates.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, in our District also the underlying level of economic activity has clearly gained some momentum since the last meeting. Virtually all the important sectors of our area have shown further improvement, driven largely but certainly not exclusively by the auto sector. The auto production schedules, of course, have been strong this quarter; and for the first quarter of next year they have been set some 13 percent over the first quarter of this year. The first quarter of this year was a pretty good comparative period. And the industry estimates that their contribution to first-quarter GDP will be just a little stronger than the number that's in the Greenbook. Given this, it's not surprising that the steel industry continues to operate at high levels. Shipments this year will come in at about 88 million tons. The forecast for next year is that they will ship over 90 million tons, a 3 to 4 percent increase. One company that I talked with said that the outlook for the steel industry in the next two or three years is the best that they have seen in some fifteen years.

Other parts of our economy also are doing well. The farm equipment business has been strong. The heavy truck business is expecting an even higher level of sales next year than this year. So the improved level that we have experienced this year, as it turns out, has not just been due to the environmental standards that will become effective January 1st. Machine tool orders, as an example, though down in the third quarter, for the year through October are up by almost 30 percent. And retail sales--and I do think this is a fairly strong and recent development--really have increased quite substantially over the past month or so. It's uneven; it's much stronger on the durable goods side than apparel. Nonetheless, overall retail conditions are described as the best that have prevailed in some three to four years. And I think I'd give high odds that the Christmas season is going to come in a little better than some of the forecasts that we're hearing about. The employment situation also has strengthened. Consistent with what Al has just said, for the first time that I can remember a heavy manufacturer has indicated that they will add employees at one of their facilities. So far they have been able to meet the increased demand by increasing the line speed. They now plan to add another shift, which will require additional employees.

They are completely out of capacity and the major constraint is a shortage of qualified drivers; there just aren't enough people available to drive the trucks. And

who has been very cautious--really rather bearish for some time --describes employment conditions as the best he has seen in quite some while.

With regard to the national economy, clearly the fourth quarter will come in on the strong side. I think the question, as Mike has outlined, is whether or not we will experience the same kind of drop in the first quarter of next year as we did this year or whether [the quarter] will be more in line with the staff forecast. And I must say at this point I think there is enough underlying momentum in place in the economy that the decline is quite likely to be very much in line with the staff forecast. But there are some uncertainties out there, which are now well familiar. Certainly, at this point at least, [the forecast] is not free from doubt. With regard to pricing we are experiencing this interesting dichotomy: very strong growth in economic activity yet pricing conditions that

continue to be very, very competitive. Despite the higher demand for their products, manufacturers just don't have the latitude to raise prices with confidence that [the increases] will stick. They are continuing to put tremendous pressure on their suppliers to maintain or even reduce their prices, and many of them are achieving some considerable success. Whether this very fundamental change will last or whether we're setting the stage for somewhat higher prices on a broader basis remains to be seen. I have a hunch that this will be the basis of our discussion when we get into the policy deliberations.

MR. PRELL. Mr. Chairman, could I clarify something in my earlier response to President Jordan? Not only was the GDP fixed weight price index up more than we expected, the CPI and the core CPI both have risen more over this past year than we anticipated last December while the unemployment rate has been about 1/4 percentage point lower as we got more decline in unemployment for the output growth than we anticipated. So I'd assert more strongly than I did before a broad consistency with the fundamental principle that applied in our forecast and continues to apply. Thank you.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Thank you, Mr. Chairman. My report from the Twelfth District economy is more optimistic, although the changes for California are small and mixed. In October employment in the District states outside of California showed considerable strength, with employment increasing 40,000. Annualized economic employment growth rates for the month ranged from 2-1/2 to 4 percent for most of the states; and Idaho and Nevada, which have been incredibly strong, actually recorded double-digit rates of expansion. One thing that was a bit of a surprise in the last month or two is what's happening in the state of Washington. Washington's employment growth outpaced that in most other District states, expanding at 8 percent in October following the 6 percent growth in September. And while eastern Washington continues to reflect what I think can be correctly characterized as boom conditions associated with those in the intermountain states, contacts also report that business activity in western Washington is stronger. However, cutbacks in aerospace, of course, remain a drag on that region's performance. California's economy remains weak although current conditions are more mixed than they have been in recent months. November payroll employment was little changed from the recession low reached in October. Moreover, job losses have continued in such areas as construction and manufacturing. On a more positive note, reports from contacts in California are no longer uniformly negative. Retail sales are improving some, and there certainly are good conditions in some sectors such as motion pictures, entertainment, and also agriculture. Within the state, economic conditions are clearly weakest in southern California, especially the Los Angeles area. Layoffs continue in aerospace and defense, and construction remains quite depressed. Real estate values appear to be continuing to slide in that area. Conditions are relatively stronger in the huge agricultural area of the Central Valley and also in northern California, despite falling employment in the Bay area.

Turning to the national economy, at this point we think that the most likely outlook for growth is roughly that which is incorporated in the Greenbook. It seems to us that following what is

going to be clearly a very strong fourth quarter we will see a reduction in growth rates along the line of what is indicated in the Greenbook. I would say that based upon [the Board staff's] forecast and ours it wouldn't be surprising to see labor market slack and a reduced core rate of inflation below that incorporated in the Greenbook. However, at the same time I think there is a reasonable chance that growth in inflation will turn out to be stronger than projected, along the line Al was talking about. New orders and production have picked up in areas besides autos, and we think GDP for 1993 may be revised up to some extent, providing more momentum for growth next year. As a result, it's possible that the gap between potential and actual GDP may be diminishing at a faster rate than is anticipated in both forecasts. Thank you.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, our District is continuing to grow; actually it's showing some indications of faster growth through the last half of this year and we think going into 1994. Construction activity is still strong and should continue to be so. We note that Intel is building about a \$1-1/2 billion plant in New Mexico, adding about 1,000 jobs, and there are some other activities throughout the District. Services seem to be good and improving, although perhaps not quite as strongly as some of the information we're getting on the national level. Manufacturing in our District is either stabilizing or actually improving, with smaller job losses in durables and some real job growth in the nondurables sectors. We still have some declines--McDonnell Douglas and American Airlines in their maintenance operations are laying off [workers]--but that's being offset with other job gains in manufacturing. The farm economy is stable despite the flood. Stronger grain prices are offsetting some weaker cattle prices and we may see some earnings pressure there in '94. The energy sector actually is holding its own despite the fact that the oil part of that is dead in our region. Gas activity, though, is positive; and while there are some obvious relationships between the two, the gas prices are still holding and we have some drilling activity going on there.

Within that context I'd like to provide you some anecdotal data; they are not data as such and they are not systematic but they are, I think, worth noting. In the area of prices, for example, land prices are sensitive in our region. In Wyoming we've had some sales and, in one recent sale, a fairly large ranch sold for perhaps 10 to 15 percent above what they expected; and this was to local neighboring ranchers, not outside investors coming in. In north central Kansas, while the general trends are still for price increases around the level of inflation, we've seen sales recently that are maybe 5 to 10 percent above what the trend line would suggest. In areas like Denver and Albuquerque we're hearing more and more comments about boom-like conditions. We're seeing more speculation in residential real estate; and loan growth is fairly strong, especially in areas such as Denver, parts of Omaha, and Lincoln. So we're seeing some activity there. In the energy sector, as I've said, while oil prices are down gas prices are at least holding their own. But in the sale of land or lease arrangements for exploration some of the large independents have told us that those leases are selling at levels significantly above what they expected. So there are these signs out there of strong activity

and some price pressures. It's not systematic yet, but we're hearing this more often.

As for the nation, we expect solid growth next year. In the first quarter we see a bit more of a drop-off than the Greenbook but following that, for the year as a whole, we don't see the drop-off that the Greenbook has projected. We expect some continued growth that will not allow the inflation back-off that the Greenbook [projects]. Now, whether that will turn out to be the case, we are not certain. But from what we're seeing in our District and what we're analyzing nationwide we think there is going to be some fairly good growth, around 3 percent throughout the year, and that inflation will stay at least that high throughout the year.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, economic activity in our District is continuing to move along at a moderate pace and once again we think that we're outperforming the nation. Retail sales in the fall were somewhat disappointing but holiday activity has been quite good through mid-December, and it has certainly been a lot better than most retailers had expected. The news from our relatively important tourism sector continues to be mixed; as the busy season in Florida approaches there's still substantial concern about the impacts of the unfavorable publicity related to the crime activity a few months ago. At the same time in Mississippi money is pouring into the state as a result of all of the gambling activity along the coast and in the Indian reservations, and it's giving rise to employment. I'm not certain this is the way to produce economic activity, but that's another issue. Business convention bookings are quite healthy in Atlanta. In the manufacturing sector the pace of activity was steady in November after posting quite impressive gains in October. And the outlook in this area is becoming steadily more positive in terms of orders, production, and employment. I think that's particularly evident in the outlook for capital goods, which has brightened as orders have picked up recently and producers have become more positive that the current period of expansion will be extended. Now, on the more negative side, continued cutbacks in defense and aerospace as well as the decline in the important apparel sector are muting the enthusiasm a little. Single-family homes continue to sell quite well all around the District. Even though inventories are being reduced, we don't have reports of [housing] price increases to any great extent, although some people are trying to pass along some of the recent increases in lumber prices. But generally speaking, single-family home prices have not moved up very much at all. In the nonresidential and the commercial areas there are signs that a slow but steady improvement has begun to take hold and I think in those areas there's a pretty general feeling that the bottom has been reached and the outlook is more positive. In the energy sector the rig count in Louisiana has fallen for the last two months although it's well above the level it had been a year ago. There is concern among producers of natural gas that lower oil prices will cause some substitution effects. And spot gas prices have been marginally, just marginally, above the \$2 level that's needed to make new drilling feasible.

On balance we continue to see most of the gains in employment in the District in the service area, although as I've indicated there

are some positive signs in manufacturing as well. We see very little evidence of price pressures. The anecdotal information supports that idea that price increases are very difficult to obtain even in this more positive atmosphere. And the anecdotal information also confirms all of the positive things that I've talked about. There is generally a feeling that things are much better. Most business contacts I've had, including our directors, indicate that they feel a momentum is in place in the economy. Now, when I go to these meetings I'm often asked about policy and I'm also given requests. The most frequent request I get now is: "Please leave things the way they are; don't do anything."

With respect to the national economy, we have not changed our forecast since the last meeting. We're in general agreement, as I said last time, with the Greenbook for the near-term outlook. But when we get into the latter part of 1994 and 1995 we think that growth is going to be somewhat stronger, the inflation rate higher, and the unemployment rate somewhat lower. Basically our difference is in the consumer area where we think that employment and increases in wages and salaries are going to help sustain consumption [growth] probably on the order of about 3 percent in that period. Now, having said that our forecast is for somewhat higher growth and higher inflation, there are some continued vulnerabilities and risks to that forecast. I would cite particularly the international outlook, although as indicated today the situation does appear to be a little better. But we may run the risk of seeing some deceleration in the first quarter, and even in the first half of 1994, although I don't think it's going to be as extreme as it was last year.

CHAIRMAN GREENSPAN. President Jordan.

MR. JORDAN. Generally economic activity through our District by sector and the various industries wouldn't be much different than what Si Keehn reported for the Seventh District, so I'm not going to go through them in different detail. It's basically quite positive. Some parts of the District would describe themselves as being in boom conditions, especially down into central Kentucky around the Lexington area. A lot of it is driven by motor vehicle-related things because both the domestic companies and the transplant companies are doing quite well, and trucks as well. Also, there's an increasing tendency for banks to report to us that business loan demand is picking up. Earlier this year that was rather selective; it comes almost without exception that the banks say they are getting business loan demand. Residential construction has been strong, [as has] commercial construction, heavy infrastructure kinds of construction all over the District. And the ag sector had a better year than they thought they were going to have--the best they've had since [unintelligible]. We also see rising farmland prices and more reports of a pickup in interest there. Through all of this, though, we've only had what we would call marginal employment growth. Anecdotally, most manufacturing-type businesses report very substantial increases in productivity. They talk about their increased volumes, increased output without adding to the work force, and I point out that that's contrary to national policy! The passage of NAFTA was interesting in that it was, of course, very controversial. There was a lot of organized labor activity in the District, very intensive activity. But once it was passed it almost disappeared as an issue. [The feeling seems to be] okay, it's basically positive for the area; and



labor organizations just simply have not been a factor. I cannot

looks like mortgage refinancing activity has slowed dramatically. It  
The strength on the consumer side is auto-related.

On the national scene, I can't differ with the forecast put out in the Greenbook. But if the assumptions about policy in the Greenbook were to produce the kind of inflation projected, especially out into '95, I would find that very unacceptable. So either the forecast has to be wrong or the policy is wrong.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Thank you. Well, the First District isn't outperforming the nation but we are seeing continued improvement. And now I'd have to say that we have legitimately moderate growth. [In our] area there is not a boom but a substantial amount of what I would call boom momentum, where people certainly are feeling a lot better about this. The exception would be where defense is very important, in Connecticut and parts of Rhode Island. We have a fairly extensive sample of manufacturers now and I would say that they are on balance substantially more optimistic than has been true in three or four years, maybe even five years. Again, there is some significant variance, but people are generally pretty optimistic with the exception, as you might expect, of some areas that produce health equipment that are actually seeing some anticipatory turndown as well as the defense group. On the price side everyone is very, very anxious to do anything they can to increase margins but at this stage they don't seem to feel they have the ability to do so. A lot of them are complaining about that. An interesting situation was reported to us in the steel scrap area. For a lot of producers the increase in steel scrap prices has resulted in a net reduction in their costs. And you say: How can that be? It's actually that the increase in scrap prices has been more important to them [because] a lot of producers sell a lot of steel scrap back into the market. And it has been more of a benefit to them than the increase in the finished product with the change in the mix between integrated mills and electric mills and how that's produced. So it's just a question of having to look fairly carefully at some of the price data.

CHAIRMAN GREENSPAN. You're not making your point clear.

MR. SYRON. Okay.

CHAIRMAN GREENSPAN. Are you saying that the electric price cost structure goes up but there has been a shift to nonelectric furnaces--?

MR. SYRON. What has happened is that scrap prices, as you know, are up substantially.

CHAIRMAN GREENSPAN. Yes.

MR. SYRON. But many of the users of these final products of steel generate a lot of scrap themselves. And the increase in scrap prices has been of such a magnitude that it has more than washed over for them the increase in the output price of the finished steel that

they're buying. And you say: Well, how can that happen? As it turns out, margins in electric powered furnaces have gone down.

CHAIRMAN GREENSPAN. I see.

MR. SYRON. And what happens is that now the marginal cost of steel is being [unintelligible], as I understand it, at the integrated mills, and as that has happened there has been a reduction in the margin that the electric mills have had.

CHAIRMAN GREENSPAN. Well, the non-mini-mill electric furnace operators are the big [unintelligible].

MR. SYRON. As I understand it--and Si would know much more about this than I do--the mix has changed between the integrated mills and the electric mills.

MR. KEEHN. Right.

MR. SYRON. Significantly.

CHAIRMAN GREENSPAN. Okay, I'm just curious.

MR. SYRON. At any rate as far as the national situation goes, we very much agree with the Greenbook forecast in general. We are more optimistic on the price outlook. I have to confess that's on the basis of what one might call gross macro relationships; I guess you can read that to be Phillips curves.

MR. PRELL. I hope so.

MR. SYRON. As for where we go from here, I think we're clearly into the most difficult time in terms of deciding what to do with policy. The key question is how much slack there is in the economy because on this issue of how strong growth is going to be in the first half of the year or even for the year as a whole, we simply don't know what's going to happen with respect to an issue such as the tax increase and how much people have adjusted their consumption patterns for that. So I think Al is correct that we need to be very, very sensitive to this whole thing. But it does, as you say, depend importantly on what has happened to the real economy. And some of this we just are not going to know.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. Well, the same upward momentum is apparent in the Middle Atlantic states as well. We've been a region that has lagged the nation; I think that is still true, although clearly attitudes and aggregate demand are stronger. We're seeing it in many parts of the District and we're seeing it across industries, most notably in manufacturing. The same is true in retailing and in residential construction, although we still have problems in the nonresidential side. Having said that, there is still a tentativeness that is present not only in the way business people are looking ahead --in some respects they are having trouble believing things are improving because it has been a tough period--but also in their actions. We are not seeing the kinds of increases in employment that appear to be the case in other Districts. And while I think this

improved attitude has more substance than what we saw a year ago, it is still going to need some more nourishing for it to take hold and produce this cumulative forward momentum that we need for a really strong economy. In terms of pricing, I keep hearing over and over how difficult it is to raise prices and that the only way to protect margins is still on the cost side. There's a lot of pressure on suppliers, and it's very difficult to make price increases stick.

As for the implications for the national economy, I don't think we know the answer to the bottom line question: How similar is this to a year ago and how much of a takeoff are we really seeing in the economy? I think one can make a fairly good case on either side of that. My sense is that we will not see the kind of weakness that we saw a year ago. I think there is more to this [improvement] going forward. But it's just too early to tell, and we ought not be goaded into a tightening that some of our hawkish friends might urge on us. Nor should we be timid; we need to be willing to tighten when the time comes. I think this is not the time. There's still enough uncertainty. I would call this a period of watchful waiting; I'd be prepared to do what we need to do but not be precipitous about it.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. Growth in economic activity in the Eleventh District has slowed a little since the last FOMC meeting. There was an actual decline in employment in October but that was primarily due to some special circumstances, including an early retirement program for the state which eliminated 6,000 government jobs and some earlier than usual hiring of seasonal employees which meant that October registered as a decline seasonally adjusted. Construction activity is strong and it's expected to remain on an upward trend. Single-family building was a major source of strength throughout 1993. Next year we expect that to slow a bit but multifamily and nonresidential activity should pick up the slack. Apartment occupancy rates are very high. And since June nonresidential contract values have risen at an annual rate of almost 100 percent, driven by the start of a couple of \$2 billion refinery projects and a large increase in shopping center construction. Manufacturing employment has been growing at a 2 percent rate. And with weekly hours having gone back up to their high of 43, which I think is about the highest in the nation, manufacturing jobs should continue to gain. Most of the strength is in durables, electrical and non-electrical machinery, instruments, and construction-related products. Energy markets have taken on a gloomy tone in the District recently for obvious reasons. In real terms oil prices are almost as low as they were in 1973. There's widespread fear that the recent drop in oil prices could be sustained for some time. This would hurt our District; our people estimate that we would have job losses of about 50,000 over the next two years if oil prices remain at or below \$15. The impact would be much less than it was in 1982 and 1986 since oil and gas extraction has declined to about 7 percent of the District's economy from about 23 percent back in 1981. However, what's bad for the Southwest would be good for the country: Our people estimate that if \$15 oil prices lasted for two years, it would take about 1/2 percentage point off the inflation rate and add about 3/4 of a percentage point to the real GDP rate nationally.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. Thank you, Alan. The economic outlook for the Eighth District economy continues to be favorable. Retail and auto sales are very strong and most of the other firms we surveyed report increases in sales, orders, and employment. Loan demand continues to strengthen in some parts of the commercial and retail markets for District banks. On the other hand, there are some sectors of weakness such as nonresidential construction and agriculture. Only Missouri experienced gains in nonresidential construction contracts during the last half of the year. Moreover, preliminary estimates suggest that net farm income will likely decline in most District states this year. The recent firming of crop prices does not appear to be large enough to offset the reduction in farm output due to bad weather and flooding. Generally speaking, however, the Eighth District expansion appears to be broad-based and sustainable.

With respect to the national economy, I would say the outlook appears to be converging with that of the Eighth District. Both retail and final sales have been strong, especially relative to inventory levels. Trends in employment, industrial production, investment in durable equipment, and the index of leading economic indicators point to a continuation and strengthening of cyclical expansion. Indeed, the improvement in the economy now appears to have spilled over into consumer confidence. All indications are that output growth would be at or above potential next year.

With respect to prices, I'd say it's a testimony to past policy that the CPI increased at only a 2-1/2 percent rate during the first nine months of this year. Encouraging as this is, first of all, our goal of price stability has not been achieved. Secondly, some of the reported improvement in the CPI is due to the volatile food and energy components. When these are dropped the CPI increased at a 3 percent rate during the first nine months of the year and at a more troubling 3.6 percent rate during the past two months. Third, the CRB futures index has risen sharply since September and is up about 10 percent from this time last year despite the sharp reduction in oil prices. Finally, such numbers tell us nothing about the inflationary thrust of current policy, which is quite stimulative when measured by the behavior of things that we directly influence like the growth of reserves and M1. If we wait until the effects of recent policy show through to inflation before we act, we will have waited too long.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Thank you, Mr. Chairman. With regard to the economy of the Ninth District, there has been further improvement; that's a trend that has been under way for quite some time. The stronger sectors appear to be consumer spending and residential construction. And some people have even used the language that the District economy is "strong." And that's about as ebullient as they get in the cautious conservative area of the Upper Midwest.

With regard to the national economy, I think the Greenbook forecast is reasonable. Our internal forecast is not very different from that, although I recall that we did not forecast the significant slowing we saw in the first half of '93; and that gives me a little pause as we go into 1994. Having said that, and assuming that the general tenor of the Greenbook forecast or our forecast turns out to be accurate, I don't think it matters very much whether real growth

turns out to be a little more rapid or a little slower than is indicated in the Greenbook. It seems to me the critical factor, as several people have commented, is what happens to inflation. Neither the Greenbook forecast nor our internal forecast has any further deceleration of inflation in it and that certainly is a cause for concern. On the other hand, if you listen to the anecdotal evidence--at least out our way--it appears to be very, very difficult to raise prices, and people are not seeing much in the way of incoming price pressures either. And the international situation and the slack available in foreign economies might also tend to make one a little more optimistic about the situation. One other thought--and this is perhaps heretical, but nevertheless--many of us have accepted as kind of a working definition of price stability [that inflation is not a factor] in economic decisionmaking, and perhaps we're a little closer to that than we realize. At least talking to some of the business people out our way, I certainly have to think that they are adjusting to the idea that price increases are simply going to be few and far between.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Thank you, Mr. Chairman. When we look at this process, it does involve a lot of attention on the real economy; that is, each of the twelve Presidents naturally has a responsibility to speak about economic conditions in his District. It wasn't too long ago that various groups were unified--well, unified or crossed--in their analysis by the role of M2. When V2 was stable, those who wanted to use the output gap approach to inflation found the stable velocity of money to be very helpful in regard to achieving a policy conducive to the level of output that would provide the kind of gap approach that would either restrain inflation or produce gradual disinflation. Robert Black and Frank Morris certainly had different perspectives; both of them crossed in the sense of recognizing that M2 was information of importance. In the [1970s] I suppose we talked about disappearing money. With the V2 one-time step we were confronted with, in a sense, disappearing money in regard to its role in policy formation. Many who looked at money did not look at it on the basis of predicting the output gap. But the steady growth of money is to be seen as a prelude directly to price level stability. So that the Irving Fisher, Milton Friedman, Anna Schwartz background said: If you do the right thing with money, you end up getting stable prices and you don't need to worry about the real economy. The market-system economy is so efficient that if you provide stable money, then output growth and employment will be allocated very efficiently and we'll have very good end results. But when V2 becomes totally unreliable--really it became unreliable in 1982-1983 and was unreliable many other times--then those who want to follow the output gap approach are left without a forward handle in regard to creating the output gap that's critical for monetary policy. That's because monetary policy, as we know, works with a very significant and variable time lag. So this concentration upon the output gap I think is somewhat exaggerated by the very good work that Mike Prell and Ted Truman and their staff do in the Greenbook because the Greenbook is an attempt to say: "Well, what's out there?" And I think all of us know that the very best forecast is not really all that good in regard to knowing what is out there; the forecast has to be not only with regard to the growth rate but the forecast has to have the correct level of productivity to know where we are.

Now, in this atmosphere it seems to me that it's very, very important that there be around the table those who continue to follow very closely the output gap because the statistics are clearly supportive of that view. That is, the best predictor of the rate of inflation is that output gap. And yet it seems to me that following that approach, even if it's economically advantageous, has a very strong political disadvantage. That is, the very notion that we might take away the punch bowl when growth gets going is a position, it seems to me, that the central bank ought not to be in. Since so many follow the other approach, I prefer an approach that tries to target the price level directly but I also don't have any help from M2 in regard to doing that. And if we don't have help from M2, then I think we have to ask ourselves: What is the current condition of monetary policy? Is monetary policy at the present neutral or is it accommodating or is it restraining? If M2 doesn't tell us by itself, then I think we have to ask if we're providing too much liquidity and what signs we will see as to that extra liquidity. Now, I suppose the oldest approach would be the approach of Knut Wicksell, which says that there is a natural rate of interest. And I think those who want to follow that--whether you want to concentrate on real or nominal rates--can look at the five-year Treasury and say that's what the market is saying the natural rate of interest is. And if you pull the rate of interest too far away from its natural rate, you are going to be engaged in constraint or ease [depending on] which direction you go. But you can't tell by moving interest rates up or down or leaving them the same as to whether policy is consistent.

Now, I've done a lot of work--and many of the people here have been very helpful--in regard to commodity prices, because if money is rather plentiful then it should show up in commodity prices. And that's a mixed bag. There is no panacea here. When you look at commodity prices today, you see a mixed picture. You see a picture in which the price of oil has been declining and the Federal Reserve's experimental index of 21 commodity prices has about a 21 percent weight on oil in terms of its passthrough effects. So when the price of oil has been coming down, as it is now, we know that we are in a very favorable immediate CPI arena. Now, how well the CPI performs compared with being in this favorable arena may be another question. But if you look at the best evidence of commodity prices now, it seems to me that they are not quite as robust as the price of gold. But there is some picture there that we do have ample money on the table. And if that ample money is on the table and we leave it on the table long enough until the CPI responds, then in some sense it's too late. And it's too late in terms of stable money because sound money doesn't simply aim at price level stability; sound money is stable money and aims not to have any monetary-policy-induced cycles. It seems to me that most of the cycles that we've experienced have been monetary-policy-induced. And that's why we have to be somewhat in the forefront by not asking ourselves what's going to take place in the second quarter of 1994 but what the price level effects of what we do today are in 1995 and indeed in 1996.

So, under these circumstances, I tend to be about where Al Broadus is and to believe that [maintaining] the fed funds rate at the current level at some point in time will catch up with us. And when it does catch up with us, we won't know how much of a move it will take in the fed funds rate to correct the situation. That is, at 3 percent we've had a kind of head winds phenomena but we've

particularly had a household sector that has been very duration mismatched. Now that duration mismatch is much less than the duration mismatch was three years ago as money was flowing out of 6-month CDs into longer-term bond mutual funds and into equity mutual funds. So for that reason alone monetary policy is more accommodative at the current level of rates than it was 17 months ago. I checked, and it was 17 months ago, not in September, that the Treasury bill rate reached its low level because the market anticipated that level; so the Treasury bill has been really in this current range for about 17 months now. And over this 17 months, monetary policy has become increasingly accommodative. Now, I do not know when this accommodation will have gone on too long. The U.S. economy and the world economy have had a very significant real asset deflation, which has altered the behavior of the commercial banking industry in regard to making loans and has altered the behavior of people in regard to wanting to make loans. So we're on new ground and we really don't know how soon such a change might take place. So I would prefer to say the price of gold at \$389 an ounce is too high. And last spring I think many of us thought that the price of gold would never go above \$400. But if you leave policy alone the opportunity cost of [holding] gold will be conducive to the price of gold going above \$400. And the longer you let it go and the higher it goes, the greater will be the tradeoff cost of bringing inflation back to where it ought to be. So in my narrow view, I can't see any choice but to say: Let's try to move closer to neutral. I don't think any of us knows where neutral is but I would certainly think it is closer to 4 percent than to 3 percent [on the fed funds rate]. If we can do this before the bond markets tag us with a reluctance to move, I think we will get more output and more growth than we will if we, in a sense, get in a lagging market. I'm very envious of the Swiss's 4 percent 10-year rate and the tremendous increase in output and growth that can occur. If I thought that pursuing price level stability directly gave us more output and more growth and more employment, I don't know how anyone who cares about the quality of our labor force could ever foster and favor policies that lead to people being unemployed or people being bankrupt. So I think it's a commitment to stable money; stable money gives us more output because we don't have to have those recessions. Thank you.

CHAIRMAN GREENSPAN. President McDonough.

MR. MCDONOUGH. The Second District is still relatively flat except for the financial services firms; both commercial banks and investment banks are doing very well. The industrial and service firms in the District, especially the larger ones, are still concentrating on reducing staff and improving productivity. They are not looking at price increases as a way to improve their margins. How long that discipline will continue, with growing market talk around New York that any increase in growth automatically translates into price increases, leaves some doubt. But at least as of now the price discipline in the larger firms in the District seems to be in good control.

On the national picture, we part company with the Greenbook for the first time in quite some while. From fourth quarter '93 to fourth quarter '94 we're forecasting GDP growth of 3 percent compared with the Greenbook's 2.7 percent. The unemployment rate we believe will fall to 6.1 percent compared with the Greenbook's 6.4 percent.

The components where we show more robust growth are consumer expenditures, business fixed investment, residential construction, and Federal purchases; it's just a little in all cases but enough to result in the larger growth picture overall. Not surprisingly, since we have faster growth we have a bigger drag from net exports. We show the GDP deflator next year at 3 percent as compared to the Greenbook's 2-1/2 percent. And in 1995 we are even more apart because we have the deflator going up to 3.3 percent. Now, those differences are enough that we believe the assumption of the fed funds rate remaining at or about 3 percent throughout the year is almost certainly not going to be the case. The question is: When does one have the certainty of one's forecast to say that if a policy move is evident, it should be taken? We are not yet sufficiently certain of that forecast to think that it should lead to a policy move. The possibility of a slowdown in the first quarter is sufficiently great that we would be well advised in our view to wait for some additional data to come in. We're particularly [waiting for] two [statistics]: One is the first look at fourth-quarter GDP, which comes out in late January; and the other is the employment data for the month of January, scheduled to come out on the first Friday of February, which will be the second day of our next meeting. Even though our forecast as of today--if we had absolute certainty--would lead one to say that the time to take policy action is imminent, our view is that we would prefer to wait for those additional data before reaching that conclusion.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Thank you, Mr. Chairman. First let me say that I think your remarks early in the meeting concerning Governor Angell's departure were very well taken. He may leave us physically but his influence is certainly going to remain. His statement of a minute or two ago was a beautiful cameo that he's leaving [with] us for that point of view. And I want to tell you that I appreciate it.

I think most of us feel that appropriate policy is largely in the hands of how strongly one feels about growth. The main question, of course, is the pace that [the expansion is] liable to sustain through next year. Are we looking in this strong fourth quarter at a sustainable, very strong rate or will it ease back somewhat from there? I have a long list of factors and I'm sure everybody else does, and Mike expressed it very eloquently earlier so I won't go back through all of that. But to me there is somewhat harder evidence for the "ease back" hypothesis than for sustained, very strong growth. I was a little surprised just a moment ago to find myself with the same factors that Bill had, only with a reverse interpretation. I suspect the consumer will ease back, largely because consumer saving is at an all-time low and very strong consumer expenditures will drive that lower. They could [remain strong] but consumer debt is right at a record in terms of its relationship to disposable personal income. And that very, very high ratio will have to be sustained in order for strong consumer expenditures to continue. It seems to me that housing is very likely to ease. I can't imagine that something like this 1.43 [million rate of housing starts] that we just saw will hold. The tax increase will kick in; what its effect will be remains to be seen. I understand it will only hit higher incomes, of course, but it will nevertheless be there. Defense cuts will occur. I hope it's true that the deficit number will continue to get lower, providing a drag. Foreign economies may well start to look better than we have been



thinking recently, but that's not going to happen overnight. And [their sluggishness] may well continue to stretch out as has seemed likely for some months now.

The sustained strength case is very strong; Al started the meeting with a very strong and credible statement about that. And it just makes this [policy decision] a terribly close call; I guess, as Ed Boehne said, we just don't know. I think the first quarter is liable to start strong, just as an echo if nothing else. But is that sustainable? I remember this time last year--obviously we don't have exactly the same situation as last year but we had that huge fourth quarter last year--that it took the subsequent three quarters to get any meaningful momentum going again. Not even the third quarter, just past, was all that impressive. Are we going to get some of that? We might well, even though probably not as severely. So, on a very close call it seems to me that the factors calling for some pull back from what we apparently have in the fourth quarter is the strongest case. If the Greenbook forecast or something close to it is correct, then the possibility or the likelihood of running into inflationary problems is some quarters out yet; it's hard to tell how far. It will depend on exactly how that goes and how fast the gap in the GDP gets closed. If [the economy] is somewhat stronger than the Greenbook, that's the toughest call of all for me, and I don't know what to say about that. If we believe that it's considerably stronger and that [the strength] is sustainable, then we should move immediately. But I'm not quite there. I'm cautious about January, particularly, because of the likely echo. And only if things continued to accelerate right on through January, would I start to get impressed by that because I think January is probably going to have some strength to it any way one looks at it. So all in all, that puts me into the wait-and-see camp.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Thank you, Mr. Chairman. I must say that I have a tendency to agree with the concerns about the continued contraction of military spending, the full impact of higher taxes, and the persisting sense of job insecurity, which I think will continue to be driven for some time by corporate re-engineering. I don't see any real end to that trend. And as the financing of this health care program emerges, all of these factors are going to continue to tend to dampen but not dump economic growth. In that context I see no really compelling case for policy change at this time in spite of the current spurt of economic growth. On the contrary, I think a premature move could choke off a satisfactory growth rate. The timing of any change in policy in the current circumstances is exquisite and we will be more comfortable when we meet next and have some indication of the first-quarter outlook at least. At that point some adjustment in the directive might be appropriate--sort of a loading of the gun by perhaps tilting the directive--if it looks as though the staff projection of more modest growth in the first quarter is not going to materialize.

[Secretary's note: Chairman Greenspan left the room briefly to take an important call, and the Vice Chairman conducted the meeting during the Chairman's absence.]

VICE CHAIRMAN MCDONOUGH. Governor Mullins.

MR. MULLINS. Thank you. I think the developing pattern of incoming data continues to confirm what we all recognize. Head winds continue to diminish. We haven't heard a lot about head winds lately. And a traditional pattern of interest-sensitive spending seems to be well entrenched and is fueling sustainable moderate growth led by business investment, consumer spending on durables, and especially housing. I don't see significant risk of an overly robust growth rate because of the remaining much discussed drags on the economy, the usual suspects that Mike and John have mentioned. I think these concerns are getting a little long in the tooth. Is there anyone who doesn't know that taxes have gone up? We don't have much longer to flog that one. But I do think those [drags] limit the up side somewhat. However, I don't see any significant chance of economic deterioration absent a shock. This thing has momentum; the economy has grown at a rate of 3 percent for 8 quarters now. Growth has averaged 3 percent for 2 years. So it is true that consumer spending has been sustained at unsustainable levels now for many, many quarters; and if it continues to be sustained at unsustainable levels, we might get a hint that we're not measuring it correctly and that the people who suggest that there are a lot of self-employed people and small businesses who are not being captured [may be right]. The notion that during the uncertain job climate of 1992 and 1993 people would just feel confident about spending a lot more than they're making when we see that they don't feel confident enough to buy houses and the like despite record affordability just seems inconsistent. It seems much more likely to me that the income is there.

Regardless, [though] one can talk through the so-called slowdown in the first part of this year and the pickup, if we have a mean of 3 percent growth and we have average variability quarter-to-quarter around that rate--we've had less than average variability--we will see quarters below 1 percent and above 5 percent. I think the mean is 3 percent. The Greenbook thinks it's 2-1/2 percent. But we'll never know with this sort of variability, fortunately. So I don't think it's possible to predict quarter-to-quarter variability. We had retail sales growing in the fourth quarter of '92 at 12 percent. That was unsustainable; even I would admit that. So in the first quarter it pulled back. You take the two quarters together and growth was 3.3 percent. The second quarter had an inventory adjustment [but] we had consumer spending continuing to grow. This quarter has an inventory adjustment in the opposite direction. It's pretty clear in my view that the data have confirmed the durability and sustainability of the economic growth process and I'm getting a bit tired of holding my breath after two years.

Since I believe much has been clarified by the last several months in the sense that we've had another one of these normal sorts of variations, I think it is time to take stock and see where we are. It has been about 17 months, almost six quarters, since we lowered the federal funds rate to 3 percent; we actually [lowered it] 75 basis points during the summer of '92. I think it's worth reviewing the basic rationale for moving to a 3 percent federal funds rate, the lowest funds rate in almost 30 years. I was a junior in Fayetteville High School the last time we had this federal funds rate. We've had real short-term interest rates of approximately zero, if not marginally negative, during much of this time. As I recall, the basic rationale was to take out insurance against the down side--to weigh against the risks in the summer of '92 of deterioration of the

fledgling recovery. It worked. The downside insurance paid off. Comparing then to now: Then we'd had six quarters prior to the third quarter of '92 where real GDP growth had averaged only 1 percent; the last six quarters have averaged above 3 percent. Mike mentioned overall capacity utilization: At the end of the second quarter of '92 it was 79-1/2; now it's 83. As Mike mentioned, the peak in the last cycle in the late '80s was 84.8, and it's 83 now. Unemployment in the summer of '92 was 7.7 percent; it's down to 6.4 percent now--better say that quickly--

CHAIRMAN GREENSPAN. It's 6.5 percent.

MR. MULLINS. Yes, it's 6.5 percent using concurrent seasonals. But it's down well over a percentage point in the last year and a half. We might ask where it might be a year and a half from now. I know it has come down in the last year and a half by over a point and we might think about that. I know there's going to be a measurement change, which will kick it up, and I don't think we should be misled by that. The factory workweek and factory overtime both stand at post-World War II highs. All of this with the near-term growth outlook portends continued growth in employment, so I see the possibility of lower unemployment. So I guess a lot has changed in a year and a half. We've gone from an uncertain recovery to what is now an expansion which, if not mature, is at least an adolescent. And all signs suggest it is on secure footing. I think the market risks and perceptions have changed as well. Last summer when the stock market was at record levels and we had a weak first-half GDP performance there was concern that the market was getting ahead of economic fundamentals. Now, six months later, the market has gone essentially sideways for half a year. The economic outlook has caught up with the market. Against the current backdrop of a 5 percent fourth quarter and improved confidence in economic growth next year, I no longer hear the scare stories about market fragility, which probably means it's now that we should worry. But there is a sense in which the economic outlook has filled in underneath the market.

In short, the world has changed; the federal funds rate has not changed. The downside economic risk has diminished substantially if it has not been extinguished entirely. The death of downside risks has, in my view, taken with it the basic rationale for the very accommodative monetary stance in place now for a year and a half. We no longer need the potentially costly insurance against downside risk that we needed in the summer of '92. When you compare the environment --the conditions that motivated us to go to 3 percent--I simply think the performance of the economy, currently and prospectively, no longer justifies this accommodative stance. As the world has changed, the time has come over the next several months to begin the process of moving toward a neutral, sustainable stance, one appropriate for a growing economy with much diminished downside risks. I do not see convincing signs of accelerating inflationary pressures at this time. And I would not favor taking out insurance against the up side by moving to a restrictive policy of high real rates. Of course, we know there are long lags associated with inflation and with policy actions. If we sit with a very accommodative policy until inflationary pressures are clearly visibly embedded, we know it will be very late in the game. It will be too late. And a very restrictive policy will then be required. We can look at the late '80s with a 10 percent funds rate and a recession [that was needed] to turn that one around.

So, I think we have to be aware of a false sense of security, of getting into inertia and sitting with an accommodative policy long after the rationale for that policy has disappeared, made obsolete by progress in the economy. Rather than let the inertia produce wider swings in policy and in economic activity and political pressures and result in considerable risk to our objective of sustained progress toward price stability, I think the better path is to start to move policy toward an even keel while there is still time. And I think this would help secure a low inflation environment, low long-term rates, and sustained economic growth. Simply put: This is our job in my view. I would not pretend to suggest that this policy journey will be entirely pleasant; but unfortunately this, too, is our job.

Of course, beginning to move from accommodative to neutral would surprise no one. I think it is the consensus forecast of private economists that short rates will move up moderately next year. It is expected by the markets and implicit in forwards and futures prices; and regardless of the rhetoric, it is the Administration's official forecast. I would not favor an immediate change in the thin markets with year-end pressures; this was helpful in December of '91 when rates were coming down. It might not be so helpful in the opposite direction. Nor would I favor a change linked to statistics on economic growth or unemployment. Nor do I see a compelling case for going to asymmetry now since the move is not in my view dependent on, or potentially triggered by, the receipt of data in the intermeeting period. That would be the criterion I use for directive bias--if I'm waiting for a piece of data here. As we move into next year, I think the Committee should debate this issue and make a careful assessment of the progress and prospects for the economy. And if we reach a consensus, as I hope we shall, we should perhaps take the first step at a meeting as a carefully considered marginal realignment of the stance of policy rather than as a response to specific incoming data.

In sum, when I look at the economy I see a much changed economic environment from the one we faced in the summer of '92. The only thing that hasn't changed is the federal funds rate. In my view the concerns that led us to establish the 3 percent federal funds rate are no longer present. The rationale for an accommodative stance is no longer valid and the time is fast approaching to begin the realignment of policy from the accommodative stance appropriate for a struggling uncertain recovery a year and a half ago to a more neutral stance appropriate for a sustainable expansion, which we have today. Thank you.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. Thank you, Mr. Chairman. I, too, want to second what Governor Kelley said about Wayne Angell's departure. Mr. Chairman, you used the word "subliminal" in his effect. If I may, I would say the phrase should have been "subliminal but never subtle." [Laughter]

CHAIRMAN GREENSPAN. I accept that.

MR. LINDSEY. We have two puzzles that everyone has been discussing. One is the unsustainably low personal saving rate and the other is the absence of price pressures in the presence of a rather

high capacity utilization rate. I have two thoughts. I've thought about both of them and, since they haven't come up, I thought I'd throw in my two cents worth. The first relates to why the consumer in general is pretty happy. He has just gotten three tax cuts. The first is from OPEC; and that's \$120 a family at \$4 a barrel. The second is refinancing of a home; with a \$100,000 mortgage that could be \$700 or \$800 a year easily. And thirdly, taxpayers in the 28 percent bracket, which includes me and people with taxable incomes of, say, from \$35,000 to \$85,000 will on January 1 get a tax cut of between \$200 and \$300 because of indexing. All of this works well to encourage people that things are going their way. There's still a tax increase coming and I think we're seeing the effects of that. I think it's coming entirely out of savings. One need only do some calculations that I'm sure higher income people are facing and you can see where the money is coming from. If your alternative for paying Uncle Sam is, say, a regular short-term vehicle, your real after-tax return on that short-term vehicle is now about minus 1-1/2 percent. It doesn't make any sense to hold that kind of cash, so you may as well dissave. So, I think the decline in the saving rate we've witnessed is really not among the scared middle and upward middle classes worried about their jobs but it's because the rich are dissaving.

Where my key disagreement with the [Green]book would come is that that \$49 billion in extra revenue we're expecting to see in the second quarter is not [all] going to materialize; I think about half of it will. As we can see again through the low saving rate, where people are putting that money is in asset redeployment. The first is the reemergence of the \$1 million home. Actually it's a \$1,250,000 home with 80 percent financing and a \$1 million maximum mortgage that [qualifies for] a deduction. I know a few rich people. And the majority of them, who have always paid cash for their homes--gee, what a nice situation that would be--tell me that they in fact are now taking out mortgages for the first time in the \$1 million range. It's a nice saving. Furthermore, it's a nice form of long-term cheap funds. The nominal after-tax cost of a mortgage for someone, say, in New York right now is about 3-1/2 percent, that's the nominal after-tax cost. That sounds like borrowing money for free for 30 years, and that's a pretty good deal. What we would expect to see as a result is a bunch of asset re-diversification, a flow of funds into real estate and also into durables which are untaxed. I wonder if the boom [areas of the economy] we're hearing about [are indicative of this]. In Wyoming, for example, I heard [the boom in real estate] was particularly true around Jackson Hole where low and moderate income housing is no longer available and California-type prices are coming in. That's another way, again, of sheltering money. [Another] asset re-diversification is out of dividend paying stocks into OTC stocks; 85 percent of OTC stocks, I'm told, have outperformed the DOW this year. They are nondividend paying, basically speculative. Utilities have been hit in spite of a favorable interest rate environment because they're high dividend paying. Then the classic is the new issues such as Boston Chicken. As a Virginian, I'm outraged. I'd suggest opening a Virginia corned beef and cabbage to fight back. [Laughter] Maybe we can make some money on that. What do you think, Al? The further other types of diversification that would make sense would be: to hold commodities, and we're seeing those prices go up; or to have your firm purchase business equipment, and we've had a record boom in that. And most important, Mr. Chairman, you mentioned

to me earlier that we're not going to have inflation without C&I loans going up. You have to be crazy to go into C&I loans. You don't want to bring any more cash on your books; you've got plenty there already. And what you have to do is to dispose of it because you can't pay it to yourself. So you borrow against your house and your portfolio and you use that money for something that's going to give you a deduction up front. And that way if you want to keep cash in the company and not pay it to yourself, you're going to push it this way rather than pulling it this way. And I think that's why we're seeing it. So I think we have a low personal saving rate because the rich are doing what they should do, faced with confiscatory tax rates.

The second issue is why there are no price pressures in spite of boom conditions. I think it's because traded goods are traded and non-traded goods are not, and we're going to see \$1 million houses and land in Wyoming go up in price. We missed our forecast in the early '80s during the last time we hit negative real interest rates because we ignored the outside world. We thought the budget deficits would do us in; in fact, we borrowed from abroad. The check this time that the rest of the world is having on us is that it's going to restrain price pressures.

Well, what does that do for monetary policy? First of all, I think our current monetary policy is exacerbating the effects of the tax cuts by keeping real after-tax rates decidedly negative. Furthermore, if we want to keep that [restraint on] price pressure from abroad, I think ultimately the only way we're going to have to do it is perhaps to see some appreciation in the dollar. The surprises are going to be abroad. We're going to have no government in Germany by the end of the year. The Bundesbank seems to be caught. We have a very gloomy picture in Japan. The Japanese are near a liquidity trap situation. And perhaps one way of helping both of them out of their dilemma is not to look for a relative decline in their currency but a relative increase in the dollar. So I think the foreign situation, if anything, calls for action on our part. Finally, we all agree that the 3 percent [funds] rate is unsustainable. We also know that we always act too late. I was particularly impressed with a presentation we had here yesterday which showed how long monetary policy lags are. And we had better act now if we're worried about inflation in '95. So, I think some modest adjustment along the lines of what Governor Mullins was talking about--away from highly accommodative toward neutral--would help stabilize some destabilized parts of the economy.

CHAIRMAN GREENSPAN. Finally, Governor Phillips.

MS. PHILLIPS. Clearly, the economy is strong in the fourth quarter and on firm footing going into '94. I think the interesting thing about this is that people right now also are believing that things are better. Confidence is up perhaps because the employment situation is stronger. People are voting with their feet by spending, and they are borrowing to do it. The Administration is saying that 3 percent growth is good and that's their projection for '94. All of this seems to be reinforcing the fact that the economy is doing well, and it's helping people to feel better about it. I won't go through the list of [reasons] why the economy appears to be on a stronger footing. Suffice it to say that it adds up to the assurance that this 2-1/2 year--almost [2 years and] 11 months--recovery is sustainable. And the financial sector is certainly well positioned to support

growth. I do find myself in the camp of those who believe there will be a slowdown early next year back to this 2-1/2 to 3 percent track. I think there are still some head winds or drags on the economy that we have to work through: the defense and other government cutbacks, the tax increase, the health care reform. Hearing the comments around the table, they seem to be different in different parts of the country. Most of the discussion about the health care reform has suggested that it's not going to be a net cost to the federal government and in fact it's going to reduce the deficit. But I think there has not been very much attention on the cost to employers, which will serve as another tax. Corporate downsizing, restructuring, and layoffs are likely to continue. The employment quality effects may continue to exert their pressures. The slowdowns in Europe and Japan are continued considerations.

With respect to inflation, the most recent numbers are consistent with a continued deceleration of inflation but certainly the improvements are modest. There are some very worrisome signs on the horizon, however, with respect to inflation: the general acceptance of 3 percent as the right number, for example, by the Administration; the price of gold, which has been elevated now for quite a while; and the fact that we're likely to start hitting capacity problems as activity picks up. Indeed, construction and industrial materials prices--scrap steel and lumber--are up. Food prices and projections of further food price increases going into '94 began as a problem related to the floods. But if we have another year of bad crops, [the effect] is going to work its way further into the food chain; we'll see it in oils and meats and so on. I think the recent backup that we've seen in long-term rates is showing the deterioration in inflation expectations. I'd hate to count on energy and import prices as what will hold down inflation.

CHAIRMAN GREENSPAN. Thank you very much. I'm certain the coffee is available. While we do need to go on our break, let's make it reasonably short.

[Coffee break]

MR. KOHN. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Don?

MR. SYRON. Early this year when we were asymmetric for a stretch, how long were we asymmetric?

MR. KOHN. Two meetings, May and July.

MR. SYRON. What is the pattern over the years of asymmetry in one direction or another? And what's the longest episode where we've been asymmetric in one direction and not done anything?

MR. KOHN. I don't know. I did have a table put together; it doesn't have it by episodes. But it has the number of asymmetries and moves made after the asymmetries. Of course, we had two this year with no move. In '92 we had six asymmetries and moved three times; in '91 it was five for five; in '90 four for five; in '89 two for five; in '88 four for six; and '87 two for five. So by my calculations about 60 percent of the time we were asymmetrical we [subsequently

moved in the direction of the asymmetry]; it was 65 or 66 percent if I took out the last two.

MR. ANGELL. Don, at what meetings in '87 were we asymmetrical? When did we first go [asymmetrical], at the March meeting?

MR. KOHN. August 18th we were asymmetrical toward firming. Oh, you're right; early in the year we must have been asymmetrical toward tightening--I don't have the complete record here--but we went back to symmetry then back toward firming in August and then back to symmetry. And then toward ease after the crash.

MR. ANGELL. Right.

MR. SYRON. Don, could I just ask the mirror of that question, which is: What is your rough recollection of the portion of the times we've taken action without being asymmetric? In other words, 60 percent of the time we were asymmetric and did something. What percentage of the time did we do something and we were not asymmetric?

MR. KOHN. Well, if this table is right, which goes from '87 through November of this year, we took seven actions from symmetric directives.

MR. SYRON. As compared to how many altogether?

MR. KOHN. Out of 20 from asymmetric directives.

MR. MULLINS. July '92 [unintelligible].

MR. LINDSEY. Don, I would imagine there was some kind of relationship between lags--how long it takes us before we start raising [rates]--and how far we have to raise [them]. Do you have any good ideas or rules of thumb on that?

MR. KOHN. No, I don't have any rules of thumb, Governor Lindsey. The point I was trying to make was that if you do delay and inflation expectations in particular get going, you're going to have to raise rates not only to cover the higher inflation expectations but--

MR. LINDSEY. But even more.

MR. KOHN. --if you have a certain inflation target you're going to have to overshoot to get that down again. But I don't have a rule of thumb. It would depend on where you were in the cycle and how far you--

MR. LINDSEY. The only case I can think of was '66 where the Fed [implemented] just one small increase. Can you remember how much of an increase that was and how long it lasted?

MR. KOHN. No, I don't.

CHAIRMAN GREENSPAN. Any further questions? If not, several people have mentioned that we ought to speed this meeting up so I'm



going to [compress] my views since I generally agree with a number of arguments that have been made. First of all, let me just say that it's rather obvious at this point that the acceleration we are seeing is very heavily motor vehicles, though not fully by any means. We also see it in the steel markets and in a number of the commodity markets. It's remarkable how big a factor the motor vehicles industry still is in this economy. The sales levels have moved up to where they are significantly above the scrappage levels that one would calculate from an engineering point of view as the normal structure of scrappage. This does not mean that the sales levels can not go higher, but they can't grow [over time] at the pace they've been growing. And since we're talking about the rate of growth in GDP, even if automobile sales flattened out at these higher levels, by definition gross auto product with no inventory change goes to zero change. So I think we are seeing a combination of both motor vehicles and residential construction, with the latter tending also to be a lead factor on the auto sales themselves. I don't know whether or not I subscribe to Mike Kelley's view that it's hard to believe it can go higher; it can go higher, but it is running up against resistance.

If all that we were looking at were autos and construction, I would say this expansion is going to flatten out very fast. The trouble is that the process by which that occurs engenders incomes; and even though the leaders can slow down you all of a sudden find, if you look at business cycle history, that when they begin to fade the secondary industries begin to come in. This would be probably non-computer-related capital goods types of activities because the cash flow that is being engendered in the corporate sector and the business sector generally I think is fairly impressive. We are looking at the likelihood, just in the rate of gain in industrial production, that we probably are getting some inventory effect in here. It can't be large but the presumption that we can get [monthly] industrial production increases of .7 and .9 and that all that is going into consumption, just does not square with history. Nonetheless, we still do not yet see any indications that the lead times of material deliveries are moving. To be sure, the operating rates have moved up; but the extraordinary rise in the import penetration across the board in this country has made domestic operating rates less indicative of the nature of pressures in the system. There's an extent to which we have become extraordinarily well internationalized.

One can argue that the saving rates are low and that, therefore, consumption expenditures will slow abruptly. But the trouble with saving rates, as we all know, is that they are notoriously poor estimates. And very often we find out after the fact that they weren't what we thought. In any event, the evident willingness on the part of consumers to start taking on debt is an indication that they are not at this stage being unduly pressed and unwilling to spend because they're running out of income. So I think that the 5 percent [GDP growth rate], or whatever we get in the fourth quarter, is technically unsustainable. In fact, as the Greenbook indicates, if we disaggregate it, gross auto product [accounts for] more than 2 percentage points but .4 is coming from the [unintelligible] statistical adjustment. The issue is whether or not, as Governor Mullins said, this expansion is sustainable, and it looks increasingly sustainable. It doesn't look yet as though we are getting the surge in credit demands in the system that is usually the [tinder] for inflationary acceleration. But I think, as Don pointed

out, that the credit numbers are finally beginning to move. We don't see it in the loan data but we're beginning to see net debt in the nonfinancial sector starting to rise. It's still moving at a very slow pace relative to history but it is finally beginning to move.

All this leads me to conclude, as a number of you have concluded, that the days of accommodation have got to be [about] over. I think we very correctly moved the rate down because of the balance sheet structural restraints that we were exposed to; it has turned out to be an exceptionally successful policy. The balance sheet adjustments have indeed occurred--not yet fully; there is still clearly some way to go, but the rate of change has slowed dramatically. And while there are further marginal increases and balance sheet adjustments to come, they are no longer absorbing--as I used to put it--the excessive head winds impact that we saw at an earlier time. Therefore, this recovery seems finally to be moving in a manner which, while not requiring a significant tightening by the central bank, surely does indicate that the degree of accommodation must soon be eased. Now, I don't know when that [should occur] but I find it very difficult to believe that we can go very long into 1994 without starting the process. That's because unlike the way we usually think of things--that we will do one thing at a time--it's pretty obvious that if this recovery is taking on the broad general characteristics which historically say that it's got some legs to it, then we will be in the process not of a single upward adjustment but a whole succession of them on the way to restoring [unintelligible] or positioning [our policy stance] closer to neutrality. And I agree, as Wayne Angell said, that it [means a funds rate] closer to 4 percent than to 3 percent. I think that that policy is largely necessary and that if we avoid it, we will be making a bad mistake.

The only question in my judgment is: When do we begin? I don't see any material reason to begin today. I can conceive of conditions--in the event that a lot of these things begin to accelerate--where it might be desirable to move before the next meeting. But if that happens, I think it would be worthwhile having a consultation of the Committee rather than putting something in the directive at this time which authorizes the Desk to move [during the intermeeting interval]. This will be a crucial move. It will begin a major policy [adjustment], in my judgment, and I think the point at which we start is something that requires that the full Committee be consulted prior to that action being taken. I, therefore, conclude that at this stage we ought to vote formally on an unchanged policy and a symmetric directive, with the clear understanding that unless this outlook suddenly deteriorates at a far more rapid pace than seems even remotely likely we would consider moving to that path fairly early in the year. I would merely put that out for general discussion. President Jordan.

MR. JORDAN. Your remark suggested to me something about communicating our actions which I hadn't considered before, and that is if the next action were to be communicated as easing the degree of accommodation, it would be an easing move I think. I'm increasingly troubled by the rhetoric on the outside--by people looking at what we do--and sometimes even within the Committee of the notion that growth per se reduces the purchasing power of money. And it puts us into a way of being perceived, and maybe we perceive ourselves, that says if we're anti-inflation, we're anti-growth. I have a lot of trouble with

the slack model, with the Phillips curve kind of tradeoff that calls for a forecast of things like capacity and all sorts of things that I have trouble with. But even for people who operate from that framework I would suggest being careful about saying that we want to maintain a degree of unemployment or idle capacity or sub-potential growth or something because--

CHAIRMAN GREENSPAN. Well, let me say that I fully agree with that and I would say the issue is credit.

MR. JORDAN. What I would like to see us be doing is setting some objective out some four or five years. In fact, I hope the Bluebook for the February meeting gives us a longer-term indication of a price level path. My belief is that if we have both an objective of moving to price stability measured somehow in, say, four or five years and conduct our actions in such a way as to achieve that objective, the level of output and the standards of living of people would go up more than if we operate in such a way as to maintain the past rate of inflation. I don't know whether the staff projections would show that or not, but that's my conviction. We talk at times in our speeches and articles as though the reason for moving to price level stability, stabilizing the purchasing power of money, is in order to enhance standards of living and growth. And then we conduct our affairs in a short-term way as though we are trying to restrain growth and that we're worried about [our economy] growing too rapidly. So it's partly a conceptual and theoretical issue and it's partly a communications issue.

As far as short-term actions, I agree with your suggestion to be symmetric now. I would not like to see an asymmetric directive because of the critical nature of this move. But also I agree with the comments that Governor Mullins made about not waiting for certain data to trigger [an action]. And there I take some issue with the suggestion that Bill McDonough made about the [January] release of [fourth-quarter] GDP and the February release of nonfarm payroll [employment data for January]. If those numbers are going to come out strong, the last thing that we would want to do is to be perceived as reacting to strong numbers and to knock it down. If we think those numbers are going to be strong, we had better move ahead of those numbers.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I think the days of this degree of accommodation are numbered. It's likely to be sooner rather than later that we'll have to reduce the level of accommodation. I do think, however, that we're in a period of wait-and-see. And when we do move, I believe that this Committee should vote explicitly to make that decision because it's so important. And for that reason I think we ought to have a symmetrical directive and face up to the issue squarely when the time comes and everybody will be on the record as saying: "This is what we're going to do."

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, I think it is quite likely that after the current quarter we will see more moderate growth next year and, therefore, I could support alternative B. It's a little hard for

me to reach the conclusion that the risks are symmetrical, which leads me into the direction of thinking that there is a case for asymmetry toward restraint. But I could easily buy the symmetry if I also would get what Ed Boehne offered.

CHAIRMAN GREENSPAN. President Broadus.

MR. BROADDUS. Mr. Chairman, I certainly respect your position but, as I said earlier, I think the accumulation of positive economic news that we're seeing now is really quite extraordinary. And in this situation I think the time has come to let real short-term interest rates rise in order to make this expansion a sustainable one and keep it from getting out of hand on the up side. And I really think we need to move now. I recognize that there are certainly arguments for not moving yet, but the fact is that there are always such arguments. And we know from long experience that we can get into a lot of trouble if we wait too long. If we [wait] this time, we risk a significant deterioration in inflation expectations and we risk a further backup in long-term interest rates. And my view is that the risks of that kind of outcome would harm the economy; [the cost in terms of] growth of jobs and production and the general health of the economy is significantly greater than a moderate tightening of monetary policy. And when I say moderate tightening, I have in mind something like a 1/4 point on interest rates. I know this is a turn in direction and I know that's important. But a 1/4 point increase is not exactly a lethal weapon. In this regard I think the 1/2 point backup in long-term interest rates we've seen recently is a warning. We still have time to heed it. I realize, of course, that this is a difficult time for the Fed; we are under attack on a number of fronts. But in my view that makes it all the more imperative that we signal clearly and promptly that we're not going to be distracted from our principal longer-term objective. So, I would favor a 1/4 point increase in the funds rate now.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, if I thought that our forecast were correct and were to be fulfilled, I would certainly want to move sooner rather than later. I think the probability is that that forecast will turn out to be the right one. But there are enough uncertainties surrounding that forecast for me to want to wait just a little longer to make sure that this recovery and expansion are in fact sustainable. So I would prefer to wait and I agree with your prescription on that score. I also think it's very important, as others have indicated, that at this crucial time--at this turning point, this crossroads--that we take this action at a meeting. So I would also prefer a symmetric directive.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. The comments I've heard so far suggest an incompatibility. I agree that we want to take action at a meeting; I think that's important. I also think that what Jerry Jordan said was very true. We don't want to be reacting to a high real growth number. That's simply bad policy and it's also bad PR. We have nothing against growth. Because the February meeting coincides with the release of a real GNP number that we know is going to be high--I believe that's correct--yes?

MR. MULLINS. I don't know.

MR. LINDSEY. Well, we are betting that the number is going to be high. And I think it's [released] that Friday. Isn't that correct?

MR. PRELL. No, it's the employment report that is--

MR. LINDSEY. When is the first [release of] the GNP number [for the fourth quarter]?

MR. PRELL. The 20th of January.

MR. LINDSEY. So the last statistic out before [that meeting] would be a strong real growth number, and I think we'd be perceived as reacting to that high real growth number. And we'd probably have a strong employment report following that. Therefore, I don't see us acting at the February meeting; I would see us postponing until March before we moved. That brings me back to the logic that the best time to move is right now, with a 1/4 point increase, to show that we are not simply responding to strong real growth.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Mr. Chairman, I support your proposal. We're always going to be acting in a situation of uncertainty; that's just the way it is. If it was certain, we wouldn't need to be here. And I think the time has come, if we're going to make a mistake, to err on the side of tightening rather than staying in a non-neutral position. So I think that should be the direction we're prepared to go in. Ordinarily we might think of asymmetry in that situation, but to enhance our credibility and maintain that credibility it's much better that this group act as a whole at the time [the move is made]. I would hope it could be done with some degree of consistent spirit across the group at the time that it's done. So I would strongly favor staying symmetric now.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. I came into the meeting, Mr. Chairman, thinking that the time was coming soon to ease off the accelerator a bit but that it probably wasn't here yet. Then I was influenced very much by the statements of Messrs. Broadbuss, Angell, Lindsey, and Mullins. I think Mr. Mullins gave a good argument for doing something now, although I don't think that was his conclusion. It's a close call whether to wait or to go ahead and do something now. However, I'm glad, for three reasons, that you did not try to split the difference with no change now but [to adopt] an asymmetric directive. One is that I tend to be against the frequent use of asymmetric directives on principle, primarily because it's the main thing that is inhibiting our moving to a prompter release of our decisions. I think we need to move to that and the use of an asymmetric directive complicates that in general. Number two, I don't want us to appear to be responding to strong growth statistics; and I think the statistics are all going to be strong in the next few weeks and [if we move] it's going to appear that we're anti-growth. And I think the public ought to understand that being against inflation is not the same thing as being against growth. And the third reason is one that someone has mentioned and

that is that this is likely to be the beginning of a series of moves and is important enough for us to do at a meeting when we all [participate in the decision]. I would rather tighten slightly now than have no change now with an asymmetric directive, but I'm prepared to follow your suggestion.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I favor increasing the degree of pressure on reserve positions now. I think the economy's momentum has intensified to the point that the capacity to maintain moderate inflation, not to mention declining inflation, appears to have run out. As I mentioned before, the growth of the narrow money and reserve aggregates has been quite stimulative during the nearly seven quarters of this current cyclical expansion. Last year alone the monetary base was allowed to increase by about \$35 billion in order to maintain the federal funds rate at the target level. Joan mentioned the mirror image of that was the additions to the portfolio of the same magnitude. At a minimum I think the funds rate ought to be allowed to move up in line with market interest rates. At least this will prevent monetary policy from automatically shifting toward a more inflationary stance as nominal interest rates rise with the expanding economy. In addition, the credibility gained by increasing the degree of pressure in reserve markets now may help us restrain the inflationary expectations that are almost certain to intensify with the improving level of economic activity.

CHAIRMAN GREENSPAN. President Hoenig.

MR. HOENIG. Mr. Chairman, as I said earlier, I think the information and evidence are mounting that we do have an economy that will sustain itself through next year [with] inflationary pressures. So I am inclined to see the rates moved modestly up to be, in a sense, anticipating that. But I'm certainly willing to see how it goes after the first of the year. And for that reason I also feel very strongly that it should be an agreed-upon action by this Committee. So I would agree with your proposal.

CHAIRMAN GREENSPAN. Vice Chairman.

MR. MCDONOUGH. Mr. Chairman, I agree with "B" symmetric and let me say why. I think that a combination of a great many outside remarks accompanied by the remarks that a number of us--first person plural--have made have led the world to believe that we are anti-growth, and that's a very bad position to be in. It's bad monetary policy, it's bad economics, and it's bad within the public sector in which we live. So I think that we need an educational exercise on the part of the central bank to explain what our goals are, that they involve a combined objective of sustained growth and price stability. Some of that probably [can be said in] the Humphrey-Hawkins testimony or, if it's difficult for the Humphrey-Hawkins testimony to be clear enough for the average intelligent layman to understand, then perhaps a speech should be taken advantage of by you at about that time to lay out what sustained growth and price stability mean [in terms] that the average voting citizen can understand. I really think that we need to do that.

As regards the data that will come out in early 1994, my mention of the existence of such data--the first measurement of fourth-quarter GDP and the January employment data--was only [to point out] that, if the forecasts are wrong on the high side and we are having a first-quarter flop again, it could affect our timing. I'm absolutely convinced that we have to bring monetary policy into a neutral stance in the early part of next year. The timing to me is more related to this education effort I find necessary than to the release of any specific data. I would in fact be opposed to doing it in a way that would seem to lead the observer to the conclusion that the data led to the [action]. As far as whether the directive should be symmetric or asymmetric, I believe--maybe more strongly than anything I've stated--that it should be symmetric. Since it is highly, highly likely that if we don't firm policy today, we will not do so before the next meeting, to have an asymmetric directive and then not do anything--on top of two asymmetric directives when correctly we didn't change policy in the summer of 1993--could very easily put us into the posture of substituting asymmetric directives for action, even though we all think that policy has to be firmed, and sooner rather than later. The valiant central banker could appear to be somebody who waves a little flag but as soon as any shots come across, he pulls it back down again. So I think there could be a very unattractive public relations impact of an asymmetric directive, which would be quite counterproductive to what our real purpose is.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, I also would be in favor of alternative B with symmetric language. It does seem to me that the environment is one in which the policy stance ought to be heading to asymmetry toward tightening. But I do think it's a question of timing. The key here will be how the first-quarter data begin to come in rather than the fourth-quarter data. I just don't think we're going to have that much available for a while that will tell us how the first quarter is really coming in. And until we have that, I'd prefer to stay just where we are.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. I'm a little puzzled by the fact that almost everyone who has spoken so far has said that they were convinced that we were going to have to tighten sooner rather than later and yet they have been willing to buy into a standard symmetric language directive right now, even though everybody is expressing concern about reacting to strong numbers. That seems to me to be a mixed problem. I'm more of the mind that I find it hard to disagree too much with the Greenbook projection and, therefore, I'm reluctant to take any action prematurely, as I stated in my earlier comments. So you and I have arrived at the same prescription for policy but from slightly different points of view. And I do support the "B" symmetric.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Mr. Chairman, I certainly feel I'm in good company here. There is-

MR. LAWARE. Not for long! [Laughter]

MR. ANGELL. But, John, if I'm correct, I think the minutes of any conference call we might have would be published February 9th. Is that correct?

MR. BERNARD. If the Committee makes a decision, yes.

MR. ANGELL. In other words, if the Committee made a decision-- So, who knows?

MR. LAWARE. Good.

MR. ANGELL. There's so much that has been said that I agree with, but I won't emphasize all that. I think it's correct that it isn't right to go to an asymmetric directive. We need to act at a meeting. I think we all agree to that. And many of you made some very fine statements saying "Don't react to strong employment and growth numbers." And the Chairman's statement was really very, very helpful in that regard. I'm going to add one other tough deal, all right? And that is: Don't make a 25 basis point move. And here is the reason. If we are as far away from neutral as I believe we are, it's much better to wait a week or two and get 50 than it is to do 25 because 25 could be [misaligned] by the time the bond market reacts to that. So I strongly believe that when we act--or when you act--that it should be 50 basis points. Remember the 1970s and this jiggling along with moves of 1/8th of a percentage point; it just didn't work. It's so hard when we start moving rates up; in '87, Don, I believe we [initially] raised the funds rate by 25 basis points. Did we move it at a meeting or did we move on an asymmetric directive in March?

MR. KOHN. I'm not sure, Governor Angell.

MR. ANGELL. But I think that we put the rate up 25 basis points and then the bond market [went up] another 50 basis points and of course that wasn't enough. And it wasn't until Alan Greenspan came in that we really said "Hey, wait a minute," and then we were caught in a very bad timing situation. Now, not only do I think we ought do 50 basis points but I really think we ought to do 50 basis points now. And the reason that we ought to do it now--or whenever the next opportunity is--is because unexpected bad things happen. You go along and you get an employment number, or you get this or you get that, and it just doesn't seem [to be the] right [time] to do it. We were caught with that in May of 1987. I remember Paul Volcker called Manley [Johnson] and me in and said, in effect: "Look, you guys have been wanting to increase rates; I'm now telling you when you want to do it, just let me know." Every day we looked at the markets, including the foreign exchange value of the dollar which was strong, and we found an excuse every day not to do it, so we didn't do anything. And that made it more difficult. So, do 50 and do it now.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. While I find it something of a close call, I don't think the evidence is persuasive that we should move now. So I support your prescription. Having said that, I do think that before too long we ought to try to come to grips with what we mean by effective price stability. I also think we have an obligation to come to grips with some of the evidence in the work that Messrs. Stockton and Beebe presented in terms of what are the empirical benefits of



further reducing inflation from modest levels. I don't think we can gloss over that question with theory.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, this choice gets tougher and tougher. First of all, I subscribe to your prescription. Factors on all sides of this have been exceptionally well articulated this morning. And every one of them has a high level of validity, but we have to make a choice. I certainly support your prescription. Timing seems to be the issue now in all of our minds. The pace of the economy, I guess, is largely going to determine that. I am agnostic on the timing issue at this point. I could easily see it being a while, as Governor LaWare suggests; and it may need to be sooner than later. We'll just have to see. And I appreciate your desire that we all do this together. And that we will do.

CHAIRMAN GREENSPAN. Governor Phillips.

MS. PHILLIPS. Well, it does seem to me that tightening is inevitable and appropriate. The issue is when and in what form--with an asymmetric directive first or a direct move. I certainly agree that we need to do it at a meeting. So the question, then, is the timing. If we do it too early, then there is a chance of derailing the recovery. But I think that risk is slight. If we're too late--sort of a perennial Fed problem--we're going to be chasing [market] rates. And even more of a problem is that we'd lose the confidence of the bond markets, which is crucial for growth. My preference would be to go ahead and tighten now, but I'm not sure that there would be terrific damage to waiting. But the time is definitely coming.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. There's certainly strong logic for moving now in the sense that I don't think we need to wait for confirmation; two years of 3 percent growth is enough. We could wait for a third year but we might miss the entire expansion. [Laughter] In terms of a 1/4 percentage point versus a 1/2 point, I like Governor Angell's concept. It may not be possible to do; it is difficult to make a move when we're moving up, I think. There is also some advantage to [holding steady] for a while--and who knows maybe for a bit more than a while--whereas if we just do a quarter we're on the treadmill and inevitably we will get dragged up by the market. I think it was to our advantage to let the market lead us down and we won't exactly be getting ahead of the market when we get started now but there is something to be said for that 50 basis point [move]. Regardless of whether it's 25 or 50, I think there's plenty of economic case for doing it now. The market case, though, concerns me because even if it's only a quarter--that's a small amount and you couldn't find [the effect of] that in the economy--it is a big signal because it's a turning point. So there's a capitalized value impact on the markets and the markets [are thin] around holiday time. Again, in December '91 it helped us a lot to cut rates in those sorts of markets and set off a rally with no one around--with just two people bidding up prices for three weeks--but that would probably hurt us now. So, I can support your "B" symmetric.

CHAIRMAN GREENSPAN. We've got everybody. 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 moderate growth in M2 and M3 over coming months."

CHAIRMAN GREENSPAN. Call the roll.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman McDonough	Yes
Governor Angell	A soft no
President Boehne	Yes
President Keehn	Yes
Governor Kelley	Yes
Governor LaWare	Yes
Governor Lindsey	Pass
President McTeer	Yes
Governor Mullins	Yes
Governor Phillips	Yes
President Stern	Yes
Governor Lindsey	No

CHAIRMAN GREENSPAN. We have one additional item on the agenda, which I want to raise with you. But before I do I just want to comment on this notion that Al Broadus raised about the pressures that are on this institution, which are many and variable and have continued for a long while. I beseech you to separate monetary policy discussions, if you will, from all of that. In other words, we cannot trade off in any way the policy prescriptions that we decide at this table on the grounds that some other event is occurring which might change our view. Monetary policy is our primary responsibility; everything else is secondary. And we should isolate this activity in the central bank from all other issues over which we are going to be on the battlefields.

One issue we have to decide today is the question of what we do with the request of Chairman Gonzalez with respect to the October 15th tapes. He has essentially come to the view that he would like to come down here--not he himself, but his aide--and listen to the tapes and look at the transcript. That's a stepping off of an earlier position where he wanted us to ship all tapes and transcripts up to the Hill. As best I can judge, and I say this with some vagueness, he's accusing us of conspiring somehow in that October 15th meeting to hide the transcripts or somehow decide not to tell it like it was. For all of you who remember, that particular meeting was one in which we discussed at considerable length the pros and cons of releasing transcripts and, indeed, we concluded at the end of that meeting that what we wanted to do effectively was to replicate that particular discussion up there [on the Hill]. By any evidence that I can see it's extremely difficult to [determine] where this accusation is

coming from. Indeed, in a letter I sent up to the Chairman recently I spelled out my views as to what the evidence was.

But the type of environment in which we exist, as I've indicated previously, is one in which there is a deep-seated suspicion of this institution. It's regrettable but I guess it comes with the turf. I think it's important that we put the notions of that particular conspiracy behind us. That is not the same thing as saying that I believe Chairman Gonzalez will cease to pressure us. I think it's important, however, for our position with respect to the remainder of the Congress and the public at large that we are not being perceived of, as he would invariably accuse us, as trying to hide the tapes because there's something there. Accordingly, I'd like to put this whole issue to rest; [I'm talking about] the October 15th issue, because I don't think we're about to put the other [issues] to rest very quickly. And I would recommend to this Committee that we allow Chairman Gonzalez's [staff] attorney to listen to the tape at a meeting with several other people of our choosing. That is, my preliminary view would be to invite the senior aide of Congressman Leach, who is the ranking minority member on the Banking Committee, and the chief aide of subcommittee Chairman Kanjorski whose committee essentially oversees this organization. The obvious reason for doing that is to prevent the inevitable danger that arises with people picking and choosing individual lines and sentences of which there are probably two or three mild ones in that transcript. Frankly, I've read the transcript and the accusations are wholly without merit. There is no evidence in that transcript [to support those accusations]. There are a few sentences which, [taken] out of context, could very readily be employed to raise an issue and that's one of the reasons I want to be sure other people are there who can basically say "This is nonsense."

I must say, I make this recommendation with some reluctance because of its potential precedential nature. The October 15 meeting, however, was not a deliberative meeting on monetary policy. Were a request made for any of the transcripts or tapes of monetary policy and the deliberative processes that we go through, I think we'd have no choice but to say "no" unequivocally. They may choose to find a means to obtain that, but that's the Congress's initiative. As far as we're concerned, I think we have to stand pat on that. I have given this issue considerable thought and [gone over] the various alternatives. I've been around this town, in and out of government-related jobs, since 1968 and I know the politics of this town pretty well. And I will tell you it's my very strongly considered judgment that it is important that we do this and get it behind us. I would, therefore, put it out on the table as a recommendation and would like to respond to questions. Vice Chairman.

VICE CHAIRMAN MCDONOUGH. I don't have any questions. I have a comment when you're prepared for that.

CHAIRMAN GREENSPAN. Questions? Well, comments or questions, then.

VICE CHAIRMAN MCDONOUGH. I know the recommendation you are making to us has to be one you've reached after both pain and a great deal of thought. And I think it is, in fact, what we should do. That particular meeting and the tape and transcript that go with it are

different from all other meetings and all tapes and transcripts. The subject was preparing ourselves for testimony on the Hill by a great many people present here. Obviously, there was no conspiracy nor any intention on anyone's part to conspire for anything and certainly not to deprive the Congress of information. However, that is what we are accused of and the accusation is continuing. It has taken on a considerable life of its own and it is being promulgated among members of Congress and among the population in general, both of our own country and others, in a way that is placing in question the very integrity of this Committee and the Federal Reserve. I think we have to respond. You have responded in your letter, but I don't think our defense can be complete without taking the very painful step that you recommend. I can't imagine that any of us will say that we agree with you with great joy. But I agree with you and I recommend to others that they do so as well.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, in the first part of your statement, did I understand you to say that Chairman Gonzalez has indicated that the approach you're taking would be acceptable?

CHAIRMAN GREENSPAN. That's what he has requested.

MR. KELLEY. He's requesting to have people come here and listen to the tape?

CHAIRMAN GREENSPAN. Yes, his people.

MR. KELLEY. His people.

CHAIRMAN GREENSPAN. That's correct.

MR. KELLEY. So, the only difference in your suggestion from what he said would be acceptable is that we'd have some other [Congressional staff present] as well?

CHAIRMAN GREENSPAN. Correct.

MR. KELLEY. Well, in that case, Mr. Chairman, I fully and happily endorse your approach. I think we definitely should be forthcoming. I had played with the idea of suggesting that we go ahead and fully release it, but if this would be agreeable to Chairman Gonzalez and he would make the suggestion himself that we do this--

CHAIRMAN GREENSPAN. That is what he has written in a letter.

MR. KELLEY. I didn't know that.

MR. KOHN. He asked if we would make the tape and transcript "available for review." Those were the words.

MR. KELLEY. Available for review.

MR. ANGELL(?). That means send it up there?

CHAIRMAN GREENSPAN. No, in fact he indicated via telephone that he wanted one of his people to come down to the Board and listen to the tape. He's made that request.

MR. KELLEY. We ought to do it.

CHAIRMAN GREENSPAN. Governor Lindsey.

MR. LINDSEY. Mr. Chairman, I have two questions. The first is I'd like to follow through the--

MR. WINN. Mr. Chairman, I have the letter here in front of me. In fact, we have two different letters. We have one dated December 17 that said: "Please provide the Committee staff with access to the transcript and tape of the October 15th conference call." The one on December 3 says: "Please make the transcript and tape of the FOMC conference call available to the Committee staff for review next week." So it's somewhat ambiguous how they put it. I think we can understand it as they--

CHAIRMAN GREENSPAN. My recollection is that they called. They did call to come down to listen to the tape at some point, did they not?

MR. WINN. They called obviously to come down and view the table and the recordings, etc. I guess I understood their call to mean they were coming here.

CHAIRMAN GREENSPAN. Well, let me put it this way: My recommendation is to do it here.

SPEAKER(?). [Unintelligible] take notes.

MR. MULLINS. Yes.

MR. LINDSEY. If that happens--and I understand why you'd want other people here--there is a possibility that the people who come here will go away with different interpretations.

MR. SYRON. A likelihood.

MR. LINDSEY. Chairman Gonzalez's representatives might have a more conspiratorial interpretation than other people who might listen to it, in which case what we'd have is a "Yes you did, no you didn't" discussion. I think we'd have to think of what our reaction would be to that likely outcome. Unfortunately, I don't believe it would end with just the people involved listening here but would involve ultimately what Governor Kelley intimated might be the unfortunate long-run result, which would be actual release. Could you see a different outcome?

CHAIRMAN GREENSPAN. That is possible. But, remember, if the results are ambiguous, that doesn't necessarily mean that we have to get it fully clarified because I'm not sure that we'll ever satisfy certain people.

MR. LINDSEY. Well, if we're trying to dispel suspicion--. The conspiratorial types will always believe in conspiracy as long as someone out there is whispering the word conspiracy.

CHAIRMAN GREENSPAN. Let me suggest this: It's conceivable that this may not resolve it totally, at which point we will then address the condition that we face. I don't think we ought to make a decision on that at this point because it may not be necessary.

MR. LINDSEY. It depends on the likelihood. The second question, if I could, I'd ask our counsel. Has the FOMC ever authorized either taping of meetings or the permanent retention of transcripts?

MR. MATTINGLY. Not that I'm aware of.

MR. LINDSEY. So there's not--

MR. MATTINGLY. [Not] after 1976.

MR. LINDSEY. That's correct. So right now we're taping the meeting without authorization of this Committee?

MR. KOHN. Technically, yes. That's correct.

MR. MULLINS. It's not a policy--

CHAIRMAN GREENSPAN. Governor Phillips.

MR. PHILLIPS. My question is: Do you think that allowing these folks to come and listen to this is going to resolve it?

CHAIRMAN GREENSPAN. I think it will resolve the October 15th issue. It will not resolve the issue of assaults on this institution from various different areas.

MS. PHILLIPS. Well, in taking this step I guess we have to think about the next steps and what might be the next things coming down the pike. You raised the question of the precedent and I--

CHAIRMAN GREENSPAN. Please remember, these are not monetary policy deliberations.

MS. PHILLIPS. Yes. I actually was not on this call so I don't really know what was said during that session. I'm just trying to think about what would be the next steps. If statements are taken out of context by different people, I'm wondering if this is likely to stir the pot more and in fact make it worse than standing pat.

CHAIRMAN GREENSPAN. I would think not.

MS. PHILLIPS. This is a difficult judgment call.

CHAIRMAN GREENSPAN. As I think the Vice Chairman said, this is not a particularly delightful activity. President Syron.

MR. SYRON. Mr. Chairman, what I find should guide our actions on these issues is that we're in no way nearly as bad as we seem to some people. And I was even thinking--I'm not suggesting

this--that if people listened to the conversation we had about monetary policy today they would be impressed about the degree of "technicalness" that's brought to some of the judgments and the amount of information. And I think we suffer generally--it's just raised to other dimensions here--from a misunderstanding by the public about what we do. Conspiracy theories are abroad in the land, and it's not our business to feed them when we can avoid it. So I favor your suggestion if it's not precedential in other ways. In that regard I am concerned, though I would favor going ahead with this immediate step. I personally don't feel that on some of these issues, such as the ability to talk to each other about what we were going to do in testimony, we necessarily should have been bound by a request by [the Banking] Committee staff [nor do] I feel that I was properly advised on what was the extent of that binding. And I don't think it's reasonable as we go through this in the future, which we inevitably will, to believe that we can't have discussions among ourselves on the nature of how we're going to proceed and that we can't be advised among ourselves by counsel of the Committee about the degree to which we are able to in the best--

CHAIRMAN GREENSPAN. May I say something? That's a very proper part of the discussion for next month.

MR. SYRON. It's a separate issue.

CHAIRMAN GREENSPAN. Next month we're going to be discussing the whole procedure of how we are going to move forward with respect to our means of taking minutes, communication, and the like.

MR. SYRON. No, I support this. The only reason I mentioned it is that I want in my own mind to be comfortable, which I think I am, that what we're doing in this area will not in any way constrain us on some of the things I think we probably should--

CHAIRMAN GREENSPAN. The answer is "not to my knowledge," but we have yet to [unintelligible]. President Broadus.

MR. BROADDUS. I support your suggestion strongly, Mr. Chairman. I think there's some risk. There is some possibility that what is being proposed won't resolve it fully and we will ultimately have to release the entire tape for this one meeting. And that's tough because it was a hard-hitting conversation. But I think you're absolutely right that we've got to get this thing behind us because of the conspiracy [accusations]. So, even if that happens, I would say to go ahead.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Mr. Chairman, I support your proposal. I wonder whether there's a pre-step that might be taken which would set the context a little better, and I'd like to have Virgil respond. I'm wondering whether previous to that [review by Banking Committee staff] we should state categorically what we think the tape will show.

CHAIRMAN GREENSPAN. In a letter?

MR. ANGELL. In a letter.

CHAIRMAN GREENSPAN. In fact that's one of the issues that--

MR. ANGELL. Yes, so you state it. And if there's any ambivalence there, I think I would approach the ambivalence before so there's no news value in the actual looking at it.

CHAIRMAN GREENSPAN. In fact, when we were discussing it earlier, that's exactly what I suggested that we do. In the letter of response to Chairman Gonzalez we will say: As you will see, the tapes show the following.

MR. ANGELL. Right, because of the vulnerability that [emerged], what many of us thought about as we began [preparing] our own testimony was: What notes did I take and what did I do? And then even for those of us who had knowledge of what seemed to be the Committee's [procedures] and what the Secretariat was doing, when you said what you said it was clear and unequivocal that you had a responsibility as Chairman to reveal that information. So the question that was raised by individual members was: Should I put it in my testimony? Of course, for me, I had independent knowledge and it had to be in my testimony. But there was a discussion, as I recall, of members saying: Well, do I need to put it in my testimony? And I think we need to set [the point] out clearly that the individuals in asking that question never had any doubt that you and the Secretary were going to reveal fully [the existence of] the tapes. So no one, as I recall, had any view of not wanting the tapes to be out there. We knew they had to be.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, I agree with your proposal; I certainly support it. The only question I would raise, really, relates to access by other people. If there was no monetary policy discussion, would I gather therefore that this is something that could be discovered through the Freedom of Information Act?

CHAIRMAN GREENSPAN. Well, that is a very interesting question. And I think that's the type of thing we ought to discuss in the February meeting relative to how we proceed generally.

MR. KEEHN. Well, I'm really raising the issue: Is the October 15th tape and transcript one that if somebody comes in and asks for it under the Freedom of Information Act we're going to have to deliver. It is, right?

CHAIRMAN GREENSPAN. Why don't you ask our General Counsel?

MR. MATTINGLY. No, no we wouldn't have to do that at all. That's all deliberative material.

MR. KEEHN. We would not have to do it.

MR. MATTINGLY. We would not have to disclose it, and I don't think that we waive that right when we make it available to the Oversight Committee.

MR. KOHN. FOIA isn't aimed at monetary policy; the exemption is aimed at the deliberative process, whatever the outcome is.



MR. MATTINGLY. A lot of that October 15th tape was attorney/client material anyway.

MR. KEEHN. Well, then I agree. I just wondered, if in fact we would end up having to disclose it, whether tactically there might be some advantage to releasing it publicly at the same time we give it to the Committee. But if that's not a risk, then I would not.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Along those lines: If the October 15 conference call was a meeting of the Committee and if it is protectable because it was deliberative but we open it to the Oversight Committee, then by precedent do we have to open other deliberative matters on monetary policy to the Oversight Committee?

MR. MATTINGLY. I don't think so, no.

MR. LAWARE. Boy, that's a delicate differentiation.

MR. MATTINGLY. I've expressed it--

MR. MULLINS. This part of the meeting would be open, for example. This isn't monetary policy, is it?

MR. MATTINGLY. Well, I think--

MR. LAWARE. Well, but are we deliberating something?

MR. MULLINS. Oh, okay.

MR. MATTINGLY. Just because you grant him access to [the Secretariat's records of] the October 15 meeting doesn't mean you have to grant him access to other meetings of the FOMC, either the monetary policy part or something else.

MR. LAWARE. That's the part that worries me about it.

CHAIRMAN GREENSPAN. Well, that's the down side of it.

MR. LAWARE. I think it's a good gamble to try this ploy and hope that the presence of other witnesses who will see the whole thing more objectively and be able to defuse any attempt to take pieces out of context will be advantageous. I think that's a very good strategy to pursue. I would support your recommendation, Mr. Chairman.

CHAIRMAN GREENSPAN. Thank you. President Hoenig.

MR. HOENIG. Two questions, Mr. Chairman. Number one: Your proposal would have other members of the Committee or their senior aides coming over as a condition for individuals from Chairman Gonzalez's group coming over? In other words, these others have to be included--

CHAIRMAN GREENSPAN. Well, obviously, he can not stop us from making those materials available to other people.

MR. HOENIG. Right.

CHAIRMAN GREENSPAN. If he decides that he will not participate under those conditions, we may choose to go forward without that participation.

MR. HOENIG. I want to make sure that something doesn't occur where just they come over and look at it themselves.

CHAIRMAN GREENSPAN. I would say that would be a mistake.

MR. HOENIG. I agree it would be, so I'd feel much more comfortable with your proposal knowing that there have to be other individuals there. The second question is: Not that my memory is that short, but is there a possibility that we can take a look at those parts of the transcript where we had conversations ourselves so that if we get a call we'll know what it is exactly?

CHAIRMAN GREENSPAN. Yes, check with Don and he will--

MR. HOENIG. In that case I would support it.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, I suppose there's no question that these other people would be willing to come, is there? I would assume that they will.

CHAIRMAN GREENSPAN. I don't think there's any problem.

MR. FORRESTAL. Well, you said it very well earlier. It is very disagreeable and distasteful that we have to go through this--and perhaps this is overstating it--but I think it's almost a necessity that we take this kind of step. Look, we're not going to resolve this issue by doing this. Mr. Gonzalez and his staff are going to keep after us no matter what we do. But if we're being accused of being too secretive, and that's around in the country now--we've seen editorials and so on--I think we've got to dispel that to the extent we can. More importantly, we--I wasn't on the call, but you and others--have been accused of lying and being engaged in a conspiracy, and that has to be challenged. And it seems to me the only real way to do that is to use the best evidence, which is the call itself. All the letters that you write or that anybody else writes are not going to convince anybody unless we get the material out which will prove irrefutably, as I understand it, that this did not occur. But I think you've made a very meaningful distinction between this kind of meeting or telephone call and a monetary policy decision. And I think we can draw the line there. I would say, and I think you've said this before, that we can continue to withhold monetary policy deliberations until the Congress chooses to tell us to do otherwise. And I mean the whole Congress. That's their business and if they want to change the law, so be it. But I wouldn't move beyond this to furnish any monetary policy transcripts unless we're forced to by the whole Congress.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, I support your recommendation. I do have two questions. If we were to deny access, how likely in your mind is it that Chairman Gonzalez would try to get his Committee to

issue a subpoena? And secondly, how likely is it that he'd be successful since this isn't a monetary policy issue and is probably viewed by a lot of people in the House as something where we sort of got together to develop tactics for testifying?

CHAIRMAN GREENSPAN. Remember that the accusation will be [that we engaged in] some form of conspiratorial action. And those members of the Banking Committee who might disagree with the Chairman will nonetheless feel obligated [to investigate] in the circumstance where there's an accusation of this nature and we refuse to release the evidence. I would say that it would be quite easy for a majority to be marshalled for such a subpoena because, indeed, it's an accusation of not insignificant dimensions. It's not a minor transgression that he's accusing us of. President Melzer.

MR. MELZER. First of all, I think we need to go ahead and do this but let me just ask a couple of questions. I understand the logical basis for making a distinction between this conversation and monetary policy deliberations. Is there a legal basis?

MR. MATTINGLY. Yes, I think so. I think the Committee has the right to maintain the confidentiality of its deliberations and also has the right to make an exception on occasion when it believes that is warranted. And that's what we're doing here. In the face of the allegations that have been levelled at the Committee, suppose you decide that in order to address those things and put them to rest it's best to grant access in these circumstances. That does not mean that you have to grant access to all other conversations.

MR. MELZER. So there is a legal basis.

MR. MATTINGLY. I believe there is, yes.

MR. MELZER. Okay. I just would be inclined in whatever letter you send back to spell out the precedent issue very clearly. In other words, say that we don't view this as precedent-setting with respect to providing tapes and transcripts. I think that would be a helpful part of the letter.

Another legal question: As I recall that call, Virgil, you started it off by giving us legal advice with respect to the new Freedom of Information Act interpretations. I suppose, in effect, by releasing this we're waiving attorney/client privilege in some sense. Can that be done on a case-by-case basis without setting any precedent with respect to any future legal advice the Committee might get?

MR. MATTINGLY. Yes, it can. But you're giving up your right to keep all of that confidential when you let Henry Gonzalez look at it. On this particular matter, you're correct.

MR. MELZER. Okay. Then just one final observation: I personally think we need to do this. I do agree with what Susan was saying before--that this will be the basis for singling out individuals and criticizing them and it won't be the end of it. I think we have to try it but, just following Tom's suggestion, we need to be prepared to defend statements that are going to be taken out of context in connection with this.

VICE CHAIRMAN MCDONOUGH. I have a follow-up question to Virgil. The Chairman made a distinction, I made a distinction, and others have also between discussions of monetary policy and discussions of other matters. But as a legal precedent all we're saying is that we are giving them access to this particular tape; and that doesn't give them access to any other tapes, whether those other tapes include discussions of monetary policy or other matters.

MR. MATTINGLY. That's my view, yes.

VICE CHAIRMAN MCDONOUGH. Okay.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I can support your recommendation, although it seems to me that the real reason for doing this is that it will provide some comfort to our friends that we've gone ahead and taken this step toward openness. I think your suggestion to have people from Mr. Kanjorski's staff and Mr. Leach's staff is a good one. I'm wondering if it's possible to go even further. In one of your letters you suggested that you did want to meet with Chairman Gonzalez or to testify, and I wonder if there's any way to tie that into this and get that done.

CHAIRMAN GREENSPAN. I do not get the impression that he wants to give me a forum to rebut [these accusations]. I've requested it on many occasions and have gotten no response. President Boehne.

MR. BOEHNE. On balance I support your recommendation.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. A small comment and a couple of questions. I also was wondering if maybe three people to do this might not be too small a number and I'd urge you to consider a way to make it a larger number.

CHAIRMAN GREENSPAN. Well, in view of Susan's remarks, she may have pinpointed the fact that there are not enough to get the critical mass of objectivity.

MR. MCTEER. Right. And have you given thought to releasing it to the press?

CHAIRMAN GREENSPAN. I would be disinclined at this stage to do that. I say "at this stage" because it's a lot of material for people to start publishing and because we're considered highly visible people. We may have to go in that direction; I don't deny that. I would just as soon do that as a second step.

MR. MCTEER. Well, that leads me to another question and that is: When this is made available to them, shouldn't we get a copy of the transcript ourselves? We'll be making available to them something that we haven't had made available to us.

MR. MULLINS. He's your congressman. Can't you ask him?  
[Laughter]

CHAIRMAN GREENSPAN. The answer of course is yes, obviously.

MR. MCTEER. I know that you might want to talk more about this next month than now but what happens if between now and the next scheduled meeting we get a fax from that Committee that asks for something and also asks us not to communicate with each other. That has happened and we were left totally isolated, not knowing who was doing what, afraid to call anybody--

CHAIRMAN GREENSPAN. Well, I think that's an abridgment of the first amendment myself.

MR. MCTEER. I wish somebody had called and said that--had said "Feel free to talk to your colleagues." I feel there was a breakdown.

CHAIRMAN GREENSPAN. Well, let me just say this. I think you're quite right. That type of request is inappropriate, for a long series of reasons, which I think should be self evident mostly.

MR. MCTEER. I declined to make notes available and I worried that I was the only person who was going to decline.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. I've already commented.

CHAIRMAN GREENSPAN. I'm sorry.

MR. FORRESTAL. Did you change your mind?

MR. BOEHNE. No. [Unintelligible.]

CHAIRMAN GREENSPAN. Sorry about that. He didn't say very much but it was eloquent.

MR. SYRON. Direct correlation.

MR. BOEHNE. It made a great impression! [Laughter]

CHAIRMAN GREENSPAN. Well, if no one else wants to comment, I take the general conversation as an affirmation of our going forward with this, and I will report back to you as soon as feasible on the outcome of this issue.

MR. MULLINS. We don't require a vote?

CHAIRMAN GREENSPAN. I don't think we need it.

MR. KOHN. I don't think it's necessary.

CHAIRMAN GREENSPAN. It's the sense of the Committee.

SPEAKER(?). We don't need a vote.

CHAIRMAN GREENSPAN. Our next meeting is?

MR. BERNARD. February 3rd and 4th.

CHAIRMAN GREENSPAN. February 3rd and 4th.

MR. PARRY. Is the fact that we're going to take up this other issue at the next meeting going to affect the starting or ending time? How long will it continue?

CHAIRMAN GREENSPAN. Yes, it will. I think I'll leave that up to Don and his colleagues to work out.

MR. BOEHNE. Well, if we plan to spend the weekend, Don, I'd appreciate knowing!

END OF MEETING