THE FED'S CRUNCH YEARS 1964-70 – THE PUNCHBOWL KEEPS ON FLOWING

EQUANIMITY – APPREHENSION – FORBEARANCE – PACIFICATION – DEFIANCE – ACQUIESCENCE

SIX PHASES OF REACTION TO GROWING INFLATION

The Federal Open Market Committee, meeting every three weeks, continually discussed the inflationary pressures afflicting the US economy in the final six years of Martin's 19-year chairmanship. Contrary to widespread supposition that the Fed ignored rapid growth of money and credit, there was frequent discussion of these parameters.

Significantly, the most voluble protagonists in the debates about rapid increases in money supply and bank reserves were outside the board of governors – FOMC members and alternates from the regional Federal Reserve banks. Board staff economists' analysis of money and credit developments appears to have been relatively scarce.

As Martin acknowledged towards the end of his tenure, the Fed repeatedly over-estimated the Johnson administration's ability to enact tax increases to counter the budget deficit fuelled by social programmes and the Vietnam war. And the central bank's easing moves in 1967 and 1968, enacted partly to balance planned government budgetary cuts, turned out to be miscalculations. An acclaimed Fed chair renowned for hawkish tendencies ended up presiding over an evidently overheated economy.

The Fed mistakenly believed a jobless rate above the 4% estimated to represent full employment would put a brake on cost pressures. The relevant level was later calculated to be appreciably higher. FOMC members frequently complained that the Fed was being cast into the political 'hot seat' by taking an unfairly large share of the burden in the fight against rising prices. Martin's repeated lament was that the Fed could not undo the 'cumulated heritage' of past failures of public policy.

Martin had served with distinction alongside four presidents: Truman, Eisenhower, Kennedy and Johnson, but was unsettled politically after Nixon as president-elect tried to dislodge him in December 1968. Afterwards, Martin could do little to hold back the inflationary tide. When Arthur Burns, groomed by Nixon as a compliant successor, took over in February 1970, the tide – swollen by world currency upheavals and the 1973 rise in oil prices – within a few years turned into a surge.

Martin had once claimed the Fed's duty lay in closing down the party just as it was warming up. In his twilight years, he had no choice but to acquiesce as the punchbowl kept on flowing.

Today's Fed is in a better position to analyse and act upon the full set of economic parameters impinging on its actions. But the social and political pressures in modern America may be as great as in the 1960s and 1970s. Jay Powell, nominated on 22 November for another four years in the job, has the experience and prowess to weather the coming strains. Heeding the lessons of history may improve his chances of success.

Phase 1 – EQUANIMITY: CALM WATERS

'I do not regard the outlook as inflationary'

January 1964

‘There is no need at present for a change in policy. There is no domestic boom. Price changes are mixed, despite an underlying inflationary potential. Bank credit expansion, though large since mid-year, has moderated.’ – Braddock Hickman, President, Federal Reserve Bank of Cleveland

‘Wage rates increased 3% last year, but wage costs were kept down and this was reflected in prices. The US had benefited so far by not inflating so fast as had France, Italy, and some other countries. If the struggle to keep wage costs down were lost this year because of high profits, the US would join in the inflationary race.’ – Canby Balderston, Vice-Chair, Board of Governors

June 1964

‘I do not assess the outlook as inflationary, in the sense that term describes the mid-1950s. There do not appear to be either the general economic preconditions or the pervasive psychology to support a repeat performance.’ – Daniel Brill, Board Economist

‘Government policies make inflation ultimately inevitable. So-called "selective" price increases are exactly the kind of increases that consumers are not able to resist.’ – Malcolm Bryan, President, Federal Reserve Bank of Atlanta

September 1964

‘What about the ability of the economy to support further sizeable expansion without speculative excesses or inflation? The situation continues to look reasonably favourable. The unemployment rate has drifted down irregularly a half point since the beginning of the year, but at 5.1% in August it is still uncomfortably high, particularly since the total conceals the much higher rates among teenagers, non-whites, and those unemployed for long periods. Of course, the more the unemployment problem becomes a structural one, the greater become the chances for inflationary wage bidding for skilled workers.’ – Albert Koch, Board Economist

‘Domestically, the recent behaviour of commodity prices might suggest increased inflationary pressures, but to a large extent recent price rises had been confined to limited segments of the economy and appeared to be related to factors other than basic money and credit conditions.’ – Edward Wayne, President, Federal Reserve Bank of Richmond

‘None of the broader measures of significance for policy have moved in a direction that would call for further monetary tightening.. The unemployment uptick in August confirms that improvement in this vital area is still painfully slow. Prices are still bubbling in the non-ferrous metals area. This kind of price action, however, is not unusual in an expansion, and the sectors of the economy directly involved are small… We are still in the midst of a non-inflationary business expansion.’ – James Robertson, Vice-Chair, Board of Governors

‘Employment, prices, and anticipations continue to reflect moderation. Business is good enough to support a near-record level of employment but not good enough to reduce unemployment to an acceptable level. Business is good enough to send corporate profits to record levels and production closer to the preferred rate of capacity but not sufficiently heated to push wage rates and unit costs into a spiral of price inflation.’ – Karl Bopp, President, Federal Reserve Bank of Philadelphia

December 1964

‘The industrial wholesale price index appears to be under somewhat more upward pressure. However, it is too early to say whether a pervasive spread of upward price pressures is in the making; and it is somewhat reassuring that business pricing expectations for 1965 seem to give little indication of any developing inflationary psychology.' – Alfred Hayes, President, Federal Reserve Bank of New York

Phase 2 – APPREHENSION: GATHERING CLOUDS

Discount rate raised from 4% to 4.5%, 6 Dec 1965

'The vaunted price stability showing signs of terminating'

January 1965

'Businessmen do not give the impression that they are thinking about potential inflation in the usual terms, such as rising wage costs. Their primary concern is with the position of the dollar… and the possibility of a rather substantial increase in federal spending in the second half of 1965 after the passage of legislation implementing the "great society." Their concern about potential inflation is related to the international problem and to this expected increase in federal spending.' – Watrous Irons, President, Federal Reserve Bank of Dallas

'The vaunted price stability showing signs of terminating; in the fourth quarter wholesale prices excluding farm and food products rose 0.6%. I not want to say that the economy is faced with price inflation but … there should be progress in reducing the prices of exportable goods.' – Canby Balderston, Vice-Chair, Board of Governors

'Barring a steel strike and taking into account the stimulus that the federal budget may exert in the second half of the year, sustained expansion through 1965 seems likely-–although perhaps at a somewhat slower pace than in 1964…. There is a risk, still latent, that inflationary pressures may develop.' – Alfred Hayes, President, Federal Reserve Bank of New York

'I have reluctantly concluded that the Committee should move at least slightly in the direction of less ease. I favour moving toward a lesser availability of reserves. … The recent growth rates in the various reserve measures are higher than the rates consistent in the long run with a sound development of the economy and lack of inflationary pressures.' – Malcolm Bryan, President, Federal Reserve Bank of Atlanta

March 1965

'After four years of almost incredibly stable expansion, there is growing concern that our economy may be developing a classic form of instability--the boom-bust inventory whipsaw that so often frustrated our efforts to maintain stable growth. The fact that some observers are inclined to focus their attention on the boom side of this cycle and its inflationary potential, while others are preoccupied with the subsequent bust and its impact on our employment and growth objectives, should not trap us into the comforting but erroneous conclusion that these concerns can be offset against one another.' – Guy Noyes, Board Economist

'The recent 20% growth rate in time and savings deposits and the concurrent rapid increase in total assets held by banks are an inflationary development.' – Braddock Hickman, President, Federal Reserve Bank of Cleveland

'The accelerated rise in time and savings deposits … at some point this could have inflationary consequences; it apparently had not thus far, but one could not be sure how long this situation would continue.' – Alfred Hayes, President, Federal Reserve Bank of New York

'The only reason for not holding monetary policy steady is if new or exaggerated forces appear that would push us into an inflationary spiral or a run on the dollar if we did not act. I see no such developments. We are probably already past our peak rates of acceleration in inventory accumulation, business loans, and bank lending abroad.' – James Robertson, Vice-Chair, Board of Governors

'There are still inflationary pressures in the economy. The volume of credit, however measured, is dangerously high at present and this will be revealed by coming developments.' – William McChesney Martin, Chair, Board of Governors

April 1965

'The likelihood of the economy overheating in the near term future can be discounted a bit more now that we have got through several months of unsustainably rapid rate of economic expansion with few additional out ward signs of inflation. We are, of course, using our resources more intensively now than earlier, but the expansion of plant capacity in many lines is likely to equal or even to exceed that of output over the next few quarters.' – Albert Koch, Board Economist

'There does not seem much evidence that rising labour costs are forcing upward price adjustments. However, the strength of demand is keeping producers looking to see if they could make price increases stick were they to announce them.' – George Ellis, President, Federal Reserve Bank of Boston

'Business activity is continuing at a very high rate, with gratifying large recent increases in employment and no inflationary break–out of price increases, but with some clearly unsustainable rates of output in a couple of major industries. I remain optimistic that we can move through this period without need for any major change in monetary policy.' – James Robertson, Vice-Chair, Board of Governors

'Escalation of the conflict in Vietnam could change the situation'

September 1965

'Recent developments, including on the international front, make it very likely that the current, long-lived expansion will continue well into 1966. We have a good chance of steering the middle course of maintaining our current rate of expansion without veering off into the ditches of either inflation or recession.' – Albert Koch, Board Economist

'Announcements of individual price increases seem to be becoming more frequent. The threat of inflationary tendencies remains quite serious. The exuberant stock market is one more manifestation of incipient inflationary psychology.' – Alfred Hayes, President, Federal Reserve Bank of New York

'Although escalation of the conflict in Vietnam could change the situation, the prospects are for a continued absence of overall inflationary pressure.' – Karl Bopp, President, Federal Reserve Bank of Philadelphia

'Expansionary forces definitely are at work. I am not ready to accept the statement that the steel settlement was non-inflationary… Upward pressures on prices will be manifest… It is important to try to forestall any outbreak.' – Charles Shepardson, Board of Governors

October 1965

'The performance of the economy is strong… Both an inflationary surge and an adjustment that would stall our forward momentum remain possibilities for the future, but it is very hard to show that either of these unpleasant prospects is imminent.' – Guy Noyes, Board Economist

‘The odds favour some tranquillity in the real sector of the economy. We've got through a period of extraordinary demands with nothing worse than a price creep. Short of introduction of a major military spending programme, it's hard to see anything on the horizon that would significantly accelerate this price creep.’ – Daniel Brill, Board Economist

‘We have a real basis for concern about potential inflationary pressures, against a background of cumulative large increases in bank credit and a serious international payments problem. For the moment, we are perhaps stopped from any policy change until the market has had a little more time to digest the latest Treasury offering… Little room remains for action through open market operations, and an increase in the discount rate would seem the most appropriate method of signalling a move toward greater firmness … Another reason for prompt action is to dispel the unfortunate but widespread notion that the System has lost control of monetary policy.’ – Alfred Hayes, President, Federal Reserve Bank of New York

‘I do not agree with those who feel that the odds are clearly in favour of a breakout of inflationary conditions. We have not had any spreading of price increases since the change in business tempo introduced by the steel wage settlement. We need to be very careful not to base our decisions on the judgments that inflationary conditions are bound to develop, just because they have in past expansions.’ – James Robertson, Vice-Chair, Board of Governors

‘Satisfactory as the System's monetary policy between the years 1961 and 1964 may appear in retrospect, it is appropriate to ask if the System should not now take steps to prevent steady business expansion from being undermined by interest rate distortions and by inflationary pressures. At stake is the continuance of the healthy expansion and the steady but tedious improvement of our competitive position abroad.’ – Canby Balderston, Vice-Chair, Board of Governors

‘I am concerned about creeping inflation. There are many signs of inflation and of inflationary psychology. … [Committee] policy changes have tended to be too late rather than too early. The Committee had a tendency to "wait until all the evidence was in" before making a policy change. The difficulty is that when all the evidence is in it is likely to be too late. That might be the situation the Committee faced now. Nevertheless, the Committee should not make a policy change today. Last week I gave the President [Johnson] a paper expressing his personal views… I have talked with the chairman of the council of economic advisers, with Treasury officials, and with the President. They all had expressed the view that it would be unwise to change monetary policy now.’ – William McChesney Martin, Chair, Board of Governors

November 1965

‘Cost-price stability is always one of our major objectives. In the present international setting this objective becomes doubly important. The economy looks strong enough to absorb a tightening of monetary policy without adverse effects. Such a policy change may be required in the near future to help prevent an inflationary outburst.’ – Alfred Hayes, President, Federal Reserve Bank of New York

‘Additional monetary restraint will be needed to limit inflationary pressures. The economy is operating near capacity. The rate of increase in spending appears to be faster than the growth in ability to produce. Somewhat higher interest rates relative to those of other countries should be beneficial to the chronic US balance of payments problem.’ – Harry Shuford, President, Federal Reserve Bank of St. Louis

‘There is no concrete evidence of general inflation, although actual transactions prices might be increasing more than the official indexes. Prices, along with busi ness inventories, were areas where the Committee knew too little.’ – Braddock Hickman, President, Federal Reserve Bank of Cleveland

‘The time is coming when the System has to move one way or the other. It would not be possible simply to stay put. The Treasure's financial problem, which is the major problem ahead, would either be solved by a pause in business activity and a decline in the demand for business loans or - assuming the requirements were financed at current rates – by an aggressively easier policy by the Federal Reserve. The situation is getting again to a point similar to that at the time of the Treasury Federal Reserve accord in 1951.’ – William McChesney Martin, Chair, Board of Governors

‘The time for decision has arrived.‘

November 1965

‘Unemployment has declined, while production, personal incomes, and consumption have advanced. The economy, stimulated in part by increased military activity, is operating closer to full potential than for nearly a decade. Price increases have continued to be selective, and no pervasive upward pressures on prices or costs have developed. … Appropriate policy decisions are especially difficult. It might not take much of a move toward ease or restraint of either monetary or fiscal policy to tip the scale toward inflation on the one hand or recession on the other.’ – Albert Koch, Board Economist

‘The economy amply strong to withstand any effects of firmer interest rates. We are probably very close to the point where continued sustainable domestic expansion depends on greater effort to keep inflationary pressures under control. It seems no more than prudent to try once again to slow the recent excessive rate of bank credit expansion. A discount rate increase, with an accompanying increase in Regulation Q ceilings, would permit greater reliance on market forces on interest rates in channelling the flow of funds.’ – Alfred Hayes, President, Federal Reserve Bank of New York

‘Real growth has been substantial, but not so rapid or distorted as to have caused production bottlenecks. There are no widespread convictions that rapid price inflation is inevitable…. In financial terms, however, the picture is less reassuring. It is difficult to feel secure when the money supply was expanding at 7.6% (on a three-month average) while GNP was expanding 4.7% in real terms.’– George Ellis, President, Federal Reserve Bank of Boston

‘We should go no further in tightening monetary policy at this juncture. On the price front, the gradual up-creep in the general industrial commodity index has slowed down. Market expectations of an imminent discount rate increase have been quieted some what. The broad performance of the economy is too strong to warrant any easing, but not yet so clearly inflationary as to call for further tightening.’ – James Robertson, Vice-Chair, Board of Governors

‘The chance of serious price inflation in commodities is greater than at any time in the past four years. But it could not be known that this would happen.’ – Braddock Hickman, President, Federal Reserve Bank of Cleveland

‘The time for decision has arrived. It is not possible to run away continually from making a decision. It could be debated at length whether a situation of full employment existed and whether the resource utilisation level was entirely adequate. It could also be debated whether a monetary policy move at this juncture would have any impact from the balance of payments standpoint. But to revert to the paper he had read at the 12 October meeting, the financial problem is acute when conditions reached a point where it was necessary to support a Treasury financing operation to make it successful. Talk about market expectations could work both ways. In the market the expectations were just as much that the President would not allow any interest rate changes as to the contrary. That creates a very real problem.' – William McChesney Martin, Chair, Board of Governors

'All indicators show sufficient strength in the economy to withstand some restraint. The Committee had been putting off such action until everyone could point to clear evidence. It is time to let up on the gas pedal and put on the brakes. A Texas homebuilder desiring shade for his home might plant the fast-growing Chinaberry which would provide quick shade but which is short-lived and brittle in a storm. Or he might plant live oaks which are slow-growing but long-lived and hardy and would provide shade for his children and grandchildren. My preference is for the live oak. And, likewise, for policies that would promote longer-term economic growth, even though a somewhat less rapid pace of expansion might be involved.' – Charles Shepardson, Board of Governors

December 1965

'The general reaction of the securities markets to the change in the discount rate was one of relief that the air had been cleared by a decisive move.' – Alan Holmes, Manager, Federal Reserve System Open Market Account, Federal Reserve Bank of New York

'Once the inflationary potential is recognised, it is necessary to back up recent rate adjustments with a more positive open market policy. If we continue to permit credit to grow at the rapid rate so far chalked up this year, we would be doing less than is necessary. We could also be subject to the criticism that the System has acted only to raise interest rates and has done nothing to affect the availability of credit.' – Alfred Hayes, President, Federal Reserve Bank of New York

'New and revised data show a continuing build-up of inflationary pressures as reflected in higher consumer and wholesale prices, increasing labour shortages, higher wage rates and hourly earnings, a faster growth in personal income, accelerated capital spending, sharp increases in new and unfilled orders for durable goods, and a considerable increase in the deficit in the cash budget. The expected extension of the budget deficit into the early part of next year means that it would not be possible to use fiscal policy to counter inflationary pressures.' – Edward Wayne, President, Federal Reserve Bank of Richmond

Phase 3 – FORBEARANCE: PRESSURES MOUNT

No change in discount rate

'With inflation a real and present danger, a coordinated government programme is needed to preserve the integrity of the dollar.'

January 1966

'New information on past economic developments and on prospective spending plans serves to confirm the existence of a strong expansion currently and its likely continuance. As a matter of fact, both developments in the recent past and future prospects suggest a rate of economic expansion that could be creating problems of a destabilising nature--first inflation and subsequently readjustment.' – Albert Koch, Board Economist

'In the current economic climate of an unexpectedly favourable profit experience and strong consumer demand without any significant problem areas, businessmen and market participants tend to become exuberant. Add to this the near-certainty of a substantial Treasury deficit, and you have a situation in which inflationary expectations are almost bound to win the upper hand.' – Alfred Hayes, President, Federal Reserve Bank of New York

'Employment is up significantly further, and the long-hoped-for breakthrough to an unemployment rate below 4% is finally said to be just around the corner. Thus far, our price performance has continued moderate despite our narrowing margins of unused resources, but I note that in looking ahead the staff has now come to say "upward pressures on prices appear likely to be strong." My own judgment is similarly shifting. Accordingly, I am prepared to have monetary policy make a substantial and positive contribution to damping such inflationary pressures.' – James Robertson, Vice-Chair, Board of Governors

'Expectations ranged from a belief that the economy was heading for a Korean-war type of inflation, involving increases in wholesale prices of about 15% over a six-month period, to a belief that there would be some acceleration from the recent rate of price change but no spectacular increases. Whether or not either of those expectations were valid no one could say.' – George Mitchell, Board of Governors

'The danger of incipient inflation is clear, and the Committee's main task is to keep monetary policy sufficiently flexible to do what it can to contain inflationary pressures.' – Dewey Daane, Board of Governors

'The System will now be operating in an entirely new environment–-one that had not been contemplated a year ago--of full employment generally and over-full employment of skilled workers. I would favour a little inflation if I thought it would benefit the unemployables, but I do not think it would; rather, it would do them harm.' – William McChesney Martin, Chair, Board of Governors

'The business situation and outlook remain very strong, with the Vietnam build-up a major contributing factor. The most disturbing feature of the economy at present is the growing evidence of inflationary pressures. As recognition of these pressures and worry over inflation are becoming more widespread, additional pressures are being generated. … With inflation a real and present danger, a coordinated government programme is needed to preserve the integrity of the dollar.' – Alfred Hayes, President, Federal Reserve Bank of New York

'Prices of industrial commodities were still moving up. Spot prices of raw materials had risen sharply since the Committee's previous meeting. Farm and food prices had also climbed sharply… With newspapers and other periodicals full of accounts of rising prices, the country was faced with the type of inflationary psychology that characterized the mid-1950s; that in turn would make it all the more difficult to hold back prices and wages.' – Braddock Hickman, President, Federal Reserve Bank of Cleveland

'Tighter money market conditions have not been sufficient to avoid a sharp acceleration in monetary growth.'

May 1966

'The need for restraint is clear. The classic methods involve fiscal and monetary policy. The latter has moved quite a distance since last November toward tighter restraint, but our policy moves have not yet put a sufficient damper on inflationary pressures… With many key interest rates higher than at any time in the post-war years, the risks of forcing monetary policy to carry the burden alone are not inconsiderable. It is hard to think of any further monetary action that could have an important immediate effect in dampening the inflationary atmosphere without undesirable and perhaps somewhat unpredictable effects on financial markets. The obvious need is for a significant and prompt assist in the form of greater fiscal restraint. I have been very much disappointed to observe the great reluctance of the administration to embrace widespread proposals for a tax increase.'– Alfred Hayes, President, Federal Reserve Bank of New York

'Excess demand continues in all major sectors. So long as demand presses on capacity, prices will continue to rise. Despite widespread evidence of overheating, several straws in the wind suggested some possible cooling. The weaker stock market and some slackening of auto sales and output are highly desirable. If defence spending levelled off, if capital spending moderated, and if Congress held the line on non-defence spending, it might be that the economy had already passed the inflationary crest. But I have been disappointed on that score many times before; the weight of the evidence still points to inflationary overheating.' – Braddock Hickman, President, Federal Reserve Bank of Cleveland

'The Committee could hardly conclude that it had done much toward combating inflation during the past five months. When members looked at total reserves or non-borrowed reserves, either of which I see as the principal measure of the Committee's actions, they must be appalled. In the five months since December, the Committee had poured more reserves into the banking system than in the entire previous year, larger than in any full year since 1951. The growth in the money supply, bank credit, and business loans has been equally large. These results do not accord with the Committee's intent, its statements, or sound policy.' – Sherman Maisel, Board of Governors

'Additional fiscal restraint would be highly desirable. The Federal Reserve should continue to apply pressure on the commercial banking system and the financial markets. Unless economic pressures lessened, it appeared highly doubtful that a combination of such a monetary policy and current fiscal policy would provide the necessary restraint on inflationary pressures. Unless additional fiscal policy action is taken, the Federal Reserve System would probably face the very difficult decision as to whether credit restraint should be increased substantially further.' – George Clay, President, Federal Reserve Bank of Kansas City

'Tighter money market conditions have not been sufficient to avoid a sharp acceleration in monetary growth. The large reserve expansion in March and April resulted in part from the Committee's inability to foresee the strength of credit demand and continued heavy reliance on free reserves and interest rates in setting policy goals and formulating directives. Committee policy might have been better if total reserves or some other aggregative reserve measure had been given priority. The growth rate of total reserves should be cut back to a rate no greater than, say, 3%, so long as the economy continued to operate with fairly clear evidence of an inflationary gap.' – Charles Scanlon, President, Federal Reserve Bank of Chicago

'If we are seeing the beginning of a domestic price-wage spiral, we may be risking a 10-year setback.'

June 1966

'If all that were at stake was another one-year setback in our progress toward payments equilibrium –- this time attributable mainly to a war that will someday end and a boom that is sure to fade--one might hope to ride it out with equanimity. But, unfortunately, much more than a one-year setback is likely to be at stake. If we are now seeing the beginning of a domestic price-wage spiral that could gather momentum right into the next recession, as happened in the late 1950s, and if some other leading countries are about to be successful in slowing down their inflations, also as in the late 1950s, then we may be risking a 10-year setback.' – John Reynolds, Board Economist

'Coordinated restraint is needed. Monetary policy has been working. The big policy continues to be fiscal policy. The federal government is still providing a considerable fiscal stimulus in a setting marked by excess demand. More fiscal restraint would lessen the need to place too great an anti-inflationary burden on monetary policy, and would reduce the inevitable pressure on interest rates.' William Treiber, First Vice-President, Federal Reserve Bank of New York

July 1966

'The need for a continued general policy of restraint seems clear in view of the still excessive rate of credit growth, the continuing inflationary danger, and the parlous state of our balance of payments. With no assist from higher taxes in prospect for the near term, we should seek an even firmer monetary policy were it not for current even-keel considerations [involving need to pay heed to Treasury financing].' – Alfred Hayes, President, Federal Reserve Bank of New York

'Price developments continued to be disquieting. The 0.9% increase in the GNP deflator during each of the past two quarters was well above tolerable limits. Price rises had accounted for increasingly larger shares of recent quarterly gains in GNP, from 20% of the gain in the fourth quarter of last year to 40% in the first quarter, and to 60% in the second quarter. The country could easily drift into cost-push inflation.' – Braddock Hickman, President, Federal Reserve Bank of Cleveland

'The System has again been put squarely on the political hot seat.'

September 1966

'President [Johnson's] announcement of a new anti-inflationary programme, involving both fiscal and debt management policy, came at a time when the market rally was running out of steam. In general, there was a favourable psychological reaction in long-term markets, based mainly on relief that the Government had recognised the seriousness of inflationary pressures and the pressures of agency financing on financial markets. Most market participants felt that the programme was not forceful enough to warrant any early change in Federal Reserve policy, although many also felt that the System had again been put squarely on the political hot seat.' – Alan Holmes, Manager, Federal Reserve System Open Market Account, Federal Reserve Bank of New York Holmes

'Business developments indicate that the economy is still growing at a rapid rate and is likely to continue to grow at a rate generating inflationary pressures well into 1967.' – Alfred Hayes, President, Federal Reserve Bank of New York

'The economy remains tilted toward inflation as it expanded rapidly, with continuing pressures on available resources. The next most visible signs of that condition probably will appear in the labour negotiations of the next several months. In the monetary arena, a one-month decline in the credit proxy and in business loans should not lead the Committee to push the panic button and change its policy.' – George Ellis, President, Federal Reserve Bank of Boston

'Labour markets continue to be extremely tight and inflationary pressures remain dominant. Shortages of labour, skilled and unskilled, continue in virtually all District centres. Help-wanted ads remain at a very high level and unemployment compensation claims have declined further. Relaxation of hiring standards – in experience, education, and criminal records—has not solved labour shortages.' – Charles Scanlon, President, Federal Reserve Bank of Chicago

'There is still a very real need for a tax increase to offset the continuing inflationary stimulus provided by rising defence outlays. It would be inappropriate to change the discount rate under present conditions. In view of the cumulative evidence of a substantially slower growth of both total bank credit and business loans, the System would do well to soft-pedal our earlier emphasis on the need for curtailing the expansion of business lending.' – Alfred Hayes, President, Federal Reserve Bank of New York

'The latest data accentuate a growing feeling of uncertainty. Leading indicators have been growing more bearish for some time. The large surge in private credit demands generally expected some weeks ago has not materialised. Defence spending seems to have assumed added importance as a mainstay.' – Edward Wayne, President, Federal Reserve Bank of Richmond

'Wage-cost inflation has been built into the economy, due almost entirely to the failure of the administration to take appropriate fiscal action earlier this year. Monetary policy alone has done about all that it could to restrain the economy. A further tightening could aggravate imbalances.' – Braddock Hickman, President, Federal Reserve Bank of Cleveland

Phase 4 – PACIFICATION: PAUSE IN EXPANSION

Discount rate cut from 4.5% to 4%, 7 April 1967, raised to 4.5% 20 November

'It has become possible to relieve the tautness of domestic money market conditions … The President's request for a tax increase is a prudent proposal.'

January 1967

'We have done best on the employment goal. Indeed, there have been many shortages of skilled labour, and even of unskilled labour in a number of places. Economic growth was high in 1966 but the high rate was not sustainable. After several years of relative price stability, 1966 was marked by upward price pressures, and as the year ended, further price increases appeared in prospect…. Monetary policy was left with too much of the burden of fighting inflation.' – William Treiber, First Vice-President, Federal Reserve Bank of New York

'Widespread signs of moderation in economic advance are hopefully the signs of adjustment toward a non-inflationary rate of economic growth and not the signs of emerging recession.'– Edward Wayne, President, Federal Reserve Bank of Richmond

'Even though the inflationary updrift in costs and prices has not completely subsided, a lessening of aggregate demand pressures has become increasingly evident. It has become possible and desirable to relieve the tautness of domestic money market conditions so that bank credit expansion might resume. In these circumstances, the President's request for a tax increase is a prudent proposal, and it has my full support.' – William McChesney Martin, Chair, Board of Governors

March 1967

'In view of the likelihood of an acceleration of economic expansion later in the year, with a probable intensification of inflationary pressures, I would hope that we would not give market interest rate declines a strong further push through open market operations. I would like to regard the reserve requirement reduction as in large part a substitute for open market purchases that would otherwise have been required... I have no objection to such effects, provided they don't generate excessive expectations of still further easing.' – Alfred Hayes, President, Federal Reserve Bank of New York

May 1967

'Another aspect of the underlying strength of the economy is the failure of recessionary forces to spread and intensify. We have been enjoying some welcome relief on the price front; substantial recent declines in agricultural and sensitive industrial materials prices, and a leveling off in industrial product prices, have pushed average wholesale prices down and moderated the rise in the consumer price index. But inflationary pressures may be building. Unit labour costs in manufacturing have increased markedly as productivity has ceased to grow, and wages have continued to rise rapidly.' – John Charles Partee, Board Economist

'Markets learn from painful experience, and the next time around we may have to fight on different battlegrounds and with different tactics. But it's not yet the time to start this fight. Despite the improved economic outlook, it would seem premature now to enhance or justify market fears of a return to restraint.' – Daniel Brill, Board Economist

'I prefer to see a more moderate rate of expansion of bank reserves, bank credit, and money than over the past three months. The major thrust of actions taken now would probably not strike until late summer or early fall, given the usual lags of effect. Continuing the recent rapid monetary expansion might add to an inflation that had not yet been brought fully under control. Yet contracting the monetary aggregates might foster recession.' – Darryl Francis, President, Federal Reserve Bank of St. Louis

July 1967

'As for monetary policy, it seems to me that no change in policy is the wise choice for the immediate future despite the strong underlying case for some firming of policy in the light of inflationary risks, the balance of payments situation, and the need to moderate the growth of bank credit and deposits.' Alfred Hayes, President, Federal Reserve Bank of New York

'This is a time of intellectual bafflement and confusion as seldom witnessed in the country's history.'

September 1967

'Even if one grants that a vigorous economic expansion is still uncertain, I can be quite concerned by the threat of serious further wage and price inflation. This is a major threat, but the period of most rapid overall price escalation may be over.' – Daniel Brill, Board Economist

'The economic expansion continues to pick up speed. Even the auto strike is unlikely to slow the advance appreciably. We are likely to see an extra bulge of activity that will add inflationary fuel. With our international position remaining very unsatisfactory, and with bank credit tending to grow too rapidly, the desirability of some modest move toward less monetary ease seems clearly indicated.' – Alfred Hayes, President, Federal Reserve Bank of New York

'I favour a modest move in the direction of restraint. I continue to be concerned about the recent high rates of increase in reserves, bank credit, and the money supply, in view of the prospects for rapid economic growth and existing inflationary pressures.' – Eliot Swan, President Federal Reserve Bank of San Francisco

'With an economy showing the price and wage effects of an effort to produce both guns and butter, and with the administration pleading with Congress to recognise the need to reduce private spending by taxation, it seems incredible that monetary policy should hold at the same throttle positions of net free reserves, rate of reserve creation, rate of bank credit creation, and rate of money creation seen in the first quarter of this year.' – George Ellis, President, Federal Reserve Bank of Boston

'I would not assert that monetary policy was not too easy, but it would be foolish for the Committee, after having maintained its policy to this point, to launch a probing operation just before System testimony was taken on the tax bill. Such a modest operation would not result in any major gains; at the same time, its significance is likely to be greatly exaggerated. I do not agree that even keel considerations would necessarily preclude a change in policy later in the year. Conditions might well develop that would require Committee action even though a Treasury financing was in process. This is a time of intellectual bafflement and confusion such as has seldom been witnessed in the country's history. People are divided on many issues, and it is not surprising that views on appropriate monetary policy differ.' – William McChesney Martin, Chair, Board of Governors

October 1967

'The assumed fiscal restraint, coming perhaps six months later than it should, cannot be expected to produce miracles over the next six months. It should, however, contribute promptly to dampening the psychology of inflation.' – Daniel Brill, Board Economist

'The outlook for inflationary economic expansion remains unchanged. Although some economic indicators have weakened, this development appears to be due primarily to special factors such as strikes. The generous terms of the 'proposed Ford settlement are likely to add to the inflationary pressures.' – William Treiber, First Vice-President, Federal Reserve Bank of New York

'Inflationary pressures once again have got ahead of stabilisation policy. Inflation is no longer prospective; it us a present reality. At the meeting of the Business Council, the members were virtually unanimous on the necessity for prompt fiscal policy action.' – William McChesney Martin, Chair, Board of Governors

Phase 5 – DEFIANCE: INFLATION REBOUNDS

'As a nation we have been seeking a somewhat faster rate of growth and a lower rate of unemployment than are consistent with cost price stability.'

Discount rate raised from 4.5% to 5%, 22 March 1968; raised to 5.5%, 19 April; cut to 5.25%, 30 August; raised to 5.5%, 18 December

January 1968

'There are three main developments that could conceivably moderate the inflationary impetus. The first is the possibility of a cessation in US bombing and the beginning of peace negotiations in Vietnam. The second possibility is that we might really get a substantial measure of fiscal restraint this year, including a tax increase in the spring and a continued hold-back by the Administration on expenditures. As for the tax increase, prospects seem to have improved from the very low ebb reached a month ago. The third possibility is that financial conditions are now taut enough to restrain private expenditures importantly.' – John Charles Partee, Board Economist

'The strengthening of economic activity was considerably more than could be attributed solely to the improved strike picture. Virtually all recent data confirm the likelihood of a very strong first half. Inflationary pressures are likely to increase, with serious implications both at home and abroad. As a nation we have been seeking a somewhat faster rate of growth and a lower rate of unemployment than are consistent with cost price stability.' – Alfred Hayes, President, Federal Reserve Bank of New York

'The financial markets appeared to have taken the Committee's latest tightening moves in stride. Indeed, coupled with the announcement of the President's new balance of payments program, the System's latest steps had contributed to a significantly improved tone in both domestic and international markets. The expressions of the US determination to defend the dollar could produce a sobering effect on business expectations and hence help dampen inflationary psychology.' - Edward Wayne, President, Federal Reserve Bank of Richmond

March 1968

'Events since do not provide much confidence in [positive] fiscal assumptions. Developments in the Far East seem to be pointing toward higher-than-budgeted defence spending, and the tax increase appears to be as inextricably bogged down in Congress as ever. Prospective developments [are] based on the unhappy circumstance in which principal reliance is once again placed on monetary restraint to curb inflationary forces.'– Daniel Brill, Board Economist

'Relatively strong markets and an inflationary mood are encouraging businesses to pass higher labour and material costs through to higher prices. The rise in industrial commodity prices–averaging close to a 3-1/2% annual rate over the last six months–has accelerated. Continuation of a rapid rate of advance seems highly probable, and food prices also seem destined to rise in the next few months, largely because of special supply situations. It is hoped, however, that the easing in demands projected for the last half of the year would set the stage for a lessening of inflationary pressures extending into 1969.' – John Charles Partee, Board Economist

'Given the dangerous inflationary tendencies, the very gloomy payments outlook, and the recent excessive pace of bank credit expansion, there is a strong case for a further change in monetary policy toward greater restraint–a move more explicit than the modest tightening that has been accomplished in the last couple of weeks.' – Alfred Hayes, President, Federal Reserve Bank of New York

'The US is moving toward a serious and perhaps critical juncture of destabilising forces. Wage-cost-price pressures are increasing. The large prospective budget deficit is growing. Domestic inflation in gaining strength and business decisions on wages and prices are being made in anticipation of rising price levels. Monetary policy could, and must, be more restrictive. Business attitudes have to be restrained and tendencies toward speculation had to be brought under control.' – Philip Coldwell, President, Federal Reserve Bank of Dallas

'There is no assurance that price inflation is being restrained. Rather indications are that the rate of price inflation probably would accelerate. Virtually all manpower with qualifications sought in the labour market was employed. Reference frequently was made to the bargaining strength of labour unions, cost of living pressures, and the cost-push aspect of price inflation. Combined military and civilian demand has created a scarcity of manpower that made it easier to obtain large wage increases.' – George Clay, President, Federal Reserve Bank of Kansas City

'For about six months, the members of the Committee have agreed that containing inflation should be the goal of monetary policy. The Committee had changed its policy directive three months ago, and the inflationary pressures which led the Committee to that decision had not abated. All of the major aggregate measures–employment, production, spending, and prices – have continued to increase at rapid rates.' – Darryl Francis, President, Federal Reserve Bank of St. Louis

‘It is the unanimous view of the members today that greater monetary restraint is desirable. . As is often the case, however, there are problems of timing. Personally, he was not prepared at the moment to advocate an increase in the discount rate of either one-quarter or one-half of a percentage point. He would want to increase restraint gradually and unaggresively, while watching developments closely.’ – William McChesney Martin, Chair, Board of Governors

‘I am pessimistic about getting help in resisting inflation from either a tax increase or a cut in government expenditures.’

April 1968

‘The domestic economic situation continues to look exceptionally strong. Employment, incomes, spending, and real output all are rising rapidly and seem certain to continue doing so. Inflationary pressures remain great and may well be intensifying. The year-to-year gain in manufacturing compensation substantially exceeds that in productivity, though output per manhour recently has been increasing at a more satisfactory rate. Business appears to be passing cost increases along quite fully through higher prices.’ – John Charles Partee, Board Economist

‘I am pessimistic about getting help in resisting inflation from either a tax increase or a cut in government expenditures. Recently, the System has taken a series of actions designed to reduce the rate of monetary expansion. Money, which had grown 7% last year, had gone up at an annual rate of about 5% in the last three months. In the current inflationary situation with continued expansionary fiscal developments, I prefer to have money go up at about a 2 or 3% rate. The System should quickly take another step toward restraint.’ – Darryl Francis, President, Federal Reserve Bank of St. Louis

‘Nothing would please me more than to be able to slacken monetary restraint in the event of passage of a tax bill, but I do not fully share the confidence that fiscal restraint would make an immediate easing of monetary policy feasible. And it is not certain that a tax increase would be enacted.’ – Alfred Hayes, President, Federal Reserve Bank of New York

‘**Businessmen’s inflationary expectations are building in imbalances which will result in a painful correction at some time. ‘**

October 1968

‘Inflationary pressures increased as the unemployment rate decreased and very quickly became intolerable as the rate decreased below 4%. But if interest rates were to change little from their recent levels, the unemployment rate would increase. It could rise to 4-1/2% by mid-1969, and average 4% or thereabouts for fiscal 1969. That outlook makes it logical to assume that inflationary pressures are likely to become less intense. An unaltered Committee policy is therefore appropriate.’ – Hugh Galusha, President, Federal Reserve Bank of Minneapolis

‘The fact that auto firms increased prices less than had been expected, the highly competitive markets for steel and most industrial raw materials, and the expected downward trend of agricultural prices are hopeful signs that inflation would soon moderate–at least in the wholesale markets.’ – Charles Scanlon, President, Federal Reserve Bank of Chicago

‘Framing monetary policy is particularly difficult because of the problem of reconciling anticipations of economic weakness with the actualities of immediate economic strength. Growth in the economy has moderated during the third quarter but not sufficiently to counter inflationary pressures built up earlier.’ – Karl Bopp, President, Federal Reserve Bank of Philadelphia

‘Economic information continues to confirm a somewhat stronger performance than seemed likely earlier. Yet the data suggest that we have moved from a period of exceptionally rapid growth to one of less hectic economic expansion. What is still in doubt is the extent of the slowdown and whether it will be of sufficient depth and duration to reduce inflationary pressures significantly.’ – Murray Wernick, Board Economist

‘The slowdown in business expansion in the third quarter has been nowhere near as sharp as expected. The strength of retail sales has been especially dramatic, but I have in mind also the disturbingly large surge in manufacturers’ inventories, the relatively high level of residential construction, and continuing very tight labour market. Almost all projections underestimated the basic strength of the economy. We have hardly made even a start toward the much-hoped for slackening in upward price and wage pressures. Inflationary psychology has a pretty strong hold.’ – Alfred Hayes, President, Federal Reserve Bank of New York

‘Creation of monetary assets during the past 20 months at a rate significantly faster than the productivity growth has led to excess demand for goods and services. The result had been inflation. In fiscal 1968, when the Treasury had incurred a cash deficit of about $25bn, System holdings of securities had increased by about $5.5bn, and the money stock had increased by more than $11bn. Since a large part of the deficit had been financed by monetary creation rather than by private saving, the growth of total demand had been much greater than the growth of supply of goods and services.’ – Darryl Francis, President, Federal Reserve Bank of St. Louis

‘It would be asking too much of monetary policy to expect it to deal with the inflationary psychology resulting from the cumulated heritage of past failures of public policy.’

November 1968

‘Convincing evidence of an economic slowdown is still lacking, and the outlook remains stronger than would seem desirable. The labour market remains very tight. There has been no let-up in price pressures; the October rise in wholesale industrial prices was disturbingly large. The outlook perhaps is for some further moderate slowing of the economy in the current quarter and the first half of 1969. Many economists are thinking, however, in terms of a substantial speed-up after the first half of next year.’ – Alfred Hayes, President, Federal Reserve Bank of New York

‘Until recently I had great confidence that the fiscal package would be effective even with a move of monetary policy away from the restrictive stance of last spring. The mixed behaviour of the leading indicators in August and September did nothing to weaken that confidence, even though current business trends had been stronger than expected. However, my confidence that the fiscal package would succeed in dampening inflationary trends sufficiently without additional help from monetary policy has been weakened.’ – Frank Morris, President, Federal Reserve Bank of Boston

‘Positive, forceful action is needed promptly to stem the tide of inflation for both domestic and international reasons. The Committee could not hope to stop all inflationary pressures in one fell swoop, but further temporising with either the domestic inflation or the resultant balance of payments deficit and international financial unrest would never correct the problems.’ – Philip Coldwell, President, Federal Reserve Bank of Dallas

‘I expect signs of easing in the economy to show up sooner than the staff anticipated. Despite the economic situation and outlook, however, there is an inflationary psychology in the country—this had led some members of the Committee to favour a tighter monetary policy. For the System to deal effectively with the prevailing inflationary psychology it would have to make a dramatic move --

perhaps a one-half point increase in the discount rate. I would not be prepared to take such action.' – George Mitchell, Board of Governors

'I am disturbed as anyone by the prevailing inflationary pressures and psychology, but they represent the heritage of past errors. A small move toward firming or easing would not have very much effect internationally. But if firming was pressed far enough for the policy change to be evident to the market, the resulting shift in international interest rate relationships probably would have undesired consequences. So the best course is to hold to a steady policy.' – Dewey Daane, Board of Governors

'Inflation continues to be the most serious stabilisation problem facing the nation, accelerating from 1.5% in the first half of the decade to 4% in the past year. Evidence of any slowing in the rate of price increase this fall was slight. Inflation would remain a serious problem for some time in the future. Prices are slow to adjust to excessive demands because of the rigidity of terms in contracts, lack of knowledge on costs, a money illusion, and inertia. It is imperative that the Committee start as soon as possible to reduce the excessive demands for goods and services.' – Darryl Francis, President, Federal Reserve Bank of St. Louis

'Members of the Committee, including myself, and the staff, have underestimated the strength of the economy. While there are some signs of a slowing, this is much less than expected. The System should always be engaged in a ruthless examination of its record. Moreover, fiscal legislation enacted at mid-year and the preceding firming of monetary policy have been delayed too long. But policy should not be firmed now. It would be asking too much of monetary policy to expect it to deal with the inflationary psychology resulting from the cumulated heritage of past failures of public policy.' – William McChesney Martin, Chair, Board of Governors

'The US should be raising defences against a coming crisis.'

December 1968

'On the basis of some international telephone conversations this morning I concluded that a 1/4 point increase in the discount rate would not cause concern, but that a larger discount rate increase would cause serious concern. Additional action in the form of some firming of open market policy and an increase in reserve requirements might cause some concern, but not of a serious nature since the amount of tightening involved probably had already been largely discounted.' – James Robertson, Vice-Chair, Board of Governors

'Based on recent discussions I have the impression that a small increase in the Federal Reserve discount rate would not have serious consequences for sterling. The possible implications of more overt action were extremely difficult to evaluate.' – Alfred Hayes, President, Federal Reserve Bank of New York

'Increasingly, I have been unable to understand how individual actions were expected to aid achieving the Committee's short- or long-term goals. The System's foreign operations and commitments have expanded. The System seemed to be conducting foreign and domestic operations with opposing goals. Domestically, the System was fighting to slow down reserve expansion and to hold up short term rates as an aid in reducing inflationary pressures. Through System swaps with the BIS it was increasing reserves and was striving to ease Eurodollar rates, with the effect of maintaining or increasing the availability of credit in US domestic markets.' – Sherman Maisel, Board of Governors

‘Businessmen's inflationary expectations are building in imbalances which will result in a painful correction at some time. System action is needed now to keep these imbalances from becoming even worse. If businessmen can be persuaded to believe that our determination to curb inflation is as dogged as in 1966, so much the better. It might prove possible to achieve a modification of business psychology without too strenuous or prolonged a monetary squeeze.’ – Daniel Brill, Board Economist

‘The US should be raising defences against a coming crisis. One way--essential in the long run--is to slow our inflation and thereby improve the current account. It is hard to see other immediate possibilities. Intensification of capital controls or further enlargement of swap lines would be of doubtful value. Some equilibrating changes in currency parities may be required eventually. At the moment, however, an overt effort by the US government to hasten such changes would accelerate the thing we have to fear, and need to guard against: gradual weakening of foreign habits of holding dollars. In any case, changes in parities will not remove the necessity of restraining US inflation.’ – A.B. Hersey, Board Economist

‘Inflation is continuing at a 4% annual rate, and expectations of future inflation appeared to be heightening. The fiscal stance of the Government was changed about five months ago, but economic excesses have not been reduced. There seems little question that a restrictive monetary policy has to be pursued to provide the necessary total restraint to end the inflation.’ – Darryl Francis, President, Federal Reserve Bank of St. Louis

‘I recommended an increase of 1/2 percentage point [in the discount rate] to give clear notice to the market of the Federal Reserve's intention to restrain the growth of money and credit. The directors [of the Philadelphia Fed] voted for the 1/2 point increase; but they would accept a 1/4 point increase if that was the maximum that the Board of Governors was prepared to approve.’ – Karl Bopp, President, Federal Reserve Bank of Philadelphia

‘Domestic economic expansion would slow as a result of fiscal restraint-–if not in the first quarter, then in the second. Moreover, the incoming administration probably would be inclined in the direction of economic restraint. If the System was to take action to deal with the existing inflationary psychology, the present moment might offer almost the last chance.’ – George Mitchell, Board of Governors

‘Latest data on the national economy are disturbing and point up a persistent tendency on the Committee's part to overestimate the moderating effects of the surtax. The economy might well be experiencing a speed-up rather than a moderation. The fundamental problem is the strong inflationary psychology that seems to have permeated all business, consumer, and financial decisions.’ – Aubrey Heflin, President; Federal Reserve Bank of Richmond,

Phase 6 – ACQUIESCENCE: MARTIN’S APOLOGIA

Discount rate raised from 5.5% to 6% 4 April 1969

‘I informed them [Johnson and Nixon] that the reduction of the discount rate to 5-1/4% in August turned out to have been based on a miscalculation.’

January 1969

‘Inflationary forces are strong, and most sectors of the economy are vigorous. Wholesale prices have continued their renewed advance. Consumer prices have been rising rapidly at the highest rate in more than a decade and a half. The demand for labour is strong, and unemployment is low. ndustrial production continues to advance strongly. We have got a good reaction so far to our policy moves, but there is still a long way to go.'– William Treiber, First Vice-President, Federal Reserve Bank of New York

'The toughest part of our job lies ahead. That consists of sticking to a tight policy with determination until the economy has been set decisively on the track of a slower and non-inflationary expansion. Assuming that we have the wisdom and the courage to stick to our guns, we should be successful eventually – perhaps sooner than most people think – in getting on top of the inflationary problem.' – James Robertson, Vice-Chair, Board of Governors

'I have been in communication with President Johnson and President-elect Nixon and appropriate associates. I informed them prior to mid-December of the general view within the Federal Reserve that the reduction of the discount rate to 5-1/4% in August turned out to have been based on a miscalculation, and that the rate should shortly be increased to the previous level of 5-1/2% or perhaps to 5-3/4%. To Mr. Nixon I expressed the view that inflation was the primary economic problem now facing the nation, and that the new Administration would have to deal with it effectively from the beginning. The System continues to face the problem of dealing with the "heritage of errors" from past economic policies. The Federal Reserve had been widely criticised in recent months on the grounds that it had vitiated the effects of fiscal restraint by an unwarranted easing of monetary policy last summer. I do not think such criticism is wholly justified since much of the prevailing inflationary psychology was a consequence of the long delay in getting fiscal legislation.' – William McChesney Martin, Chair, Board of Governors

February 1969

'The non-financial economy is one in which, hopefully, stabilisation policies succeed in cooling off inflationary expectations relatively soon, with fiscal restraint biting into the economy in this half year, increasingly reinforced by a degree of monetary restraint which prevents too fast a rebound in the economy in the second half. Accomplishing all this will not be easy, given we have been running with over heated conditions.' – Daniel Brill, Board Economist

'Seven weeks ago the Committee had adopted a policy designed to exercise a restrictive influence on the economic system. To accomplish that required getting total spending growth down significantly from the 9.5% growth rate of the past four quarters. However, the evidence was still not clear that the System had been exercising a restrictive influence. Since the week ending 18 December, total member bank reserves had increased $1bn; the monetary base had increased $600m; Federal Reserve credit had grown $900m; and the money supply had grown $1bn. Interest rates had changed little.' – Darryl Francis, President, Federal Reserve Bank of St. Louis

'The main concern is that a short period of excessive monetary restraint would be followed by a period of excessive monetary ease, on the pattern of 1966-68. If that should happen, long-run inflationary psychology might become more deeply rooted.' – Frank Morris, President, Federal Reserve Bank of Boston

'A number of market observers remain unconvinced that restraint will be maintained--as they believe it should–-once signs of a slowdown in economic growth become apparent; and others feel that a money crunch–-somehow defined–-cannot be avoided if inflationary expectations are to be eliminated.' – Alan Holmes, Manager, Federal Reserve System Open Market Account, Federal Reserve Bank of New York

‘While progress had been made under recent monetary policy, businessmen are not convinced that inflation would not bail them out of rising costs. As a result, wages and prices continue to rise. What was needed was further visible evidence of monetary restraint, but in moderate proportions. I favour an increase of 1/4 percentage point in the discount rate, partly because it would represent a moderate action and partly because the current rate was out of line with the market and might be encouraging borrowing.’ – Philip Coldwell, President, Federal Reserve Bank of Dallas

‘While some financial indicators show signs of being affected by our actions, there are other measures that are still very buoyant. Total bank funds loaned to businesses continue to run high, fuelling corporate outlays that are adding to inflationary troubles.’– James Robertson, Vice-Chair, Board of Governors

‘Nothing must happen that would result in recession or even in much increase in unemployment.’

April 1969

‘The strength of the economy and the prevailing inflationary psychology counsel some visible evidence of a modest tightening of credit policy. An increase in the discount rate from 5-1/2 to 6% would provide such evidence and would bring it into better alignment with market rates. It is not likely to be viewed as a drastic turn in the screw.’ – William Treiber, First Vice-President, Federal Reserve Bank of New York

‘The national economy continues to expand beyond earlier expectations and beyond the growth in available resources, notably manpower, and prices exhibit a strong inflationary trend. Expectations of further marked price inflationary developments are pervasive in business and financial circles as well as among the public generally. Perhaps that attitude is conditioned by views and assurances that nothing must happen that would result in recession or even in much increase in unemployment. A clear agreement on peace [in Vietnam] would moderate inflationary expectations.’ – George Clay, President, Federal Reserve Bank of Kansas City

‘The primary problem is inflationary psychology. There are many signs indicating that inflation was becoming a way of life in the nation today. Policy-makers have to come to grips with the problem.’ **–** William McChesney Martin, Chair, Board of Governors

‘After vigorous monetary restraint has been in force for several months, it is only natural to seek earnestly for some signs that this restraint is beginning to bite into the economy. And it is only natural to be disappointed at the scant evidence of slowing. Our inflationary problem is stubborn and persistent.’ – Daniel Brill, Board Economist

‘The System was overly hasty in moving toward ease.’

July 1969

‘For those searching for signs that the slowdown in the economy has become visible, these have been trying days, but there are grounds for encouragement. Current statistics continue to reveal an economy operating with considerable thrust and with inflationary pressures persistent and widespread. But it still seems highly probable that by fall business statistics should present a much clearer picture of a leveling in economic activity and that by the turn of the year real GNP will be growing very little, if at all.’ – Murray Wernick, Board Economist

‘Business activity has great vitality after an unprecedented 100 months of sustained expansion. While retail sales have been sluggish and the rate of growth in physical terms has slowed, inflationary pressures continue to be strong. Industrial production is vigorous. While additions to inventories are large in some areas, over-all inventory ratios are within the range of recent months, which is low by historical experience. Total employment rose substantially in June, and the unemployment rate dipped 0.1% to 3.4%. Recent wage increases written into collective bargaining agreements add significantly to strong cost-push pressures.' – William Treiber, First Vice-President, Federal Reserve Bank of New York

'I am deeply concerned about the outlook for the surtax extension bill; there is a real possibility that it would not be enacted. The Committee should call for holding as closely as feasible to the present degree of pressure. It would be a mistake to take any action that might reinforce inflationary expectations just at the time when some weakening in those expectations might be developing. The System was overly hasty in moving toward ease in the summer of 1968, in part because of faulty judgments but also because of faulty projections. No one could make projections with assurance at the moment.' – William McChesney Martin, Chair, Board of Governors

October 1969

'Policy has essentially accomplished its objective of cooling off the economy to a point where inflationary forces will face an increasingly hostile environment. The Committee should now consider taking the first steps toward a posture that will be more sustainable for the longer run, by which I mean a policy that would encourage a resumption of moderate monetary expansion.' – John Charles Partee, Board Economist

'It is much too soon to gauge the extent of any slowdown, the real question being whether the slowdown will be substantial enough, and of sufficient duration, to bring a significant drop in the rates of price and wage increases. The recent weak performance of the stock market, reflecting in part widespread expectations of a profit squeeze, has been a useful influence tending to cool off inflationary psychology. On the other hand, failure by Congress to renew the surcharge could trigger a renewal of inflationary expectations.' – Alfred Hayes, President, Federal Reserve Bank of New York

'If the inflationary psychology is to be liquidated the System would have to pursue a moderately restrictive policy for a number of months. It would be much easier to accomplish that if it did not overstay the present policy of severe restraint.' – Frank Morris, President, Federal Reserve Bank of Boston

'Monetary policy would remain the sole bulwark against inflation and thus had to exercise its limited effect on the side of restraint. If Congress permitted enlarged spending and did not renew the surcharge or eliminate the investment tax credit, the System's position would become even more difficult and perhaps untenable.' – Philip Coldwell, President, Federal Reserve Bank of Dallas

'The Committee's policy in the first half of 1969 had been less restrictive than intended. It was only recently that the desired degree of restraint had been achieved and it would be a mistake to back off now. I am greatly disturbed by the number of businessmen who are thinking in terms of "the far side of the valley," and acting on the assumption that any slowdown in economic activity would be brief and mild.' – William McChesney Martin, Chair, Board of Governors

December 1969

'Policy has made substantial progress toward assuring a less exuberant economic environment and one which holds promise of a moderation in currently pervasive cost and price pressures.' – Murray Wernick, Board Economist

‘Despite the large decline in the production index, heavily influenced by strikes, a majority of the data seem on the stronger side. There are real grounds for doubt whether the slowing will be big enough or long-lasting enough to bring a significant braking of inflation. Some are inclined to draw the conclusion that inflation is inevitable; but there are a growing number who seem to be looking toward the possibility of wage and price controls as the only answer. I would shy away from any such extreme solution, but a new government campaign to focus public attention on the inflationary consequences of excessive wage settlements might be useful.’ – Alfred Hayes, President, Federal Reserve Bank of New York