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3/10/75

A.B.

THE WHITE HOUSE
WASHINGTON

Electronics Commission

Joe Finkel -

MEETING WITH ARTHUR BURNS
Chairman of the Board of Governors of the Federal Reserve
March 10, 1975
12:30 p.m.

From: Alan Greenspan *AG*

I. PURPOSE

- A. To review developments in monetary policy, the financial markets and in the economy.
- B. To review monetary policy goals and objectives for the months ahead.
- C. To review developments in the international financial markets.

II. PARTICIPANTS, PRESS PLAN, AND BACKGROUND

- A. Participants: Arthur Burns
- B. Press Plan: None. The meeting should be a quiet and unnoticed meeting between the President and the Chairman of the Board of Governors. If the meeting is noticed it should be commented on as being a quite ordinary occurrence.
- C. Background: Monetary policy has come in for a lot of criticism lately. Some of it is unfair. Some of it is not. Monetary policy has become more expansive. Interest rates have fallen sharply. The availability of credit has improved significantly since last October. Lower interest rates in the United States than abroad have also contributed to a weakening in the exchange rate for the dollar. Yet Federal Reserve policy has not been expansionary enough to get the money supply rising and most economists and especially those who attach great importance to the money supply as being a key determinant of future changes in business activity argue that a more rapid increase is required to help initiate a recovery in the second half of this year.

During early 1975, moreover, growth has slowed in total bank reserves and in the monetary base,

Dollar

and these factors determine future movements in the money supply. Recent figures indicate more rapid growth may now be resuming but it is still too early to draw the firm conclusion that Federal Reserve policy has eased further.

III. AGENDA AND TALKING POINTS

Several issues deserve attention:

- A. How soon are we likely to begin to see evidence of a turnaround in the economy and how strong a recovery does Chairman Burns feel is a reasonable expectation by late this year?
- B. The various measures of the money supply are beginning to rise more rapidly. Is this development likely to continue in the months ahead?
- C. If Chairman Burns had perfect and complete control over the more broadly defined money supply (M2) including bank time deposits, how large an expansion would he believe is a reasonable goal over the balance of the year in view of

- (1) The need to stimulate the economy in 1975
- (2) The need to avoid a reignition of inflation in 1976 and
- (3) The pressures which the large federal deficit will place upon the financial markets both this year and next.

(NOTE: Most economists argue for a minimum 10 percent growth in M2 during 1975 and many believe that M2 should be expanded more rapidly than that during the balance of 1975 to make up for the fact that M2 has grown at a rate of only 6 percent since last September.)

- D. Monetary policy must be flexible but flexibility this year can get us into difficulties in 1976 and beyond. There are two basic courses of action.

- (1) Aim at longer-term objectives and shoot for moderate growth rates in M2. This would foster a moderate recovery beginning late this year and extending throughout 1976. This course of action would have the advantage of enabling a further reduction in inflation next year.
- (2) Aim for a faster recovery in the economy by pushing for much faster growth in the money supply for the balance of this year and then cutting money supply growth back to the longer-term target by late this year. Although this has the advantage of prodding a faster recovery in the economy it increases the danger of more inflation during 1976 and 1977 because the combination of a continuing large federal deficit and a recovering economy might make it very difficult for the Federal Reserve to get back onto an appropriate non-inflationary policy track by late this year. How does Mr. Burns view these two possibilities?

- E. We are beginning to get a better idea of the effects of Congressional action upon the budget. A level of expenditures around \$370 billion (including \$7 billion that would be involved with the energy program) now appears to be a good estimate. This would be \$20 billion above the level projected in the budget. On the tax side even the Ways and Means bill, which is likely to be added to in the Senate, would involve some \$5 billion more than was projected in the budget. Is this situation going to add to the problems of the Federal Reserve or can these additional pressures be handled?
- F. Evidence of a reduction in inflation continues to accumulate. Is this a permanent reduction or do we still have a basic underlying inflation problem that will reappear when the economy begins to turn around.
- G. The dollar has been quite weak in the foreign exchange markets. Some observers attribute this to the efforts of the Federal Reserve to increase the money supply in the United States. Others,

while agreeing in part with this, argue that this is a necessary side-effect of switching to an easier monetary policy in the United States. What does Chairman Burns believe about this?

MEETING WITH
DR. ARTHUR F. BURNS

Monday - March 10, 1975

12:30 P.M.

THE PRESIDENT HAS SEEN

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Value his confidential advice
Look over ^{my} shoulders - Budget etc

Get some insight into his thinking
on what we are / where heading

What is his appraisal of conference
of Fed - shadow Prop, Congress etc.