

BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

July 2, 1986

The Honorable Paul A. Volcker
Chairman
Board of Governors of the Federal
Reserve System
Washington, D.C. 20551

Dear Paul:

I know that you are preoccupied with a number of major concerns these days, and that you are getting more than your share of free advice. But we are at such a critical juncture in the course of the world economy that I feel compelled to share with you some of my thoughts on the direction U.S. policy ought to take.

As you may know, for several weeks I have been calling for a further reduction in the discount rate. I continue to believe that such a reduction is essential to our common efforts to advance the cause of a stronger, healthier, noninflationary economic environment. For that reason alone I hope you will review some of the remarks I have made on this subject (which I enclose). I hope you find these remarks useful as you lead the Board of Governors and the Federal Open Market Committee through the difficult decisions that lie ahead.

You and I both know that whenever someone advocates lower interest rates, the accusation of "politics" rises up almost immediately. Of course, politics is nothing to be ashamed of: and political considerations are hard to avoid when so much of the modern economy is subject to government interference. But I know you agree that there are much higher stakes involved here than mere politics.

Both you and President Reagan have provided outstanding economic leadership for the 1980's. Although the Fed and the Administration have not always agreed on tactics, you have agreed on goals: lower inflation, stable growth, reduced public spending, and the freest possible climate for world trade and finance.

Thanks to your efforts, we have come a long way. But now we face a very serious risk: the risk of an economic stagnation that will undermine support for free-market policies, shut the

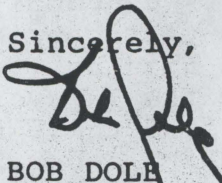
door to free trade, and dash the hopes of the developing nations to become full partners in the world economy.

As I have indicated in my recent statements, lower interest rates are a key to solving the economic puzzle that confronts us. In a lower interest rate environment, we can deal more effectively with the debt problems of the Third World, the deficits in budget and trade that threaten the U.S. economy, and the difficult challenges that confront American farmers and manufacturers in confronting the 21st century. Of course interest rates are not the be-all and end-all of economic policy--but I do believe that they are essential to our efforts to control spending, revive America's performance in world trade, and maintain public support for anti-inflation policies. In that sense, the Fed's best weapon against inflation would be to let interest rates come down.

I stand ready to work with you at any time, in any way, to achieve our common goals: less public spending, smaller deficits, open markets, and vigorous support for economic development in the Third World. We can never forget that economic freedom and political freedom go hand in hand--and that both must be nurtured with sound leadership from those of us who bear a public trust.

Thank you for taking the time to consider my views.

Sincerely,



BOB DOLE
Majority Leader

I thank you.