Economic Scene | Leonard Silk

Greenspan's View On a Soft Landing

IS the United States economy, with Alan Greenspan of the Federal Reserve at the controls, coming in for a soft landing?

The exuberance that the financial markets have shown in recent weeks — yesterday's 28.36-point slide in the Dow Jones industrial average notwithstanding — would seem to indicate that many investors think so.

The Investors Relations Company of New York said: "The recent euphoria in the stock market is right in line with what appears to be an economic consensus: inflation is back under control, interest rates are coming down, and we're headed for a soft landing with no real recession, thanks to marvelous timing on the part of the Fed."

On the basis of what Mr. Greenspan himself said at a closed-door meeting of bankers at the International Monetary Conference in Madrid last Friday, The Financial Times of London concluded that the Fed chairman "is optimistic that the U.S. economy can achieve a soft landing."

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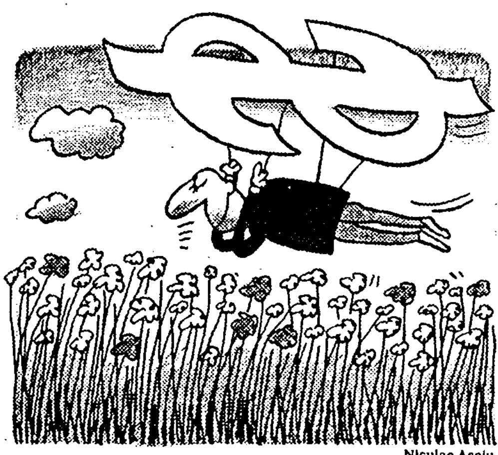
But a spokesman for Mr. Greenspan denied this week that Mr. Greenspan had concluded that the economy would make a soft landing. Rather, according to his notes of the Madrid talk, Mr. Greenspan said, "The evidence that the rate of growth was slowing and inflationary pressures easing was becoming more credible." But Mr. Greenspan added, the spokesman said, "That did not necessarily suggest that the landing is soft."

Instead, he warned of the continuing need to worry about inflationary dangers. "The very presumption that the business cycle has been tamed could cause a further sharp fall of interest rates," and that in turn "could induce an acceleration of capital investment, thus creating strains for the economy and a re-emergence of inflationary pressures," he said.



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In recent days, some Fed watchers have concluded that the central bank, having first engineered a rise in interest rates and then a decline in rates, is now back in its normal state of worrying about a buildup of inflationary pressures.

The upsurge of the dollar could also bring renewed pressure on the Fed from the White House to lower interest rates as a means of keeping a too-strong dollar from worsening the trade deficit. The dollar fell sharply yesterday, however.

As though to stave off pressures for further monetary ease, the Fed has been advertising Mr. Greenspan's strong interest in an equation, a tool for predicting (and preventing) inflation in the long run. The tool, known as P*, was developed at the Fed by three research economists, Jeffrey J. Hallman, Richard D. Porter and David H. Small.

In an interview yesterday, Mr. Small said: "It is not a new tool. It would be ludicrous to say we discovered the theory that changes in the money supply cause inflation." What they have tried to do is make the old quantity theory of money operational for forecasting prices in the long run.

This means using the right definition of money (M-2, a broad definition of money), assumes that the average rate of growth of the economy over time is predictable, and that velocity can be treated as a constant in the long run. Mr. Small says that though swings in velocity occur with changes in the business cycle, interest rates and other factors, velocity constantly returns to a long-term average rate over time.

Referring to "the assumption that the velocity of M-2 will return to its mean level," Mr. Small acknowledges that "some members of the staff believe this is more plausible than others." Assuming the assumptions are valid, the equation of exchange, he asserts, tells the direction of the future price level.

But critics of this approach, like Campbell R. Harvey of Duke University's Fuqua School of Business, do not grant those assumptions. Professor Harvey said, "The main flaw is the assumed constancy of velocity — I reject that on grounds of historical evidence."

But Mr. Small and his colleagues hold to the idea that the velocity of M-2 is "relatively stable," and that the equation can be used "in a particularly simple way to bypass the complexities of predicting future interest rates, wage rates and other factors influencing future prices." He strongly warns against trying to use the equation, with its long-term assumptions, or any other simple monetarist equation, as a device for predicting prices or economic activity in the short run.

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Professor Harvey has his own forecasting tool — the bond market — to predict the economic outlook in the short run; he expects real growth in the gross national product at an annual rate of 1.7 percent through the third quarter of 1990 — in effect, a soft landing.

But Mr. Harvey says the most interesting question about the Fed's monetarist tool now is: What are its policy implications? He suggests that Mr. Greenspan may use it to block White House pressures to increase the growth of the money supply to reduce interest rates, whether to prevent economic decline or drive down the dollar.

The Fed is moderating its move toward ease. And it may use its tool for forecasting the long-run price outlook as a device for fine-tuning monetary policy for the short run.

U.S. and Japan Report a Stalemate on Trade-Talk Format

By STEVEN R. WEISMAN

Special to The New York Times

TOKYO, June 15 — Senior Japanese and American economic officials said today that they had ended two days of "intensive" discussions but were unable to agree on a format for new trade negotiations sought by President Bush.

The 13 hours of discussions, held at the coastal resort of Kawana, south of Tokyo, were the first high-level con- [illegible] the Bush [illegible]

[illegible] the "Super 301" clause of American trade legislation approved last year by Congress.

The trade discussions this week were part of a series of twice-a-year meetings. But they took on added drama because of the recent United States action, in which the Administration cited Japan, India and Brazil as unfair traders.

Cordial and Friendly

Officials on both sides said the talks were cordial and even friendly, despite Japan's continued position that it would refuse even to discuss the alleged trade barriers under the threat [illegible] part of the 301 process. At a news conference today, S. Linn Williams, the deputy trade representative, said the United States considered this week's round of talks to be the start of "consultations" called for by the American trade law. The law says that if there is no progress on talks about trade barriers after 18 months, the Administration must impose sanctions.

But Japanese officials said they did not recognize this week's talks to be the opening of "consultations" or "negotiations" or anything under the aegis of the American trade law, which they refuse to recognize because of the threat of sanctions.

Some Japanese news accounts said some Japanese officials had told their American counterparts that they felt the United States was trying to "blackmail" them. But American officials said there was little rancor in the talks.

'Not Aimed at Decisions'

"These discussions were not aimed at negotiations and not aimed at reaching decisions," said Richard T. McCormack, Under Secretary of State for economic affairs. He said the purpose was for the Americans to tell "how we saw these issues."

Japan was cited because of alleged trade barriers blocking American exports of satellites, supercomputers and wood products. But in another area of contention on trade, telecommunications, both Japanese and American officials said they were increasingly hopeful that differences [illegible]

'Structural' Barriers

In announcing the threat of sanctions last month, Administration officials also said there needed to be talks about deeper "structural" barriers in Japan — like the complicated

"A New Investment Concept"