

Meeting of the Federal Open Market Committee

August 18, 1981

Minutes of Actions

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, August 18, 1981, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Solomon, Vice Chairman  
Mr. Boykin  
Mr. Corrigan  
Mr. Gramley  
Mr. Keehn  
Mr. Partee  
Mr. Rice  
Mr. Schultz  
Mrs. Teeters  
Mr. Wallich

Messrs. Balles, Black, and Winn, Alternate Members of the Federal Open Market Committee

Messrs. Morris and Roos, Presidents of the Federal Reserve Banks of Boston and St. Louis, respectively

Mr. Axilrod, Staff Director  
Mr. Bernard, Assistant Secretary  
Mrs. Steele, Deputy Assistant Secretary  
Mr. Bradfield, General Counsel  
Mr. Mannion, Assistant General Counsel

Messrs. Burns, Ettin, Keir, Prell, Scheld, and Zeisel, Associate Economists

Mr. Cross, Manager for Foreign Operations, System Open Market Account

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account

Mr. Coyne, Assistant to the Board of Governors  
Messrs. Gemmill and Siegman, Associate Directors, Division of International Finance, Board of Governors

Mr. Lindsey, Assistant Director, Division of Research  
and Statistics, Board of Governors

Mrs. Deck, Staff Assistant, Open Market Secretariat,  
Board of Governors

Messrs. Czerwinski, Forrestal, McIntosh, and Smoot, First  
Vice Presidents, Federal Reserve Banks of Kansas  
City, Atlanta, Boston, and Philadelphia, respectively

Messrs. Balbach, T. Davis, Fousek, and Koch, Senior  
Vice Presidents, Federal Reserve Banks of St. Louis,  
Kansas City, New York, and Atlanta, respectively

Messrs. Bisignano, Broaddus, and Syron, Vice Presidents,  
Federal Reserve Banks of San Francisco, Richmond,  
and Boston, respectively

Mr. Duprey, Senior Economist, Federal Reserve Bank of  
Minneapolis

Mr. Lang, Research Officer, Federal Reserve Bank of  
Philadelphia

Mr. Levin, Manager, Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meetings  
of the Federal Open Market Committee held on July 6-7, and August 7, 1981,  
were approved.

By unanimous vote, System open market transactions in Government  
securities, agency obligations, and bankers acceptances during the period  
July 7 through August 17, 1981, were ratified.

With Mr. Partee dissenting, the Federal Reserve Bank of New York  
was authorized and directed, until otherwise directed by the Committee, to  
execute transactions in the System Account in accordance with the following  
domestic policy directive:

The information reviewed at this meeting suggests little change in real GNP in the current quarter, following a small decline in the second quarter; prices on the average appeared to be continuing to rise less rapidly than earlier in the year. The dollar value of total retail sales increased appreciably further in July, reflecting some recovery in sales at automotive dealers. Industrial production rose slightly in July, while nonfarm payroll employment advanced substantially; the unemployment rate declined to 7.0 percent, somewhat below its average level in earlier months of 1981. In June housing starts declined sharply further. Over the first seven months of the year, the rise in the index of average hourly earnings was somewhat less rapid than during 1980.

The weighted average value of the dollar rose further against major foreign currencies in July and early August, registering gains against all major currencies. In June the U.S. foreign trade deficit declined slightly from the May level, but for the second quarter the deficit was up substantially over the first-quarter rate.

In July M1-B, adjusted for the estimated effects of shifts into NOW accounts, expanded somewhat following a substantial decline in May and June, and growth in M2 accelerated from a relatively sluggish pace in the previous two months. The level of adjusted M1-B in July was well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981 while the level of M2 was slightly below the upper end of its range for the year. Available data for early August suggested further acceleration in growth of M1-B and M2, with acceleration in M2 apparently influenced in part by initial responses of the public to the availability of more attractive deposit instruments, pointing up the necessity of evaluating the behavior of M2 in the light of the impact of regulatory and legislative changes. Since early July most market interest rates have risen considerably on balance.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote sustained economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3½ to 6 percent for M1-B,

abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and  $6\frac{1}{2}$  to  $9\frac{1}{2}$  percent for M2 and M3, respectively. The Committee recognized that the shortfall in M1-B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper ends of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M1-B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M1, M2, and M3 within ranges of  $2\frac{1}{2}$  to  $5\frac{1}{2}$  percent, 6 to 9 percent, and  $6\frac{1}{2}$  to  $9\frac{1}{2}$  percent would be appropriate. These ranges will be reconsidered as warranted to take account of developing experience with public preferences for NOW and similar accounts as well as changing economic and financial conditions.

In the short run the Committee continues to seek behavior of reserve aggregates consistent with growth of M1-B from June to September at an annual rate of 7 percent after allowance for the impact of flows into NOW accounts (resulting in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter), provided that growth of M2 remains around the upper limit of, or moves within, its range for the year. It is recognized that shifts into NOW accounts will continue to distort measured growth in M1-B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 15 to 21 percent.

8/18/81

- 5 -

It was agreed that the next meeting of the Committee would be held on Tuesday, October 6, 1981, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary