

Meeting of the Federal Open Market Committee

December 18-19, 1980

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., starting on Thursday, December 18, 1980, at 3:30 p.m. and continuing on Friday, December 19, 1980, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Solomon, Vice Chairman  
Mr. Gramley  
Mr. Guffey  
Mr. Morris  
Mr. Partee  
Mr. Rice  
Mr. Roos  
Mr. Schultz  
Mrs. Teeters  
Mr. Wallich  
Mr. Winn

Messrs. Balles, Baughman, and Mayo, Alternate Members of  
the Federal Open Market Committee

Messrs. Black, Corrigan, and Ford, Presidents of the Federal  
Reserve Banks of Richmond, Minneapolis, and Atlanta,  
respectively

Mr. Altmann, Secretary  
Mr. Bernard, Assistant Secretary  
Mr. Petersen, General Counsel  
Mr. Oltman, Deputy General Counsel  
Mr. Mannion, Assistant General Counsel  
Mr. Holmes, Adviser for Market Operations  
Mr. Axilrod, Economist

Messrs. J. Davis, R. Davis, T. Davis, Eisenmenger <sup>1/</sup>,  
Ettin, Henry, Keir, Kichline, Truman, and Zeisel,  
Associate Economists

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

1/ Attended Friday session only.

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

Mr. Coyne, Assistant to the Board of Governors

Mr. Prell, Associate Director, Division of Research and  
Statistics, Board of Governors

Messrs. Gemmill and Siegman 2/, Associate Directors,  
Division of International Finance, Board of Governors

Mr. Smith 2/, Assistant Director, Division of International  
Finance, Board of Governors

Mr. Beck, Senior Economist, Banking Section, Division of  
Research and Statistics, Board of Governors

Mrs. Steele, Economist, Open Market Secretariat, Board  
of Governors

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

Mr. Smoot, First Vice President, Federal Reserve Bank  
of Philadelphia

Messrs. Brandt, Burns, Keran, and Scheld, Senior Vice  
Presidents, Federal Reserve Banks of Atlanta,  
Dallas, San Francisco, and Chicago, respectively

Messrs. Broaddus, Mullineaux, Mrs. Nichols, and Mr. Rolnick,  
Vice Presidents, Federal Reserve Banks of Richmond,  
Philadelphia, Chicago, and Minneapolis, respectively

Mr. Burger, Assistant Vice President, Federal Reserve  
Bank of St. Louis

Ms. Clarkin, Sr. Trading Officer, 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 November 18, November 26, December 5,  
and December 12, 1980, were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period November 18 through December 18, 1980 were  
ratified.

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2/ Attended Thursday session only.

The following actions took place on December 19, 1980.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period November 18 through December 18, 1980, were ratified.

With Mrs. Teeters and Mr. Wallich 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 policy directive:

The information reviewed at this meeting suggests that real GNP expanded more in the fourth quarter than in the third, and prices on the average continued to rise rapidly. In November retail sales, industrial production, and nonfarm payroll employment expanded substantially further, and the unemployment rate was essentially unchanged at 7½ percent. Housing starts remained at their September-October level. The rise in the index of average hourly earnings has been somewhat more rapid this year than in 1979.

The weighted average value of the dollar in exchange markets has risen considerably further over the past month. The U.S. trade deficit was unchanged in October, remaining well below the rate in the first half.

Growth in M-1A and M-1B continued to moderate in November but was still relatively rapid; growth in M-2 continued to accelerate, reflecting a further pickup in expansion of its nontransaction component. In early December, growth of M-1A and M-1B slowed substantially further. From the fourth quarter of 1979 to November, growth of M-1A was in the upper part of the range set by the Committee for growth over the year ending in the fourth quarter of 1980; M-1B and M-2 grew at rates somewhat above the upper limits of their respective ranges. Expansion in commercial bank credit was about as rapid in November as on the average in the preceding three months. Short-term market interest rates have risen sharply further in recent weeks. Long-term market yields have also risen, although considerably less, and average rates on new home

mortgage commitments have continued upward. On December 4 the Board of Governors announced an increase in Federal Reserve discount rates from 12 to 13 percent and an increase in the surcharge from 2 to 3 percentage points on frequent borrowing of large institutions.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of  $3\frac{1}{2}$  to 6 percent, 4 to  $6\frac{1}{2}$  percent, 6 to 9 percent, and  $6\frac{1}{2}$  to  $9\frac{1}{2}$  percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of  $\frac{1}{2}$  percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates.

In the short-run the Committee seeks behavior of reserve aggregates associated with growth of M-1A, M-1B, and M-2 over the first quarter along a path consistent with the ranges for growth in 1981 contemplated earlier, which will be reviewed in February 1981. Those ranges, abstracting from the effects of deposit shifts connected with the introduction of NOW accounts on a nationwide basis, imply growth in these aggregates centered on  $4\frac{1}{4}$  percent,  $4\frac{3}{4}$  percent, and 7 percent respectively. It is recognized that the introduction of NOW and ATS accounts nationwide at the beginning of 1981 is likely to widen the discrepancy between growth in M-1A and M-1B to an extent that cannot now be accurately estimated, and operational reserve paths will be developed in the light of evaluation of those differences as they emerge. In the light of the rapid growth of monetary and credit aggregates in recent months, some shortfall in growth would be acceptable in the near term if that developed in the context of reduced pressures in the money market. If it appears during the period before the next meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent are likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

By unanimous vote, transfer to the National Archives of the FOMC memoranda of discussion for 1975, on the basis described in a memorandum from the Secretariat dated December 3, 1980, was authorized.

It was agreed that the next meeting of the Committee would be held on Tuesday, February 3, 1981, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary