

Meeting of Federal Open Market Committee

August 14, 1979

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 14, 1979, beginning at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Balles  
Mr. Black  
Mr. Coldwell  
Mr. Kimbrel  
Mr. Mayo  
Mr. Partee  
Mr. Rice  
Mr. Schultz  
Mrs. Teeters  
Mr. Wallich

Messrs. Guffey, Morris, Roos, Timlen, and Winn,  
Alternate Members of the Federal Open Market  
Committee

Messrs. Baughman, Eastburn, and Willes, Presidents  
of the Federal Reserve Banks of Dallas,  
Philadelphia, and Minneapolis, respectively

Mr. Altmann, Secretary  
Mr. Bernard 1/, Assistant Secretary  
Mr. Oltman 1/, Deputy General Counsel  
Mr. Mannion 1/, Assistant General Counsel  
Mr. Axilrod 1/, Economist  
Mr. Holmes 1/, Adviser for Market Operations

Messrs. Brandt 1/, R. Davis 1/, Keir 1/,  
Scheld 1/, Truman 1/, and Zeisel 1/,  
Associate Economists

1/ Entered the meeting prior to the vote to approve the Minutes  
of Actions.

Mr. Sternlight 1/, Manager for Domestic Operations, System Open Market Account

Mr. Pardee 1/, Manager for Foreign Operations, System Open Market Account

Mr. Coyne 1/, Assistant to the Board of Governors

Messrs. Farnsworth 1/2/ and Siegman 1/, Associate Directors, Division of Federal Reserve Bank Examinations and Budgets and Division of International Finance, respectively, Board of Governors

Mr. Prell 1/, Associate Research Division Officer, Division of Research and Statistics, Board of Governors

Mr. Robinson 1/2/, Manager, Financial Examinations, Division of Federal Reserve Bank Examinations and Budgets, Board of Governors

Ms. Farar 1/, Economist, Open Market Secretariat, Board of Governors

Mrs. Deck 1/, Staff Assistant, Open Market Secretariat, Board of Governors

Mr. Smoot 1/, First Vice President, Federal Reserve Bank of Philadelphia

Messrs. Burns 1/ and J. Davis 1/, Senior Vice Presidents, Federal Reserve Banks of Dallas and Cleveland, respectively

Messrs. Broadus 1/, Danforth 1/, T. Davis 1/, and Fieleke 1/, Vice Presidents, Federal Reserve Banks of Richmond, Minneapolis, Kansas City, and Boston, respectively

Mr. Burger 1/, Assistant Vice President, Federal Reserve Bank of St. Louis

Mr. Levin 1/, Manager, Securities Department, Federal Reserve Bank of New York

1/ Entered the meeting prior to the vote to approve the Minutes of Actions.

2/ Left the meeting following the vote to accept the Report of Examinations of System Open Market Account.

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By unanimous vote, the Committee elected Paul A. Volcker to serve as Chairman for the period until the election of a successor at the first meeting of the Committee after February 29, 1980, with the understanding that in the event of the discontinuance of his official connection with the Board of Governors of the Federal Reserve System, he would cease to have any official connection with the Federal Open Market Committee.

By unanimous vote, Alan R. Holmes was elected Adviser for Market Operations for the period until the election of a successor at the first meeting of the Committee after February 29, 1980, with the understanding that in the event of the discontinuance of his official connection with the Federal Reserve Bank of New York, he would cease to have any official connection with the Federal Open Market Committee.

By unanimous vote, Peter D. Sternlight, and Scott E. Pardee were selected to serve at the pleasure of the Committee in the capacities of Manager for Domestic Operations, System Open Market Account, and Manager for Foreign Operations, System Open Market Account, respectively, on the understanding that their selection was subject to their being satisfactory to the Federal Reserve Bank of New York.

Secretary's note: Advice was subsequently received that the selection of the Managers indicated above were satisfactory to the Federal Reserve Bank of New York.

By unanimous vote, Sections 4 and 5 of the Rules of Organization were amended to read as follows:

## RULES OF ORGANIZATION

## SECTION 4--STAFF

(a) Selection of staff officers.--At its first meeting on or after March 1 of each year, the Committee selects, from among the officers and employees of the Board and the Federal Reserve Banks, the following staff officers to serve until the first meeting on or after March 1 of the next following year: Secretary, Deputy Secretary, and one or more Assistant Secretaries; General Counsel, Deputy General Counsel, and one or more Assistant General Counsels; Economists, one or more of whom may be designated as Senior or Associate Economists or given titles reflecting their areas of particular specialization; and such other officers as the Committee might wish from time to time.

## SECTION 5--MANAGERS

The Committee selects a Manager for Domestic Operations, System Open Market Account; and a Manager for Foreign Operations, System Open Market Account. The foregoing shall be satisfactory to the Federal Reserve Bank selected by the Committee to execute open market transactions for such Account and shall serve at the pleasure of the Committee. The Managers keep the Committee informed on market conditions and on transactions they have made and render such reports as the Committee may specify.

By unanimous vote, subsections (d) and (e) of Section 272.3 of the Rules of Procedure were amended to read as follows:

## RULES OF PROCEDURE

## SECTION 272.3--MEETINGS

(d) Attendance at meetings.--Attendance at Committee meetings is restricted to members and alternate members of the Committee, the Presidents of Federal Reserve Banks who are not at the time members or alternates, staff officers of the Committee, the Managers, and such other advisers as the Committee may invite from time to time.

(e) Meeting agendas.--The Secretary, in consultation with the Chairman, prepares an agenda of matters to be discussed at each meeting and the Secretary transmits the agenda to the members of the Committee within a reasonable time in advance of such meeting. In general, the agendas include approval of minutes of actions; reports by the Managers on open market operations since the previous meeting, and ratification by the Committee of such operations; reports by Economists on, and Committee discussion of, the economic and financial situation and outlook; Committee discussion of monetary policy and action with respect thereto; and such other matters as may be considered necessary.

By unanimous vote, the Procedural Instructions with Respect to Foreign Currency Operations were amended to read as follows:

PROCEDURAL INSTRUCTIONS WITH RESPECT TO  
FOREIGN CURRENCY OPERATIONS

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager for Foreign Operations, System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager for Foreign Operations shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation which would result in a change in the System's overall open position in foreign currencies exceeding \$300 million on any day or \$600 million since the most recent regular meeting of the Committee.

B. Any operation which would result in a change on any day in the System's net position in a single foreign currency exceeding \$150 million, or \$300 million when the operation is associated with repayment of swap drawings.

C. Any operation which might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in 1B.

D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) \$200 million or (ii) 15 percent of the size of the swap arrangement.

2. The Manager for Foreign Operations shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation which would result in a change in the System's overall open position in foreign currencies exceeding \$1.5 billion since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) \$200 million or (ii) 15 percent of the size of the swap arrangement.

3. The Manager for Foreign Operations shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any operations that are not of a routine character.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on July 11, 1979, were approved.

The report of examination of the System Open Market Account, made by the Board's Division of Federal Reserve Bank

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Examinations and Budgets as of the close of business April 20, 1979, was accepted.

By unanimous vote, System open market transactions in foreign currencies during the period July 11 through August 13, 1979, were ratified.

By unanimous vote, the amount of the reciprocal currency arrangement with the Bank of Mexico specified in paragraph 2 of the Authorization for Foreign Currency Operations was raised to \$700 million, effective August 17, 1979.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period July 11 through August 13, 1979, were ratified.

With Messrs. Black and Rice 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 that real output of goods and services is continuing to decline in the current quarter, while prices on the average are continuing to rise rapidly. In July the dollar value of retail sales edged up; in real terms, sales were still substantially below those of last December. Growth in nonfarm payroll employment slowed considerably further, but the unemployment rate, at 5.7 percent, remained within the narrow range prevailing since the beginning of the year. Industrial production declined in June, and it apparently slackened further in July to

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about the level of last December. So far this year, broad measures of prices have increased at a much faster pace than during 1978, although producer prices of foods have declined since March. The rise in the index of average hourly earnings, which had slowed in May and June, picked up in July.

The trade-weighted value of the dollar against major foreign currencies declined somewhat further in the second half of July, and although it subsequently recovered, it remained below its level of early June. The U. S. trade deficit in the second quarter was larger than in the previous quarter, reflecting largely the significant rise in the price and value of oil imports.

Growth of M-1, M-2, and M-3 remained rapid in July. Inflows of interest-bearing deposits included in M-2 were slightly stronger than in June. At nonbank thrift institutions, inflows of deposits declined somewhat. Short-term market interest rates have risen over recent weeks, while long-term rates have changed little on balance. An increase in Federal Reserve discount rates from 9-1/2 to 10 percent was announced on July 20.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1-1/2 to 4-1/2 percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would

dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth in M-1 might vary in relation to its range to the extent of any deviation from that estimate. The associated range for bank credit is 7-1/2 to 10-1/2 percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to developing conditions in foreign exchange and domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at attaining a weekly average federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 10-3/4 to 11-1/4 percent. In deciding on the specific objective for the federal funds rate the Manager for Domestic Operations shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the August-September period of M-1 and M-2 and the following ranges of tolerance: 4 to 8 percent for M-1 and 7 to 11 percent for M-2. If rates of growth of M-1 and M-2, given approximately equal weight, appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be beyond the upper or lower limits of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager shall promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

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By unanimous vote, paragraph 2 of the Authorization for Domestic Open Market Operations was amended to read as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank) (a) to lend to the Treasury such amounts of securities held in the System Open Market Account as may be necessary from time to time for the temporary accommodation of the Treasury, under such conditions as the Committee may specify; and (b) to purchase directly from the Treasury for renewable periods not to exceed thirty days, when authorized by the Board of Governors of the Federal Reserve System pursuant to an affirmative vote of not less than five members, for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury, provided that the rate charged on such certificates shall be a rate of 1/4 of 1 percent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases and provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$2 billion.

By unanimous vote, the Committee approved the guidelines for lending securities from the System Open Market Account to the Treasury recommended by FOMC staff in a memorandum dated August 8, 1979, except that the Committee approved a charge for borrowed securities at a rate of 1/8 of 1 percent per annum.

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It was agreed that the next meeting of the Committee would be held on Tuesday, September 18, 1979, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary