FEDERAL RESERVE press release

For Use at 4:30 p.m. April 1, 1983

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on February 8-9, 1983.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting Held on February 8-9, 1983

Domestic policy directive

Preliminary estimates of the Commerce Department indicated that real gross national product had declined at an annual rate of 2-1/2 percent in the fourth quarter of 1982. The decline was the result mainly of a sharp contraction in business inventories; final sales increased appreciably in the quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, rose at an annual rate of about 4-3/4 percent. Over the four quarters of 1982, real GNP declined about 1-1/4 percent, nominal GNP grew about 3-1/4 percent, and the increase in prices on average decelerated sharply to about 4-3/4 percent.

The nominal value of retail sales edged down in December, but rose 3 percent in the fourth quarter as a whole. Retail sales at automotive outlets strengthened considerably in the fourth quarter, and sales at general merchandise and furniture and appliance stores also picked up. Sales of new domestic automobiles were at an annual rate of about 6 million units in the fourth quarter, compared with an average selling pace of about 5-1/2 million units during much of 1982; in January, sales continued at about the fourth-quarter pace.

Private housing starts fell somewhat in December, following a surge in November, but at an annual rate of 1-1/4 million units in the fourth quarter starts were about 45 percent above the cyclical trough of a year earlier. Combined sales of new and existing homes have advanced appreciably in recent months.

Spending for business fixed investment declined substantially further in the fourth quarter to a rate nearly 8-1/2 percent below the recent peak in the fourth quarter of 1981. The decline was concentrated in outlays for durable equipment, but nonresidential construction spending also fell somewhat. According to the Department of Commerce survey taken in November and December, plant and equipment spending would decline about 1-1/4 percent in 1983; taking account of respondents' expectations of inflation, the survey results implied a decline of about 5-1/4 percent in real terms, compared with a decline of 4-3/4 percent in 1982.

Nonfarm payroll employment increased 340,000 in January, after an average monthly decline of about 200,000 in the second half of 1982. Other indicators also suggested improvement in labor markets: in manufacturing, employment edged up for the first time in about a year and a half and the factory workweek increased 0.8 hour to 39.7 hours. However, the January data may have overstated the improvement in labor market conditions because of seasonal adjustment problems. The civilian unemployment rate fell 0.4 percentage point to 10.4 percent, as the civilian labor force declined substantially.

The producer price index for finished goods was about unchanged in December, reflecting a decline in prices of energy-related items and only modest increases in prices of consumer foods and other goods. During 1982 the index rose 3-1/2 percent, about half the pace recorded in 1981. The consumer price index declined 0.3 percent in December, as homeownership costs fell sharply and prices for food and energy declined as well. Over the year the index increased less than 4 percent, compared with a rise of about 9 percent in 1981. Price increases were smaller in 1982 than in 1981 for all major components of the index. The rise in the index of average hourly earnings slowed further in the final months of 1982. Over the year the index rose about 6 percent, compared with an increase of about 8-1/2 percent over 1981.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had declined about 3 percent further from mid-December to about mid-January. Subsequently, the dollar appreciated and was up on balance over the period since the Committee's meeting in December. In the fourth quarter the U.S. merchandise trade deficit was close to the relatively high third-quarter rate. Agricultural exports continued at about the reduced third-quarter rate while a decline in nonagricultural exports was roughly offset by a decline in imports.

In July 1982 the Committee reaffirmed the objectives for monetary growth that it had set in early February for the period from the fourth quarter of 1981 to the fourth quarter of 1982 and also decided tentatively to retain the 1982 target ranges for 1983. Those objectives included ranges of 2-1/2 to 5-1/2 percent for M1, 6 to 9 percent for M2, and 6-1/2 to 9-1/2 percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable and that it would tolerate for some period of time growth somewhat above the target ranges if uncertainties relating to unsettled economic and financial conditions should lead to unusual precautionary demands for money and liquidity.

Actual monetary growth during 1982 was above the Committee's target ranges. M1 grew about 8-1/2 percent on a fourth-quarter to fourth-quarter basis, substantially more than in 1981 and well above the target range. M2 and M3 expanded 9.2 percent and 10.1 percent respectively over the four quarters of 1982, somewhat above the upper limits of their target ranges; prior to certain revisions and redefinitions of M2 and M3 in early 1983, their indicated growth rates for 1982 had been 9.8 percent and 10.3 percent respectively.[1/] Bank credit expanded about 7 percent during the year.

At its meeting on December 20-21, the Committee had decided to seek to maintain expansion in bank reserves consistent with growth of M2 at an annual rate of around 9-1/2 percent and growth of M3 at an annual rate of about 8 percent for the period from December to March. The objective for M2 was designed to allow for a modest amount of growth resulting from shifts into the newly authorized money market deposit accounts (MMDAs) from large-denomination certificates of deposit or market instruments. For both M2 and M3, the Committee

1/ The revised data for the monetary aggregates reflect new benchmarks and revised seasonal factors and some relatively minor changes in definitions of the broader aggregates that were published on February 11, 1983. As redefined, the broader aggregates now include balances in tax-exempt money market mutual funds on the same basis as those in taxable money funds and no longer include balances in individual retirement or Keogh accounts at depository institutions and money market mutual funds.

M1 comprises demand deposits at commercial banks and thrift institutions, currency in circulation, travelers checks, negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at banks and thrift institutions, and credit union share draft accounts. M2 contains M1 and savings and small-denomination time deposits at all depository institutions, money market deposit accounts (MMDAs) at all depository institutions, overnight repurchase agreements (RPs) at commercial banks and retail RPs at all depository institutions, overnight Eurodollars held at foreign branches of U.S. banks by U.S. residents other than banks, and taxable and tax-exempt money market mutual fund shares other than those restricted to institutions. M3 is M2 plus large-denomination time deposits at all depository institutions, large-denomination term RPs at commercial banks and saving and loan associations, and taxable and tax-exempt institution-only money market mutual fund shares.

had noted that greater growth would be acceptable if analysis of incoming data and other evidence from banking and market reports indicated that the new MMDAs were generating more substantial shifts of funds from market instruments into the broader aggregates. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 6 to 10 percent.

On several occasions following the December meeting, the Committee discussed the extraordinarily rapid growth in MMDAs that had taken place since the accounts had become available in mid-December and the implications of that growth for the behavior and interpretation of the monetary aggregates. At the conclusion of a discussion on January 28, 1983, it was the Committee consensus to maintain the existing degree of reserve restraint for the time being but not to increase that restraint further in response to the reported over-target growth of the broader monetary aggregates because that growth appeared to be primarily related to the massive redistribution of funds under way.

M2 grew at an estimated annual rate of about 29 percent in January, following an increase at an annual rate of about 8 percent in December. At this meeting it was reported that MMDAs had grown to more than $210 billion by late January, and available evidence suggested that some of the December increase in M2 and much of the surge in January was related to the associated shifts of funds out of non-M2 assets -- such as market instruments and large-denomination CDs -- into MMDAs. Abstracting from such shifts, which could be calculated only very roughly, the growth of M2 over the December-January period was estimated to have been at a pace that was generally consistent with the Committee's longer-run growth objective for this aggregate. Growth of M3, estimated at annual rates of about 3-1/4 percent in December and 11 percent in January, was much less affected by the introduction of MMDAs, as depository institutions responded to large net inflows of funds in part by allowing their large-denomination certificates of deposit to run off. Growth of M1 remained rapid in January, although the increase was appreciably smaller than the average pace in other recent months. To date, M1 growth appeared to have been little affected on balance by the introduction of MMDAs in mid-December or of Super NOW accounts in early January.

Expansion in total and nonborrowed reserves slowed considerably in January; the slowing reflected the moderation in growth of transaction balances as well as the substantial reduction in required reserves associated with the attrition of large-denomination CDs and shifts out of savings and other time deposits into nonreservable MMDAs. Excess reserves were extraordinarily high around the turn of the year, and also were on the high side around mid-January, reflecting usual year-end pressures and the implementation of two mandated reserve requirement reductions. Also reflecting typical year-end money market churning, adjustment borrowing (including seasonal borrowing) was quite large at the beginning of the year, but it tended to be relatively low thereafter, with the federal funds rate remaining close to the 8-1/2 percent discount rate except for a brief period around year-end.

Interest rates on private short-term market instruments were little changed over the period, while yields on corporate bonds were up about 30 basis points. Yields on most U.S. Treasury bills rose about 35 to 40 basis points, and rates on Treasury notes and bonds increased about 35 to 45 basis points, apparently in response to the substantially increased recent and prospective volume of Treasury financing. The prime rate charged by most commercial banks on short-term business loans was reduced 1/2 percentage point to 11 percent in mid-January. Average rates on new commitments for fixed-rate conventional home mortgage loans at savings and loan associations declined about 1/2 percentage point over the intermeeting period to a level a little above 13 percent.

Total credit at U.S. commercial banks accelerated to an annual rate of about 10-1/2 percent in December and was estimated to have picked up further in January. Banks responded to the strong inflows of funds into MMDAs by purchasing sizable amounts of Treasury and other securities. Banks also expanded their loans somewhat.

Staff projections presented at this meeting suggested that real GNP would turn upward in the first quarter and continue to grow moderately during 1983. The unemployment rate was expected to remain at a high level, while inflation, as measured by the fixed-weight price index for gross domestic business product, was projected to slow somewhat further over the year.

In the Committee's discussion of the economic situation and outlook, members emphasized that signs of an economic recovery had multiplied in recent weeks, and while some question remained about the actual onset of the recovery the members generally agreed that moderate growth in real GNP was a reasonable prospect for 1983 as a whole. The members also believed that economic recovery could be achieved without a resurgence in inflation, partly in light of favorable prospects for productivity growth and for oil prices. The cautionary note was expressed, however, that inflationary expectations, as well as actual prices and wages, would be importantly influenced by federal budgetary developments, and monetary policy also needed to remain clearly oriented toward fostering further progress in containing inflation.

While the outlook for economic activity and prices was generally viewed as favorable, it remained subject to considerable uncertainty. Some members stressed the potential obstacles to a sustained recovery, including the prospect of continuing large federal deficits in the absence of new legislation, the outlook for weak export markets, real interest rates that were still high by historical standards, and the possibility of further disturbances in international and domestic financial markets. On the other hand, a number of members commented that once under way, the recovery might gather momentum and prove to be markedly more vigorous than the staff had projected, with the expansion in 1983 perhaps more in line with the average experience in the first year of previous economic recoveries.

For the period from the fourth quarter of 1982 to the fourth quarter of 1983, the central tendency of the members' projections was for growth in real GNP in a range of 3-1/2 percent to 4-1/2 percent, while the range for all members was from 3-1/4 percent to 5-1/2 percent. The central tendency for the GNP deflator was a range of 4 to 5 percent, and for growth in nominal GNP it was a range of 8 to 9 percent. Projections for the rate of unemployment in the fourth quarter of 1983 ranged from 9-3/4 to 10-1/2 percent, with a central tendency of 9.9 to 10.4 percent. These projections were based on the Committee's objectives for monetary and credit growth established at this meeting, and the members generally assumed that legislative progress would be made over the months ahead in reducing federal deficits in future years.

In reviewing at this meeting the monetary and credit objectives for 1983 that it had tentatively established in July within the framework of the Full Employment and Balanced Growth ("Humphrey-Hawkins") Act of 1978, the Committee recognized that its assessment of appropriate growth targets for implementing broad economic goals was complicated by a number of economic and institutional factors. Members took particular note of the fact that the relationships between monetary and credit growth to income and expenditures had deviated markedly from past patterns during 1982. The deviations in question were reflected in atypical behavior of the income velocity of various measures of money -- the ratio of gross national product to the individual monetary measures -- all of which fell sharply in 1982. To a considerable extent the declines in velocity appeared to be a consequence of strong precautionary demands for monetary assets in a period characterized by economic uncertainties and severe strains in financial markets. In addition, declining short-term market rates in the latter half of the year had encouraged inflows into NOW accounts, which have become an increasingly important component of M1, as the cost of holding such accounts relative to market instruments fell considerably. Late in the year, the authorization by the Depository Institutions Deregulation Committee (DIDC) of new deposit instruments incorporating transaction features and paying interest returns tied to market rates may have been associated with some anticipatory increases in balances at depository institutions. Against the background of sharply declining velocity, the Committee had concluded that rigid adherence to the 1982 targets would have resulted in a much more restrictive policy impact than had been intended.

For 1983 the Committee faced the question of whether underlying relationships between monetary and ultimate economic objectives might still be in the process of changing. Past cyclical expansions had typically been accompanied by sharp increases in velocity, particularly for the narrower measures of money. Developments during 1982 suggested, however, that increases in velocity might be relatively restrained in 1983. Reduced rates of inflation, a markedly lower level of interest rates, and institutional changes characterized by a greater availability of market-related interest rates on transaction accounts could induce larger holdings of monetary assets relative to income than usually occurs during a cyclical upturn. The payment of market rates on the new Super Now account could have an especially pronounced impact on the income velocity of M1 as could the continued attractiveness of regular NOW accounts if short-term market interest rates were to remain near, or fall below, current levels. More generally, movements in M1 could be influenced increasingly by attitudes toward savings as well as by transaction needs as the share of NOW accounts, which have both savings and transaction features, expands in this aggregate. Members recognized that it could take some time before this newly emerging behavior of M1 in relation to GNP became clear. The broader monetary aggregates, too, were being affected by institutional changes, with M2 especially influenced in 1983 by shifts into its MMDA component from market instruments and large-denomination CDs. Moreover, the phased deregulation of interest rate ceilings was undoubtedly changing the cyclical characteristics of the broader aggregates.

The Committee's assessment of appropriate monetary growth ranges was greatly complicated by the massive flows of funds associated with recently introduced deposit instruments, the Super NOW accounts and especially the money market deposit accounts (MMDAs). The extremely rapid buildup of MMDAs since mid-December had resulted in a substantial flow of funds into M2 from market instruments and large-denomination certificates of deposit, which are not included in M2, with the consequence that growth of that aggregate had been greatly inflated over the course of recent weeks. It was anticipated that further redistribution of funds associated with MMDAs and to a lesser extent with Super NOW accounts would continue to influence the behavior of the monetary aggregates to some degree. While uncertainties in predicting flows into these accounts were obviously great, the staff expected those inflows to moderate over the weeks ahead.

In the course of the Committee's discussion, a consensus emerged in favor of setting target ranges for all three measures of money but to depart from past practice in some respects in light of the complexities and uncertainties that were involved. Most of the Committee members agreed that it would be desirable for the time being to place substantial weight on the broader aggregates, M2 and M3. It was expected that, once the bulk of shifts had taken place, the performance of those aggregates in relation to economic activity might be somewhat more predictable than that of M1 during the year ahead, although major uncertainties affected all of the aggregates. Thus the members recognized that an unusual degree of judgment would be required in interpreting the performance of the monetary aggregates as a group. The ongoing appropriateness of the target ranges would need to be judged in the light of evolving economic conditions, including developments in domestic and international financial markets. In this connection a number of members stressed the overriding importance of assuring that monetary performance remained consistent with the basic objectives of fostering sustained economic recovery in a context of continuing progress toward price stability.

After weighing alternative growth ranges for 1983, a majority of the Committee expressed support for retaining the 1982 range for M3 and adopting higher ranges for M2 and M1 than had been targeted in 1982 to allow for ongoing institutional changes. The preferred range for M3 was therefore 6-1/2 percent to 9-1/2 percent on a fourth-quarter 1982 to fourth-quarter 1983 basis. In favoring this range, which contemplated growth below the actual outcome for 1982, Committee members assumed that M3 would not be greatly affected on balance by shifts of funds associated with the new deposit accounts. Depository institutions had the option, which many had already exercised in recent weeks, of reducing their issuance of large-denomination certificates of deposit if sizable inflows of MMDAs and other core deposits satisfied their need for funds.

For M2 majority sentiment centered on a range of 7 to 10 percent and the use of a February-March 1983 base period in the expectation that the latter would minimize distortions stemming from the highly aggressive marketing of MMDAs in the weeks since their mid-December introduction. The members assumed that the bulk of the MMDA-generated shifts into M2 from assets not included in that aggregate would be accomplished by March. The range did, however, allow for some modest future asset shifts into M2. Thus, while the new 7 to 10 percent range was above its 1982 counterpart, it was judged in practical effect to represent about the same or slightly lower growth over the balance of the year, after abstracting from the further anticipated shifts of funds into M2. Moreover, given the growth experienced in 1982, an actual outcome within the target range implied slower effective growth in 1983.

Committee members' views varied considerably on the weight to attach to M1 -- which had been given much less emphasis as a target beginning in the fourth quarter of last year when its behavior was distorted by maturing all-savers certificates and preparation for the introduction of new depository accounts -- and some members questioned the desirability of adopting an M1 target at this time. More generally, the performance of that aggregate had been subject over the past year or more to substantial uncertainties related to the growing role of NOW accounts and an apparent shift in the behavior of its income velocity. Against that background, a majority of the members supported setting an M1 target with a relatively wide range for 1983 as a whole, and most members found acceptable a proposal to establish a specific range of 4 to 8 percent. The comparatively wide range for M1 reflected allowance for some possible change in its cyclical behavior as well as for its evolving character as an increasingly important vehicle for savings, especially in an environment of reduced inflation and interest rates. Only modest allowance was made for the possibility that the new Super NOW accounts would draw funds into M1 from other sources. It was understood that the target for M1 would have to be reassessed if the DIDC should extend the authority of depository institutions to pay market rates on transaction balances held by business firms.

It was agreed that the behavior of M1 would be monitored and that the degree of emphasis to be placed on that aggregate as the year progressed would depend on evidence about whether the behavior of the velocity of M1 was becoming more predictable and beginning to show its usual cyclical characteristics. Over the year, growth in the lower part of the range would be appropriate if velocity rose strongly, as had usually been the case during recoveries. An outcome near the upper end would be appropriate if velocity did not rebound sharply from the declines in 1982 and tended to stabilize close to current levels.

In addition to the specification of monetary growth targets, the members agreed on the desirability of indicating for the first time the Committee's expectations with respect to the growth of total debt of domestic nonfinancial sectors during 1983 and a consensus was expressed for a growth range of 8-1/2 to 11-1/2 percent for that variable. A consistent range for growth in bank credit, which the Committee had associated with its monetary targets in previous years, was judged to be 6 to 9 percent, unchanged from the range in 1982. The new range for total credit encompassed growth about in line with expected growth of nominal GNP in accordance with longer-term trends, but the Committee recognized that in the particular circumstances likely to prevail in 1983, growth in the upper part of the range might occur. It was observed that data for such a broad credit aggregate were not currently available on a monthly basis, and that the Committee did not have the tools to exert close influence over total flows of credit. However, the Committee intended to monitor total debt flows closely for whatever information they could provide in assessing appropriate responses to developments in the targeted monetary aggregates.

Given the uncertainties and complexities involved in setting monetary growth targets for 1983, the members anticipated the need for reviewing those targets during the spring and possibly altering them in light of the accumulated evidence available at that time regarding the behavior of the aggregates and their relationship to other economic variables. Policy implementation in 1983 would in fact require a continuing reassessment of the performance of the monetary and credit aggregates, particularly in the aftermath of the unusual behavior of income velocities in 1982. Such reassessment would involve taking account of patterns of saving behavior and cash management among businesses and households, and of indications of changing conditions in domestic and international credit markets and in foreign exchange markets.

At the conclusion of its discussion, the Committee adopted the following:

> The information reviewed at this meeting indicates that real GNP declined in the fourth quarter because of a sharp reduction in business inventories. Final sales increased appreciably, and the rise in prices remained much less rapid than in 1981. Retail sales and housing activity have strengthened in recent months, but business fixed investment has weakened further. Nonfarm payroll employment rose in January, after an extended period of declines, and the civilian unemployment rate fell 0.4 percentage point to 10.4 percent. In recent months the advance in the index of average hourly earnings has slowed further.
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> The weighted average value of the dollar against major foreign currencies depreciated moderately further from mid-December to mid-January, but a subsequent appreciation has more than offset that decline. In the fourth quarter the U.S. merchandise trade deficit was close to the relatively high third-quarter rate.
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> Growth of M2 surged to an extraordinary pace in January, apparently reflecting shifts of funds into recently authorized money market deposit accounts. Growth of M3 accelerated, following very slow expansion in December. Growth of M1 remained rapid in January, although it was down appreciably from the average pace in other recent months. Market interest rates on U.S. Treasury obligations have risen somewhat since the latter part of December, while rates on most private market instruments are about unchanged to slightly higher. Mortgage rates have declined further.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In establishing growth ranges for monetary and credit aggregates for 1983 in furtherance of these objectives, the Committee recognized that the relationships between such ranges and ultimate economic goals have been less predictable over the past year; that the current impact of new deposit accounts on growth rates of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts, declining inflation, and lower market rates of interest may be reflected in some changes in the historical trends in velocity. A substantial shift of funds into M2 from market instruments, including large certificates of deposit not included in M2, in association with the extraordinarily rapid build-up of money market deposit accounts has distorted growth in that aggregate during the current quarter.

In establishing growth ranges for the aggregates for 1983 against this background, the Committee felt that growth in M2 might be more appropriately measured after the period of highly aggressive marketing of money market deposit accounts has subsided. The Committee also felt that a somewhat wider range was appropriate for monitoring M1. Those growth ranges will be reviewed in the spring and altered, if appropriate, in the light of evidence at that time.

With these understandings, the Committee established the following growth ranges: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2, taking into account the probability of some residual shifting into that aggregate from non-M2 sources; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6-1/2 to 9-1/2 percent for M3, which appears to be less distorted by the new accounts. For the same period a tentative range of 4 to 8 percent has been established for M1, assuming that Super Now accounts draw only modest amounts of funds from sources outside M1 and assuming that the authority to pay interest on transaction balances is not extended beyond presently eligible accounts. An associated range of growth for total domestic nonfinancial debt has been estimated at 8-1/2 to 11-1/2 percent.

In implementing monetary policy, the Committee agreed that substantial weight would be placed on behavior of the broader monetary aggregates, expecting that current distortions in M2 from the initial adjustment to the new deposit accounts will abate. The behavior of M1 will be monitored, with the degree of weight placed on that aggregate over time dependent on evidence that velocity characteristics are resuming more predictable patterns. Debt expansion, while not directly targeted, will be evaluated in judging responses to the monetary aggregates. The Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

Votes for this action: Messrs. Volcker, Solomon, Balles, Gramley, Martin, Partee, Rice, and Mrs. Teeters. Votes against this action: Messrs. Black, Ford, Mrs. Horn, and Mr. Wallich.

Mr. Black and Mrs. Horn dissented from this action because they preferred to give more weight to M1 as a policy objective. While recognizing the difficulties in interpreting M1 currently, they believed that over time M1 was more reliably related to the Committee's ultimate economic objectives than were the broader aggregates and that it constituted a better basis for setting appropriate paths for reserve growth. They also favored reemphasizing M1 because they viewed it as a more controllable aggregate. In addition, Mr. Black indicated that he saw a need for lower target ranges, but he wanted to reduce monetary expansion gradually to avert dislocative effects.

Mr. Ford dissented because he believed that policy should focus more firmly on implementing noninflationary growth via a smaller number of monetary targets. He also saw an urgent need to begin gradually reducing the rate of monetary growth in light of its inflationary potential, particularly when complemented by highly stimulative fiscal policy. He felt strongly that this combination of policies ran the risk of triggering another short-lived recovery that might be aborted in 1984 by a private credit shortage and the return of high inflation and interest rates.

Mr. Wallich favored somewhat lower monetary growth ranges for 1983 which in his view would be more consistent with the objectives of fostering economic recovery while minimizing the risks of stimulating inflation.

In their discussion of policy for the weeks immediately ahead, Committee members were generally in favor of maintaining the existing degree of restraint on reserve positions. Reference was made to an analysis which indicated that the current degree of restraint was likely to be associated with a slowing in the growth rates of the various monetary aggregates, although M2 growth would probably remain relatively rapid. The members agreed that the near-term outlook for growth in the monetary aggregates remained subject to unusual uncertainties, and an appropriate assessment of such growth would need to take account of distortions that might continue to be created by the introduction of new deposit accounts. If after adjustment for such distortions monetary growth were to slow appreciably over the weeks ahead and the monetary aggregates appeared to be growing at rates in line with or below the paths implied by the Committee's ranges for the year, most of the members indicated that they would find a reduced degree of reserve restraint acceptable. With regard to the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, the members favored retention of the current range of 6 to 10 percent.

At the conclusion of the Committee's discussion, the following short-run operational paragraph of the domestic policy directive was approved and issued to the Federal Reserve Bank of New York:

> For the more immediate future, the Committee seeks to maintain the existing degree of restraint on reserve positions. Lesser restraint would be acceptable in the context of appreciable slowing of growth in the monetary aggregates to or below the paths implied by the long-term ranges, taking account of the distortions relating to the introduction of new accounts. 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 6 to 10 percent.

> Votes for this action: Messrs. Volcker, Solomon, Black, Balles, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Ford.

Mr. Ford dissented from this action because he believed that policy should be directed more firmly toward gradually reducing monetary growth in the period immediately ahead. He was concerned that continued monetary expansion at recent rapid rates would restimulate inflation and threaten the sustainability of the economic recovery, especially against the backdrop of a very expansionary fiscal policy.