

Meeting of the Federal Open Market Committee

March 26-27, 1984

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 Monday, March 26, 1984 at 2:00 p.m., and continuing on Tuesday, March 27, 1984 at 12:00 p.m.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Boehne
Mr. Boykin
Mr. Corrigan
Mr. Gramley
Mrs. Horn
Mr. Martin
Mr. Partee
Mr. Rice
Mrs. Teeters
Mr. Wallich

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

Messrs. Guffey, Morris, and Roberts, Presidents of the Federal Reserve Banks of Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director and Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, 1/ Deputy Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Oltman, 1/ Deputy General Counsel
Mr. Kichline, Economist
Mr. Truman, Economist (International)

Messrs. Burns, 1/ J. Davis, 1/ R. Davis, 1/ Kohn, 1/ Lindsey, 1/ Prell, 1/ Siegman, 1/ Stern, 1/ and Zeisel, 1/ Associate Economists

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

1/ Attended Monday session and Tuesday session before action to adopt domestic policy directive.

Mr. Coyne, Assistant to the Board of Governors
 Mr. Roberts, Assistant to the Chairman, Board of Governors
 Mr. Gemmill,1/ Senior Associate Director, Division of
 International Finance, Board of Governors
 Mrs. Low, Open Market Secretariat Assistant,
 Board of Governors

Messrs. Balbach,1/ T. Davis,1/ Eisenmenger,1/ Ms. Greene,
 Messrs. Keran,1/ Mullineaux,1/ and Scheld,1/ Senior
 Vice Presidents, Federal Reserve Banks of St. Louis,
 Kansas City, Boston, New York, San Francisco,
 Philadelphia, and Chicago, respectively

Mr. Broaddus,1/ Vice President, Federal Reserve Bank of
 Richmond

Ms. Clarkin,1/ Assistant Vice President, Federal Reserve
 Bank of New York

Mr. Keleher,1/ Research Officer, Federal Reserve Bank of
 Atlanta

In the agenda for this meeting, it was reported that advices of the election of the following members and alternate members of the Federal Open Market Committee for the year commencing March 1, 1984, had been received by the Secretary and the named individuals had executed their oaths of office.

The elected members and alternate members were as follows:

Anthony M. Solomon, President of the Federal Reserve Bank of New York, with Thomas M. Timlen, First Vice President of the Federal Reserve Bank of New York, as alternate;

Edward G. Boehne, President of the Federal Reserve Bank of Philadelphia, with Robert P. Black, President of the Federal Reserve Bank of Richmond, as alternate;

Karen N. Horn, President of the Federal Reserve Bank of Cleveland, with Silas Keehn, President of the Federal Reserve Bank of Chicago, as alternate;

Robert H. Boykin, President of the Federal Reserve Bank of Dallas, with Robert P. Forrestal, President of the Federal Reserve Bank of Atlanta, as alternate;

E. Gerald Corrigan, President of the Federal Reserve Bank of Minneapolis, with John J. Balles, President of the Federal Reserve Bank of San Francisco, as alternate.

1/ Attended Monday session and Tuesday session before action to adopt the domestic policy directive.

By unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1985, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

| | |
|--|------------------------------|
| Paul A. Volcker | Chairman |
| Anthony M. Solomon | Vice Chairman |
| Stephen H. Axilrod | Staff Director and Secretary |
| Normand R. V. Bernard | Assistant Secretary |
| Nancy M. Steele | Deputy Assistant Secretary |
| Michael Bradfield | General Counsel |
| James H. Oltman | Deputy General Counsel |
| James L. Kichline | Economist |
| Edwin M. Truman | Economist (International) |
| Joseph E. Burns, John M. Davis, Richard G. Davis, Donald L. Kohn, Richard W. Lang, David E. Lindsey, Michael J. Prell, Charles J. Siegman, Gary H. Stern, and Joseph S. Zeisel | Associate Economists |

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Federal Open Market Committee after February 28, 1985.

By unanimous vote, Peter D. Sternlight and Sam Y. Cross 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 selections indicated above were satisfactory to the Federal Reserve Bank of New York.

Consideration was then given to the continuing authorizations of the Committee, in accordance with the customary practice of reviewing such matters at the first meeting in March of every year.

Secretary's note: On March 7, 1984, certain continuing authorizations of the Committee, listed below, had been distributed by the Secretary with the advice that, in accordance with procedures approved by the Committee, they were being called to the Committee's attention before the March organization meeting to give members an opportunity to raise any questions they had concerning them. Members were asked to so indicate if they wished to have any of the authorizations in question placed on the agenda for consideration at this meeting, and no such requests were received.

The authorizations in question were as follows:

1. Procedures for allocation of securities in the System Open Market Account.
2. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank is unable to function.
3. Resolutions providing for continued operations of the Committee and for certain actions by the Reserve Banks during an emergency.
4. Resolution relating to examinations of the System Open Market Account.
5. Guidelines for the conduct of System operations in Federal agency issues.
6. Regulation relating to Open Market Operations of Federal Reserve Banks.
7. Rules of Organization, Rules Regarding Availability of Information, and Rules of Procedure.

By unanimous vote the Authorization for Foreign Currency Operations shown below was reaffirmed:

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS
Reaffirmed March 26, 1984

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U. S. Treasury, with the U. S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding \$8.0 billion. For this purpose, the overall open position in all

foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

| <u>Foreign bank</u> | <u>Amount of arrangement (millions of dollars equivalent)</u> |
|---|---|
| Austrian National Bank | 250 |
| National Bank of Belgium | 1,000 |
| Bank of Canada | 2,000 |
| National Bank of Denmark | 250 |
| Bank of England | 3,000 |
| Bank of France | 2,000 |
| German Federal Bank | 6,000 |
| Bank of Italy | 3,000 |
| Bank of Japan | 5,000 |
| Bank of Mexico | 700 |
| Netherlands Bank | 500 |
| Bank of Norway | 250 |
| Bank of Sweden | 300 |
| Swiss National Bank | 4,000 |
| Bank for International Settlements: | |
| Dollars against Swiss francs | 600 |
| Dollars against authorized European currencies other than Swiss francs | 1,250 |

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment

return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U. S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

By unanimous vote, the Foreign Currency Directive shown below was reaffirmed:

FOREIGN CURRENCY DIRECTIVE
Reaffirmed March 26, 1984

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U. S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities;
and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

By unanimous vote, the Procedural Instructions with respect to Foreign Currency Operations shown below were reaffirmed:

PROCEDURAL INSTRUCTIONS WITH RESPECT TO
FOREIGN CURRENCY OPERATIONS

Reaffirmed March 26, 1984

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 that 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 that 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 that 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 that 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 Authorization for Domestic Open Market Operations shown below was reaffirmed:

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS
Reaffirmed March 26, 1984

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U. S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U. S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U. S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than \$4.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of

goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed \$100 million;

(c) To buy U. S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U. S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U. S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U. S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

By unanimous vote, the Committee reaffirmed the agreement of January 17, 1977, to "warehouse" foreign currencies for the Exchange Stabilization Fund and for the Treasury on the terms agreed upon by the Committee at its meeting on March 18, 1980, with the understanding that the agreement would be subject to annual review.

By unanimous vote, the Committee agreed to discontinue use of repurchase agreements on bankers' acceptances in conducting open market operations. The effective date of this action is July 2, 1984.

By unanimous vote, the Committee adopted a program for safeguarding confidential FOMC information.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on January 30-31, 1984, were approved.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended to raise from \$4 billion to \$6 billion the dollar limit on intermeeting changes in System account holdings of U.S. government and federal agency securities effective March 28 through the close of business on May 22, 1984.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period January 31 through March 26, 1984, were ratified.

Secretary's Note: All of the above actions were taken on Monday, March 26, 1984.

By unanimous vote, 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 indicates that growth in real GNP has accelerated markedly in the current quarter and suggests that demand for goods and services may remain relatively strong in the months ahead. In January and February, industrial production rose at a considerably faster pace than in the fourth quarter, and gains in nonfarm payroll employment were large over the two-month period. The civilian unemployment rate declined 0.2 percentage point each month to 7.8 percent in February. Retail sales grew at an exceptional pace in January and changed little in February. Housing starts rose substantially in both months to the highest rate in several years. Information on outlays and spending plans generally suggests continuing strength in business fixed investment. Prices rose somewhat faster in early 1984 than in the fourth quarter, with increases concentrated in the food sector. The index of average hourly earnings rose only slightly over the first two months of the year, although total compensation costs appear to have increased more rapidly.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies declined considerably from the end of January through the first week of March, but part of that decline was retraced more recently. The merchandise trade deficit rose sharply in January, mainly because of larger non-oil imports.

Data available through mid-March indicate that M1 and M3 have expanded somewhat more rapidly than anticipated at the previous meeting; since the fourth quarter of 1983, M1 and M3 are tentatively estimated to have grown at rates close to the upper limits of the Committee's ranges for 1984. Growth in M2 appears to have been less rapid than previously expected and was estimated to be at a rate in the lower part of its longer-run range. In January and February, growth of total domestic nonfinancial debt apparently rose at a pace substantially above the Committee's monitoring range for the year, and bank credit continued to expand at a relatively rapid rate. Interest rates have risen considerably since late January.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote growth in output on a sustainable basis, and contribute to an improved

pattern of international transactions. The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run the Committee seeks to maintain pressures on bank reserve positions judged to be consistent with growth in M1, M2, and M3 at annual rates of around 6-1/2, 8, and 8-1/2 percent, respectively, during the period from March to June. Greater reserve restraint would be acceptable in the event of more substantial growth of the monetary aggregates, while somewhat lesser restraint might be acceptable if growth of the monetary aggregates slowed significantly; in either case, such a change would be considered in the context of appraisals of the continuing strength of the business expansion, inflationary pressures and the rate of credit growth.

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 7-1/2 to 11-1/2 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, May 22, 1984.

The meeting adjourned.

Secretary's Note: On April 18, 1984, by unanimous vote, Committee members approved an additional increase of \$1 billion, to \$7 billion, in the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on May 22, 1984.

Secretary