FEDERAL RESERVE press release

For Use at 4:30 p.m. April 4, 1986

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 11-12, 1986.

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 11-12, 1986

Domestic policy directive

The information reviewed at this meeting suggested that economic activity was expanding at a moderate pace. A number of major indicators of production and spending had shown improvement in late 1985 and early 1986. Underlying inflationary pressures appeared to be generally well contained. Prices in the latter part of the year were boosted by developments in markets for food and energy, but oil prices declined substantially in early 1986.

The labor market, one of the few areas for which data for early 1986 were available at the time of this meeting, showed exceptional strength in January. Total nonfarm payroll employment rose 566,000 -- about twice the average monthly increase in the fourth quarter of 1985 -- and the unemployment rate declined to 6.7 percent, its lowest rate in six years. Hiring remained brisk at trade establishments and in finance and service industries, with those sectors accounting for about two-thirds of the rise. Employment gains in the construction industry were also strong, apparently due in part to unusually good weather throughout most of the country during the month. In the manufacturing sector, employment increased for the fourth consecutive month, and the average number of hours in the factory workweek remained at a high level.

The index of industrial production rose an estimated 0.7 percent further in December, after no change on balance over the preceding two months. Available information for January suggested some additional rise in that month. The index of capacity utilization for total industry rose in December for the second consecutive month, increasing 0.4 percentage point to 80.5 percent. Nevertheless, the year-end rate remained below the most recent peak of 82.0 percent recorded in the summer of 1984.

Total retail sales rose 1.9 percent in December, after having declined on balance over the previous two months. Sales increased for all major categories, but most of the rise was attributable to sizable gains in outlays for durable goods. Boosted by an expanded round of financing incentive programs, sales of domestic automobiles registered a strong rebound toward the end of December and were at an annual rate of 7.9 million units for the month as a whole -- about 1-1/2 million units above the rate in each of the preceding two months. Sales advanced further in January to a rate of 8.6 million units.

Total private housing starts rose sharply in December, more than offsetting the appreciable decline in the previous month, and newly issued permits for residential building also increased substantially. The strength in housing activity during the month was apparent in both the single-family and the multifamily sectors. For the fourth quarter as a whole, both housing starts and permits were at annual rates of nearly 1-3/4 million units -- close to the pace recorded in earlier quarters and for the year 1985. Sales of new homes improved a bit around year-end, and sales of existing homes in the final quarter of 1985 registered their fifth consecutive quarterly increase.

Business capital spending strengthened somewhat in the fourth quarter. Growth in expenditures for producers' durable equipment was especially rapid, possibly reflecting firms' attempts to realize tax benefits that might be eliminated for equipment installed after 1985. New orders for nondefense capital goods grew appreciably in December but were essentially flat over the fourth quarter as a whole. Shipments of such goods, however, rose about 3-1/2 percent in the quarter. Outlays for nonresidential construction rose about 5 percent in December after having changed little on balance since August.

In the final months of 1985, the rates of increase in consumer and producer prices were somewhat higher than in the spring and summer, reflecting mainly what appeared to be a temporary spurt in prices for food and energy-related items. In the agricultural component, prices of domestically produced crude foods had leveled off in December and apparently fell in January. In the energy sector, prices of crude oil and other petroleum products tumbled dramatically in early 1986, and the effects of these declines were likely to show through at the consumer level in coming months. Excluding the food and energy sectors, consumer prices rose in November and December at a pace close to that for the year as a whole, and producer prices changed little on balance over the two-month period. For the year 1985 consumer prices rose about 3-3/4 percent, compared with 4 percent in 1984; producer prices rose about 1-3/4 percent in both years. The index of average hourly earnings of nonfarm production workers increased 3 percent last year, about the same as in 1984.

The trade-weighted value of the dollar against major foreign currencies had declined about 4 percent further since the Committee's meeting in mid-December. Throughout the period, and particularly around the time of the January meeting of the G-5 countries, exchange market movements reflected varying assessments of official attitudes toward the dollar and differing views about the likely effects of sharply declining oil prices on various industrial and developing countries. Preliminary data on merchandise trade for the fourth quarter suggested that the deficit widened further from the already high third-quarter level. Both oil and non-oil imports rose, and exports were little changed. For the year 1985 the deficit was estimated at about $120 billion, up from $107 billion in 1984.

At its meeting on December 16-17, 1985, the Committee had adopted a directive that called for some limited decrease in the degree of pressure on reserve positions. The members expected such an approach to policy implementation to be consistent with growth of M2 and M3 at annual rates of about 6 to 8 percent over the period from November to March. Although the behavior of M1 continued to be subject to unusual uncertainty, the members expected expansion of that aggregate to slow to an annual rate of 7 to 9 percent over the four-month period. It was agreed that somewhat greater restraint might, and somewhat lesser restraint would, be acceptable over the intermeeting period, depending on the growth of the monetary aggregates, the strength of the business expansion, the performance of the dollar on foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

With respect to the Committee's longer-run ranges for monetary growth during 1985, M1 expanded at a rate well above the range of 3 to

8 percent, at an annual rate, set for the second half of the year; M2 grew at a rate somewhat below the upper end of its range of 6 to 9 percent for the year; and M3 expanded at a rate near the midpoint of its range of 6 to 9-1/2 percent for 1985. Expansion in total domestic nonfinancial debt was above the upper end of its monitoring range of 9 to 12 percent for the year. In early 1986, there was evidence of a marked overall slowing in the monetary aggregates. M1, which had increased at an annual rate of about 12-1/2 percent in December, grew only a little in January; on average over the two months, expansion in M1 was running near the lower end of the short-run range anticipated by the Committee at its previous meeting. M2, which had expanded moderately in December, decelerated markedly in January, reflecting both the slowdown in M1 and quite low growth in its nontransactions component. Expansion in M3 picked up somewhat in January as banks issued a substantial volume of large time deposits to support a further robust increase in bank credit; its growth over the two-month period was in line with the Committee's expectations.

Open market operations during the intermeeting period were directed toward achieving a slight decrease in pressures on reserve positions. Seasonal plus adjustment borrowing from the discount window, while rising sharply around year-end when excess reserves were particularly large, averaged only about $260 million during the two full maintenance periods ending in January. Open market operations were undertaken in an environment of large seasonal fluctuations in reserve needs, unusually high Treasury balances, a weakening tendency for the dollar in foreign exchange markets, incoming economic data that were somewhat stronger than had generally been anticipated and, as the period progressed, sharp further declines in oil prices. Under these conditions the federal funds rate generally hovered around the 8 percent level during much of the intermeeting interval and was considerably above that level for a few days around year-end. More recently, the rate moved down to a range of 7-3/4 to 7-7/8 percent. Other short-term rates rose a little over the period, and intermediate- and long-term rates were unchanged to somewhat lower.

The staff projections presented at this meeting suggested that economic activity and employment would be somewhat stronger over the near term than had been anticipated at the time of the previous meeting. For the year 1985, the third successive year of economic expansion, real GNP was estimated to have increased about 2-1/2 percent, and broad measures of inflation generally had risen at rates of around 3-1/2 to 3-3/4 percent -- close to, or somewhat below, those recorded in the preceding two years. Real GNP was expected to grow a little more this year than in 1985 and the average unemployment rate was projected to decline somewhat from the rate recorded last year. The rate of increase in prices over the coming year was expected to be little changed from that experienced in 1985. It was noted, however, that the sharp further declines in oil prices in the days before this meeting had not been incorporated in the projections.

In the Committee's discussion of the economic situation and outlook the members differed somewhat in their assessments of the prospects for business activity, but they generally agreed that further expansion at a somewhat faster pace than in 1985 was a reasonable expectation for 1986.

At the same time, several members commented that the outlook remained subject to substantial uncertainties. Changes in the international prices of crude oil were so large and so recent that they were particularly difficult to evaluate. Members also referred to uncertainties surrounding prospects for fiscal policy stemming from the legal challenge to the Gramm-Rudman-Hollings legislation, the problems for business investors associated with pending tax reform legislation, and the difficulties of predicting and assessing changes in the foreign exchange value of the dollar.

While they recognized the limitations of any forecasts under present circumstances, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members presented at this meeting specific projections of economic activity, average prices, and the rate of unemployment. For the period from the fourth quarter of 1985 to the fourth quarter of 1986, forecasts for growth of real GNP centered on a range of 3 to 3-1/2 percent, with a full range of 2-3/4 to 4-1/4 percent. Forecasts of growth in nominal GNP had a central tendency of 6-1/2 to 7-1/4 percent and an overall range of 5 to 8-1/2 percent. With regard to the rate of inflation, as indexed by the GNP deflator, the projections centered on rates of 3 to 4 percent and the range was 2-1/2 to 4-1/2 percent. Estimates of the rate of unemployment in the fourth quarter of 1986 varied from about 6-1/4 to 6-3/4 percent, with several in the area of 6-1/2 percent. These forecasts were based on the Committee's objectives for growth in money and credit that were established at this meeting. It was also assumed that federal budget deficits would be on a declining trend and that the foreign exchange value of the dollar would not change enough after its substantial fall during 1985 to exert a significant further impact on economic activity and prices during 1986.

In the course of the Committee's discussion, members referred to the recent improvement in several key indicators of business activity. In themselves these indicators augured well for continuing economic growth over the year ahead. On the other hand some members commented that the current and prospective performance of several important sectors of the economy -- such as agriculture and business fixed investment -- did not suggest a strengthening expansion. However, the actual performance of those sectors among others would be influenced to an important extent by a number of broad, overriding factors.

Among the positive factors cited by the members were the recent decline in oil prices, lower interest rates, and higher stock prices. These developments generally had favorable implications for consumer spending, housing, and many types of business investment. Some members also referred to the rapid growth in M1 and to the ample availability of liquidity as factors that would tend to support the expansion over the year ahead. The decline in the foreign exchange value of the dollar, while exerting upward pressures on prices, was seen as another positive development in terms of its impact on economic activity, although views differed considerably with regard to the timing and extent of that impact.

On the negative side, members mentioned the downside risks inherent in the debt problems faced by many consumers and a number of industries, including agriculture, and the associated financial strains on some of their institutional lenders. The recent decline in oil prices, while a favorable development in terms of its overall impact on the economy, nonetheless had negative consequences for energy producers and therefore for important parts of the country. Several members also stressed the adverse repercussions of lower oil prices on a number of developing countries that were heavily dependent on oil exports to service their large debts to international lending institutions, including major U.S. banks.

The fiscal policy outlook, despite current legal complications, was seen as pointing to declining budgetary deficits. Members commented that the better prospects for action on the federal budget had already helped to reduce inflationary expectations and had exerted a quite favorable impact on domestic financial markets. The actual implementation of deficit-reducing measures -- in terms of their direct effects on government spending -- would tend to restrain the growth of income and economic activity. However, those effects might well be offset, at least in part, by increased private spending that would tend to be stimulated by downward adjustments in interest rates as markets anticipated or responded to reduced federal credit demands.

In their discussion of the outlook for inflation, the members expressed somewhat differing views. These ranged from expectations of little change, or perhaps some improvement, from the recent trend to the anticipation of some deterioration. In the context of the sizable decline in unemployment and poor productivity performance, some members commented that the economy's growth potential might be more limited than they had thought earlier and that relatively rapid business expansion might at some point, though not over the quarters immediately ahead, be associated with increasing inflationary pressures. Other members, while also troubled by productivity trends, nonetheless felt that the rate of unemployment was still sufficiently high and capacity utilization rates sufficiently low to rule out such a concern for the conduct of policy for the time being. Views also differed in emphasis with regard to the inflationary impact of the decline in the foreign exchange value of the dollar. The depreciation of the dollar, especially if it were to continue substantially further, could involve significant upward pressures on import prices at some point. Some members emphasized their view that the inflationary impact of the dollar decline would be greatly dampened by efforts of foreign business firms to retain market shares. Others, while recognizing that the effects of the dollar's decline could be delayed and in the short run offset by reduced oil prices, felt that the inflationary potential would be significant over time, depending in part on other economic policy developments. The members generally agreed that, in addition to oil price and federal budgetary developments, the strong price competition in many markets and restrained labor settlements were factors currently tending to curb inflationary pressures.

At this meeting the Committee reviewed the 1986 growth ranges for the monetary and credit aggregates that it had tentatively set in July 1985 within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act). Those tentative ranges included growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986, of 4 to 7 percent for M1 and 6 to 9 percent for both M2 and M3. The associated range for total domestic nonfinancial debt had been provisionally set at 8 to 11 percent for 1986.

Discussion of the tentative range for M1 focused on its appropriate width and level in light of the economic and financial circumstances that appeared to be in prospect for the year ahead and on its unusual behavior in recent years. While the members expressed some differing preferences regarding an appropriate range for M1, the differences were not very large. All of the members contemplated a marked slowing in M1 growth from that experienced in 1985 as a likely development despite their expectations of some pickup in the expansion of nominal GNP. Nonetheless, the members gave considerable emphasis to the uncertainties that continued to surround the outlook for the velocity of M1 -- the relationship between M1 and GNP. The sharp decline in M1 velocity during 1985 was unexpected although after the fact it could be explained to a considerable extent, though not entirely, by historical relationships of money to income and interest rates. Still, the changing composition of M1, involving a growing share of interest-bearing components, had increased the proportion of M1 that served both a transaction and a savings function and appeared to have made the behavior of this aggregate less predictable in comparison to earlier experience. Moreover, demand deposits had grown much more in 1985 than might have been anticipated and it was not clear whether that growth reflected more cautious cash management practices on the part of businesses or other perhaps transitory factors.

In the view of most, but not all, of the members it was desirable to widen the tentative M1 range in order to take account of the uncertainty in the relationship between M1 and economic activity and prices, but in general the suggested ranges involved approximately the same midpoints. The upper limits that were proposed generally assumed there would not be as large a drop in velocity this year as had occurred in 1985. But it was noted that in the absence of some reversal in the sharp 1985 drop in M1 velocity, growth toward the upper end of the range might well prove to be consistent with satisfactory economic performance. It might even be appropriate for M1 to run above the upper bound of its range should recent velocity trends persist. On the other hand, more moderate growth in M1 could be indicated to the extent that its velocity proved to be stronger than expected. In general, there was agreement that the behavior of M1 should be evaluated in light of its consistency with M2 and M3 and also in the context of broader economic and financial developments and the potential for inflationary pressures.

With regard to the broader monetary aggregates, the members indicated that the tentative ranges established in July for 1986 were still appropriate. Growth last year was generally in line with expectations, and on balance over the past few years, the behavior of M2 and M3 seemed to have been less affected than M1 by institutional and interest rate changes. In part that development reflected the fact that the broader aggregates include an array of deposit and money market instruments that often exhibit offsetting movements.

In the course of the Committee's discussion, consideration was given to the appropriate degree of emphasis to be given to M1 in policy implementation, at least until there was more evidence that the behavior of M1 velocity could be anticipated with a greater degree of confidence. Most of the members felt that the Committee's current procedures remained appropriate, taking account of the considerations underlying the range adopted and its interpretation. Some emphasized that M1 was likely to prove again to be a more useful guide for policy implementation in a variety of potential economic settings. One member commented that over time M1 would probably serve as a better indicator of future GNP than the broader measures of money. Alternatively, it was suggested that while M1 might have become a less reliable guide, at least under recently prevailing circumstances, it continued to have significant value as a policy indicator when considered in the context of the behavior of the broader aggregates. Collectively, the aggregates used by the Committee appeared to have more significance than any one of them viewed separately.

With respect to the monitoring range for total domestic nonfinancial debt, a majority of the members favored adopting the range of 8 to 11 percent for 1986 that had been tentatively established in July. A number of other members preferred somewhat higher ranges in the expectation that debt expansion, while decreasing from its actual pace in 1985, might still be around -- or perhaps a bit above -- the upper limit of the tentative range. In the course of the discussion, it was suggested that the Committee drop its monitoring range for debt, perhaps substituting another measure such as total liquid assets. It was pointed out, among other things, that the debt aggregate was subject to serious measurement problems, including a large amount of double counting -- related for example to financial activities such as advance refundings and mortgage financing by state and local governments -- and distortions arising from an extraordinary pace of share retirements financed by borrowing. It was also noted that the debt measure had been deviating substantially in recent years from past historical relationships to GNP.

A majority of the members, while acknowledging the difficulties with this aggregate and agreeing that further study was needed, continued to feel that it served as a useful benchmark for evaluating the growth of debt in the economy and that its behavior should continue to be monitored, particularly in light of the Committee's concern about the increasing debt burden in the economy.

At the conclusion of the Committee's consideration of the long-run ranges, all of the members indicated that they favored or found acceptable monetary growth ranges for 1986 of 3 to 8 percent for M1 and 6 to 9 percent for both M2 and M3. A monitoring range of 8 to 11 percent was also accepted for total domestic nonfinancial debt. In keeping with the Committee's usual procedures under the Humphrey-Hawkins Act, the ranges would be reviewed at mid-year, or sooner if deemed necessary, in the light of their behavior in relation to economic and financial developments.

The following paragraph relating to the long-run ranges was approved for the domestic policy directive:

> 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. In furtherance of these objectives the Committee agreed to establish the following ranges for monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986. With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate was subject to substantial uncertainties in relationship to economic activity and prices, depending among other things on its responsiveness to changes in interest rates. It agreed that an appropriate target range under existing circumstances would be 3 to 8 percent, but it intends to evaluate movements in M1 in the light of its

consistency with the other monetary aggregates, developments in the economy and financial markets, and potential inflationary pressures. It adopted a range of 6 to 9 percent for M2 and 6 to 9 percent for M3. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent for the year 1986.

Votes for this action: Messrs. Volcker, Corrigan, Angell, Black, Forrestal, Johnson, Keehn, Martin, Parry, Rice, Ms. Seger, and Mr. Wallich. Votes against this action: None.

In the Committee's discussion of policy implementation for the weeks immediately ahead, a number of members referred to the difficulty of clearly appraising the significance of the most recent economic and financial developments. While monetary expansion had slowed in recent weeks, the period of reduced growth was brief and it followed a period of substantial expansion. Strong employment growth did not appear to be fully matched by other current economic indicators. The needed correction of the value of the dollar entailed risks of a more fundamental change in market attitudes and a cumulating decline in the exchange rate that might discourage willingness to hold dollars at declining interest rates. In these circumstances, nearly all participants agreed that little or no change in reserve availability was warranted. In that connection, members also noted that the recent slowing of the monetary aggregates was reasonably in line with the Committee's expectations at the time of the December meeting for the November-to-March period.

In the course of the Committee's discussion it was noted that while monetary policy had been relatively accommodative for some time, short-term rates had shown little tendency to decline and the Federal funds rate remained significantly above the discount rate even though borrowing at the discount window had dropped to rather low levels last month. Moreover, long-term rates had declined substantially since early fall. In that context, and against the already accommodative mode of open market operations, the point was made that the discount rate might need to be reduced to permit or accommodate a market tendency toward lower rates and that such a move would be a desirable complement to open market operations in the light of the risks of a slower rate of business expansion. More generally, in prevailing circumstances, the members wished to conduct open market operations in a manner that would not in itself signal or encourage higher interest rates or impede the tendency for some market rates to decline. At the same time, there was concern that policy implementation be sensitive to a situation in which a decline in the dollar might tend to feed upon itself, leading to an exaggerated fall with disturbing implications for inflation, financial markets, and the economy over time. In that connection it was noted that the desirability of a discount rate action would depend on evolving economic and financial circumstances; among other factors, in the light of the risks for the dollar in foreign exchange markets, such action would need to take account of the willingness of major central banks abroad to take broadly similar actions.

In the Committee's discussion of possible intermeeting adjustments in policy implementation, the members agreed that the appropriate degree of pressure on reserve positions should continue to be determined in light of the growth of the monetary aggregates judged in the context of incoming information about the economy, the outlook for prices, and conditions in domestic and international financial markets, including the value of the dollar in the foreign exchange markets. A majority of the members agreed with the suggestion that there should be no presumptions about the likely direction of any intermeeting adjustments, given the many uncertainties about prospective economic and financial developments and the behavior of the monetary aggregates. However, some members believed that policy implementation should remain especially alert to developments that might call for some easing of reserve conditions in light of the considerable risks that they saw of some weakening in the economic expansion.

At the conclusion of the Committee's discussion a majority of the members indicated their acceptance of a directive that called for maintaining unchanged conditions of reserve availability. The members expected such an approach to policy implementation to be consistent with growth in M2 and M3 at annual rates of about 6 percent and 7 percent respectively for the period from November to March. Over the same period they expected M1 to expand at an annual rate of around 7 percent, although the behavior of M1 was seen as still subject to unusual uncertainty. The Committee indicated that it might find somewhat greater or somewhat lesser reserve restraint acceptable over the intermeeting period depending on the growth of the monetary aggregates, the strength of the business expansion, the performance of the dollar on foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive, embodying the Committee's long-run ranges and its short-run operating instructions, was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that economic activity is currently expanding at a moderate pace. Total nonfarm payroll employment increased substantially further in January, and the civilian unemployment rate declined to 6.7 percent. In December industrial production rose further, and available information suggests some additional rise in January. Retail sales increased considerably in December after declining on balance over the previous two months, and housing starts rebounded from their October-November pace. Business capital spending strengthened somewhat in the fourth quarter. Merchandise trade data for the fourth quarter suggest that the deficit widened further from the very high third-quarter level. In late 1985 consumer and producer prices rose somewhat more than earlier, but for the year as a whole broad measures of prices and wages increased at rates close to those recorded in 1984.
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> With respect to the Committee's ranges for longer-term monetary growth, M1 expanded at a rate well above the range set for the second half of 1985; M2 grew at a rate somewhat below the upper end of its range for the year; and M3 expanded at a rate near the midpoint of its range for 1985. Expansion in total domestic nonfinancial debt was above the upper end of its monitoring range for the year. In January growth in M1 and M2 slowed markedly, while growth in M3 picked up as banks issued a substantial volume of large time deposits to support further robust growth in bank credit. Interest rates have fluctuated considerably since the December meeting of the Committee; on balance, short-term interest rates have risen a little while longer-term rates are unchanged to somewhat lower. The trade-weighted value of the dollar against major foreign currencies has declined further.
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> 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. In furtherance of these objectives the Committee agreed to establish

the following ranges for monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986. With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate was subject to substantial uncertainties in relationship to economic activity and prices, depending among other things on its responsiveness to changes in interest rates. It agreed that an appropriate target range under existing circumstances would be 3 to 8 percent, but it intends to evaluate movements in M1 in the light of its consistency with the other monetary aggregates, developments in the economy and financial markets, and potential inflationary pressures. It adopted a range of 6 to 9 percent for M2 and 6 to 9 percent for M3. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent for the year 1986.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from November to March at annual rates of about 6 percent and 7 percent, respectively; while the behavior of M1 continues to be subject to unusual uncertainty, growth at an annual rate of about 7 percent over the period is anticipated. Somewhat greater reserve restraint or somewhat lesser reserve restraint might be acceptable depending on behavior of the aggregates, the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for the short-run operational paragraph: Messrs. Volcker, Corrigan, Angell, Black, Forrestal, Johnson, Keehn, Parry, Rice, and Wallich. Votes against this action: Mr. Martin and Ms. Seger.

Mr. Martin and Ms. Seger dissented because they preferred some easing of reserve conditions given the risks they saw of unacceptably sluggish economic expansion. Such risks would be reduced in their view by lower short-term interest rates, which had not declined in line with recent reductions in long-term interest rates and in inflation expectations. They also believed some modest easing could lead to market conditions that would facilitate a reduction in the discount rate.