

Meeting of Federal Open Market Committee

March 7, 1980

A meeting of the Federal Open Market Committee was held on Friday, March 7, 1980. This was a telephone conference meeting, and each individual was in Washington, D. C., except as otherwise indicated in parentheses in the following list of those participating.

PRESENT: Mr. Volcker, Chairman  
Mr. Guffey (Kansas City)  
Mr. Morris (Boston)  
Mr. Partee  
Mr. Rice  
Mr. Roos (St. Louis)  
Mr. Schultz  
Mrs. Teeters  
Mr. Wallich (San Francisco)  
Mr. Winn (Cleveland)

Messrs. Baughman (Dallas), Eastburn (Philadelphia), Timlen (New York), and Willes (Minneapolis), Alternate Members of the Federal Open Market Committee

Messrs. Balles (San Francisco), and Kimbrel (Atlanta), Presidents of the Federal Reserve Banks of San Francisco and Atlanta, respectively

Mr. Altmann, Secretary  
Mr. Bernard, Assistant Secretary  
Mr. Petersen, General Counsel  
Mr. Oltman (New York), Deputy General Counsel  
Mr. Axilrod, Economist

Messrs. R. Davis (New York), Ettin, Keir, Kichline, and Truman, Associate Economists

Mr. Sternlight (New York), Manager for Domestic Operations, System Open Market Account

Mr. Pardee (New York), Manager for Foreign Operations, System Market Account

3/7/80

- 2 -

Mr. Allison, Secretary, Office of the  
Secretary, Board of Governors  
Mr. Coyne, Assistant to the Board of  
Governors  
Ms. Farar, Economist, Open Market  
Secretariat, Board of Governors  
  
Mr. Burger (St. Louis), Assistant Vice  
President, Federal Reserve Bank of  
St. Louis

Transcript of Federal Open Market Committee Conference Call of  
March 7, 1980

CHAIRMAN VOLCKER. I doubt that we have to be here for very long. You know that in general we've been putting pressure on the reserve positions of banks. That is in effect the implication of carrying out the Committee decision. We're running high on total reserves, which is almost automatic since we're running high on the money supply. The path of nonborrowed reserves has been reduced under the circumstances from the tentative path worked out at the time of the Committee meeting. Interest rates, including the federal funds rate, are up--both because of the pressure and because of expectations, I think. We have a wide range between the discount rate and market rates at the moment. We haven't acted on the discount rate for the reason I've suggested earlier. We have had to raise the limit on the federal funds rate to 17-1/2 percent, which we did as a tentative decision until we had time to confirm it or change it this afternoon.

I believe we are at a crucial point in market psychology and the effectiveness of what we are trying to do. I think people in markets are nervous enough so that policy, maybe for the first time, is beginning to bite outside the mortgage and consumer loan areas and some other areas where it began biting some time ago. It's important that we not give a wrong signal at this point, and in my judgment a wrong signal would be backing away from market developments in response to the greater pressure on reserve positions. And that's what has required the increase in the federal funds rate. I have no better idea than you do--or maybe you have better ideas than I do--as to how long this tension might last or how much further it might go. In line with somebody's comment earlier, I think it's important that the job get done. We all will be worse off if it doesn't get done now. The side effects are already potentially serious if things don't go right. [The situation] could probably get more serious if there is procrastination. At the moment I have nothing better to suggest to you than that, at the minimum, we

maintain the 17-1/2 percent limit [on the top of the funds rate range] and be prepared to raise it if we have to. Or we can go ahead now and raise it to 18 percent, which will give us a little more leeway. We still may have to raise it afterwards. I think I would, given the state of things and since we're meeting anyway, provide us with a little margin and go to 18 percent. But we can do it either way. I might say, too--I don't know whether all of you know it--that in 15 minutes we will be announcing a decline of about \$2.5 billion in M1. Let me have Steve give you the precise figures.

MR. AXILROD. We'll be announcing--unless the numbers have changed in the last hour or two, which is always possible--a \$2.8 billion drop in M-1A from the level of [February] 20<sup>th</sup>. So [the level for February] 27<sup>th</sup> will be down to \$374.7 billion. I might add that the prospective figure for [March] 5<sup>th</sup>, which is highly tentative, suggests another drop of around \$900 million. The growth rate for February will be about 11-1/2 percent at an annual rate. We're projecting growth for March on the order of zero.

CHAIRMAN VOLCKER. The M2 and M3 figures seem to be running significantly above their targets, even if we combine the months. The implied quarterly figure would be what--2 [points] above [the Committee's path]?

MR. AXILROD. That's right. For the period from December 1979 to March 1980, the Committee's path for M2 was around 6.6 percent and M2 growth is running 8.3 percent--about 1-3/4 or almost 2 percentage points above it. For M3 the Committee's path was 7.4 percent, and M3 growth is running 9.5 percent using our projection for March--that is, a March projection with a lower growth than in February. So M3 is running 2 points above [the Committee's target]. I might say that the strength in M2 is essentially in money market funds. They are stronger than we had estimated, with no compensating weakness in other time and saving deposits, and that's the essential factor strengthening the M2 figure.

MR. EASTBURN. Steve, do you think that by now the February figure is pretty well understood and discounted by the market?

MR. AXILROD. On the money supply?

MR. EASTBURN. Yes.

MR. AXILROD. I believe so. I don't know whether there will be any market reaction or response to [the figures being released] this afternoon but I think it has been clear for a couple of weeks that February would be a high number. And the market as a whole has adjusted to that, as has the funds rate in fact.

CHAIRMAN VOLCKER. I might say, insofar as bank credit is concerned, that the January figure was around 13 percent.

MR. AXILROD. Yes, I just got the bank credit figures earlier, Mr. Chairman. For January our estimate on the total is 12.8 percent, with business loans up 21 percent of which Belridge Oil Company, as I remember, is around 4 percentage points. For February our current estimate for bank credit growth is around 18 percent, with business loans almost 24 percent and total loans around 19 percent.

CHAIRMAN VOLCKER. Undoubtedly that February figure to some extent [reflects] the anticipatory commitments and borrowing that we know have been going on for the last couple of weeks.

MR. BAUGHMAN. Did I understand you to say, Steve, that the March money growth [projection] is zero?

MR. AXILROD. Yes. If this number holds up for the 5th, it will start the month off at a very low level. So, to reach a growth rate as high as zero money would have to grow over the course of March. If money stayed at or just slightly above the estimated February 27th level or the March 5th

level, we'd have a negative growth rate. But we've assumed a reasonable pace of growth over the course of March, which produces an average level that would be around zero [on the growth rate].

CHAIRMAN VOLCKER. I can't help but comment that despite the diligence and intelligence of our staff, that estimate is worth about as much as you paid for it, Ernie.

SPEAKER(?). We paid quite a bit for it.

MR. AXILROD. I'm not quite sure. I haven't figured out that one yet!

CHAIRMAN VOLCKER. [I meant] that he personally paid for it.

MS. TEETERS. But it could go negative, couldn't it, Steve?

MR. AXILROD. Oh yes.

MS. TEETERS. We've had a drop so far in late February and early March and it could keep going down.

CHAIRMAN VOLCKER. What it means is that if money stayed somewhere around the level now projected for the next week that we haven't published yet, we'd have a very low March.

MR. AXILROD. I ought to add, President Baughman, even with zero we're getting closer to target. We get a 5.1 percent December-to-March rate as against the 4-1/2 percent target path for M-1A. It's the broader aggregates, if our projections are right, that seem stronger relative to path than the narrow aggregate.

MR. SCHULTZ. And we still could have very high bank credit growth.

MR. TIMLEN. Paul, do you want a motion on that 17-1/2 percent?

CHAIRMAN VOLCKER. Or 18 percent, whichever you prefer.

MR. TIMLEN. Paul, I have just a couple of comments. We had a session with about a dozen businessmen a week and a half ago and they were very, very optimistic about the business outlook for this year. They expressed a great deal of concern, though, about the high levels of interest

rates and about those high rates being built into the price structure. And they made particular reference to prices being charged by the utilities. I must say that smaller banks are talking to us about their inability to make a profit on new loans that they are putting on. So I would suspect that there is a credit bite coming along now at, say, the medium and smaller size banks in terms of their earnings. I can't help but add that in New York the earnings situation at savings banks is also a source of much concern. Three or four of them actually posted losses in 1979, as you know. There is also a good deal of concern regarding losses on consumer credit cards, but that's news to no one.

Getting back to the group of businessmen, there was a great deal of encouragement on their part for the Federal Reserve to get into credit controls. But the credit controls they were proposing were not on their own ability as businessmen to borrow but on the ability of consumers to borrow. I have to say that it seems to me that these rates are all going to have to bite pretty soon. They have to be slowing some people down. I'm most hopeful that the Administration package next week may be seen as a good one so that the Federal Reserve doesn't have to continue carrying all the [burden] on its side and we can be seen as firm but not prone to overkill on the interest [rate] side. I'd say the move now to give Peter Sternlight a little room on the up side is fine, whether it's 17-1/2 or 18 percent. I think the 17-1/2 is fine. As for the range, though, I would say that with either 17-1/2 or 18 percent I would [want] some assurance that we're not going to flip-flop too far down the other way. I can even see the floor being adjusted at this point, perhaps moving it up to 12-1/2 or 13 as a signal of our continuing resolve--our resolve that rates are not going to go down very far. That's particularly important I think for the Europeans, who in the foreign exchange markets are giving us a good deal of credibility as our rates are hanging in there. And our rates are hanging in there, as you know, despite massive intervention by [officials] in Tokyo and Germany. So basically, I'm all for the 17-1/2

percent. I could see being a little stronger or hawkish in that regard by going to 18 percent or even raising the floor.

CHAIRMAN VOLCKER. Well, I hadn't even thought of raising the floor. I doubt that that's going to be a binding limit before we meet [on March 18]. But I share much of what you had to say in substance. Let me just make one point. I worried about building this rate structure into the economy, too. But my sense of it both from the institutional standpoint--the strains on the institution--and building a rate structure into the economy, which at this point I think is inflationary if [the rate structure] doesn't bite, is that we better make sure that what we're doing bites at the moment.

MR. TIMLEN. I agree with that.

MR. ROOS. Larry Roos here. In order to get something on the floor, I move that we raise the upper limit to 18 percent. If we don't have to use [the additional leeway] we won't, but it will be there if the Desk needs it.

CHAIRMAN VOLCKER. Governor Partee.

MR. PARTEE. Well, I agree with Larry and Tom. I think we ought to raise the upper limit to 18. I wouldn't want to raise the lower limit because it seems to me that we're determined to have a policy here that will produce the aggregates we've said we would produce. Right now this seems to call for much higher rates. It has called for higher rates and could call for still somewhat higher rates in the period to come and we ought to have room to move if that's necessary. Looking a little further ahead, as the financial panic leads to deep recession I think we'll need considerably lower rates and we ought to keep open the room for doing that in order to get the aggregates that we've said we were going to get.

CHAIRMAN VOLCKER. We'll strike that last comment--[the "recession"] word in that last comment.

MR. PARTEE. There is a little problem with M2 and M3 because I never thought we had much control over them and I think that's now beginning to be apparent. But I would hope that the other things that were discussed before might help a little in limiting the growth of M2 and M3 so that looking over a somewhat longer period those, too, will come down more within the ranges. But I think our main emphasis needs to be on our posture vis-à-vis the monetary aggregates. And the Desk ought to have the room to move in working toward that goal.

CHAIRMAN VOLCKER. I don't know whether we should just go down the list here. Who has not spoken? Mr. Guffey you spoke, didn't you?

MR. GUFFEY. No, I haven't spoken, Mr. Chairman.

CHAIRMAN VOLCKER. Oh, Mr. Roos spoke.

MR. GUFFEY. [We 're on] the other side of Missouri, Mr. Chairman. I happen to believe that we've come a long way so far and I think now is not the time to hesitate or lose our courage. As a result, I think we ought to give the Desk whatever latitude seems necessary, and that would suggest an 18 percent upper limit. On the other hand, I would [not] agree with Governor Partee. I would like to see us maintain the 4-point spread on that [funds rate] range. It can be moved, of course, if and when we have to [move rates] down and that would suggest that the top [of the range] would come down at the same time.

CHAIRMAN VOLCKER. Mr. Morris. I'm not sure what order I have these names in but I'm going with the order that happens to be on the list I have in front of me.

MR. ALTMANN. It's alphabetical.

CHAIRMAN VOLCKER. It's alphabetical I'm told, except with Volcker first.

MR. MORRIS. I support the 18 percent, Paul, and I also support raising the lower limit to 14 percent. After all, we're only talking about what we're going to do between now and the time of

the meeting. It's not likely that we would ever use the [whole] range in the next week--that [the funds rate] would be less than 14 percent. It seems to me that a range of 11-1/2 to 18 percent is verging on the absurd. So I would vote for 14 to 18 percent.

CHAIRMAN VOLCKER. Governor Partee spoke. Governor Rice.

MR. RICE. I would favor raising the [upper] limit to 18 and leaving the lower limit.

CHAIRMAN VOLCKER. Governor Schultz.

MR. SCHULTZ. I would favor the same thing. [I'd move the] upper limit to 18 and leave the lower limit alone.

CHAIRMAN VOLCKER. Governor Teeters.

MS. TEETERS. I would reluctantly raise [the upper limit] to 18 percent and I certainly would not raise the lower limit at this point.

CHAIRMAN VOLCKER. Mr. Timlen spoke. Governor Wallich. We have to get [his views] over the other telephone.

MR. ALLISON for MR. WALLICH. Governor Wallich would prefer 14 and 18.

CHAIRMAN VOLCKER. Governor Wallich would prefer 14 and 18, if you understood that. Do we have John Balles out there at this point?

MR. ALTMANN. He's not a member.

CHAIRMAN VOLCKER. Oh, he's not a member.

MR. ALTMANN. Let's get Mr. Winn first.

CHAIRMAN VOLCKER. We're getting Mr. Winn's conclusion.

MR. ALLISON for MR. WALLICH. President Winn is in favor of 18 at the top and he's indifferent on the bottom. Either way is all right with him on the bottom.

CHAIRMAN VOLCKER. These are the new members of the Committee.

MR. ALTMANN. That's right.

CHAIRMAN VOLCKER. Let's go to the nonvoting [Presidents] now. Mr. Balles. Did you all hear Mr. Winn's preference by the way?

SPEAKER(?). No.

CHAIRMAN VOLCKER. He favors 18 on the top and is indifferent on the bottom.

SPEAKER(?). John Balles is also in favor of 14 to 18.

CHAIRMAN VOLCKER. Mr. Balles is 14 to 18. Mr. Baughman.

MR. BAUGHMAN. I would go with the 14 to 18. In fact, I would go with taking [the limits] off altogether.

CHAIRMAN VOLCKER. Mr. Eastburn.

MR. EASTBURN. I would go to 18 percent and leave the bottom where it is.

CHAIRMAN VOLCKER. Mr. Kimbrel. Bones has disappeared. Mr. Willes.

MR. WILLES. I'd go to 18 and leave the bottom where it is.

CHAIRMAN VOLCKER. Well, I would suggest that the only operative proposition really is the top and we can discuss the bottom when we meet in a week. Do we need a formal vote, Mr. Altmann?

MR. ALTMANN. Yes.

CHAIRMAN VOLCKER. Let's put that proposition to a vote.

MR. TIMLEN. The top being 18 percent?

CHAIRMAN VOLCKER. The top being 18.

MR. ALTMANN. The lower limit remains at 11-1/2 percent and the upper limit is raised to 18 percent.

Chairman Volcker	Yes
President Guffey	Yes

President Morris	Yes
Governor Partee	Yes
Governor Rice	Yes
President Roos	Yes
Governor Schultz	Yes
Governor Teeters	Yes
First Vice President Timlen	Yes
Governor Wallich (by remote)	Yes
President Winn (by remote)	Yes

Unanimous, with 11 votes.

CHAIRMAN VOLCKER. All right. We'll be back in touch with you one way or another when we get a little firmer fix on timing and anything else that's relevant.

MR. GUFFEY. Paul?

CHAIRMAN VOLCKER. Yes.

MR. GUFFEY. Roger Guffey. We had a vote this morning by wire that is inconsistent with what we just did. I would hope that the record would only show one vote today, that being the [vote to raise the upper limit to] 18 percent.<sup>1</sup>

CHAIRMAN VOLCKER. I think the record probably has to show both, but it will show that the first vote was an interim decision made until we had a meeting. I think it was clear that that vote was for the day, pending consultation. We'll make sure that's the way it appears.

MR. GUFFEY. Okay.

CHAIRMAN VOLCKER. Okay. Thank you very much.

END OF MEETING

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<sup>1</sup> Secretary's note: Prior to this meeting, the Committee had approved by notation vote a recommendation by Chairman Volcker to raise the upper limit for the federal funds rate from 16½ to 17½ percent, pending a discussion of the situation in a telephone conference call to be held in the afternoon of March 7. Previously, by notation vote on February 22, 1980, the Committee, on the Chairman's recommendation, had raised the upper limit from 15½ percent to 16½ percent. At the Committee's regularly scheduled meeting on February 4-5, 1980 the full range for the intermeeting period had been set at 11½ to 15½ percent.