

Federal Open Market Committee

Conference Call

January 21, 1983

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Balles
Mr. Black
Mr. Ford
Mr. Gramley
Mrs. Horn
Mr. Martin
Mr. Partee
Mr. Rice
Mrs. Teeters
Mr. Wallich

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

Messrs. Boehne, Boykin, and Corrigan, Presidents
of the Federal Reserve Banks of Philadelphia,
Dallas, and Minneapolis, respectively

Transcript of Federal Open Market Committee Conference Call
of January 21, 1983

[Secretary's note: There is no transcript record of the beginning of this conference call. However, Committee records make it clear that the staff reviewed the latest data pertaining to the extraordinary growth of the monetary aggregates and that Committee members discussed the implications for monetary policy. An addition to the policy record for the meeting held on December 20-21, 1982 indicates that subsequent to that meeting the Committee discussed these issues on several occasions; it includes a summary of the staff's review and the Committee members' conclusions.]

CHAIRMAN VOLCKER. Well, I don't hear any other comment about changing what we're doing operationally. If anybody has a comment, say so. I have a small question about whether it fits the directive, or whether we ought to recognize [the situation] in the directive or make some note of this call, or have another call next week and see whether we want to make a note of it, or any one of those variants.

MR. PARTEE. I think there's a real problem as to whether we shouldn't indicate that in the present instance, with all this uncertainty, we're temporarily running on borrowings or on net borrowed reserves; it doesn't make any difference. We are doing that in fact and there's nothing else we can do as I see it.

CHAIRMAN VOLCKER. I'm reading from the directive: "The Committee indicated that greater growth would be acceptable if analysis of incoming data..." etc. We weren't exactly expecting M2 growth of 32 percent.

MR. GRAMLEY. We didn't say "somewhat"!

MR. GUFFEY. We could indicate that we don't believe that 32 percent if the discount rate were lowered.

MR. GRAMLEY. They're real gunslingers out in the Midwest, I'll tell you that!

CHAIRMAN VOLCKER. I'm inclined to think we ought to make a note of this meeting or have another one. I don't know quite what we would say other than that we reviewed the situation and decided to await further evidence while maintaining the reserve path. Actually, because there are no reserve requirements on M2, we're not changing the reserve path.

MR. AXILROD. Well, we are changing it every week to accommodate what happens in light of the--

CHAIRMAN VOLCKER. To accommodate what happens to M1.

MR. AXILROD. That's right, and also the drop in required reserves on M2. We're not letting that ease, for sure.

MR. PARTEE. "To maintain reserve conditions about unchanged."

CHAIRMAN VOLCKER. I just haven't thought about this, but if

we don't want to make any real change now. I would suggest that we let it go until the middle of next week and maybe have another conference call. People may get a bright idea or maybe we can just send you around some language to approve, disapprove, or comment on. I think it might be useful in the record to show that we have had some discussion of the situation in the light of these wildly changing and divergent figures. Does that sound reasonable?

MS. TEETERS. Do you want to include last week's meeting also?

CHAIRMAN VOLCKER. I don't think that we have to be specific in terms of dates but just say something about "after a Committee discussion." We'll have the date of whatever I send around. I don't think we have to indicate every time we discussed it. Is that broadly okay?

VICE CHAIRMAN SOLOMON. Yes, I think it's okay, but I'd be interested in hearing why Steve feels it's a good idea for us to come up with six ranges--three fourth quarter-over-fourth quarter ranges and three year-over-year ranges--when we're probably going to be wrong on all six.

MR. AXILROD. I certainly didn't intend that. I intended it in a--

CHAIRMAN VOLCKER. He put that in there because I would prefer to have an average range instead of a fourth quarter-to-fourth quarter range. The explanation is as simple as that.

MR. AXILROD. If I may, Mr. Chairman, I also thought that by the time the year's over--and this is the difficult thing--if it turned out that the fourth quarter were high and we happened to be over on that basis but year-over-year it looked very reasonable, that's the better way to look at it. And almost vice versa.

MR. PARTEE. He wanted more options.

MR. AXILROD. I wasn't intending to suggest that the Committee would set 6 different ranges.

CHAIRMAN VOLCKER. As always, our ranges are mutually consistent, in at least the analysis beforehand.

MR. BALLE. Paul, did I understand you to say you did not contemplate another call next week? I wasn't sure.

CHAIRMAN VOLCKER. Well, I might. Let's see how things look. What I'd like to do, if I have a sense that nothing drastic has happened, is incorporate what I sense people want to do at the moment and use it as a vehicle for informing the world at some future date that we've looked at these wild numbers as they were developing and

kept close touch on them and describe what we did in reaction. That would come out about the time the public got the numbers. I just don't know the operational language I want to use.

MR. PARTEE. That's fine with me.

CHAIRMAN VOLCKER. And if it looks more complicated or if something changes, we'll talk about it. Hearing no other comment, we will proceed on the present basis. I don't think there's anything here that calls for any easing of the reserve path.

MR. AXILROD. We set the path on the assumption of borrowing of \$200 million, Mr. Chairman.

CHAIRMAN VOLCKER. And that is the way we will proceed in the next week. Let's see whether we can condense something into a paragraph. Thank you.

END OF SESSION