FEDERAL RESERVE press release

For Use at 4:30 p.m. August 24, 1984

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 July 16-17, 1984.

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 July 16-17, 1984

Domestic policy directive

The information reviewed at this meeting suggested that growth in real GNP in the second quarter, though moderating from the annual rate of about 9-3/4 percent currently recorded for the first quarter, would be stronger than the annual rate of about 5-3/4 percent indicated by the preliminary estimate of the Commerce Department. Although the expansion in economic activity was continuing at a strong pace, in late spring and early summer there were indications of moderation in some sectors. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have risen more slowly in the first half of 1984 than in 1983.

Industrial production rose about 1/2 percent in both May and June, after average increases of about 1 percent per month earlier in the year. Output of business equipment and defense and space products continued to show sizable gains, while production of durable consumer goods and construction supplies leveled off. The rate of capacity utilization in manufacturing edged up 0.1 percentage point in each month to 81.8 percent in June, the average for the 1967-82 period.

The rise in total retail sales slowed in the May-June period from an extraordinarily rapid pace in April. In the second quarter as a whole, sales advanced about 2-3/4 percent, after a rise of 3-1/2 percent in the first quarter. Sales gains were reported at all major types of stores in the second quarter, but were particularly strong at general merchandise, apparel, and furniture and appliance stores. Sales of new domestic automobiles continued at an annual rate of about 8-1/4 million units, the same pace as in the first quarter.

Housing starts declined in May, the latest month for which data were available, to a level about 10 percent below the average for the first four months of the year. Sales of both new and existing homes edged down in May, apparently in response to the rising cost of mortgage credit.

In contrast to the slowing in the housing sector, business fixed investment, in real terms, appeared to have grown quite rapidly in the second quarter, perhaps faster than the annual rate of 16 percent reported for the first quarter. Shipments of nondefense capital goods increased sharply in May, more than offsetting a decline in April, and data on new orders pointed to further gains in the months ahead. Recent surveys on spending plans also suggested continued strength in business fixed investment.

Nonfarm payroll employment, adjusted for strike activity, rose 300,000 further in both May and June. Employment gains in services and trade accounted for a major part of the increase in each month. In manufacturing, employment in durable goods industries advanced somewhat further, but employment in nondurable goods firms was flat. The civilian unemployment rate fell appreciably over the two-month period, to 7.1 percent in June.

The producer price index for finished goods was unchanged in June for the third consecutive month. In the second quarter as a whole, a marked decline in prices of consumer foods offset an increase in prices of energy-related items, as most other components of the index changed little. The rise in the consumer price index slowed in May to 0.2 percent from 0.5

percent in April. The index of average hourly earnings increased more slowly over the first half of this year than in 1983.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen about 3-1/2 percent on balance since the Committee's meeting in May. The dollar weakened for a brief period early in the intermeeting interval, partly reflecting rumors about the vulnerability of large U.S. banks to international debt problems. Subsequently, indications of more strength in U.S. economic activity than had been anticipated and increases in U.S. short-term interest rates contributed to an appreciation of the dollar to a level above its peak in early January. The U.S. merchandise trade deficit rose further in the April-May period relative to the first quarter; an increase in oil and non-oil imports exceeded a slight rise in exports.

At its meeting on May 21-22, 1984, the Committee had decided that, in the period immediately ahead, policy should be directed toward maintaining existing pressures on reserve positions. That action was expected to be consistent with growth in M1, M2, and M3 at annual rates of around 6-1/2, 8, and 10 percent respectively during the period from March to June. The Committee also agreed that somewhat greater restraint might 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. Any such adjustment would be considered only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, and the rate of credit growth. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was retained at 7-1/2 to 11-1/2 percent.

M1 grew at an annual rate of about 12-1/4 percent on average in May and June, after having changed little in April. As a result, expansion in M1 over the March-to-June period was at an annual rate of about 8-1/4 percent, above the Committee's expectation for that period. Growth in the broader aggregates was about in line with expectations, as M2 and M3 grew at estimated annual rates of 7-3/4 and 10-1/4 percent respectively over the three-month period. Relative to the Committee's longer-run ranges for 1984, M1 by June was somewhat below its upper limit, M2 was a little below the midpoint of its range, and M3 was above the upper limit of its range.

Total domestic nonfinancial debt continued to expand in the second quarter at a pace above the Committee's monitoring range for the year, with both federal and private borrowing very strong. Borrowing that was related to business mergers and acquisitions accounted for some of the rapid private credit growth but even after adjustment for such borrowing, the rate of expansion in total debt was estimated to have exceeded the upper limit of the Committee's range.

Growth in total reserves picked up in May and accelerated further in June, reflecting increased demand for excess reserves and rapid expansion of required reserves associated with strong growth in demand deposits in June and a surge in large time deposits that began in May. The increase in reserves provided by discount window credit, extended because of the special situation of one large bank, was offset by reduced reserve provision through open market operations, so that there was little change in other borrowing. Adjustment plus seasonal borrowing (excluding advances to the large bank) continued to average close to $1 billion in the three complete reserve maintenance periods after the previous Committee meeting. In the first part of the current two-week statement period ending July 18, average borrowing was running lower, at about $670 million.

The federal funds rate moved up irregularly over the intermeeting period, from an average of around 10-1/2 percent at the time of the May meeting to a range of around 11 to 11-1/2 percent in recent weeks. Pressures in the money market were especially marked around the mid-June tax date and in the reserve maintenance period containing the quarter-end statement date and the July 4 holiday. The federal funds rate moved higher over the intermeeting interval despite little change in the average level of adjustment plus seasonal borrowing at the discount window. In addition to usual end-of-quarter and holiday pressures in the federal funds market, banks apparently became willing to pay more for federal funds as credit demands continued strong and other sources of funds remained relatively expensive. On balance, rates on bank CDs and other private short-term securities rose about 1/2 to 3/4 percentage point further, while rates on Treasury bills were about unchanged. The heightened uncertainties in financial markets, reflecting concerns about international debt problems and shifting perceptions about the outlook for economic activity and credit demands, led to a widening of differentials between yields on private instruments and Treasury obligations and to considerable day-to-day rate fluctuation. In long-term debt markets, rates moved over an exceptionally wide range but over the intermeeting period as a whole rates on most private obligations changed little on balance, while those on Treasury bonds declined about 15 to 40 basis points. Commercial banks raised their "prime" rate 1/2 percentage point to 13 percent in the last week of June. The average rate on conventional fixed-rate mortgage loans at savings and loan associations rose about 5/8 percentage point over the intermeeting interval to a little above 14-5/8 percent.

The staff projections presented at this meeting suggested that growth in real GNP would moderate appreciably over the second half of the year and into 1985 to a sustainable rate of expansion. The staff continued to expect a decline in unemployment over the period and, given recent strong gains in employment, the projected level of unemployment was somewhat lower than previously anticipated. Although current evidence of wage and price pressures was limited, the rate of increase in prices was expected to pick up modestly from its recent pace as the economy continued to move toward fuller utilization of its productive resources.

In the Committee's discussion of the economic situation and outlook, the members commented that the expansion appeared to have a good deal of momentum, but with limited indications of some moderation. For the months immediately ahead, the members generally expected a slower, although relatively sizable, rate of expansion in economic activity and a comparatively subdued rate of inflation. Most believed that appreciably slower but sustainable growth with some pickup in the rate of inflation were probable, though by no means certain, prospects for 1985. Several observed, however, that uncertainties created by various imbalances and financial strains in the economy made forecasting economic activity and prices particularly difficult at this time, and less confidence should be placed in any particular forecast.

In keeping with the usual practice for meetings when the Committee considers its longer-run objectives for monetary growth, the members had prepared specific projections of economic activity, the rate of unemployment, and average prices. With regard to growth in real GNP, the projections had a central tendency of 6-1/4 to 6-3/4 percent for 1984 as a whole and 3 to 3-1/4 percent for 1985, all measured from fourth quarter to fourth quarter. The central tendency for the rate of unemployment was an average rate in a range of 6-3/4 to 7 percent for the fourth quarter of 1984 and 6-1/2 to 7 percent for the fourth quarter of 1985. The members' projections for the implicit GNP deflator centered on a rise of 4 to 4-1/2 percent for the year 1984 and about one percentage point higher for the year 1985, assuming that the value of the dollar in foreign exchange markets would remain generally in the trading range experienced over the past year. The projections also took into account the monetary policy decisions made at this meeting.

The members recognized that there were a number of threats to the realization of the relatively favorable economic developments implied by their projections and that the maintenance of a satisfactory economic performance for an extended period could only be assured by timely actions in a number of policy areas. Given the persisting strength of domestic demands, which had been growing faster than GNP as reflected in the widening deficit in external trade, several members indicated their concern about the risks that those demands might proceed too long at an unsustainable pace, with potentially adverse implications for inflationary pressures and for the continuation of the expansion itself. On the other hand, most members clearly did not want to rule out the possibility that relatively high interest rates, partly related strains in international and domestic financial markets, and cautionary attitudes that might be emerging in economic sectors such as housing might result in more substantial slowing than was typically indicated. Various imbalances and distortions in the economic and financial picture, notably the massive deficits in the federal budget and in the current account of the balance of payments, were also viewed as particular sources of concern.

With regard to the federal budget, current legislation was cited as a welcome development, but further measures were deemed essential to reduce the widening structural deficit. Federal financing requirements would otherwise continue to absorb a large part of available net savings in a period of heavy demands for credit by businesses and households. The resulting pressures in financial markets would aggravate the strains on thrift and some other financial institutions and would impair the creditworthiness both of potential new borrowers such as homebuyers and the growing number of borrowers with outstanding loans or commitments on a variable interest rate basis. Relatively high interest rates would also worsen financial pressures in the agricultural sector where many farmers were experiencing serious debt problems. In addition, high U.S. interest rates tended to exacerbate the already severe debt-servicing problems of several developing countries and, in the process, to lessen confidence in U.S. banks with sizable loans to such countries.

With regard to the balance of payments and related capital flows, the unprecedented volume of capital attracted from abroad was contributing to the appreciation of the dollar despite enlarged deficits in the trade and current accounts. Such inflows were helping to finance domestic credit needs and were contributing to moderation of inflationary pressures. However, their sustainability was subject to doubt, and their eventual decrease, especially if associated with a sudden and sharp fall in the value of the dollar, could have adverse repercussions for the economy.

While the members generally anticipated a small increase in wages and prices over the period through the end of 1985, they discussed possible developments that could produce a different outcome. Some members, who were relatively optimistic about the outlook for inflation, emphasized such factors as the remaining margins of unemployed resources in the economy, which might in fact be underestimated by current measures of capacity utilization, the impact of competition from abroad, and the prospects for faster gains in productivity than many observers expected. They also suggested that wage settlements might continue to be relatively restrained, to the extent that workers' wage demands had been reduced significantly by back-to-back recessions in the past few years and concomitant high unemployment and a recent period of relatively low inflation. Several members noted, however, that important negotiations currently under way or about to begin, especially in the automobile industry, could have a significant precedential impact on subsequent wage negotiations. All of the members recognized that inflationary pressures would be greater than otherwise, perhaps substantially so, if growth in demands for goods and services for too long exceeded sustainable rates or if the value of the dollar were to decline substantially over the projection period.

At this meeting the Committee reviewed its target ranges for 1984 and established tentative ranges for 1985 within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act).[1]

1/ The Board's Midyear Monetary Policy Report pursuant to this legislation was transmitted to the Congress on July 25, 1984.

At its meeting on January 30-31, 1984, the Committee had adopted growth ranges 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, and a range of 4 to 8 percent for M1 over the same period. It was understood at that time that substantial weight would continue to be placed on M2 and M3 in policy implementation and that, for some interim period, the behavior of M1 would be evaluated in light of the performance of the broader aggregates. Because of the changed composition of M1, reflected in the relatively rapid growth of its NOW and Super Now components, its relationship to GNP remained uncertain and required further observation. The monitoring range for total domestic nonfinancial debt had been set at 8 to 11 percent for the year 1984.

With regard to the target ranges for 1984, all of the members favored the retention of the existing ranges for M1 and M2, both of which had grown at rates within the Committee's targets over the first half of 1984. The members continued, however, to recognize the difficulty of anticipating the ongoing relationships of these aggregates with broad economic measures under changing economic and financial circumstances, particularly in light of the rapid expansion of new deposit accounts in a period of deregulation and of marked changes in financial practices.

The members expected expansion in M3 and total domestic nonfinancial debt to moderate during the second half of 1984, but growth in both measures, especially domestic debt, was still believed likely to exceed the existing ranges for the year as a whole. Accordingly, some members favored raising the ranges somewhat to reflect first-half developments and the Committee's expectations for the year. However, a majority preferred to retain the existing ranges on the ground that higher ranges would provide an inappropriate benchmark for judging the long-run growth desired by the Committee. It was also suggested that raising these ranges might be misread as an easing of monetary policy rather than as a technical adjustment to past developments, including the unusual extent of merger-related and leveraged buyout financings, which were estimated to have added about 1 percentage point to the rate of credit growth during the first half of the year.

At the conclusion of this discussion, the Committee voted as follows to reaffirm the ranges for the monetary aggregates and the associated range for total domestic nonfinancial debt that were established at the January meeting:

> The Committee agreed at this meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 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 associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth.
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> > Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, and Mr. Wallich. Votes against this action: None.

Turning to the establishment of tentative ranges for 1985, the members stressed the desirability of taking further action, in line with previously stated Committee intentions, to reduce growth in money and credit over time to rates that would be consistent with maintaining reasonable price stability and sustainable economic expansion. However, individual members expressed some small differences in their views about the amount or timing of specific reductions in the ranges for 1985.

In discussion of the tentative range for M1 growth for 1985, the members generally favored lowering the upper limit and narrowing the range to a width more consistent with the ranges for the other aggregates. Discussion centered on whether the range should be reduced to 4 to 7 percent or 4 to 7-1/2 percent. Members who preferred the range with a 7 percent upper limit commented that it would represent an appropriate reduction from 1984 because it would signal more clearly the Committee's intention to reduce monetary growth to rates more consistent with reasonable price stability while encouraging further expansion of economic activity. Those who preferred the smaller reduction in the upper limit felt that a cautious approach was warranted in light of the many uncertainties bearing on the economic outlook and developments with respect to velocity. They also noted that the ranges would be reviewed next February and could then be reduced further if circumstances warranted.

Most members favored a small reduction for M2 in 1985, although a few expressed an initial preference for no change. A lower range for M2 would be in keeping with the Committee's intention to reduce monetary growth over time and, at least on the basis of the recent behavior of M2, would be consistent with the members' projections of lower growth in nominal GNP for 1985. On the other hand, it was argued in support of retaining the 1984 range that the recently prevailing relationship between M2 and nominal GNP was at odds with historical trends and a reduction in the M2 range would incur too much of a risk that actual growth might exceed the range, even with much slower expansion in nominal GNP during 1985.

A majority of the members were in favor of not changing the current ranges for M3 and total domestic nonfinancial debt for 1985, but a few members proposed small reductions in the range for M3 and additional members favored marginal reductions in the monitoring range for nonfinancial debt. In support of retaining the current ranges, it was pointed out that, given the expectation that actual growth was likely to exceed both ranges in 1984, expansion within those ranges next year would represent a significant slowdown. However, some members expressed concern about the implications of rapid debt expansion this year, which appeared to be reflected to some extent in M3, and they believed that reduced ranges would be desirable and consistent with overall policy objectives.

In the course of discussion about the appropriate ranges for the aggregates, the members noted that in recent quarters the behavior of M1 in relation to nominal GNP had been more consistent with previous cyclical patterns than had been the case during 1982 and early 1983. As a result it was concluded that M1 should be given roughly equal weight with the broader monetary aggregates in the implementation of monetary policy. However, the behavior of M1 as well as that of the broader aggregates would still continue to be appraised in light of developments in the economy and financial markets, the outlook for inflation, and the rate of credit growth.

At the conclusion of its discussion, the Committee took the following action to establish tentative ranges for 1985 that included reductions from 1984 in the upper limits of the ranges for M1 and M2 by 1 and 1/2 percentage point, respectively, and no changes in the range for M3 and the associated range for total domestic nonfinancial debt:

For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8-1/2 percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

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.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Ms. Seger, and Mr. Wallich. Votes against this action: None.

In the Committee's discussion of policy implementation for the weeks immediately ahead, most of the members indicated that they could support an approach directed toward maintaining the existing degree of restraint on reserve positions. Such an approach was thought likely to be associated with growth in the monetary aggregates from June to September at rates that were consistent with the Committee's objectives for the year and below those experienced over the second quarter, particularly for M1. Some members commented that the risks of intensified inflationary pressures as the economy moved closer to capacity limits would, in other circumstances, warrant some increase of reserve restraint; but the current behavior of the monetary aggregates and the prospect that earlier increases in market interest rates would tend after some lag to be reflected in growth at sustainable rates, together with the relatively sensitive conditions in some financial markets, were factors that argued in favor of an essentially unchanged approach to policy implementation.

With regard to possible deviations in pressure on reserve positions toward greater or lesser restraint in response to incoming information, some members endorsed a symmetrical approach that would relate any deviation in either direction to the behavior of the monetary aggregates judged in the context of developments in economic activity, inflationary pressures, financial market conditions, and the rate of growth in credit. However, most of the members preferred a somewhat asymmetrical approach that would involve a more prompt response to the potential need for a move toward somewhat greater restraint if monetary growth should accelerate in association with continued indications of an ebullient economy. In this view, policy implementation should be relatively tolerant, for a time, of some shortfall in monetary growth because the latter might well prove to be temporary if the present apparent momentum in the economy were to continue.

In light of recent market developments, the members generally favored, for technical reasons, raising the intermeeting range for the federal funds rate by a small amount. The members regard the federal funds range as essentially a mechanism for initiating Committee consultation when its limits are persistently exceeded. In recent weeks federal funds had tended to trade well up in the current 7-1/2 to 11-1/2 percent range, and occasionally above that range, despite a relatively unchanged level of borrowing at the discount window (apart from special borrowing by one large bank). A small upward adjustment was deemed advisable to provide some leeway above the recent trading level before triggering a consultation of the Committee.

At the conclusion of the Committee's discussion, the members indicated their acceptance of a directive that called for maintaining the existing degree of restraint on reserve positions. The members expected such an approach to be associated with growth of M1, M2, and M3 at annual rates of around 5-1/2, 7-1/2, and 9 percent, respectively, in the period from June to September. The members agreed that somewhat greater restraint on reserve conditions would be acceptable in the context of more substantial growth in the monetary aggregates, while somewhat lesser restraint might be appropriate if monetary growth were significantly slower. In either event, the need for greater or lesser restraint would be considered only against the background of developments relating to the continuing strength of the business expansion, inflationary pressures, conditions in financial markets, and the rate of credit growth. It was agreed that the intermeeting range for the federal funds rate would be raised to 8 to 12 percent.

At the conclusion of the meeting the following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that the expansion in economic activity is continuing at a strong pace, but there are indications of moderation in some sectors. In May and June, industrial production and retail sales expanded further, though at a somewhat slower pace than earlier in the year. Nonfarm payroll employment rose substantially further in both months and the civilian unemployment rate fell to 7.1 percent in June. Housing starts declined in May to a rate appreciably below the average in the first four months of 1984. Information on outlays and spending plans continues to suggest strength in business fixed investment. Since the beginning of the year, average prices and the index of average hourly earnings have risen more slowly than in 1983.
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> M1 grew rapidly in May and June after having changed little in April, while M2 continued to expand moderately. M3 growth slowed somewhat in June but was relatively strong over the second quarter. From the fourth quarter of 1983 through June, M1 grew at a rate somewhat below the upper limit of the Committee's range for 1984; M2

increased at a rate a little below the midpoint of its longer-run range, while M3 expanded at a rate above the upper limit of its range. Total domestic nonfinancial debt continued to grow in the second quarter at a pace above the Committee's monitoring range for the year, reflecting very large government borrowing along with strong private credit growth. Interest rates have fluctuated considerably since the May meeting of the Committee. Financial markets were affected by concerns arising from international debt problems. On balance, rates on private short-term securities rose further, while rates on Treasury bills were about unchanged; in long-term debt markets, rates on most private obligations changed little while those on Treasury bonds declined.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has risen considerably further since mid-May to a level above its peak in early January. The merchandise trade deficit rose further in April-May compared with the first quarter; an increase in oil and non-oil imports exceeded a slight rise in exports.

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 at this meeting to reaffirm the ranges for monetary growth that it had established in January: 4 to 8 percent for M1 and 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 associated range for total domestic nonfinancial debt was also reaffirmed at 8 to 11 percent for the year 1984. It was anticipated that M3 and nonfinancial debt might increase at rates somewhat above the upper limits of their 1984 ranges, given developments in the first half of the year, but the Committee felt that higher target ranges would provide inappropriate benchmarks for evaluating longer-term trends in M3 and credit growth. For 1985 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1984 to the fourth quarter of 1985, of 4 to 7 percent for M1, 6 to 8-1/2 percent for M2, and 6 to 9 percent for M3. The associated range for nonfinancial debt was set at 8 to 11 percent.

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 existing pressures on reserve positions. This action is expected to be consistent with growth in M1, M2, and M3 at annual rates of around 5-1/2, 7-1/2, and 9 percent respectively during the period from June to September. Somewhat 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 only in the context of appraisals of the continuing strength of the business expansion, inflationary pressures, financial market conditions, 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 8 to 12 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Mrs. Horn, Messrs. Partee, Rice, Ms. Seger, and Mr. Wallich. Vote against this action: Mr. Martin.

Mr. Martin dissented from this action because he wanted to give more weight to the possible need for some easing of reserve conditions in light of the vulnerability of key sectors of the economy and of financial markets to high interest rates. He also believed that somewhat higher objectives for monetary growth should be established for the third quarter.