



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

April 11, 1975

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida

ALB

Attached for your information are copies of an exchange of correspondence between Congressman Reuss and Chairman Burns, relating to information on recent System intervention in exchange markets.

Attachment

LUBERT H. HUMPHREY, MINN., CHAIRMAN
JOHN SPARKMAN, ALA.
WILLIAM PROXMIRE, WIS.
ABRAHAM RIBICOFF, CONN.
LLOYD M. BENTSEN, JR., TEX.
EDWARD M. KENNEDY, MASS.
JACOB K. JAVITS, N.Y.
CHARLES H. PERCY, ILL.
ROBERT TAFT, JR., OHIO
PAUL J. FANNIN, ARIZ.

WRIGHT PATMAN, TEX., VICE CHAIRMAN
RICHARD BOLLING, MO.
HENRY S. REUSS, WIS.
WILLIAM S. MOORHEAD, PA.
LEE H. HAMILTON, IND.
GILLIS W. LONG, LA.
CLARENCE J. BROWN, OHIO
GARRY BROWN, MICH.
MARGARET M. HECKLER, MASS.
JOHN H. ROUSSELOT, CALIF.

Congress of the United States

JOINT ECONOMIC COMMITTEE

(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 394, 75TH CONGRESS)

WASHINGTON, D.C. 20510

April 1, 1975

JOHN R. STARK,
EXECUTIVE DIRECTOR

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1975 APR -2 PM 4:04
RECEIVED
OFFICE OF THE CHAIRMAN

The Honorable Arthur F. Burns
Chairman
Board of Governors
Federal Reserve System
Washington, D. C.

Dear Dr. Burns:

You are perhaps aware that on Monday, March 24th, Treasury Secretary Simon testified before the Subcommittee on International Economics on recent international monetary developments and the outlook for monetary reform. Among the subjects discussed was intervention in exchange markets by the Federal Reserve and the Treasury. The Secretary explained that such intervention occurs only when the Federal Reserve and the Treasury concur on its desirability. He also reiterated that it is United States policy to intervene only to curb or prevent disorderly conditions in exchange markets. Disorder in exchange markets the Secretary defined as a situation in which buying and selling rates for the dollar are abnormally far apart and the rate of transactions has fallen to an unusually low level. The "disorderly market" guideline for exchange rate intervention enunciated by Secretary Simon has in fact been recommended by a bipartisan majority of the Joint Economic Committee in various reports.

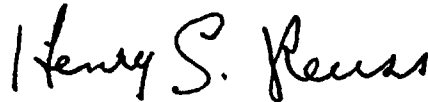
Some \$700 or \$800 million of net intervention in exchange markets was undertaken between February 1 and March 24, 1975. Was this disorder in exchange markets of sufficient seriousness to warrant intervention of such substantial dimensions or was intervention undertaken to "prop up the external value of the dollar since it had fallen to an unduly low level," or "smooth exchange rate fluctuations," or "peg the dollar to a particular rate or within a particular zone?"

To inform us about the amounts of and reasons for exchange market intervention, the Committee would appreciate receiving monthly reports. I would like the coverage of these reports to begin on January 1, 1975, and to provide a daily accounting of intervention conducted with respect to the dollar and each foreign currency, along with the market conditions or other factors that made such intervention seem necessary.

The Honorable Arthur F. Burns
April 1, 1975
Page 2

Dr. John Karlik, Senior Economist, will be most happy to work with your staff on details of the reports to make sure that their preparation does not become onerous. For example, a sentence or two regarding the need for each daily initiative to intervene will be sufficient. I hope that the first of these reports, covering January and February, could be available within two weeks.

Sincerely,

A handwritten signature in cursive script that reads "Henry S. Reuss". The signature is written in dark ink and is positioned above the typed name.

Henry S. Reuss, Chairman
Subcommittee on
International Economics

C O P Y

April 8, 1975

The Honorable Henry S. Reuss
Chairman
Subcommittee on International Economics
Joint Economic Committee
Washington, D. C. 20510

Dear Henry:

Thank you for your letter of April 1 inquiring about, and requesting information on, recent intervention in exchange markets. We of course wish to cooperate with the needs of your Subcommittee.

As I am sure you will appreciate, your request raises issues which need to be discussed with the Treasury Department as well as within the Federal Reserve. I shall be back in touch with you on this matter as soon as possible. In the meantime, members of the Board's staff may discuss matters with Dr. Karlik, as your letter suggested.

Sincerely yours,

(signed) Arthur

Arthur F. Burns