



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

July 13, 1978

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida

(103)

Attached is a memorandum from the Committee's General Counsel dated today and entitled "Status of paragraph 2 of authorization for domestic open market operations."

This memorandum will be discussed by the Committee at its forthcoming meeting under agenda item 7.

Attachment



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To: Federal Open Market
Committee

Subject: Status of paragraph 2
of authorization for
domestic open market
operations.

From: Mr. O'Connell

Handwritten initials, possibly "TJO", in dark ink.

On April 30, 1978, there expired the authority of Federal Reserve Banks to purchase public debt obligations directly from the Treasury. This authority was exercised by the Reserve Banks pursuant to Section 14(b) of the Federal Reserve Act and paragraph 2 of the FOMC's authorization for domestic open market operations.

This memorandum raises the question of the need for or desirability of any official FOMC action with respect to paragraph 2 of the authorization for domestic open market operations in view of the now terminated statutory authority.

Recommendation: It is recommended that paragraph 2 be retained in its present form in anticipation of near-term Congressional action enacting new supporting legislation.

On two previous occasions--March 1974 and December 1976--the Committee was advised of the then de facto suspension of previously existing statutory authority for Reserve Banks to make direct purchases of United States obligations. On each occasion,

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the Committee determined to retain the language of paragraph 2 of the authorization pending Congressional action renewing the statutory authority. Further, the Committee's policy record noted on both occasions the Committee's awareness of the "suspension" status of paragraph 2 and its direction that the question of deleting paragraph 2 from the authorization be brought before the Committee should Congress fail within a reasonable time to enact supporting legislation.

I recommend that similar action be taken by the Committee at this time.