

A meeting of the Federal Open Market Committee was held on Wednesday, September 8, 1965, at 10:45 a.m. This was a telephone conference meeting and each individual was in Washington except as otherwise indicated in parentheses in the following list of those participating:

PRESENT: Mr. Martin, Chairman  
Mr. Balderston  
Mr. Daane  
Mr. Ellis (Boston)  
Mr. Maisel  
Mr. Robertson  
Mr. Scanlon (Chicago)  
Mr. Shepardson  
Mr. Clay, Alternate for Mr. Galusha (Kansas City)  
Mr. Irons, Alternate for Mr. Bryan (Dallas)  
Mr. Treiber, Alternate for Mr. Hayes (New York)

Mr. Young, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
Mr. Holmes, Manager, System Open Market  
Account (New York)  
Mr. Coombs, Special Manager, System  
Open Market Account (New York)

Chairman Martin commented that this meeting had been called to consider certain recommendations of the Special Manager of the System Open Market Account relating to a proposed program of international assistance to Britain. He then asked Mr. Coombs to describe the nature and status of the discussions that had been in progress and to make his recommendations.

Mr. Coombs stated that, as the Committee members knew, negotiations had been going on for some weeks past between the United States and British Governments on a three-point program designed to

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assist the recovery of sterling. The first point in that program was action by the British Government to stabilize prices and wages, and last Thursday the British Government announced its intention to seek statutory authority to require advance notice and possible deferment of proposed price and wage increases. The second point in the package was to be foreign governmental expressions of support for the British economic program, and Secretary Fowler on Saturday, September 4, gave a strong endorsement of the British measures. The third point in the package was to be provision of international financial assistance for sterling.

As originally conceived, Mr. Coombs continued, the financial support program was to be based on market purchases of sterling by foreign central banks on a guaranteed or covered basis up to a maximum of 5 per cent of the gold and foreign exchange reserves of each participating country. Last week, the British sought to negotiate such financial assistance with the continental European countries, but the negotiations bogged down and necessitated the calling of a special meeting of the BIS group of central banks last Sunday at Basle. Mr. Hayes and he had participated on behalf of the Federal Reserve. As a result of that meeting, they were hopeful that it might be possible to put together an international financial package of approximately \$1 billion, of which the U.S. share might

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have to be roughly 40 per cent. He thought that most of the European countries would wait for a U.S. commitment of \$400 million, which it was proposed to divide equally between the U.S. Treasury and the Federal Reserve.

As the members would recall, Mr. Coombs said, at the meeting of August 10, 1965, the Committee had approved an authorization for covered purchases of sterling up to a total of \$50 million. He now recommended an increase in that authorization, none of which was in use at the moment, to \$200 million. Together with a similar Treasury authorization of \$200 million, that would provide a total of \$400 million. The extent to which those authorizations would be used would depend on agreement by the European central banks, plus Canada and Japan, to contribute adequately to the program. For example, if other central banks failed to provide funds sufficient to build up a total package of \$1 billion, the U.S. share would be cut back to 40 per cent of the total package.

For the past month, Mr. Coombs remarked, the sterling exchange markets had shown distinct signs of recovery--the rate had moved up this morning to \$2.7925--and he was persuaded that concerted intervention to buy sterling could be a major factor both in hastening further recovery and in averting any setbacks arising from political or other adverse developments.

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In reply to a question by Mr. Ellis regarding the period of time for which the proposed guarantee would remain in effect, Mr. Coombs said that no specific termination date would be set at the time of the original transaction. The guarantee would remain in effect as long as the System held the sterling acquired under it or until the arrangement was terminated by mutual agreement of the two parties. He added that such sterling holdings would be distinguished from other holdings by the System. The funds would be invested in a special account at the Bank of England and would earn interest at a rate roughly equal to the rate on 3-month U.S. Treasury bills; currently this would be about 4 per cent. There was no assurance that other central banks participating in the assistance program would do so by the method of acquiring sterling under a guarantee; they might find it more convenient to use some other procedure, such as an extension of credit or a swap arrangement.

Chairman Martin commented that some members of the Committee might consider it preferable for the System to participate by enlarging the size of its swap line with the Bank of England rather than by acquiring sterling under a guarantee, if other central banks chose the swap-line route.

Mr. Daane observed that in his judgment it would be preferable to follow the guarantee procedure, and thus demarcate the operation

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as market intervention. The exchange market developments of the past week clearly indicated the possibilities of making good use of that sort of operation. Moreover, other central banks might be encouraged by the System's example to follow the same procedure rather than the alternative one of a swap arrangement with the Bank of England.

Mr. Coombs indicated that he concurred fully in Mr. Daane's observations. He noted that action by the Committee now to authorize acquisition of \$200 million of sterling on a covered or guaranteed basis would not preclude a later substitution of an enlarged swap arrangement, if there was reason then to believe the swap route would be preferable.

Mr. Robertson commented that the Manager might be authorized to negotiate on either basis, and Chairman Martin observed that such an authorization might be desirable.

Mr. Coombs noted that the System's practice of making public announcements of any increases in its swap lines might militate against use of that procedure. There had been some feeling in the discussions that the operation might be more successful if speculators were not sure of the precise amount of assistance being extended to Britain. If, however, the Committee authorized an increase in the System's swap line with the Bank of England, he would recommend that the amount be \$250 million, rather than \$200 million, so that the total line with that Bank would be an even \$1 billion.

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In response to a question by Mr. Shepardson, Mr. Coombs said that, whichever procedure was followed the participation in the program of the United States--the System and Treasury combined--would be limited to 40 per cent of the total amount of assistance granted Britain and was not to exceed \$400 million.

Chairman Martin then commented that the Committee presumably would have no objection to an enlargement of the swap arrangement with the Bank of England. For present purposes, however, it might be desirable to put the question in the form of an amendment of the final paragraph of the continuing authority directive for foreign currency operations, to increase the dollar limit specified there for purchases of sterling on a covered or guaranteed basis from \$50 million to \$200 million equivalent, on the understanding that use of the authorization would not involve exceeding the limits just mentioned by Mr. Coombs.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the final paragraph of the continuing authority directive for foreign currency operations was amended to read as follows, effective immediately, on the understanding that use of the authorization would not exceed the limits described by Mr. Coombs:

The Federal Reserve Bank of New York is also authorized and directed to make purchases of sterling on a covered or guaranteed basis in terms of the dollar up to a total of \$200 million equivalent.

The meeting then adjourned.

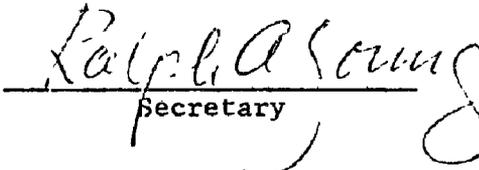
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Secretary's note: On September 14, 1965, Committee members voted (those outside of Washington by telegram) to authorize use of the authority in a manner that would involve U.S. participation in the program of assistance to Britain in the amount of \$400 million, to be shared equally between the System and the U.S. Treasury, rather than the lesser of this sum or 40 per cent of the total amount of assistance.

Votes for this action: Messrs.  
Martin, Balderston, Laane, Ellis  
Robertson, Scanlon, Shepardson, Clay,  
Irons, and Treiber. Votes against  
this action: None. Abstaining:  
Mr. Maisel.

Mr. Maisel indicated that while he had no objection to this action he had abstained from voting on it because he questioned the procedure followed of submitting it for vote to Committee members individually. In his judgment it would have been preferable to have had the action considered at a meeting of the Committee, to provide an opportunity for full discussion of any questions that members might have had concerning it.

  
Secretary