

Meeting of Federal Open Market Committee

March 18-19, 1974

MINUTES OF ACTIONS

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Monday and Tuesday, March 18-19, 1974, beginning at 4:00 p.m. on Monday.

PRESENT: Mr. Burns, Chairman
Mr. Hayes, Vice Chairman
Mr. Black
Mr. Brimmer
Mr. Bucher
Mr. Clay
Mr. Holland
Mr. Kimbrel
Mr. Mitchell
Mr. Sheehan
Mr. Wallich
Mr. Winn

Messrs. Coldwell, MacLaury, Mayo, and Morris,
Alternate Members of the Federal Open
Market Committee

Messrs. Eastburn, Francis, and Balles, Presidents
of the Federal Reserve Banks of Philadelphia,
St. Louis, and San Francisco, respectively

Mr. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Partee, Senior Economist
Mr. Axilrod, Economist (Domestic Finance)

Messrs. Bryant, Davis, Doll, Gramley,^{1/}
Hocter, Parthemos, Pierce,^{1/} and
Reynolds,^{1/} Associate Economists
Mr. Holmes, Manager, System Open Market
Account
Mr. Coombs, Special Manager, System Open
Market Account
Mr. Sternlight, Deputy Manager, System
Open Market Account

Mr. Melnicoff,^{1/} Managing Director for
Operations and Supervision, Board
of Governors
Mr. Coyne, Assistant to the Board of
Governors
Messrs. Keir and Williams, Advisers,
Division of Research and Statistics,
Board of Governors
Mr. Wendel, Assistant Adviser, Division
of Research and Statistics, Board
of Governors
Miss Pruitt, Economist, Open Market
Secretariat, Board of Governors
Mrs. Ferrell, Open Market Secretariat
Assistant, Board of Governors

Messrs. Eisenmenger,^{1/} Boehne, Taylor,^{1/}
Schild, and Andersen,^{1/} Senior Vice
Presidents, Federal Reserve Banks
of Boston, Philadelphia, Atlanta,
Chicago, and St. Louis, respectively
Messrs. Green and Sims, Vice Presidents,
Federal Reserve Banks of Dallas and
San Francisco, respectively
Mr. Kareken,^{1/} Economic Adviser, Federal
Reserve Bank of Minneapolis

^{1/} Attended Tuesday session only.

The Secretary reported that advices had been received of the election by the Federal Reserve Banks of members and alternate members of the Federal Open Market Committee for the term of one year beginning March 1, 1974; that it appeared that such persons were legally qualified to serve; and that they had executed their oaths of office.

The elected members and alternates were as follows:

Robert P. Black, President of the Federal Reserve Bank of Richmond, with Frank E. Morris, President of the Federal Reserve Bank of Boston, as alternate;

Alfred Hayes, President of the Federal Reserve Bank of New York, with Richard A. Debs, First Vice President of the Federal Reserve Bank of New York, as alternate;

Willis J. Winn, President of the Federal Reserve Bank of Cleveland, with Robert P. Mayo, President of the Federal Reserve Bank of Chicago, as alternate;

Monroe Kimbrel, President of the Federal Reserve Bank of Atlanta, with Philip E. Coldwell, President of the Federal Reserve Bank of Dallas, as alternate;

George H. Clay, President of the Federal Reserve Bank of Kansas City, with Bruce K. MacLaury, President of the Federal Reserve Bank of Minneapolis, as alternate.

Secretary's Note: The actions listed immediately below were taken on Monday, March 18, 1974.

By unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1975, with the understanding that in the event of the discontinuance of their official connection with the Board

of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the

Federal Open Market Committee:

Arthur F. Burns	Chairman
Alfred Hayes	Vice Chairman
Arthur L. Broida	Secretary
Murray Altmann	Deputy Secretary
Normand R.V. Bernard	Assistant Secretary
Thomas J. O'Connell	General Counsel
Edward G. Guy	Deputy General Counsel
John Nicoll	Assistant General Counsel
J. Charles Partee	Senior Economist
Stephen H. Axilrod	Economist (Domestic Finance)
Robert Solomon <u>1/</u>	Economist (International Finance)

Harry Brandt, Ralph C. Bryant,
Richard G. Davis, Raymond J.
Doll, Lyle E. Gramley,
William J. Hocter, James
Parthemos, James L. Pierce,
and John E. Reynolds Associate Economists

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Federal Open Market Committee after February 28, 1975.

By unanimous vote, Alan R. Holmes, Peter D. Sternlight, and Charles A. Coombs were selected to serve at the pleasure of the Federal Open Market Committee as Manager, Deputy Manager, and Special Manager for foreign currency operations, respectively, of the System Open Market Account, it being understood that their

1/ On leave of absence.

selection was subject to their being *satisfactory* to the Board of Directors of the Federal Reserve Bank of New York.

Secretary's Note: Advice subsequently was received that Messrs. Holmes, Sternlight, and Coombs were satisfactory to the Board of Directors of the Federal Reserve Bank of New York for service in the respective capacities indicated.

Consideration was then given to the continuing authorizations of the Committee, in accordance with the customary practice of reviewing such matters at the first meeting in March of every year.

Secretary's Note: On February 26, 1974, certain continuing authorizations of the Committee, listed below, had been distributed by the Secretary with the advice that, in accordance with past practice, they would remain effective until otherwise directed by the Committee. Members were asked to so indicate if they wished to have any of the authorizations in question placed on the agenda for consideration at this meeting, and no such requests were received.

The authorizations in question were as follows:

1. Procedures for allocation of securities in the System Open Market Account.
2. Distribution list for periodic reports prepared by Federal Reserve Bank of New York.
3. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank is unable to function.
4. Resolutions providing for continued operation of the Committee and for certain actions by the Reserve Banks during an emergency.^{1/}

1/ With respect to the second of these resolutions, a final (unnumbered) paragraph had been inadvertently omitted from the text shown in the minutes of actions for the meeting of the Committee on September 21, 1971 (the date of the latest revision) and in copies distributed subsequently. The full text of the resolution was shown in an attachment to the memorandum of February 26, 1974, and is reproduced in Attachment A to these minutes.

5. Resolution relating to examinations of the System Open Market Account.
6. Guidelines for the conduct of System operations in Federal Agency issues.
7. Regulation relating to Open Market Operations of Federal Reserve Banks.
8. Rules of Organization, Rules Regarding Availability of Information, and Rules of Procedure.

It was agreed to retain the existing procedure for making minutes and other records of the Committee available to employees of the Board of Governors and the Federal Reserve Banks, including authorization to the Secretary to act on the Chairman's behalf in considering proposals for the addition of members of the Board's staff to the list of those having access to Committee minutes and other records.

By unanimous vote, Section 270.4(c)(2) of the Regulation Relating to Open Market Operations of Federal Reserve Banks was amended, effective April 1, 1974, to read as follows:

§ 270.4 Transactions in Obligations.

* * *

(c) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee is authorized and directed --

* * *

(2) To buy and sell bankers' acceptances in the open market for its own account;

* * *

By unanimous vote, paragraphs 1(b) and 1(c) of the Authorization for Domestic Open Market Operations were amended, effective April 1, 1974, to read as follows:

(b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed \$125 million.

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances of the types authorized for purchase under 1(b) above, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by

any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

By unanimous vote, the staff committee on bankers' acceptances was directed to conduct further studies of the desirability of expanding Federal Reserve open market operations in bankers' acceptances to encompass all types of prime acceptances, including finance bills.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended, effective immediately, to read as follows:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward

commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than \$3.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting.

The Committee took note of the present state of de facto suspension of paragraph 2 of the Authorization for Domestic Open Market Operations as a consequence of the expiration, on November 1, 1973, of the underlying statutory authority contained in a provision of Section 14(b) of the Federal Reserve Act.

It was agreed that the authorization for the lending of Government securities from the System Open Market Account, contained in paragraph 3 of the Authorization for Domestic Open Market Operations, should be retained at this time, subject to annual review.

By unanimous vote, the Authorization for Foreign Currency Operations shown below was reaffirmed:

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold foreign currencies listed in paragraph A above, up to the following limits:

(1) Currencies purchased spot, including currencies purchased from the Stabilization Fund, and sold forward to the Stabilization Fund, up to \$1 billion equivalent;

(2) Currencies purchased spot or forward, up to the amounts necessary to fulfill other forward commitments;

(3) Additional currencies purchased spot or forward, up to the amount necessary for System operations to exert a market influence but not exceeding \$250 million equivalent; and

(4) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$200 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to the limit specified in paragraph 1B(1) above; and

(2) Other forward commitments to deliver foreign currencies, up to \$550 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	2,000

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	180
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates and no attempt shall be made to establish rates that appear to be out of line with underlying market forces.

4. It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.

6. The Subcommittee named in Section 272.4(c) of the Committee's rules of procedure is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.

7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities; and

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

By unanimous vote, the Foreign Currency Directive shown below was reaffirmed:

FOREIGN CURRENCY DIRECTIVE

1. The basic purposes of System operations in foreign currencies are:

A. To help safeguard the value of the dollar in international exchange markets;

B. To aid in making the system of international payments more efficient;

C. To further monetary cooperation with central banks of other countries having convertible currencies, with the International Monetary Fund, and with other international payments institutions;

D. To help insure that market movements in exchange rates, within the limits stated in the International Monetary Fund Agreement or established by central bank practices, reflect the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public; and

E. To facilitate growth in international liquidity in accordance with the needs of an expanding world economy.

2. Unless otherwise expressly authorized by the Federal Open Market Committee, System operations in foreign currencies shall be undertaken only when necessary:

A. To cushion or moderate fluctuations in the flows of international payments, if such fluctuations (1) are deemed to reflect transitional market unsettlement or other temporary forces and therefore are expected to be reversed in the foreseeable future; and (2) are deemed to be disequilibrating or otherwise to have potentially destabilizing effects on U.S. or foreign official reserves or on exchange markets, for example, by occasioning market anxieties, undesirable speculative activity, or excessive leads and lags in international payments;

B. To temper and smooth out abrupt changes in spot exchange rates, and to moderate forward premiums and discounts judged to be disequilibrating. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified or curtailed unless upon review and reassessment of the situation the Committee directs otherwise;

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include (1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions. Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken if the Special Manager reaches a judgment that they may help to reestablish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. In such cases, the Special Manager shall consult as soon as practicable with the Committee or, in an emergency, with the members of the Subcommittee designated for that purpose in paragraph 6 of the Authorization for foreign currency operations, and

D. To adjust System balances within the limits established in the Authorization for foreign currency operations in light of probable future needs for currencies.

3. System drawings under the swap arrangements are appropriate when necessary to obtain foreign currencies for the purposes stated in paragraph 2 above.

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or

accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements, and to facilitate operations of the Stabilization Fund; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on February 20, 1974, were approved.

The memoranda of discussion for the meetings of the Federal Open Market Committee held on January 21-22 and February 20, 1974, were accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period February 20 through March 18, 1974, were approved, ratified, and confirmed.

By unanimous vote, renewal for further periods of 3 months of System drawings on the National Bank of Belgium maturing on April 18 and 25, 1974, was authorized.

Secretary's Note: All of the actions listed below were taken on Tuesday, March 19, 1974.

By unanimous vote, the Committee authorized an increase from \$2 billion to \$3 billion in the System's swap line with the Bank of England, and the corresponding amendment to paragraph 2 of the Authorization for Foreign Currency Operations, effective March 26, 1974.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period February 20 through March 18, 1974, were approved, ratified, and confirmed.

By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions for the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that real output of goods and services is declining in the current quarter, in large part because of the oil situation, and that prices are continuing to rise rapidly. In February industrial production and manufacturing employment declined again, while total nonfarm payroll employment recovered, and the unemployment rate was unchanged at 5.2 per cent. Prices of farm and food products and industrial commodities increased sharply, although less so than in the preceding 2 months. Increases in wage rates appear to have moderated in recent months.

After depreciating during the first 3 weeks of February, the dollar has since shown little net change against leading foreign currencies. The U.S. trade surplus remained large in January, despite a further sharp rise in the cost of petroleum imports.

The narrowly defined money stock, after having declined in January, increased sharply in February and early March. Broader measures of the money stock rose substantially in February, as net inflows of consumer-type time deposits remained relatively strong. Business short-term borrowing at banks and in the open market has continued at a rapid pace. Following earlier declines, both short- and long-term market interest rates have risen appreciably in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and maintaining equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, including the prospective Treasury financing, the Committee seeks to achieve bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead.

It was agreed that the next meeting of the Committee would be held on Monday and Tuesday, April 15 and 16, 1974, beginning on Monday afternoon.

The meeting adjourned.


Arthur L. Sicilia
Secretary

RESOLUTION OF FEDERAL OPEN MARKET COMMITTEE AUTHORIZING
CERTAIN ACTIONS BY FEDERAL RESERVE BANKS DURING AN EMERGENCY
(As last revised September 21, 1971)

The Federal Open Market Committee hereby authorizes each Federal Reserve Bank to take any or all of the actions set forth below during war or defense emergency when such Federal Reserve Bank finds itself unable after reasonable efforts to be in communication with the Federal Open Market Committee (or with the Interim Committee acting in lieu of the Federal Open Market Committee) or when the Federal Open Market Committee (or such Interim Committee) is unable to function.

(1) Whenever it deems it necessary in the light of economic conditions and the general credit situation then prevailing (after taking into account the possibility of providing necessary credit through advances secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act), such Federal Reserve Bank may purchase and sell obligations of the United States for its own account, either outright or under repurchase agreement, from and to banks, dealers or other holders of such obligations.

(2) Such Federal Reserve Bank may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts in the general account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed \$5 billion at any one time.

(3) Such Federal Reserve Bank may engage in operations of the types specified in the Committee's authorization for System foreign currency operations when requested to do so by an authorized official of the U.S. Treasury Department; provided, however, that such Bank shall take all steps practicable at the time to insure as far as possible that, in light of the information available on other System foreign currency operations, its own operations do not result in the aggregate in breaching any of the several dollar limits specified in the authorization.

Authority to take the actions set forth shall be effective only until such time as the Federal Reserve Bank is able again to establish communications with the Federal Open Market Committee (or the Interim Committee), and such Committee is then functioning.