



# FEDERAL RESERVE

press release

**For Use at 4:00 p.m.**

**March 24, 1978**

**The Board of Governors of the Federal Reserve System 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 February 28, 1978.**

**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 February 28, 1978**

**1. Domestic policy directive**

The information reviewed at this meeting suggested that retail sales, industrial production, and housing starts had been adversely affected in January by unusually severe weather. It appeared, however, that there had been little change in the underlying economic situation.

In the fourth quarter of 1977, according to estimates of the Commerce Department, real output of goods and services had grown at an annual rate of 4.0 per cent, down from a rate of 5.1 per cent in the third quarter. However, final sales in real terms had expanded at a considerably faster pace than in the third quarter, and the rate of business inventory accumulation had slowed sharply. The rise in average prices, as measured by the fixed-weighted price index for gross domestic business product, had stepped up somewhat to an annual rate of 5.5 per cent in the fourth quarter from 5.0 per cent in the third.

Staff projections for the year 1978, like those prepared just before the Committee's meeting in mid-January,

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were based on assumptions that included reductions next fall in Federal income taxes. The projections continued to suggest that growth in real GNP would be sustained at a good pace throughout the year, although the over-all rate was somewhat below that anticipated earlier because of scaled-down projections for housing starts, auto sales, and total government purchases of goods and services. It was still expected that the rise in prices would remain relatively rapid and that the unemployment rate would decline moderately further over the year.

The latest projections suggested that growth in output would be less rapid in the first quarter of 1978 than had been expected earlier, in large part because of the adverse weather, but that the weather-related losses would be about made up later. Thus, it was expected that growth of consumer spending in real terms--which had been exceptionally rapid in the fourth quarter of 1977--would slow even more in the current quarter than had been anticipated and that expansion in business fixed investment and in residential construction also would fall short of

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earlier expectations. It was anticipated that growth in consumer spending would pick up in subsequent quarters-- particularly in the fourth quarter, following the reduction in personal income taxes assumed to take effect on October 1. Business fixed investment was still projected to expand moderately over the remaining quarters of 1978, owing in part to stimulative modifications of the investment tax credit that were assumed to be retroactive to the beginning of the year. It was now anticipated, however, that residential construction activity would begin to edge down after midyear in response to the less favorable mortgage market conditions that now appeared to be developing.

In January industrial production declined 0.7 per cent--about as much as it had risen over the preceding 3 months--as the unusually severe weather caused widespread absenteeism, reduced workweeks, and disruptions to supplies. Moreover, auto manufacturers curtailed assemblies in an effort to control dealers' inventories, and the ongoing strike of mineworkers reduced production of coal further.

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Nonfarm payroll employment continued to expand in January, and after adjustment for strikes, the gain was in line with the monthly-average rise during the second half of 1977. Increases were again sizable in manufacturing, trade, and services. Because of the unfavorable weather, however, construction employment declined, and the average workweek of production workers in nonfarm establishments fell sharply. The unemployment rate edged down to 6.3 per cent from 6.4 per cent in December.

The total value of retail sales declined about 3 per cent in January, according to the Census Bureau's advance estimate, after having expanded 5 per cent over the preceding 3 months. Sizable decreases in January were reported for almost all major categories of stores, at least in part because of the weather. Unit sales of new domestic autos declined 10 per cent to the lowest rate since late 1976, when supplies had been limited by a strike in the auto industry.

Private housing starts fell from an annual rate of 2.2 million units in December to 1.5 million units in January.

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Declines occurred in all regions of the country and were especially large in areas that had suffered major storms.

Manufacturers' new orders for nondefense capital goods fell 5 per cent in January after having risen about 9 per cent in December. However, the machinery component changed little in January after an increase of almost 8 per cent in December.

The index of average hourly earnings for private nonfarm production workers rose sharply in January, in part as a result of the increase in the Federal minimum wage from \$2.30 to \$2.65 per hour at the beginning of the year. Increases were especially large in trade and services, where adjustments in the minimum wage have tended to have more widespread effects.

The consumer price index for all urban consumers rose 0.8 per cent in January, almost twice the monthly-average increase in the second half of 1977. About two-thirds of the rise in January was attributed to price increases for foods and beverages and for housing, although prices advanced for all major categories of expenditures.

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The increase in the wholesale price index for January-- 0.9 per cent--also was considerably more than the average rise during the second half of 1977. In January average prices both of farm products and foods and of industrial commodities advanced substantially.

In foreign exchange markets, after almost a month of calm, the dollar came under renewed downward pressure around mid-February, and its trade-weighted value against major foreign currencies declined about 1-1/2 per cent during the second half of the month. Almost all major currencies rose against the dollar; the largest appreciations were registered by the Swiss franc and the German mark.

The U.S. foreign trade deficit increased appreciably in the fourth quarter of 1977. It appeared that the dock strike, which halted containerized shipments through Atlantic and Gulf Coast ports between October 1 and November 29, had depressed recorded exports more than recorded imports. After allowance for the apparent effects of the strike, the deficit was still slightly larger in the fourth quarter than in any of the first three quarters of the year. A deficit of \$31 billion

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(international accounts basis) was estimated for 1977 as a whole, up from \$9 billion in 1976.

At U.S. commercial banks, total credit expanded substantially in January, after having changed little in December. The January expansion, which was about in line with the average rate of growth during the fourth quarter of 1977, was attributable chiefly to a rebound in loan expansion. Growth in business loans and in loans to finance security holdings accelerated, and expansion in real estate and consumer loans apparently remained large. As in earlier months, banks financed a sizable part of the January increase in total loans by reducing their holdings of Treasury securities.

For nonfinancial businesses the January pick-up in loan growth was especially evident at smaller banks. Lending to nonfinancial businesses also rose somewhat at large banks during January, but it remained below the pace of late 1977, and these businesses managed a sizable net run-off of their outstanding commercial paper.

The narrowly defined money supply (M-1) expanded at an annual rate of 7-1/4 per cent in January, but data for early February suggested a decline from the January level. From the fourth quarter of 1976 to the fourth quarter of 1977, M-1 had grown 7.4 per cent, compared with 5.6 per cent in 1976 and 4.4 per cent in 1975.<sup>1/</sup>

Growth in M-2 picked up in January to an annual rate of about 8-1/4 per cent--from 5-3/4 per cent in December--reflecting some strengthening in inflows to banks of time and savings deposits other than negotiable CD's. From the fourth quarter of 1976 to the fourth quarter of 1977, M-2 had grown 9.6 per cent, compared with 10.9 per cent in 1976 and 8.3 per cent in 1975.

Deposit growth at nonbank thrift institutions continued to slow in January, and M-3 expanded at an annual rate of 8 per cent--about the same as in December. Over the four quarters of 1977, M-3 had grown 11.6 per cent.

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<sup>1/</sup> At the time of this meeting, revision of the measures of the monetary aggregates to reflect, among other things, new benchmark data for deposits at nonmember banks had nearly been completed. It was reported at the meeting that, according to tentative estimates, the benchmark adjustment would raise the 1977 growth rates of M-1 and M-2 by 0.4 and 0.2 of a percentage point, respectively.

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At its January meeting the Committee had decided that operations in the period immediately ahead should be directed toward maintaining about the prevailing money market conditions, provided that the monetary aggregates appeared to be growing at approximately the rates then expected. Specifically, the Committee sought to maintain the weekly-average Federal funds rate at about 6-3/4 per cent, so long as M-1 and M-2 appeared to be growing over the January-February period at annual rates within ranges of 2-1/2 to 7-1/2 per cent and 5 to 9 per cent, respectively. The members also agreed that if growth in the aggregates appeared to be approaching or moving beyond the limits of their specified ranges, the operational objective for the weekly-average Federal funds rate should be varied in an orderly fashion within a range of 6-1/2 to 7 per cent. It was understood that very strong evidence of weakness in the monetary aggregates would be required before operations were directed toward reducing the Federal funds rate below the 6-3/4 per cent level.

Data that became available during the inter-meeting period suggested that growth in the monetary aggregates over

the January-February period would be well within the specified ranges. The Manager of the System Open Market Account, therefore, continued to aim for a Federal funds rate of around 6-3/4 per cent. Over the 6-week inter-meeting period, the funds rate averaged 6.76 per cent, and weekly averages showed only minor deviations from that level.

Other short-term interest rates also changed little on balance over the inter-meeting period, even though short-term credit demands remained relatively strong. Longer-term interest rates showed mixed changes for the period. Yields on State and local government bonds declined somewhat further, whereas those on Treasury, Federal agency, and corporate securities edged higher.

Interest rates on mortgages rose during January, and some tightening of nonrate terms was reported as well. In order to cover mortgage take-downs in the face of weakening deposit flows, savings and loan associations increased their reliance on advances from the Federal home loan banks and other nondeposit sources of funds. This contrasted with the typical pattern in January of reductions in borrowings.

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In the Committee's discussion of the economic situation and prospects, the members agreed that the expansion in activity was likely to continue throughout 1978. Most members thought that the staff's GNP projection was reasonable, but two or three members believed that growth in real GNP would fall somewhat short of the projected rate. Several members emphasized that the degree of uncertainty with regard to economic prospects and projections had been increasing.

It was observed that at the current stage of this business expansion some deceleration in growth toward a rate that could be sustained for the longer term would be a desirable development. The comment was also made that some deceleration would be acceptable in light of the inflationary pressures in the economy and of recent developments in the foreign exchange markets.

Considerable concern was expressed that the rate of inflation might accelerate significantly as the year progressed. The comment was made that prospects for inflation had been inhibiting business decisions to invest in fixed capital, and

it was suggested that an acceleration would adversely affect confidence and would dampen expansion in spending of other kinds. Such price behavior, it was noted, would pose difficult questions concerning the appropriate role of monetary policy.

Two members expressed the view that over the year the rate of unemployment was unlikely to decline very much. Another member believed that a realistic objective for the unemployment rate now was considerably higher than it used to be, perhaps as high as 5-1/2 to 6 per cent.

One of the members who thought that the staff's projection for real GNP represented the most likely outcome nevertheless cited certain elements in the situation that could cause growth in output to fall short of the rates projected. He suggested, first, that the sizable decline in stock prices over the 6 weeks since the January meeting of the Committee indicated a continuing lack of confidence in prospects for business activity and profits, which could undermine the progress of the expansion. Like others, he agreed with the staff expectation that the economy would rebound from the

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effects of the severe weather and the coal strike. Nevertheless, he was concerned about the possibility that the loss of income because of those developments, even though temporary, could have enduring effects on consumer demands and on the general course of the economy. With respect to the U.S. foreign trade position, he did not see clear signs of the sort of expansion in activity abroad that would significantly reduce the trade deficit. Another member expressed agreement with this view of prospects for the trade deficit, while a third was somewhat more optimistic.

One of the members who believed that growth in real GNP would fall somewhat short of the rate projected by the staff also believed that the shortfall would be concentrated in the second half of the year. In his view, growth in output would be buoyed until midyear by a rebuilding of inventories as well as by the recovery from the effects of adverse weather and of the coal strike. However, he thought that problems would develop later in the year in residential construction and in some other sectors of the economy. Another member expressed the view that the staff expectations for housing starts, even though scaled down since the January meeting, were still too high.

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Several members commented that they agreed with the scaled-down projections for both housing starts and auto sales, and some noted that for several months they had viewed the staff projections for those sectors as too high. It was observed that the outlook for those sectors was still relatively strong and that demands were likely to be supported by adequate supplies of credit and a willingness of consumers to assume debt. With respect to housing, the tendency of consumers to perceive homeownership as a good form of investment in a period of inflation also was mentioned as a factor likely to support demand.

It was observed in the discussion that the current business expansion--now about 3 years old--had developed some serious imbalances. U.S. merchandise imports were much too high relative to the behavior of the world economy. Business fixed investment was low in relation to growth in over-all production, and a few members expressed doubts of significant improvement during 1978. State and local governments were running a sizable surplus in their accounts, thereby draining purchasing power from the private sector. Outstanding consumer credit was high in relation to personal income. Wage increases

were high in relation both to improvements in productivity and to the level of unemployment. Corporate profits were low in relation to personal income and to costs of production. Prices of common stock were low relative to corporate profits. And the state of general confidence appeared to be unduly low in relation to the actual performance of the economy.

One member expressed the view that confidence was being adversely affected by the large deficit in the Federal budget. He added that the budget estimates were based on the assumption of continued moderate growth in economic activity, and that if a recession should develop the deficit could swell to such a size that it might take many years to return to financial stability. Another member noted that under present fiscal policies the Federal deficit apparently would remain substantial even if a state of high employment were reached.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At its meeting in October 1977, the Committee had specified the following ranges for growth over the period from the third quarter of 1977 to the third quarter of 1978: M-1, 4 to 6-1/2 per cent;

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M-2, 6-1/2 to 9 per cent; and M-3, 8 to 10-1/2 per cent. The associated range for growth in commercial bank credit was 7 to 10 per cent. The ranges being considered at this meeting were for the period from the fourth quarter of 1977 to the fourth quarter of 1978.

In the Committee's discussion of the 12-month ranges, all but one member expressed a preference for retaining the existing range for M-1. This member suggested that the upper limit for M-1 be reduced by 1/2 of a percentage point and the lower limit be raised by a corresponding amount, yielding a range of 4-1/2 to 6 per cent. In the case of the broader aggregates, most members favored no change in the existing range for M-2 and a reduction of 1/2 of a percentage point in the range for M-3. Two members, however, preferred a reduction of 1/2 point in the range for M-2. One of them also suggested a reduction of 1 point, while the other advocated a reduction of either 1 or 1-1/2 points, in the M-3 range.

The nearly unanimous preference of members for retaining the range of 4 to 6-1/2 per cent for M-1 reflected several considerations. First, it was observed that any increase in the

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6-1/2 per cent upper limit of the range could strengthen inflationary expectations, which already appeared to be intensifying, and could accentuate the current weakness of the dollar in foreign exchange markets. Second, because the rate of growth of M-1 in 1977--about 7-1/2 per cent--had significantly exceeded the upper limit of the Committee's earlier ranges, it was suggested that a decision now to reduce the range might lack credibility. Third, it was noted that if the actual rate of growth in M-1 during 1978 were to fall within a 4 to 6-1/2 per cent range, that would represent a significant slowing from the 1977 rate. Indeed, one Committee member observed that if--as seemed likely--some slackening were under way in the processes of financial innovation that recently had been facilitating economies in transactions balances, an unchanged rate of growth in M-1 could be interpreted as involving an increase in monetary restraint. Finally, it was suggested that current uncertainties regarding the economic outlook militated against an adjustment in the M-1 range. While Committee members found these considerations persuasive, it was observed in the discussion that further gradual reductions

in monetary growth ranges would be needed over time if growth rates consistent with general price stability were to be achieved.

Several Committee members noted that if during the coming year M-1 growth were to be constrained within a 4 to 6-1/2 per cent range and nominal GNP were to expand as fast as economic forecasters were generally projecting, an appreciable increase in the velocity of M-1 would be required. While they believed that such an increase in velocity might develop, they indicated that they would be prepared to accept M-1 growth rates that were relatively high with respect to the range if the increase in velocity fell short of the required amount. Other members stressed the importance of constraining growth in M-1 within the range specified.

The member who preferred the growth range of 4-1/2 to 6 per cent for M-1 based his recommendation on two considerations. First, by lowering the upper limit of the range, the Committee would be providing a further indication of its resolve to resist inflationary pressures and in the process perhaps help to provide some near-term support for the dollar. Second, by raising the

lower limit of the range, the Committee might offer some reassurance to those who had expressed concern that the Federal Reserve might not be sufficiently alert to the possibility of a softening in the economy later this year. Other members of the Committee took exception to this proposal. In addition to the arguments offered against a reduction in the upper limit of the M-1 range already noted, it was suggested that a narrowing of the range would imply much greater certainty than in fact existed regarding the precise rate of monetary growth appropriate under present circumstances.

In considering the longer-run growth ranges for M-2 and M-3, members took note of the sharp reduction in flows of savings to depositary institutions that had occurred during recent months. It was suggested that part of the cutback in such inflows might reflect temporary factors, and that over coming months growth in large-denomination time deposits not subject to interest rate ceilings could well expand further, providing some offset to the continued slow growth expected in other deposits. It was noted that in the past the large-denomination deposit instruments of the types included in M-2 and M-3 had been issued primarily by

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banks, but it was suggested that in the present circumstances thrift institutions might begin to make greater use of such instruments as a source of funds.

In view of these considerations, most members of the Committee were inclined to retain the existing range for M-2 and to reduce the range for M-3 by only 1/2 of a percentage point. The members recognized that the attainment over the coming year of growth rates for M-2 and M-3 within such ranges might require an increase in the regulatory ceilings on deposit rates. The two members who suggested some reduction in the M-2 growth range and a reduction of more than 1/2 of a percentage point in the M-3 range believed that under present circumstances the ranges favored by the majority were higher than those appropriately associated with a 4 to 6-1/2 per cent range for M-1.

At the conclusion of its discussion the Committee decided to retain the existing ranges for M-1 and M-2 and to reduce both the upper and lower limits of the range for M-3 by 1/2 of a percentage point. Thus, the new ranges, which applied to the period from the fourth quarter of 1977 to the

fourth quarter of 1978, were 4 to 6-1/2 per cent for M-1, 6-1/2 to 9 per cent for M-2, and 7-1/2 to 10 per cent for M-3. The associated range for growth in commercial bank credit remained 7 to 10 per cent. It was agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It was also understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for the year ahead.

The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1977 to the fourth quarter of 1978: M-1, 4 to 6-1/2 per cent; M-2, 6-1/2 to 9 per cent; and M-3, 7-1/2 to 10 per cent.

Votes for this action: Messrs.  
Burns, Volcker, Coldwell, Guffey, Jackson,  
Mayo, Morris, Partee, Roos, and Wallich.  
Votes against this action: None. Absent  
and not voting: Mr. Gardner.

In the Committee's discussion of policy for the period immediately ahead, it was suggested that recent developments in the foreign exchange markets militated against any marked easing of money market conditions at this time, and that the uncertainties

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in the economic situation militated against any marked firming. All of the members favored directing initial open market operations during the coming inter-meeting period toward the objective of maintaining the Federal funds rate at about the prevailing level of 6-3/4 per cent, and a majority preferred to continue giving greater weight than usual to money market conditions in the conduct of operations until the next meeting. With respect to the range in which the funds rate might be varied if the February-March growth rates in the monetary aggregates appeared to be deviating markedly from expectations, most members advocated retention of the 6-1/2 to 7 per cent range agreed upon at the January meeting. However, two members suggested narrowing the range to 6-3/4 to 7 per cent, and one proposed widening it to 6-1/2 to 7-1/4 per cent.

The members did not differ greatly in their preferences for growth in the monetary aggregates for the February-March period; most favored ranges of 1 to 6 per cent for M-1 and 4-1/2 to 8-1/2 per cent for M-2. However, a few members were inclined to set the lower limit of the 2-month range for M-1 at zero, on the grounds that the acceptance of temporary weakness in the

monetary aggregates that might develop from time to time would improve the chances of holding average growth over the coming year within the longer-run range agreed upon earlier in this meeting. One of these members also suggested that, given the relative volatility of M-1 and M-2, a range for M-2 that was 4 percentage points wide might best be associated with an M-1 range 6 points in width; accordingly, he favored a 2-month range of 0 to 6 per cent for M-1. Another member suggested that the ranges for both M-1 and M-2 be narrowed to 3 percentage points, in order to achieve prompt adjustment of the funds rate to growth rates in the aggregates that were unduly rapid or slow.

At the conclusion of the discussion the Committee decided that operations in the period immediately ahead should continue to be directed toward maintaining prevailing money market conditions, as represented by the current 6-3/4 per cent level of the Federal funds rate. However, the members agreed that if growth in the aggregates should appear to approach or move beyond the limits of their specified ranges, the operational objective for the weekly-average Federal funds rate should be

varied in an orderly fashion within a range of 6-1/2 to 7 per cent. For the annual rates of growth in M-1 and M-2 over the February-March period, the Committee specified ranges of 1 to 6 per cent and 4-1/2 to 8-1/2 per cent, respectively. It was understood that in assessing the behavior of the aggregates, the Manager should give approximately equal weight to the behavior of M-1 and M-2. The members also agreed that in the conduct of day-to-day operations, account should be taken of emerging financial market conditions, including the conditions in foreign exchange markets.

As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that retail sales, industrial production, and housing starts were adversely affected in January by unusually severe weather. It appears, however, that there has been little change in the underlying economic situation. Employment increased

further in January and the unemployment rate edged down from 6.4 to 6.3 per cent. Both the consumer price index and the wholesale price index rose substantially. The index of average hourly earnings advanced sharply, as higher minimum wages became effective at the beginning of the year.

After a period of calm, the dollar came under renewed downward pressure around mid-February, and its trade-weighted value against major foreign currencies has declined about 1-1/2 per cent. The Swiss franc and the German mark have registered the most pronounced appreciations against the dollar.

M-1 expanded appreciably in January but declined somewhat in early February. Growth in M-2 picked up in January, reflecting some strengthening in inflows to banks of time and savings deposits other than negotiable CD's. Inflows to nonbank thrift institutions continued to slow. Market interest rates have changed little in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster bank reserve and other financial conditions that will encourage continued economic expansion and help resist inflationary pressures, while contributing to a sustainable pattern of international transactions.

Growth of M-1, M-2, and M-3 within ranges of 4 to 6-1/2 per cent, 6-1/2 to 9 per cent, and 7-1/2 to 10 per cent, respectively, from the fourth quarter of 1977 to the fourth quarter of 1978 appears

to be consistent with these objectives. These ranges are subject to reconsideration at any time as conditions warrant.

At this time, the Committee seeks to maintain about the prevailing money market conditions during the period immediately ahead, provided that monetary aggregates appear to be growing at approximately the rates currently expected, which are believed to be on a path reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, the Committee seeks to maintain the weekly-average Federal funds rate at about the current level, so long as M-1 and M-2 appear to be growing over the February-March period at annual rates within ranges of 1 to 6 per cent and 4-1/2 to 8-1/2 per cent, respectively. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period are approaching or moving beyond the limits of the indicated ranges, the operational objective for the weekly-average Federal funds rate shall be modified in an orderly fashion within a range of 6-1/2 to 7 per cent. In the conduct of day-to-day operations, account shall be taken of emerging financial market conditions, including the conditions in foreign exchange markets.

If it appears during the period before the next meeting that the operating constraints specified above are proving to be significantly inconsistent, the Manager is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs.  
Burns, Volcker, Coldwell, Guffey, Jackson,  
Mayo, Morris, Partee, Roos, and Wallich.  
Votes against this action: None. Absent  
and not voting: Mr. Gardner.

Subsequent to the meeting, on March 10, nearly final estimates indicated that in February M-1 had declined and M-2 had increased relatively little. For the February-March period staff projections suggested that the annual rate of growth in M-1 would be below the lower limit of the 1 to 6 per cent range specified by the Committee in the next-to-last paragraph of the domestic policy directive issued at the February meeting. Growth in M-2 for the 2-month period was projected to be close to the lower limit of the Committee's range of 4-1/2 to 8-1/2 per cent for that aggregate. It appeared, however, that the weakness in the aggregates might reflect the prolongation of the coal strike and the severe winter weather and, therefore, might prove to be temporary.

During recent weeks the Federal funds rate had averaged about 6-3/4 per cent. In light of the behavior of the aggregates, the Manager would, under normal circumstances, have sought to reduce the funds rate within its specified range of 6-1/2 to 7 per cent.

Against that background, and in view of recent developments in foreign exchange markets, Chairman Miller recommended at a telephone conference meeting on March 10 that the Manager be instructed to continue aiming at a Federal funds rate of 6-3/4 per cent for the time being.

On March 10, 1978, the Committee modified the domestic policy directive adopted at its meeting of February 28, 1978, to call for open market operations directed at maintaining the Federal funds rate at about the prevailing level of 6-3/4 per cent for the time being.

Votes for this action: Messrs. Miller, Volcker, Burns, Coldwell, Eastburn, Jackson, Wallich, Willes, Winn, and Kimbrel.  
Votes against this action: None. Absent and not voting: Messrs. Baughman, Gardner, and Partee. (Mr. Kimbrel voted as alternate for Mr. Baughman.)

## 2. Authorization for foreign currency operations

Paragraph 1D of the Committee's authorization for foreign currency operations authorizes the Federal Reserve Bank of New York for the System Open Market Account to maintain an over-all open position in all foreign currencies not exceeding \$1.0 billion, unless a larger position is expressly authorized by the Committee. On January 17, 1978, the Committee had authorized an open position of \$1.75 billion.

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At the meeting on February 28 the Committee authorized an open position of \$2.0 billion. This action was taken in view of the scale of recent and potential Federal Reserve operations in the foreign exchange markets undertaken pursuant to the Committee's foreign currency directive.

Votes for this action: Messrs.  
Burns, Volcker, Coldwell, Guffey, Jackson,  
Mayo, Morris, Partee, Roos, and Wallich.  
Votes against this action: None. Absent  
and not voting: Mr. Gardner.

On March 10, following the telephone conference held on that day, Committee members voted to approve a delegation of authority to Chairman Miller to negotiate an increase in the System's swap arrangement with the German Federal Bank of an amount up to \$2 billion if he determined that the detailed arrangements were satisfactory. The Committee also voted to approve a concurrent amendment to paragraph 2 of the authorization for foreign currency operations to raise correspondingly the amount specified there for the swap arrangement with the German Federal Bank. The Chairman approved an increase of \$2 billion on March 11. Accordingly, paragraph 2 of the authorization was amended, effective on that date, to read as follows:

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	3,000
Bank of France	2,000
German Federal Bank	4,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	360
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

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Votes for this action: Messrs. Miller, Volcker, Burns, Coldwell, Eastburn, Jackson, Partee, Wallich, Willes, Winn, and Kimbrel. Votes against this action: None. Absent and not voting: Messrs. Baughman and Gardner. (Mr. Kimbrel voted as alternate for Mr. Baughman.)

This action, which enlarged the System's swap network with 14 central banks and the Bank for International Settlements to \$22.16 billion, was taken as part of the cooperative effort announced on March 13 by U.S. Secretary of the Treasury Blumenthal and Minister Matthoefer of the Federal Republic of Germany.