



FEDERAL RESERVE

press release

For Use at 4:00 p.m.

July 21, 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 June 20, 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

July 21, 1978

RECORD OF POLICY ACTIONS  
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on June 20, 1978

1. Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services had expanded rapidly on the average in the second quarter, reflecting the economy's rebound in late winter and early spring from the effects of the unusually severe winter weather and the lengthy coal strike. More recently, however, the rate of expansion appeared to have slowed. The rise in average prices--as measured by the fixed-weighted price index for gross domestic business product--accelerated markedly in the second quarter, due in large measure to substantial increases in food prices.

Staff projections continued to suggest moderate expansion in output over the year ahead. The anticipated rate of growth was slightly lower than that projected a month earlier, mainly because the assumptions regarding fiscal policy were modified to reflect the administration's decision to delay the proposed tax cut from October 1 to January 1 and to reduce its size. The projected rate of price advance had been raised slightly from that of a month earlier, but it was still well below the rate in the second quarter. The projections also suggested that the unemployment rate would decline a bit further over the coming year.

Growth in production and employment moderated in May from the rapid rates of preceding months. Thus, the industrial production index increased 0.6 per cent, compared with gains of 1.2 and 1.4 per cent in March and April, respectively; and the rise in nonfarm payroll employment in May was less than one-half the average increase earlier in the year. In manufacturing, the gain in employment was relatively small and the average workweek declined. The labor force continued to grow substantially and the unemployment rate edged up to 6.1 per cent from 6.0 per cent in April.

Total retail sales were about unchanged in May, following 3 months of exceptionally large gains. Unit sales of new automobiles rose slightly further to a new high for the current expansion. It appeared that some consumers were buying new cars in anticipation of further price increases.

The latest Department of Commerce survey of business spending plans, taken in late April and May, suggested that outlays for plant and equipment would expand 11.2 per cent in 1978; this rate was marginally above that reported in the February survey. Other indicators of capital spending plans, such as manufacturers' capital appropriations, contracts for commercial and industrial buildings, and new orders for nondefense capital goods, appeared generally consistent with continued moderate expansion in investment outlays.

The index of average hourly earnings for private nonfarm production workers rose at an annual rate of about 3 per cent in

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May, following increases averaging close to 10 per cent in earlier months of 1978. For the first 5 months of the year the index had increased at a somewhat faster rate than it had on the average in 1977. The advance in the wholesale price index for all commodities also slowed in May, reflecting smaller increases in prices of farm and food products as of the time of the survey. Later in the month, however, prices of a number of farm products advanced. In April the consumer price index for all urban consumers rose at an accelerated annual rate of nearly 11 per cent, owing to further large increases in food prices and to higher service costs, especially those relating to home ownership. In general, prices had increased considerably faster in early 1978 than during the year 1977.

In foreign exchange markets the trade-weighted value of the dollar reached a peak for 1978 in late May. Subsequently the dollar declined by about 2 per cent, but it remained above the low for the year that had been recorded in early April.

The renewed downward pressure on the dollar appeared to reflect market concern about the high rate of inflation in the United States relative to rates in other industrial countries and about the continuation of large deficits in U.S. foreign trade and surpluses in the trade of Germany and Japan. The deficit in April was about the same as that in March but lower than the high level of the first quarter. Both exports and imports rose considerably in April.

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The rate of expansion in total bank credit, which had accelerated sharply in April, slackened somewhat in May but remained above the average for other recent months. Bank holdings of securities changed little, but total loans, led by a surge in business loans, grew at an exceptional pace. Outstanding commercial paper of nonfinancial businesses declined slightly in May.

Growth in the narrowly defined money supply (M-1) moderated in May to an annual rate of about 6-1/2 per cent from the extraordinarily rapid 19 per cent in April. Growth in M-2 and M-3 also slowed in May, reflecting the deceleration in M-1. Inflows of the interest-bearing deposits included in M-2 generally were greater than in April as commercial banks issued a substantial volume of large-denomination time deposits to finance the sharp increase in business loans. However, inflows of funds into savings deposits and small-denomination time deposits remained slow both at banks and at thrift institutions. Preliminary data for the first part of June suggested that growth in M-1 and M-2 would accelerate in that month.

At its meeting on May 16 the Committee had decided that the ranges of tolerance for the annual rates of growth in M-1 and M-2 during the May-June period should be 3 to 8 per cent and 4 to 9 per cent, respectively, and it had judged that such growth rates were likely to be associated with a weekly-average Federal funds rate slightly above the level of 7-1/4 to 7-3/8 per cent prevailing

at that time. The Committee had agreed that if growth rates in the aggregates over the 2-month period appeared to be deviating significantly from the midpoints of the indicated ranges, the operational objective for the weekly-average Federal funds rate should be modified in an orderly fashion within a range of 7-1/4 to 7-3/4 per cent.

In accordance with the Committee's decision, the Manager of the System Open Market Account began after the May meeting to seek bank reserve conditions consistent with a firming of the Federal funds rate to around 7-1/2 per cent. Incoming data throughout most of the inter-meeting period suggested that growth in the monetary aggregates would be well within the ranges specified by the Committee, and the Manager continued to seek conditions consistent with a Federal funds rate of 7-1/2 per cent.

Data that became available a few days before this meeting suggested that M-1 would grow in the May-June period at an annual rate of about 7-1/2 per cent, close to the upper limit of its range. M-2 also was projected to grow in the 2-month period at a 7-1/2 per cent rate, in the upper half of the range specified for that aggregate. These data suggested the need for Committee consultation, and on June 16, in view of the proximity of the meeting scheduled for June 20, the Committee voted to direct the Manager to continue for the time being to aim for a Federal funds rate of 7-1/2 per cent.

Other market interest rates had risen further in recent weeks. Reflecting not only the rise in the funds rate but also substantial business credit demands, market rates on short-term securities had increased from 30 to 60 basis points since mid-May, and commercial banks had raised the rate on loans to prime business borrowers in two steps from 8-1/4 to 8-3/4 per cent. Yields on long-term securities rose 5 to 20 basis points over the same period, apparently in response to the rise in short-term rates and investor concerns about the prospects for inflation.

Conditions in mortgage markets had continued to tighten recently as strong demands for credit pressed against reduced availability of funds at lending institutions. At savings and loan associations, net mortgage lending activity in April--the latest month for which data were available--was close to its reduced rate in the weather-affected first quarter, and mortgage commitments outstanding declined further. During the inter-meeting period there were further increases in interest rates on new commitments for conventional home loans at the associations and, in most regions, a tightening of nonrate terms as well. Yields in the secondary market for home mortgages also had generally increased in recent weeks.

In the Committee's discussion of the economic situation and outlook, the members generally agreed that the growth in real output of goods and services over the coming three quarters would be substantially slower on the average than it had been in the unusually

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strong quarter just ending. However, they still expected real GNP to grow at a moderate average rate during the year ending with the second quarter of 1979. While some members thought that average growth for that period would probably be at or a little below the rate projected by the staff, others expected somewhat faster growth. A majority feared that the rise in prices would be greater than the staff anticipated. Most members thought that the unemployment rate at the end of the period would be little changed from the rates recently prevailing.

With respect to the months immediately ahead, a majority of the Committee members thought that the economy was likely to show more strength than the staff projection suggested. These members noted that both consumer and business sentiment appeared to be strong, and they interpreted the latest data on consumer behavior as evidence that many households were adopting a speculative approach to spending--anticipating needs for housing and other durables, and in the process adding willingly to already heavy debt burdens. While these members acknowledged that national economic data did not yet suggest similar anticipatory spending on the part of businesses, several noted that many businessmen appeared to be optimistic about the prospects for their own firms and industries and that such optimism might soon be reflected in a step-up in over-all business inventory accumulation and investment outlays. A number of these members expressed

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concern about the indications that inflationary expectations were strengthening and that both business and labor were intensifying their efforts to protect themselves through price and wage increases.

Two of the members who anticipated relatively strong growth in the near term thought that the economy was likely to generate sufficient momentum to maintain a favorable rate of expansion beyond mid-1979. Others in this group were concerned, however, that insofar as near-term spending of consumers and businesses embodied speculative tendencies, the resulting economic distortions might lead to significantly slower growth in 1979.

Of the Committee members who anticipated less near-term strength in the economy, some suggested that current business optimism might well reflect an overemphasis on the sharp rebound that had occurred in recent months rather than a considered assessment by businessmen of prospects for the future. These members thought it unlikely that growth in consumer outlays would continue at the recent rate, and they saw no obvious source of offsetting strength. They expected outlays for housing to slacken; they noted that surveys of business investment plans did not reflect much ebullience; and they thought businessmen would follow a cautious approach to inventory expansion. Finally, they noted that Federal fiscal policy would be less stimulative than anticipated earlier in the year.

Several members of the Committee observed that relatively slow economic growth would tend to dampen inflationary pressures and to bolster the position of the dollar in foreign exchange markets. One of these members noted that economic activity in major industrial countries abroad was expected to strengthen, and that such a development would help to limit any deceleration in the U.S. expansion. He added that a failure of activity abroad to strengthen as expected would increase the chances of unsatisfactory growth in the United States and would create additional problems with respect to the U.S. current account.

At its meeting in April the Committee had agreed that from the first quarter of 1978 to the first quarter of 1979 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: 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. The associated range for the rate of growth in commercial bank credit was 7-1/2 to 10-1/2 per cent. It had also been 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.

At this meeting, in discussing policy for the period immediately ahead, Committee members expressed considerable concern about recent rates of growth in the monetary aggregates, particularly in light of the continuing strength of inflationary pressures and

expectations. The members agreed that open market operations in the inter-meeting period should be directed initially toward achieving slightly firmer money market conditions, and that later in the period the objectives of operations should depend on incoming data for M-1 and M-2.

As at the preceding meeting, there were differences of view with respect to the degree of firming that might be undertaken. These differences were reflected in opinions on such issues as the magnitude and speed of the initial move toward firmer money market conditions and the amount of leeway--in terms of the inter-meeting range specified for the Federal funds rate--for further firming later in the period.

As to the initial move, most members favored seeking an increase in the Federal funds rate to 7-3/4 per cent from the prevailing level of 7-1/2 per cent within a few days after this meeting. However, one member suggested that this quarter-point increase be achieved over a somewhat longer period, and another proposed that the initial increase be limited to one-eighth of a point. With respect to the inter-meeting range for the Federal funds rate, most members favored 7-1/2 to 8 per cent, but a number preferred 7-1/2 to 8-1/4 per cent.

There was greater diversity of views with respect to the ranges of tolerance to be specified for the annual rates of growth in M-1 and M-2 in the June-July period. Of the ranges

suggested for M-1, the lowest was 3-1/2 to 8-1/2 per cent, and the highest was 6-1/2 to 10-1/2 per cent; for M-2 the suggestions covered a similar span. It was noted during the discussion that if the monetary aggregates accelerated in June, as suggested by the early data, growth over the June-July period at rates near the midpoints of some of the lower ranges proposed could be achieved only if there were to be a sharp slowing in July. Some members, who were inclined to stress the risks to the economy of rapid firming of money market conditions, saw this circumstance as an argument for specifying relatively high 2-month ranges for M-1 and M-2. Other members, who placed more stress on the importance at this time of limiting growth in the aggregates for the sake of moderating inflationary pressures and expectations, thought such firming would be called for if the growth in the aggregates did not in fact slow sharply.

At the conclusion of the discussion the Committee decided that the ranges of tolerance for the annual rates of growth over the June-July period should be 5 to 10 per cent for M-1 and 6 to 10 per cent for M-2. The Committee agreed that during the coming inter-meeting period operations should be directed initially toward a Federal funds rate of 7-3/4 per cent, slightly above the prevailing level of 7-1/2 per cent. Subsequently, if the 2-month growth rates of M-1 and M-2 appeared to be significantly above or below the midpoints of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within

a range of 7-1/2 to 8 per cent. It was understood that in assessing the behavior of the aggregates the Manager should continue to give approximately equal weight to the behavior of M-1 and M-2.

It was also understood that the Chairman might call upon the Committee to consider the need for supplementary instructions if the rates of growth in the aggregates appeared to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate had already been moved to the corresponding limit of its range.

At this meeting the Committee considered certain proposed modifications in the language customarily employed in the concluding paragraphs of the domestic policy directive. It was noted that, perhaps because of the manner in which the directive was worded, the 2-month ranges of tolerance for M-1 and M-2 were subject to misinterpretation as embodying the Committee's short-run targets for these aggregates, intended to be achieved by appropriate changes in the Federal funds rate. In fact, however, the Manager could not be expected regularly to achieve 2-month growth rates in M-1 and M-2 within the specified ranges for various reasons--including the lag between changes in the Federal funds rate and changes in these growth rates, and the brevity of the period to which the operational paragraphs of any single directive applied.

It was noted in the discussion that the Committee's objectives for the monetary aggregates were embodied in the 1-year

ranges established at quarterly intervals, and that the adjustments made from time to time in the Federal funds rate were intended to increase the likelihood that the longer-run growth rates would fall within these ranges. The purpose of the 2-month ranges was to provide the Manager with an indicator for determining when changes in the funds rate were appropriate; specifically, the Manager was expected to adjust the funds rate within its range when the latest projections of 2-month growth rates in M-1 and M-2 deviated significantly from the midpoints of their ranges (or, if the Committee so indicated in the directive, when the projections for the aggregates approached or moved beyond the limits of their ranges).

At the May meeting, following a preliminary discussion of this matter, the Committee had deleted one potentially misleading phrase from the language previously employed, to the effect that the Committee "expects" the 2-month growth rates to be within the indicated ranges. At this meeting the Committee agreed upon a more thorough revision of the customary language, in an effort to reduce the chances of misinterpretations.

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

The information reviewed at this meeting suggests that real output of goods and services has grown rapidly on the average in the current quarter as activity rebounded from the effects of the unusually severe winter weather and the lengthy coal strike, but the rate of advance most recently appears to be slowing. Following substantial gains in March and April, increases in industrial production and nonfarm

payroll employment moderated in May and retail sales changed little. The unemployment rate edged up from 6.0 to 6.1 per cent in association with a large increase in the civilian labor force. Average wholesale prices rose somewhat less rapidly in May than earlier in 1978, reflecting smaller reported increases in farm products and processed foods. So far this year prices have increased at a considerably faster rate than they had on average during 1977. The index of average hourly earnings also has increased at a somewhat faster pace so far in 1978 than during 1977.

Since the end of May the trade-weighted value of the dollar against major foreign currencies has declined about 2 per cent, but it remains above its early-April low. The trade deficit in April was down somewhat from its very high first-quarter rate.

Growth in M-1 moderated in May from the extraordinarily rapid pace in April, and as a result growth in M-2 and M-3 also slowed. Inflows of the interest-bearing deposits included in M-2 picked up somewhat as commercial banks increased their reliance on large-denomination time deposits to finance an unusually sharp increase in business loans. Market interest rates have risen somewhat further in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging continued moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on April 18, 1978, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the first quarter of 1978 to the first quarter of 1979 at rates 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. The associated range for bank credit is 7-1/2 to 10-1/2 per cent. These ranges are subject to reconsideration at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due

regard to developing conditions in financial markets more generally. During the period until the next regular meeting, System open market operations shall be directed initially at attaining a weekly-average Federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly Federal funds rate within the range of 7-1/2 to 8 per cent. In deciding on his specific objective for the Federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the June-July period of M-1 and M-2 and the following ranges of tolerance: 5 to 10 per cent for M-1 and 6 to 10 per cent for M-2. If, giving approximately equal weight to M-1 and M-2, their rates of growth appear to be significantly above or below the midpoints of the indicated ranges, the objective for the funds rate shall be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, 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. Miller, Volcker, Baughman, Coldwell, Eastburn, Gardner, Jackson, Partee, and Wallich. Votes against this action: Messrs. Willes and Winn.

Messrs. Willes and Winn dissented from this action because they favored more vigorous measures to curb the rate of growth in the monetary aggregates. Both preferred ranges of tolerance for the 2-month growth rates in M-1 and M-2 lower than those approved by the majority; in addition, Mr. Willes favored an upper limit for the funds rate range of 8-1/4 per cent.

Mr. Willes, citing strong consumer and business credit demands at prevailing interest rates, felt that a further rise in short-term interest rates would not significantly damage economic prospects and that, to the extent that such a rise tended to moderate inflationary expectations, it would have a positive impact on the economy. Mr. Winn felt that if the Committee did not act now to assure a reduction in the rates of growth of the aggregates, an excessively restrictive policy would be required later on if the Committee's longer-range objectives were to be achieved.

## 2. Operations in Federal agency securities

At this meeting the Committee discussed its procedures with respect to open market operations in Federal agency securities. The discussion arose because of a potential problem posed by a statutory requirement that Federal Reserve note liabilities be collateralized by eligible assets, which included direct obligations of the Treasury but not Federal agency issues. At times recently, the margin of actual collateral over that required had been relatively small. The Board of Governors had proposed legislation that would make Federal agency issues eligible as collateral, but Congress had not yet acted on the proposal.

It was noted that the problem of maintaining sufficient collateral for Federal Reserve notes could become critical at some point before the enactment of such legislation if, for example, a need arose to sell a substantial volume of Treasury securities to absorb redundant member bank reserves. It was also noted that the

problem would be mitigated by some slowing of the rate of growth in System holdings of agency securities and a correspondingly larger increase in holdings of Treasury securities.

Paragraph 1(a) of the Committee's authorization for domestic open market operations authorizes the Federal Reserve Bank of New York to sell, as well as to buy, Federal agency securities for the System Open Market Account. Historically, however, sales of such securities have been quite infrequent. It was the sense of the Committee that modest sales of agency issues would be appropriate from time to time, but only when market circumstances permitted and when sales of securities were consistent with the objectives of open market operations. It was noted in the discussion that, even apart from the problem of collateral requirements, occasional sales of agency issues would help enhance the flexibility of open market operations. The Committee also agreed that the Desk should reduce somewhat the volume of agency issues it purchased when supplying reserves, and that occasionally, when there was a need to absorb reserves, it should redeem maturing agency issues for cash rather than routinely exchange them for new issues.

### 3. Authorization for foreign currency operations

At this meeting the Committee approved a technical amendment to paragraph 1D of the authorization for foreign currency operations, under which the definition contained in the second sentence of that paragraph of "over-all open position in all foreign

currencies" is given as "the sum (disregarding signs) of net positions in individual currencies" rather than as "the sum (disregarding signs) of open positions in each currency." This change was approved in the interest of clarity, and to make the language of this paragraph conform to certain new language concurrently introduced in the procedural instructions governing foreign currency operations, as described below.

With this amendment, paragraph 1D read as follows:

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. For this purpose, the over-all open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

Votes for this action: Messrs.  
Miller, Volcker, Baughman, Coldwell,  
Eastburn, Jackson, Partee, Wallich,  
Willes, and Winn. Votes against this  
action: None. Absent and not voting:  
Mr. Gardner.

Under the first sentence of paragraph 1D, which was not affected by the foregoing amendment, the Federal Reserve Bank of New York is authorized, for 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 March 21, 1978, the Committee had authorized an open position of \$2.25 billion in view of the scale of recent and potential System operations in foreign currencies. On May 16, 1978, the

Committee had reduced this limit to \$2.0 billion, in light of decreases in the System's open position. Against the background of further decreases in the open position, the Committee reduced the limit to \$1.5 billion at this meeting.

Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Jackson, Partee, Wallich, Willes, and Winn. Votes against this action: None. Absent and not voting: Mr. Gardner.

4. Procedural instructions with respect to operations under the foreign currency documents

In December 1976 the Committee had adopted certain procedural instructions for the purpose of clarifying the respective roles of the Committee, the Foreign Currency Subcommittee designated in paragraph 6 of the authorization for foreign currency operations, and the Chairman in providing guidance to the Manager of the System Open Market Account with respect to proposed or ongoing foreign currency operations under the authorization and the foreign currency directive. Paragraph 1B of the instructions called for clearance of any transactions that would result in gross transactions in a single foreign currency exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee. At its meeting in March 1978 the Committee amended paragraph 1B to increase these dollar limits, which had occasionally hampered ongoing operations, and to remove an ambiguity in the language.

At this meeting the Committee decided to discontinue the use of the concept of gross transactions in the procedural instructions. In its stead it introduced (a) a clearance requirement formulated in terms of daily and inter-meeting changes in the System's net position in a single foreign currency and (b) a requirement for clearance of any operation that might generate a substantial volume of trading in a particular currency by the System, regardless of the effect on the System's net position in that currency. The purpose of these changes was to improve the effectiveness of the consultation procedure. In addition, for the sake of clarity the word "transaction" was replaced by the word "operation" wherever the former had occurred in the instructions.

The two new provisions were identified as paragraphs 1B and 1C. Paragraph 1A, which refers to daily and inter-meeting changes in the System's over-all open position in foreign currencies, was retained, and the paragraph previously designated 1C, which relates to swap drawings by foreign central banks, was redesignated 1D.

With these changes, the procedural instructions read as follows:

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation which would result in a change in the System's over-all open position in foreign currencies exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.

B. Any operation which would result in a change in the System's net position in a single foreign currency exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.

C. Any operation which might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in 1B.

D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation which would result in a change in the System's over-all open position in foreign currencies exceeding \$500 million since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any operations that are not of a routine character.

Votes for this action: Messrs.  
Miller, Volcker, Baughman, Coldwell,  
Eastburn, Jackson, Partee, Wallich,  
Willes, and Winn. Votes against this  
action: None. Absent and not voting:  
Mr. Gardner.