TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE CONFERENCE CALL

March 10, 1978

Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Meeting of Federal Open Market Committee

March 10, 1978

A meeting of the Federal Open Market Committee was held on Friday, March 10, 1978, at 11:30 a.m. This was a telephone conference meeting, and each individual was in Washington, D. C., except as otherwise indicated in parentheses in the following list of those participating.

PARTICIPATING:

Mr. Burns
Mr. Coldwell
Mr. Eastburn (Philadelphia)
Mr. Jackson
Mr. Miller
Mr. Wallich
Mr. Willes (Minneapolis)
Mr. Winn (Cleveland)
Mr. Volcker
Mr. Kimbrel, Alternate for Mr. Baughman (Atlanta)

Mr. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. O'Connell, General Counsel
Mr. Axilrod, Economist

Messrs. Kichline and Truman, Associate Economists

Mr. Pardee, Deputy Manager for Foreign Operations (New York)
Mr. Sternlight, Deputy Manager for Domestic Operations (New York)

Mr. Coyne, Assistant to the Board
of Governors
Mrs. Deck, Staff Assistant, Open
Market Secretariat, Board of
Governors

Mr. J. Davis (Cleveland), Senior
Vice President, Federal Reserve
Bank of Cleveland
Messrs. Brandt (Atlanta) and Kaminow
(Philadelphia), Vice Presidents
Federal Reserve Banks of
Atlanta and Philadelphia,
respectively

Mr. Meek, (New York) Monetary Adviser,
Federal Reserve Bank of New York

Transcript of Federal Open Market Committee Conference Call of
March 10, 1978

[Secretary's note: The meeting began with a verification of those on the call at the Reserve Banks and a listing by the Secretary of those present in the Board Room.]

MR. BROIDA. Mr. Chairman, we are ready to begin.

CHAIRMAN BURNS. Good morning, gentlemen, can you hear me?

SPEAKERS(?). Yes.

CHAIRMAN BURNS. The main reason for calling this morning's meeting is to consider an increase in our swap line with the Bundesbank from $2 billion to $4 billion. Now, that will be explained in due course. But while we're having the meeting, it also seemed desirable to have the Federal Open Market Committee review the specifications that we set out, particularly with regard to the federal funds rate, at our February meeting. As I think you all know, the monetary growth rates have turned quite weak and, therefore, in the normal course of events a telegram would have gone to the Committee. But since we'll be discussing the swap line with the Bundesbank, this is also a good time to consider the second item, namely our present federal funds rate objective.

Now, I have one other matter to bring before the Committee. As you know, a new Chairman of the Committee is to be elected at the organizational meeting scheduled for March 21. But in view of the fact that Bill Miller has assumed the responsibility of serving as Chairman of the Federal Reserve Board, and he is now acting and acting vigorously in that capacity, I think it would be constructive and desirable that he be elected Chairman of the FOMC at this time. It gives me very great pleasure to suggest to the Committee that we elect Mr. Miller now, and then having elected him, that I turn the meeting over to him. Is there any objection on the part of any member of the Committee? [Hearing none, that action is approved.] I don't hear the applause. [Applause] Good, that's better!

VICE CHAIRMAN VOLCKER. In both directions, for [your] long service as well as for the new Chairman.

MR. BURNS. Well, I think this is a fine way to proceed. We all wish you the very best luck and now--let me have that gavel--I turn over this weighty gavel to you. If anybody misbehaves, you have your instrument at hand.

CHAIRMAN MILLER. Thank you very much, Arthur. I hadn't envisioned that this would be the format for my becoming Chairman of the FOMC, but I am grateful to Arthur for his thoughtfulness and courtesy in doing this. This is a subject we can discuss later since we have an agenda we need to turn to.

Arthur has indicated that we have two items to consider. The first is the consideration of the swap line with the Bundesbank and the second is the question of the federal funds rate [given] developments in the monetary aggregates since February 28. On the first item, I would like Henry Wallich, if he would, to summarize the recent negotiations and discussions with the Treasury and the Bundesbank and set the stage for our considering this item.

MR. WALLICH. This increase in the swap line is contemplated as part of a package in which the Treasury and the German Finance Ministry make certain policy suggestions. The United States says, in effect, but in very guarded language, that if there is no action on oil legislation, the President is likely to take some action. The German side says, also in very guarded language, that they will review their expansion policies in May, after they have the first-quarter results, to see whether they expect to make their 3.5 percent growth target. These are the two policy issues that have been very much discussed publicly--our failure to act on oil and their failure to act on expansion. The Treasury also proposes to sell 600 million SDR, which is a little over 700 million dollars, to the Bundesbank for D-mark for [use in] intervention. And the Treasury proposes to mention its ability to draw on the IMF--although mentioning that $5 billion reserve position is not quite firm yet--but not to indicate that they will draw anything. Finally, the announcement, as far as the Treasury and the Finance Ministry are concerned, will refer to the Bundesbank-Federal Reserve swap without mentioning the number.

Turning to our swap, the Bundesbank seems to be contemplating an increase of $2 billion. This was discussed by Messrs. Burns, Miller, and Emminger. That would make a total of $4 billion but to the extent that we repay what we've already drawn--$1.6 billion or thereabouts--or consolidate this, it would not be reusable. It would not be like a revolving credit line of a total of $4 billion.

MR. BURNS. That is, if we repaid the $1.6 billion, the outstanding swap would drop from $4 billion to $2.4 billion.

MR. WALLICH. Right. This need not necessarily show in the published amount of the swap. Interest rate conditions are the same as before, and the 50-50 loss sharing the same as before. No specifics on repayment techniques [have been decided]. Alan Holmes is in Frankfurt and has discussed the technical aspects, including some preliminary soundings as to how the Germans feel about repayment in the form that we might simply buy D-mark from them for dollars and then give them back the D-mark, thereby relieving ourselves of any participation in risk. [Other possibilities are] that we might pay off the drawings after a given period, perhaps one year, or consolidate them and treat them like the Swiss swap to be repaid in installments over a period, possibly more than one year.

I might just add that the subcommittee that was appointed at the last FOMC meeting has explored some of these aspects, including alternative repayment techniques. As far as the swap itself is concerned, I talked to Bob Black this morning and he said that while he thought it was a compromise, it was the best we could do. He would prefer a Treasury takeout, but he is agreeable as far as the [view of our] subcommittee enters into this. That is all.

CHAIRMAN MILLER. Thank you, Henry. Let me say that what we're going to be asking for today, once we've had our discussion on this subject, is for the FOMC members to give an informal indication of approval or disapproval, hopefully approval, so that we will have time for the staff to give you the details of this matter by wire and ask for your vote back, which will be expected promptly. That will allow us to proceed in coordination with the Treasury on whatever may need to be worked out in this total package. The counsel at the Bundesbank is being consulted now to get their official approval. We have from Mr. Emminger his indication of concurrence and we are in the process now of getting FOMC concurrence so that we can see if this can be confirmed.

At this time, I would suggest that I call on those who are familiar with this to add any comments they wish, and then I will ask for comments from everyone. I think, Arthur, you may have a view on this that you would like to express to the Committee.

MR. BURNS. Well, I'd like to say a word or two. As I think the members of the Committee know, I have not been enthusiastic about intervention policy in view of the fundamental factors that have been causing difficulties for the dollar and in view of the need to deal with fundamental factors and also to adopt some bridging actions of a kind that we've talked about in the past. Now, I also have indicated to the Committee previously that, to the extent that we do intervene--and there is no escape from it on a certain scale--I would very much hope that we would do so on a modest scale. Among other reasons, I think it is important to keep up some pressure on the Treasury and on the Administration to deal with bridging actions and the fundamental factors. All this would argue in favor of just staying at the $2 billion figure, not going to $4 billion.

Nevertheless, that is not my conclusion and I must explain why. The Treasury and our President are [now] involved in very serious conversations with the Germans. The Administration, in other words, has been working toward a statement on dollar policy or on policy looking toward some strengthening of the dollar's position. Or to put it differently, the policy is looking toward some checking of the deterioration that has been taking place. The Administration is actively involved; the German government is actively involved. A package is emerging and it's not an impressive package. To avoid embarrassment to this government and to strengthen the possibility that something constructive in markets will take place, I think it's essential to raise the figure from $2 billion to $4 billion at the present time. I recognize that this may lead to larger intervention than most of us, or many of us--I certainly--would like. But this is something that I think this Committee and particularly our new Chairman can't control in very large part. And therefore, my strong recommendation to the Committee is that we look forward to an increase in the swap line. Now these conversations have gone a certain distance; they haven't concluded. I'm talking now about other items in the package. Well, for that matter, [on the proposed change in] the swap facility we still need formal approval by the Germans. All this may possibly break down. I hope not because the dollar is in difficulty and there is great uneasiness not only in our own country but around the entire world.

CHAIRMAN MILLER. Thank you, Arthur. Paul, I would appreciate your comments. Paul is Vice Chairman of the Committee and is a member of the subcommittee on this issue and I think perhaps he should next express his views.

VICE CHAIRMAN VOLCKER. Well, I have just a couple of comments that have occurred to me, Mr. Chairman. I think they are implicit, or maybe explicit, in what was already said. As far as what I might think of the Administration side of the package, it has already been described as not particularly strong. In that connection I see it as kind of a step in an evolving situation and not the end of the story. And I don't think every step in that direction has to be accompanied by Federal Reserve action, since subsequent steps and more fundamental steps are more in their hands. But I think it is a step pointing in a constructive direction. So far as actual intervention is concerned, I myself do not read into this extension of the swap agreement necessarily a different approach toward intervention than has been our practice recently in [terms of what our] judgment has been in the last couple of--

MR. COLDWELL. You lost your audience.

CHAIRMAN MILLER. Paul, there was a disconnect on the line.

VICE CHAIRMAN VOLCKER. All these thrilling words are [lost]?

MR. BURNS. I think it must be internal sabotage!

MR. BROIDA. [Roll call of phone participants.]

VICE CHAIRMAN VOLCKER. I don't know at what stage we [lost the connection].

SPEAKER(?). You were just starting.

VICE CHAIRMAN VOLCKER. Well, I just wanted to make two points and I'll make them over again. When I look at the Administration side or what might be thought of as the more fundamental side of the package, it's not very strong, as was indicated. But I would like to think of this as part of an evolutionary [process] and I don't think every step has to be accompanied by fresh action of this sort by the Federal Reserve, however important it may be in this particular instance. I hope that the Administration sees it in the same way; I have a feeling they do. So far as the implications for actual intervention are concerned, I see this as arming us with more money if we need it, but it does not necessarily imply a change in what we have been doing in the scale or approach toward the market. As you know, in this connection, intervention has actually been very limited in most recent weeks. I think that reflected in good part a market judgment as to when it is helpful and when it isn't helpful. I would assume that we will continue to make those judgments and we won't just go in on a big scale simply because the swap is increased.

CHAIRMAN MILLER. Thank you, Paul. Phil Coldwell is also a member of the [sub]committee. Phil, any comments?

MR. COLDWELL. Mr. Chairman, I would echo much of what Mr. Burns has said in his comments with regard to this action. We are building a fairly large intervention ammunition base here which I think exposes the Federal Reserve to much greater losses, certainly, than we have already had. If we go ahead with this--I am not going to raise any huge flag against it except that I must admit I would have preferred a different course--I would hope that we would at least extract three terms and conditions. First, that we have the same terms and conditions we have had on our past swaps--and I believe Henry covered that--a 50-50 sharing of loss on the interest rate side. Secondly, I would hope that this second extension of the swap would have something built into it which says that the Federal Reserve can buy out of this by direct action with the Bundesbank. Thirdly, [that the agreement include] a Treasury takeout down the road if we do get socked into some very large figures on the swap arrangements. Now, we had what we thought was a takeout commitment some years ago, which got rescinded or forgotten or something or other. But if we're in the process of trying to build up a highly visible dollar total to impress the market, I think the Federal Reserve also has the responsibility to protect itself where it can. The pressure for fundamental action, I think, is reduced by actions of this character, but I certainly would like to see the Federal Reserve protected in a long-term loss operation. That's all I have, Mr. Chairman.

CHAIRMAN MILLER. Thank you, Phil. I might add my own comments. I could, if anyone were interested, go into some of the reasons why we should be concerned about the value of the dollar. I won't do so because I think that perhaps everyone has the same view. There are many reasons and I won't recite them all. I would say that in particular the timing of this, in order to strengthen a next step of a more comprehensive look at both the short-term and longer-term aspects of the problem, could be constructive. We see in this an indication by the Administration of a willingness to take some further steps in the energy area which, of course, is fundamental in correcting the large demand for petroleum that we need to address. The other [issue], of course, is the relative growth rates of the U.S. and European economies, which do go to some fundamentals in our balance of payments and balance of trade. If we can add to that some of these bridging activities and SDRs and the swap lines that will help us get along the course, I think that is a worthwhile thing to do.

I concur with the observation that this should be looked upon as evolutionary; it should not be looked upon as a final conclusion of the scenario [involving] these events. I also concur with Phil Coldwell's caveats, but I should point out that I don't think we can guarantee that we will be able to negotiate all of those things before this has to be decided. I think we have to have a little faith that we'll keep negotiating and have some practical reasons to get toward that result in due course.

MR. COLDWELL. I'd at least like to try it.

CHAIRMAN MILLER. We'll try, and we have so guided Alan in his discussions. But we'll have to see whether that comes out immediately or comes out in due course. I think the results will be that way. Those are my observations; I can elaborate on them.

Before I ask for other comments, I'd like to make a couple of points. I'd remind everyone that it is not intended that this swap line be initiated or confirmed unless the whole package is put together. So this has to be treated [as part of a package]. In my view we should not do this at all unless the package is completed. I think everyone should understand that. Therefore, it may come to naught or it may come to a quick decision. We should be prepared to do our part if we agree we want to do our part. It is therefore very important also that we not have any discussion or interpretation of this particular action until it is official. When it is official, if at all, I think the interpretation of it should be from this office so that we don't create confusion about what this means and what the implications are. With those observations, I would propose an alphabetical rundown through the Committee. Dave Eastburn, I would appreciate your comments.

MR. EASTBURN. I'd like to ask a question, Mr. Chairman. I'm not clear on this package about [the issue] of a Treasury takeout. Will there be some commitment from the Treasury with respect to this whole issue or are we out there by ourselves?

CHAIRMAN MILLER. Henry.

MR. WALLICH. Well, the Treasury has been going 50-50 with us in the use of their present swaps. They may not necessarily go in the same proportion hereafter. They will have $700 million additional plus a little over $100 million left over from the old swap. But to some extent $300 million can--

CHAIRMAN MILLER. So they have about a billion.

MR. WALLICH. They have about a billion that they would [use to] keep up their share in the operation.

MR. BURNS. I think it's fair to add, at least at my end, that I have not discussed a takeout by the Treasury in connection with possibly expanded swap activity.

CHAIRMAN MILLER. Do you have a further question, Dave, or comments?

MR. EASTBURN. I would like to comment that I support those who feel that it is vital that this be a part of a package because it seems to me that you gain strength that way. And I think we shouldn't be there by ourselves. That's all.

CHAIRMAN MILLER. Thank you. Phil Jackson.

MR. JACKSON. Another question: If the Treasury only has a billion dollars in resources, is it unconditionally clear in our discussions with the Treasury that we would agree to use our resources only so long as they continue to go 50-50 in activity?

MR. BURNS. We don't have at the present time an agreement with the Treasury that we will proceed on a strict 50-50 basis. In fact, there has been an understanding that we may have to take a larger proportion of the total amount of intervention. However, let us keep in mind that the Treasury under the present plan will have available not only approximately $1 billion, which could be used for intervention purposes, but [also gold]. A good deal of discussion has taken place with regard to sales of gold by the Treasury. Now, this is not a part of the present package, and one important reason is that French elections will take place very shortly and this could complicate the problems of the French government. But I think it's reasonable to assume that in the course of the year a policy will be adopted by the Treasury to sell off gold. How much, I couldn't say, and I don't think anyone in the Treasury could say at the present time. But I would certainly attach a pretty high probability to some significant sales of gold by the Treasury before the year is over.

CHAIRMAN MILLER. This is Bill Miller speaking. Let me just add one thought to Phil's question. I think, Phil, there's another side of this. Changing the proportion of participation with Treasury with the resources we're contemplating may be desirable; it seems to me desirable to keep them in the activity rather than have them run out of capacity early. If they stay in with us, it seems to me they have more incentive and more involvement, and I would hate for us to be locked into too strict a--

MR. BURNS. Also, it helps us in our relations with the Congress and that's an important consideration.

MR. COLDWELL. [There's only] a $400 million differential between the availability of the two lines anyway. We have $1.4--well, $2.4 billion.

MR. WALLICH. The Treasury could also draw on the IMF. While the amounts immediately available on the D-mark wouldn't be very large--maybe a half billion dollars--over time, say a few months or a half year, they might be able to get as much as a billion or a billion and a half dollars. After that, other arrangements would have to be made to get D-marks out of the IMF.

MR. COLDWELL. How about the BIS?

MR. WALLICH. We've explored that and the difficulty is that we can't get the 50-50 there.

MR. BURNS. You say you cannot?

MR. WALLICH. We cannot get the 50-50.

CHAIRMAN MILLER. Now, I have to go back to some parliamentary procedure. Phil Jackson had the floor; have you yielded it to all these people, Phil?

MR. JACKSON. No, but we don't [strictly follow] such parliamentary procedures, Mr. Chairman. However, I would like to say that I don't share the judgments expressed for this reason: It appears to me that the fundamental difficulty we're having in this country today is a reluctance to make some very nasty fundamentally political decisions in this area. If the Federal Reserve gives the Treasury the indication that we would go forward when their resources reach an end and they continue to procrastinate about the fundamentals through intervention techniques, it strikes me that their resolve to make these nasty decisions will be weaker. For that reason, I would be strongly against giving the Treasury any indication whatsoever that we would go forward other than 50-50 until their resources run out. Then we'll talk to them about what we'll do. It strikes me that that's a very important thing for us to do, given the nature of the domestic decisions that are going to have to be addressed.

MR. COLDWELL. Could I comment?

CHAIRMAN MILLER. Phil Coldwell.

MR. COLDWELL. Phil, I share much of your concern. I wonder if something like this couldn't be handled with a Treasury takeout?

MR. JACKSON. A Treasury takeout or whatever it takes. But the main thing is that I don't think we ought to give the Treasury any indication or assurance that we will go forward beyond the point where they are very active co-participants. I say 50-50, but I don't think the ratio is meticulously important. I think the concept that their limited resources will have to be measured before they are squandered is a very important consideration.

MR. BURNS. I would suggest that we not adopt a very rigid rule. I'm fully in sympathy with what Phillip has been saying; I've made that clear. And perhaps a rule such as expecting the Treasury to take no less than 40 percent would serve the purpose just as well. We need a little flexibility.

CHAIRMAN MILLER. We need some flexibility. We agree with--

MR. JACKSON. I'm not trying to suggest a mandatory percentage, but the fundamentally equal concern I think is a very important consideration.

CHAIRMAN MILLER. Monroe Kimbrel.

MR. KIMBREL. May I ask one question about numbers, please? Governor Wallich, I'm not sure I quite followed the discussion about the $1.6 billion and the [$400 million] and maybe the resulting $2.4 billion. Are we expecting, as a result of this--if it moves along--that initially at least we will be operating from a $2.4 billion level of exposure?

MR. WALLICH. We have an exposure now of $1.6 billion. We have a leeway of about $400 million to which we will be adding this $2 billion, making the [total] leeway $2.4 billion. If we then repay or consolidate the outstanding $1.6 billion, that would not change the $2.4 billion. We could not go back and redraw the repaid $1.6 billion.

MR. KIMBREL. So again, our exposure, at least in this part of the operation, would be approximately $2.4 billion.

CHAIRMAN MILLER. May I repeat it? What we have now is a current exposure of $1.6 billion. We will add to that exposure whatever we use under a facility which could aggregate to as much as $4 billion. But the settlement [of drawings] under the first $2 billion line you previously approved would not reinstate those drawing rights. Therefore, once we settle on anything under the present [line], we would end the risk and we would only continue risk on new draws.

MR. WALLICH. And there is a 50-50 loss sharing with the Bundesbank.

CHAIRMAN MILLER. And there is 50-50 loss sharing.

MR. KIMBREL. Well, Mr. Chairman, I share some of the anxieties already [expressed]. I strongly hope that we can handle this in a manner [that will encourage action] to address the fundamental causes. But I don't see any strong or definitive alternatives, and I think this is a part of the package that we need to associate with. So I would be inclined to try to develop it.

CHAIRMAN MILLER. Thank you, Monroe. Mark Willes.

MR. WILLES. Thank you, Mr. Chairman. With the information I personally have, frankly I'd be inclined not to do anything. I'm concerned about the expressions that have been made about the package that seems to be evolving--that in terms of fundamental solutions of the problems it is a little weak. I haven't heard any discussion yet of what I consider to be the most serious fundamental problem and that is the question of inflation. So just sitting out here in a snow storm, if I had my druthers, I'd just as soon not do anything. On the other hand, I am willing to acknowledge that those of you who are more intimately involved can see lots of things that I can't see and have a much better sense of the possibility of dealing with some of these fundamentals depending on how cooperative we are on this sort of a package. So, on that basis, I'd be willing to go ahead and do it. But I must confess that I do so very, very reluctantly.

CHAIRMAN MILLER. Mark, may I just make a comment? As I said, I could have discussed the fundamentals. Perhaps I should have. One of the things that worries me about what has happened to the dollar is that it has an inflationary impact on our economy. It appears that the decline in the dollar in the last few months alone--it's hard, of course, to be precise--could add as much as 0.7 of a percent to the inflation in the United States this year. So, to my mind, our concern about the dollar is a concern about inflation. Am I correct on my statement of 0.7, Steve? Yes, I'm getting confirmations that that's about what our studies would indicate. I also am concerned about the energy [issue]. It's a very delicate [matter]; even the Treasury can't make this decision. The President will make the decision as to [when] he will take alternative action about energy if he can't get an energy package put together in Congress. That's behind this, too. We don't want to pre-guess what the President will do, but he's leaning toward some specific actions and this will help us get a moral commitment along those lines. So that could be helpful. Willis Winn.

MR. WINN. We've heard a great deal about our relationship with the Treasury. We are also in partnership with the Bundesbank in this. Do we have any indication of their attitudes in terms of magnitudes, length [of time to repay], and other aspects?

CHAIRMAN MILLER. Henry, would you like to answer?

MR. WALLICH. The Bundesbank seems willing broadly, subject to [approval by] their central bank council, to go to $2 billion provided--

MR. BURNS. To a total of $4 billion.

MR. WALLICH. To a total of $4 billion provided that parts already drawn cannot be redrawn as we described here. They are hesitant on techniques of repayment and have raised questions as to whether it would be possible to consolidate. But they've also talked about a rollover for 6 months and if we can't repay it at that time another rollover to 9 and a total of 12 months. So they seem to be willing to go along with this.

CHAIRMAN MILLER. Willis, any further comment or question?

MR. WINN. Is there any feeling, Henry, that the $4 billion--or $2.4 billion or whatever--is the limit to which they'd be willing to go in this activity?

MR. WALLICH. They are clearly reluctant to be very heavily involved both because of the internal monetary expansion that intervention produces and I think because they're concerned about the losses. I couldn't guess what would happen in the event, which we don't foresee with any certainty, the full amount is used up. And we would contemplate nothing beyond that.

MR. WINN. Well, I share the feeling of reluctance to get too heavily involved although I think we probably have to respond to put on pressure to get some of these other things in place.

CHAIRMAN MILLER. Thank you, Willis. I think I've been through all the members of the Committee now. Does anyone have any further comment?

MR. COLDWELL. I'd just like to make one more comment, Mr. Chairman. It seems to me that basically we've been talking here about a negotiating strategy with the Bundesbank. I hope our negotiators, as they move through this, will keep a close [eye] on the points we've been making--[about having] the same terms and conditions in the [new] agreement [and for direct repayment] of the new $2 billion and some settlement of the repayment policy. I don't know whether we're going to get answers on those things before the final vote on this extension comes to us. Henry, do you think we'll have answers on those things?

MR. WALLICH. That's very hard to say.

MR. BURNS. If the present conversations that the Treasury is having with the German government prosper, the chances are that the technical details concerning the repayment of our loan to the Bundesbank will not have been settled. My present guess is that this will go forward sooner than we would have been able to work out the technical details with the Germans.

CHAIRMAN MILLER. But I would expect that those technical details would be worked out by the April 5th maturity date that's coming up. At least that would be the target date. So probably at the next FOMC meeting we will deal with some of the technical aspects.

MR. WALLICH. I think the Bundesbank may be contemplating a somewhat longer time to deliberate this and would propose simply to roll over for 90 days the maturities of April, May, and June [and] in that period to then arrive at the conclusion.

CHAIRMAN MILLER. Thank you.

VICE CHAIRMAN VOLCKER. I think that's true, Mr. Chairman, so far as the repayment policy Governor Coldwell referred to is concerned. But I think the other items on his list can and will be negotiated now as I understand it. Certainly the 50-50 [loss sharing] and the possibility of paying [the drawings] off from a direct transaction with the Bundesbank could be concluded at present.

CHAIRMAN MILLER. I think the contemplation on our side is that the terms will be the same.

VICE CHAIRMAN VOLCKER. Those are the present terms.

CHAIRMAN MILLER. And I think those are contemplated.

MR. COLDWELL. The part that apparently is getting lost here is the question of whether we do any Treasury takeout negotiations. That, of course, is between us and Treasury, not the Bundesbank.

CHAIRMAN MILLER. And the final settlement with the Bundesbank has to be resolved. I might ask at this point if Art [Broida] would give us his view of what technically we're asking to be accomplished right now and how we should proceed.

MR. BROIDA. Mr. Chairman, I suggest that the formal vote, which the Committee would be asked to take later, be on a delegation of authority to the Chairman. The staff would like some time to work out specific terms of that [delegation] before putting it to the Committee for a vote. It would involve a delegation to proceed to negotiate with the Treasury and the Bundesbank an increase in the swap line to $4 billion, subject to the details being satisfactory. As I say, the staff will work the language out and it will be distributed to the members by memorandum and by telegram as soon as the language is available--perhaps early this afternoon--for a formal vote.

CHAIRMAN MILLER. We've gone around the circle and I gather I've heard from everyone. There are cautions and reservations, but I've heard no dissent. Unless someone wants to express a dissent from the general package, we will proceed to try to get the detailed language to everyone today and hopefully get the votes back so that we'll at least be in a position to proceed over the weekend if it is necessary. Is there any further comment on this subject?

Then I suggest we move to the next item on the agenda, which is a discussion of the federal funds rate target. Steve Axilrod will fill us in on this subject based on the M1 and M2 figures that he's been working with.

MR. AXILROD. Thank you, Mr. Chairman. Our latest projections of the aggregates indicate that in the February-March period M1 is expected to grow at an annual rate of 1/2 percent. That would be just below the range of 1 to 6 percent adopted by the Committee for that period. The final data--or reasonably final data--we have for February indicate a drop in M1 of about 4 percent at an annual rate. We have preliminary data for the first week of March, and assuming a further growth from that point, we would expect March to grow at about a 5 percent annual rate, thus giving us the 1/2 percent for the two-month period.

M2 is not quite as weak relative to the Committee's ranges as M1, but it is close to the bottom. For M2 we have a February growth rate of about 3-1/2 percent. We are expecting March, on the basis on the preliminary data for the first week, to grow around 7 percent. Thus, for the February-March period, we have a growth rate for M2 of around 5.2 percent as compared with the range adopted by the FOMC of 4-1/2 to 8-1/2 percent.

I might add one other point, Mr. Chairman, which is that to a considerable extent I believe this weakness may reflect the prolongation of the coal strike, relative to what we had expected, as well as the severe weather throughout the country. Thus, to a great extent, it may represent temporary factors. So it seems quite plausible that later this spring we may get a resurgence of growth in the money supply, assuming a fundamental strength in the economy.

CHAIRMAN MILLER. Well, gentlemen, based on my understanding of the February directive, it would seem--given the way the aggregates are coming out--that the Manager should be reducing the federal funds rate. Peter Sternlight, is that your interpretation?

MR. STERNLIGHT. That is how we would have looked at it, absent these special factors that Mr. Axilrod has mentioned.

CHAIRMAN MILLER. Because that could be true, it seems wise on this phone conversation to consider an instruction to the Manager to continue aiming at a 6-3/4 percent rate. The basis for doing that is (1) that these factors may be temporary and (2) that there is a relationship here to our objectives in the foreign exchange [area] and we would be working against ourselves by having lower rates right now. So for those two reasons, I would recommend for your approval that we ask the Manager to maintain his target at 6-3/4 percent.

MR. COLDWELL. Over what period?

CHAIRMAN MILLER. For the time being.

MR. COLDWELL. Does that mean until the next meeting of the FOMC or--

CHAIRMAN BURNS. Unless there is some change.

MR. COLDWELL. Unless there is some change in instruction or we call for additional consultation.

CHAIRMAN MILLER. We won't change the directive. It will say that, based on these conditions, we'll continue the target at 6-3/4 percent. If those conditions change, we will have to re-examine [the situation].

MR. JACKSON. Mr. Chairman, I wonder if it might be wise for this action taken in this interim meeting to reflect instructions to the Manager to take more consideration of conditions in the foreign exchange markets than the directive might otherwise have stated--that that would be a primary concern.

CHAIRMAN MILLER. Would you repeat that, Phil? I'm not sure everyone heard.

MR. JACKSON. I wonder if it might be wise for the minutes to reflect that the Committee instructed the Manager to take more consideration of conditions in the foreign exchange market--to that aspect of the directive--and less to that aspect of the directive in which the aggregates are to be a basis of our operating policies.

CHAIRMAN MILLER. As you know, Phil, the present directive does say that in the conduct of day-to-day operations account shall be taken of emerging financial market conditions, including the conditions in foreign exchange markets.

MR. JACKSON. That's the very point I'm alluding to. Rather than operating primarily on M1 and M2 for the period until the next FOMC meeting, [I suggest] that we ask the Manager to give more than normal consideration to the foreign exchange market and less to the aggregates. As a consequence, therefore, the federal funds rate would be maintained [at 6-3/4 percent].

CHAIRMAN MILLER. Art has a comment on this.

MR. BROIDA. Mr. Chairman, I think the instruction to maintain a rate of about 6-3/4 percent may achieve the objective, particularly since one of the two reasons for doing so is the emerging conditions in the foreign exchange market. The record made this clear, so the objective would be achieved by the simple instruction to hold the rate at 6-3/4.

CHAIRMAN MILLER. Are there further comments? If there are none, I would ask Art to call the roll and vote on this matter.

MR. COLDWELL. Do I understand that we are maintaining the ranges?

CHAIRMAN MILLER. Yes, the ranges are maintained. This is a supplemental instruction to the Manager to aid in these unusual conditions.

MR. BROIDA.

Chairman Miller	Yes
Vice Chairman Volcker	Yes
Governor Burns	Yes
Governor Coldwell	Yes
President Eastburn	Yes
Governor Jackson	Yes
President Kimbrel	Yes
Governor Wallich	Yes
President Willes	Yes
President Winn	Yes

It's unanimous, Mr. Chairman.

CHAIRMAN MILLER. So voted. Gentlemen, we thank you for your attention on a Friday afternoon, and we'll look forward to seeing you at the next meeting. This meeting is adjourned.

END OF MEETING