

Meeting of Federal Open Market Committee

February 19, 1975

MINUTES OF ACTIONS

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Wednesday, February 19, 1975, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Hayes, Vice Chairman
Mr. Black
Mr. Bucher
Mr. Clay
Mr. Coldwell
Mr. Holland^{1/}
Mr. Kimbrel
Mr. Mitchell^{1/}
Mr. Sheehan^{2/}
Mr. Wallich
Mr. Winn

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

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

Mr. Broida, Secretary
Mr. Altmann,^{1/} Deputy Secretary
Mr. Bernard,^{1/} Assistant Secretary
Mr. O'Connell, General Counsel

^{1/} Entered meeting at point indicated.

^{2/} Left meeting at point indicated.

Mr. Guy,^{1/} Deputy General Counsel
Mr. Partee,^{1/} Senior Economist
Mr. Axilrod,^{1/} Economist (Domestic Finance)
Mr. Solomon,^{1/} Economist (International Finance)
Messrs. Brandt,^{1/} Bryant,^{1/} Davis,^{1/} Doll,^{1/}
Hocter,^{1/} Parthemos,^{1/} and Reynolds,^{1/}
Associate Economists

Mr. Holmes,^{1/} Manager, System Open Market Account
Mr. Pardee,^{1/} Deputy Manager for Foreign Operations

Mr. Coyne, Assistant to the Board of Governors
Mr. Keir,^{1/} Adviser, Division of Research and Statistics, Board of Governors
Mrs. Farar,^{1/} Economist, Division of Research and Statistics, Board of Governors
Mrs. Ferrell,^{1/} Open Market Secretariat Assistant, Board of Governors

Messrs. Eisenmenger,^{1/} Boehne,^{1/} Scheld,^{1/} and Jordan,^{1/} Senior Vice Presidents, Federal Reserve Banks of Boston, Philadelphia, Chicago, and St. Louis, respectively
Mr. Green,^{1/} Vice President, Federal Reserve Bank of Dallas
Mr. Duprey,^{1/} Senior Economist, Federal Reserve Bank of Minneapolis
Mr. Keran,^{1/} Director of Research, Federal Reserve Bank of San Francisco
Mr. Ozog,^{1/} Manager, Acceptances and Securities Department, Federal Reserve Bank of New York

By unanimous vote, the resignation of Charles A. Coombs as Special Manager for Foreign Currency Operations was accepted, effective immediately.

^{1/} Entered meeting at point indicated.

By unanimous vote, Section 5 of the Rules of Organization was amended to read as follows, effective immediately:

Manager and Deputies. The Committee selects a Manager of the System Open Market Account, a Deputy Manager for Domestic Operations, and a Deputy Manager for Foreign Operations. All of the foregoing shall be satisfactory to the Federal Reserve Bank selected by the Committee to execute open market transactions for such Account, and all shall serve at the pleasure of the Committee. The Manager or his Deputies keep the Committee informed on market conditions and on transactions they have made and render such reports as the Committee may specify.

By unanimous vote, subsections (d) and (e) of Section 272.3 of the Rules of Procedure were amended to read as follows, effective immediately:

Section 272.3--Meetings

* * * *

(d) Attendance at meetings.--Attendance at Committee meetings is restricted to members and alternate members of the Committee, the Presidents of Federal Reserve Banks who are not at the time members or alternates, staff officers of the Committee, the Manager and Deputy Managers, and such other advisers as the Committee may invite from time to time.

(e) Meeting agendas.--The Secretary, in consultation with the Chairman, prepares an agenda of matters to be discussed at each meeting and the Secretary transmits the agenda to the members of the Committee within a reasonable time in advance of such meeting. In general, the agendas include approval of minutes of actions and acceptance of memoranda of discussion for previous meetings; reports by the Manager or Deputy Managers on open market operations since the previous meeting, and ratification by the Committee of such operations; reports by Economists on, and Committee discussion of, the economic and financial situation and outlook; Committee discussion of monetary policy and action with respect thereto; and such other matters as may be considered necessary.

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By unanimous vote, paragraph 2(C) of the Foreign Currency Directive was amended to read as follows, effective immediately:

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

By unanimous vote, Alan R. Holmes, Peter D. Sternlight, and Scott E. Pardee were selected to serve at the pleasure of the Committee in the capacities of Manager of the System Open Market Account, Deputy Manager for Domestic Operations, and Deputy Manager for Foreign Operations, respectively, on the understanding that their selection was subject to their being satisfactory to the Federal Reserve Bank of New York.

Secretary's Note: Advice was subsequently received that the selections indicated above were satisfactory to the Federal Reserve Bank of New York.

Mr. Holland, and staff members who were not present at the outset, entered the meeting prior to the following actions.

By unanimous vote, the action of members of the Federal Open Market Committee on January 30, 1975, amending a provision of paragraph 2 of the Authorization for Domestic Open Market Operations by striking the word "if" in the clause "or, if the New York Bank is closed," and inserting in its place the words "under special circumstances, such as when", was ratified.

With this amendment, paragraph 2 reads as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate of 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$1 billion.

By unanimous vote, Section 270.4(d) of the Regulation Relating to Open Market Operations of Federal Reserve Banks was amended, effective January 30, 1975, by striking the word "if" in the clause "or, if that Bank is closed," and inserting in its place the words "under special circumstances, such as when...."

With this amendment, Section 270.4(d) reads as follows:

In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee (or, under special circumstances, such as when that Bank is closed, any other Federal Reserve Bank) is authorized and directed, for its own account or the System Open Market Account, to purchase directly from the United States such amounts of Government securities as may be necessary from time to time for the temporary accommodation of the Treasury Department.

By unanimous vote, the action of members of the Federal Open Market Committee on February 18, 1975, incorporating a fee schedule as subsection 271.4(f) in the Committee's amended Rules Regarding the Availability of Information, was ratified. The subsection read as follows:

Fee Schedule.--A person requesting access to or copies of particular records shall pay the costs of searching and copying such records at the rate of \$10 per hour for searching and 10 cents per standard page for copying. With respect to information obtainable only by processing through a computer or other information systems program, a person requesting such information shall pay a fee not to exceed the direct and reasonable cost of retrieval and production of the information requested. Detailed schedules of such charges are available upon request from the Secretary of the Committee. Documents may be furnished without charge or at a reduced charge where the Secretary of the Committee or such person as he may designate determines that waiver or reduction of the fee is in the public interest because furnishing the information can be considered as primarily benefiting the general public, or where total charges are less than \$2.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on January 20-21, 1975, were approved.

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The memorandum of discussion for the meeting of the Federal Open Market Committee held on January 20-21, 1975, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period January 21 through February 18, 1975, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period January 21 through February 18, 1975, were approved, ratified, and confirmed.

Mr. Sheehan left the meeting prior to the following action.

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

The information reviewed at this meeting suggests that real output of goods and services is continuing to fall sharply in the current quarter. In January declines in industrial production and employment were large and widespread for the third consecutive month. The unemployment rate rose a full percentage point to 8.2 per cent. Average wholesale prices of industrial commodities, which were unchanged in December, rose moderately in January, and prices of farm and food products declined further. In recent months increases in average wage rates have moderated, although they have still been large.

The decline in the foreign exchange value of the dollar was arrested in early February by concerted central bank intervention and a sharp decline in European interest rates, but in recent days the dollar has declined somewhat.

In December the U S. foreign trade deficit increased, but it was smaller in the fourth quarter as a whole than in the third.

The narrowly defined money stock, after having grown at an annual rate of about 4-1/2 per cent over the fourth quarter of 1974, declined sharply in January. However, net inflows of consumer-type time and savings deposits at banks and nonbank thrift institutions were large, and broader measures of the money stock continued to expand. Business demands for short-term credit have weakened in recent months, both at banks and in the commercial paper market, while demands in the long-term market have been exceptionally strong. Since mid-January short-term market interest rates have fallen substantially further, and yields on long-term securities also have declined. Federal Reserve discount rates were reduced from 7-1/4 to 6-3/4 per cent in early February.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to cushioning recessionary tendencies and stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

It was agreed that the next meeting of the Committee would be held on Tuesday, March 18, 1975.

The meeting adjourned.


Secretary