

Meeting of Federal Open Market Committee

March 18, 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 Tuesday, March 18, 1975, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Baughman  
Mr. Bucher  
Mr. Coldwell  
Mr. Eastburn  
Mr. Holland  
Mr. MacLaury  
Mr. Mayo  
Mr. Mitchell  
Mr. Sheehan  
Mr. Wallich

Messrs. Balles, Black, Francis, and Winn,  
Alternate Members of the Federal Open  
Market Committee

Messrs. Clay, Kimbrel, and Morris,  
Presidents of the Federal Reserve  
Banks of Kansas City, Atlanta, and  
Boston, respectively

Mr. Broida, Secretary  
Mr. Altmann, Deputy Secretary  
Mr. Bernard, Assistant Secretary  
Mr. O'Connell, General Counsel  
Mr. Partee, Senior Economist  
Mr. Axilrod, Economist (Domestic Finance)  
Mr. Gramley, Economist (Domestic Business)  
Mr. Solomon, Economist (International Finance)  
Messrs. Boehne, Bryant, Chase, Davis, Green,  
Kareken, Pierce, Reynolds, and Scheld,  
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Mr. Holmes, Manager, System Open Market Account  
Mr. Sternlight, Deputy Manager for Domestic  
Operations

Mr. Pardee, Deputy Manager for Foreign  
Operations

Mr. Coyne, Assistant to the Board of  
Governors

Mr. Keir, Adviser, Division of Research and  
Statistics, Board of Governors

Mrs. Farar, Economist, Division of Research and  
Statistics, Board of Governors

Mrs. Ferrell, Open Market Secretariat  
Assistant, Board of Governors

Messrs. Eisenmenger, Parthemos, Jordan, and  
Doll, Senior Vice Presidents, Federal  
Reserve Banks of Boston, Richmond, St.  
Louis, and Kansas City, respectively

Messrs. Hocter and Brandt, Vice Presidents,  
Federal Reserve Banks of Cleveland and  
Atlanta

Mr. Keran, Director of Research, Federal  
Reserve Bank of San Francisco

Mr. Sandberg, Assistant Vice President,  
Federal Reserve Bank of New York

The Secretary reported that advices had been received of the election by the Federal Reserve Banks of members and alternate members of the Federal Open Market Committee for the term of one year beginning March 1, 1975; that it appeared that such persons were legally qualified to serve; and that they had executed their oaths of office.

The elected members and alternates were as follows:

David P. Eastburn, President of the Federal Reserve Bank of Philadelphia, with Robert P. Black, President of the Federal Reserve Bank of Richmond, as alternate;

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

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

Ernest T. Baughman, President of the Federal Reserve Bank of Dallas, with Darryl R. Francis, President of the Federal Reserve Bank of St. Louis, as alternate;

Bruce K. MacLaury, President of the Federal Reserve Bank of Minneapolis, with John J. Balles, President of the Federal Reserve Bank of San Francisco, as alternate.

By unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 29, 1976, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

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

Edward G. Boehne, Ralph C. Bryant,  
Samuel B. Chase, Jr., Richard G.  
Davis, Ralph T. Green, John  
Kareken, James L. Pierce,  
John E. Reynolds, and  
Karl O. Scheld

Associate Economists

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Federal Open Market Committee after February 29, 1976.

By unanimous vote, the action by Committee members on March 10, 1975, increasing from \$1 billion to \$2 billion the dollar limit specified in paragraph 2 of Authorization for Domestic Open Market Operations on System holdings of short-term certificates of indebtedness purchased directly from the Treasury, was ratified.

With Mr. Holland dissenting, the Committee voted to maintain the dollar limit specified in paragraph 2 of Authorization for Domestic Open Market Operations at \$2 billion for a period of one year from the date of this meeting, unless in the interim the Committee should decide otherwise.

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By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on February 19, 1975, were approved.

By unanimous vote, the System open market transactions in foreign currencies during the period February 19 through March 17, 1975, were approved, ratified, and confirmed.

By unanimous vote, renewal for further periods of 3 months of System drawings on the National Bank of Belgium maturing on April 17 and 24, 1975, was authorized.

By unanimous vote, the System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period February 19 through March 17, 1975, were approved, ratified, and confirmed.

With Messrs. Bucher, Eastburn, and Sheehan dissenting, 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 February industrial production and employment declined substantially further. The unemployment rate was unchanged, at 8.2 per cent, as the civilian labor force declined sharply. Average wholesale prices of industrial commodities rose moderately again in February, and prices of farm and food products declined

sharply further. The advance in average wage rates, although large, remained well below the increases of last spring and summer.

The foreign exchange value of the dollar declined in February, but it strengthened somewhat in early March, as short-term interest rates abroad fell further and as market attitudes toward the dollar improved somewhat. In January the U.S. foreign trade deficit was only moderately above the rate in the fourth quarter of 1974 despite a large bulge in recorded imports of oil. Net outflows of capital reported by banks continued large as foreigners withdrew deposits.

The narrowly defined money stock, which had declined sharply in January, expanded considerably in February, and broader measures of the money stock grew at substantial rates. Net inflows of consumer-type time and savings deposits were particularly large. Large-denomination CD's outstanding contracted in February and total bank credit showed little net change. Business demands for short-term credit remained weak, both at banks and in the commercial paper market, while demands in the long-term market continued exceptionally strong. Since mid-February short-term market interest rates have declined a little while longer-term yields have risen. Federal Reserve discount rates were reduced from 6-3/4 to 6-1/4 per cent in early March.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to 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.

With Mr. Coldwell dissenting, the Committee voted to amend subsection 271.5(a) of the Rules Regarding Availability of Information as indicated below, effective March 24, 1975:

SECTION 271.5 - DEFERMENT OF AVAILABILITY OF  
CERTAIN INFORMATION

(a) Deferred availability of information. - In some instances, certain types of information of the Committee are not published in the Federal Register or made available for public inspection or copying until after such period of time as the Committee may determine to be reasonably necessary to avoid the effects described in paragraph (b) of this section or as may otherwise be necessary to prevent impairment of the effective discharge of the Committee's statutory responsibilities. For example, the Committee's domestic policy directive adopted at each meeting of the Committee is published in the Federal Register approximately 45 days after the date of its adoption; and no information in the records of the Committee relating to the adoption of any such directive is made available for public inspection or copying before it is published in the Federal Register or is otherwise released to the public by the Committee.

By unanimous vote, the Committee reaffirmed its intention that the memoranda of discussion prepared for individual Committee meetings are not to be made available to the public until after the Committee has authorized their transfer to the National Archives.

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

Secretary's note: On February 28, 1975, certain continuing authorizations of the Committee, listed below, had been distributed by the Secretary with the advice that, in accordance with procedures approved by the Committee, they were being called to the Committee's attention before the March organization meeting to give members an opportunity to raise any questions they had concerning them. Members were asked to so indicate if they wished to have any of the authorizations in question placed on the agenda for consideration at this meeting, and no such requests were received.

The authorizations in question were as follows:

1. Procedures for allocation of securities in the System Open Market Account.
2. List of Treasury Department officials to whom weekly reports on open market operations may be sent.
3. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank is unable to function.
4. Resolutions providing for continued operation of the Committee and for certain actions by the Reserve Banks during an emergency.
5. Resolution relating to examinations of the System Open Market Account.
6. Regulation relating to Open Market Operations of Federal Reserve Banks.
7. Rules of Organization, Rules Regarding Availability of Information,<sup>1/</sup> and Rules of Procedure.

By unanimous vote, the Committee reaffirmed its intention that the memoranda of discussion prepared for individual Committee meetings are not to be made available to the public until after the Committee has authorized their transfer to the National Archives.

<sup>1/</sup> As recorded above, an amendment to Section 271.5(a) of the Rules Regarding Availability of Information was made at this meeting.



By unanimous vote, the Authorization for Domestic Open Market Operations shown below was reaffirmed:

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:
  - (a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than \$3.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;
  - (b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed \$1 billion;

- (c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances of the types authorized for purchase under 1(b) above, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.
2. 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  $1/4$  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 \$2 billion.
  3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

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

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for 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

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

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

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

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.
6. The Subcommittee named in Section 272.4(c) of the Committee's rules of procedure is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.
7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) is authorized:
  - A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;
  - B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities; and
  - C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.
8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.
9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

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

FOREIGN CURRENCY DIRECTIVE

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

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

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

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

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

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

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

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

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

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include (1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions. Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken if the 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; and

D. To adjust System balances within the limits established in the Authorization for Foreign Currency Operations in light of probable future needs for currencies.

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

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



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

It was agreed that the next meeting of the Committee would be held on Monday and Tuesday, April 14 and 15, 1975, beginning at 4:00 p.m. on Monday.

The meeting adjourned.

  
Arthur I. Burton  
Secretary