

Meeting of Federal Open Market Committee

August 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 Tuesday, August 19, 1975, at 9:30 a.m.

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

Messrs. Balles 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. Guy, Deputy General Counsel
Mr. Partee, Senior Economist
Mr. Gramley, Economist (Domestic Business)
Messrs. Bryant, Green, Kareken, Reynolds, and
Scheld, Associate Economists

Mr. Holmes, Manager, System Open Market Account
Mr. Pardee, Deputy Manager for Foreign
Operations

Mr. Coyne, Assistant to the Board of
Governors

Mr. Brenneman,^{1/} Special Assistant to the
Board of Governors

Mr. McWhirter,^{2/} Associate Director, Division
of Federal Reserve Bank Operations, Board
of Governors

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

Mr. Struble, Chief, Government Finance Section,
Division of Research and Statistics, Board
of Governors

Mr. Maroni,^{2/} Senior Economist, Division of
International Finance, Board of Governors

Mrs. Farar, Economist, Open Market Secretariat,
Board of Governors

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

Messrs. Rankin and Leonard, First Vice Presidents,
Federal Reserve Banks of Richmond and
St. Louis, respectively

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

Messrs. Hoskins and Hocter, Vice Presidents,
Federal Reserve Banks of Philadelphia and
Cleveland, respectively

Messrs. Sandberg, Thunberg, and Cox, Assistant
Vice Presidents, Federal Reserve Banks of
New York, New York, and Atlanta, respectively

^{1/} Left meeting before any actions were taken.

^{2/} Participated in meeting at point indicated.

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By unanimous vote, Paul A. Volcker was elected Vice Chairman of the Federal Open Market Committee, effective immediately, to serve until the election of his successor at the first meeting of the Committee after February 29, 1976, with the understanding that in the event of the discontinuance of his official connection with the Federal Reserve Bank of New York he would cease to have any official connection with the Federal Open Market Committee.

By unanimous vote, the Committee ratified the action taken by members on August 6, 1975, increasing from \$2 billion to \$3 billion the dollar limit on System Account holdings of certificates purchased directly from the Treasury, specified in paragraph 2 of Authorization for Domestic Open Market Operations, for the period through close of business August 19, 1975.

The report of examination of the System Open Market Account, made by the Board's Division of Federal Reserve Bank Operations as at the close of business April 25, 1975, was accepted.

Mr. McWhirter joined the meeting for the discussion of the foregoing item.

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By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee on July 15, 1975, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee on June 16-17, 1975, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period July 15 through August 18, 1975, were approved, ratified, and confirmed.

By unanimous vote, the Committee authorized an increase of \$180 million, to \$360 million, in the Federal Reserve swap arrangement with the Bank of Mexico, and the conforming amendment to paragraph 2 of the authorization for System foreign currency operations, subject to the understanding that the action would become effective upon approval by Chairman Burns after a final review of technical details.

Secretary's note: Chairman Burns approved the increase on August 29, 1975.

Mr. Maroni joined the meeting for the discussion of the foregoing item.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period July 15 through August 18, 1975, were approved, ratified, and confirmed.

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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 output of goods and services bottomed out in the second quarter and is likely to increase appreciably in the current quarter. In July retail sales expanded further and industrial production rose moderately for the second consecutive month, following 8 months of decline. Conditions in labor markets improved further: employment increased, the unemployment rate declined from 8.6 to 8.4 per cent, and the average workweek in manufacturing lengthened considerably. Average wholesale prices rose sharply in July, chiefly because of increases in prices of agricultural and energy products. The advance in average wage rates has continued to moderate over recent months.

In recent weeks the average exchange value of the dollar against leading foreign currencies has risen considerably further, reflecting additional increases in interest rates on U.S. dollar assets relative to rates on foreign currency assets. In June the U.S. foreign trade surplus rose substantially, as exports increased sharply while imports declined slightly further.

In July M_1 increased relatively little and growth in M_2 and M_3 slowed substantially, following a sharp increase in depositors' balances in May and June in connection with Federal income tax rebates and supplementary social security payments. Market interest rates in general have risen appreciably further in recent weeks, in association with indications of strengthening economic activity, more rapid inflation, and large current and prospective Treasury financing requirements. Corporate bond offerings moderated somewhat in July but State and local government offerings continued large. Financial markets reflected considerable uncertainty stemming from New York City financing problems. Business demands for short-term credit remained weak, although less so than in earlier months.

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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 contributing to a sustainable pattern of international transactions.

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 moderate growth in monetary aggregates over the months ahead.

It was agreed that the next meeting of the Committee would be held on September 16, 1975.

The meeting adjourned.


Secretary