

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,<sup>1/</sup> Special Assistant to the  
Board of Governors

Mr. McWhirter,<sup>2/</sup> 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,<sup>2/</sup> 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

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<sup>1/</sup> Left meeting before any actions were taken.

<sup>2/</sup> 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