Meeting of Federal Open Market Committee

January 17-18, 1977

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 Monday and Tuesday, January 17-18, 1977, beginning at 4:00 p.m. on Monday.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Balles
Mr. Black
Mr. Coldwell
Mr. Gardner
Mr. Jackson
Mr. Kimbrel
Mr. Lilly
Mr. Partee
Mr. Wallich
Mr. Winn

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

Messrs. Eastburn and Roos, Presidents of the Federal Reserve Banks of Philadelphia and St. Louis, respectively

Mr. Broida, Secretary
Mr. Altmann,1/ Deputy Secretary
Mr. Bernard,1/ Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Axilrod, Economist (Domestic Finance)
Mr. Gramley,2/ Economist (Domestic Business)

1/ Attended Tuesday session only.
2/ Attended part of Tuesday session only.

Messrs. Brandt,1/ Davis,1/ Keran,1/
Kichline,1/ Parthemos,1/ Reynolds,3/
and Zeisel,1/ Associate Economists

Mr. Holmes, Manager System Open Market
Account
Mr. Pardee,3/ Deputy Manager for Foreign
Operations
Mr. Sternlight,1/ Deputy Manager for
Domestic Operations

Messrs. Coyne, Guenther,4/ and Keir,1/
Assistants to the Board of Governors
Mr. Gemmill,1/ Adviser, Division of
International Finance, Board of
Governors
Mr. Truman,4/ Associate Adviser, Division
of International Finance, Board of
Governors
Mrs. Farar,1/ Economist, Open Market
Secretariat, Board of Governors
Mrs. Deck,1/ Staff Assistant, Open Market
Secretariat, Board of Governors

Mr. Van Nice,First Vice President, Federal
Reserve Bank of Minneapolis
Messrs. Balbach,1/ Doll,1/ Eisenmenger,1/
and Scheld,1/ Senior Vice Presidents,
Federal Reserve Banks of St. Louis,
Kansas City, Boston, and Chicago,
respectively
Messrs. Burns 1/ and Kaminow,1/ Vice
Presidents, Federal Reserve Banks
of Dallas and Philadelphia, respectively
Mr. Hall,1/ Assistant Vice President,
Federal Reserve Bank of Cleveland
Mr. Duprey,1/ Economic Adviser, Federal
Reserve Bank of Minneapolis
Mr. Ozog,1/ Manager, Acceptances and
Securities Department, Federal Reserve
Bank of New York

1/ Attended Tuesday session only.
2/ Attended part of Tuesday session only.
3/ Attended part of Monday session and all of Tuesday session.
4/ Attended part of Monday session only.

By unanimous vote, the Committee ratified (a) the agreement in principle reached in Basle, Switzerland, on January 10, 1977, by governors of participating central banks for a $3 billion medium-term credit facility to the Bank of England relating to official sterling balances, and (b) an agreement regarding joint Federal Reserve-U. S. Treasury participation in that facility as described in the following letter to Chairman Burns from Secretary of the Treasury Simon:

January 14, 1977

Dear Mr. Chairman:

With respect to the official sterling balances facility that has been the subject of extensive discussion among the U. S. Treasury, the Federal Reserve System, the Bank of England and the governors of the other central banks represented at the BIS in Basle, I should like to confirm the following agreement between the Treasury and the Federal Reserve.

In light of the agreement that has now been reached in Basle and of our existing mutual understanding about the prospective implementation of that agreement we agree to the following arrangements for joint Federal Reserve-U. S. Treasury participation in the facility.

-- If the U. S. is required to provide financing to the BIS in support of that facility, the funds will be provided initially by the Federal Reserve through its existing swap arrangement with the BIS, taking the form of a usual three-month swap renewable three times.

-- Should the Federal Reserve be called upon to provide financing under the terms of the facility continuously for more than one year, in light of the close cooperation between the Treasury and Federal Reserve, such financing will be provided to the Federal Reserve System by the U. S. Treasury, acting through the Exchange Stabilization Fund.

-- Risk associated with U. S. financing of the facility, whether such financing is provided by the Federal Reserve or the Exchange Stabilization Fund, will be borne equally by the Federal Reserve and the Exchange Stabilization Fund.

I understand that the BIS has agreed, as part of the sterling balance facility, to make every effort to finance any U. K. drawing by raising funds in other markets, thereby limiting the need for official financing for the facility.

Sincerely yours,

(Signed)

William E. Simon

By unanimous vote, the Committee approved arrangements to warehouse eligible foreign currencies for the Exchange Stabilization Fund of the U. S. Treasury on the basis set forth in the following exchange of letters between Secretary Simon and Chairman Burns:

January 14, 1977

Dear Arthur:

I have written to you today under separate cover a letter confirming our understandings with respect to United States participation in the official sterling balance facility agreed in principle at Basle on January 10.

I am very pleased that we have been able to work out arrangements for cooperation in this matter which meet the needs of both the Federal Reserve System and the Treasury. In view of the potential liquidity strains on the ESF arising from this and other claims on the ESF I would appreciate your willingness to work out, along the lines we had discussed, warehousing arrangements for the ESF of $1-1/2 billion, $750 million of which would be provided for periods of twelve months and the remainder for periods of six months. I understand that the recent modification in language in the FOMC guidelines did not change the authorization for such warehousing which has existed for a number of years.

Given our joint participation in the official sterling balances facility, and our sharing equally of the risks, I am sure you will agree that Treasury and the Federal Reserve will need to work out together any questions related to implementation of the Basle agreement. In this connection, it is my understanding, in the event the IMF Managing Director finds that the United Kingdom is not fulfilling the provisions of the agreement, that the Federal Reserve and the Treasury would jointly have to agree if U. S. financing were to be continued despite the Managing Director's findings. I am confident that our two institutions will be able to agree on this and other questions of implementation in the spirit of cooperation which has characterized our relationship and it is on this basis that I have agreed to the understandings set forth in our exchange of letters.

Sincerely,

(Signed)

William E. Simon

January 17, 1977

Dear Mr. Secretary:

At its meeting today the Federal Open Market Committee took note of the suggestion in your letter of January 14, 1977, that the Federal Reserve provide, along the lines we had discussed, warehousing arrangements for the ESF of \$1-1/2 billion, \$750 million of which would be available for periods of twelve months and the remainder for periods of six months.

I am pleased to inform you that the Federal Reserve will be prepared, if requested by the Treasury, to warehouse eligible foreign currencies for the ESF on the basis you have suggested.

I and my colleagues share your confidence that our two institutions will be able to work out together any questions related to the Basle agreement in the spirit of cooperation that has long characterized our relationship.

Sincerely yours,

(Signed)

Arthur F. Burns

Secretary's Note: The following actions were taken on Tuesday, January 18, 1977.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on December 20-21, 1976, were approved.

By unanimous vote, the System open market transactions in foreign currencies during the period December 21, 1976, through January 17, 1977, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period December 21, 1976, through January 17, 1977, were approved, ratified, and confirmed.

By unanimous vote, the Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1976 to the fourth quarter of 1977: M-1, 4-1/2 to 6-1/2 per cent; M-2, 7 to 10 per cent; and M-3, 8-1/2 to 11-1/2 per cent.

With Mr. Balles dissenting, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

> The information reviewed at this meeting suggests that growth in real output of goods and services slowed somewhat further in the fourth quarter, mainly because of a sharp decline in the rate of inventory accumulation. In December retail sales increased sharply, following strong gains in the preceding 2 months. Industrial production and total employment rose further, and the unemployment rate declined from 8.1 to 7.9 per cent. The wholesale price index for all commodities rose substantially, reflecting a sharp increase in average prices of farm products and foods; the rise in average prices of industrial commodities slowed, owing largely to declines in prices of fuels. The

advance in the index of average wage rates over recent months has remained below the rapid rate of increase during 1975.

The average value of the dollar against leading foreign currencies declined in December but has since recovered somewhat. The pound sterling strengthened following negotiation of an IMF stand-by arrangement and of a medium-term facility to offset reductions in official sterling balances. In November the U. S. foreign trade deficit increased, bringing the October-November average deficit to about the third-quarter rate.

M-1, which was unchanged in November, expanded appreciably in December; from the third to the fourth quarter growth in M-1 was moderate. Inflows of the time and savings deposits included in M-2 and M-3 were almost as large in December as in November, and growth in these broader aggregates was substantial. Interest rates changed little in late December but recently have moved up.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion, 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 period ahead.

It was agreed that the next regular meeting of the Committee would be held on February 15, 1977, at 9:30 a.m.

The meeting adjourned.

Secretary