

Meeting of Federal Open Market Committee

March 15, 1977

MINUTES OF ACTIONS

A meeting of the Federal Open Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, March 15, 1977, beginning at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Volcker, Vice Chairman
Mr. Coldwell
Mr. Gardner
Mr. Guffey
Mr. Jackson
Mr. Lilly
Mr. Mayo
Mr. Morris
Mr. Partee
Mr. Roos
Mr. Wallich

Messrs. Balles, Baughman, Eastburn, and Winn,
Alternate Members of the Federal Open
Market Committee

Messrs. Black and Kimbrel, Presidents of the
Federal Reserve Banks of Richmond and
Atlanta, respectively

Mr. Broida, Secretary
Mr. Altmann, Deputy Secretary
Mr. Bernard, Assistant Secretary
Mr. O'Connell, General Counsel
Mr. Axilrod, Economist

Messrs. Balbach, T. Davis, Ettin,
Kichline, Reynolds, Scheld,
Truman, and Zeisel, Associate
Economists

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Mr. Holmes, Manager System Open Market
Account

Mr. Pardee, Deputy Manager for Foreign
Operations

Mr. Sternlight, Deputy Manager for
Domestic Operations

Mr. Hudson, Assistant to the Chairman,
Board of Governors

Messrs. Coyne and Keir, Assistants to
the Board of Governors

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

Mrs. Deck, Staff Assistant, Open Market
Secretariat, Board of Governors

Mr. Van Nice, First Vice President,
Federal Reserve Bank of Minneapolis

Messrs. Boehne, Davis, and Parthemos,
Senior Vice Presidents, Federal
Reserve Banks of Philadelphia,
Cleveland, and Richmond,
respectively

Messrs. Brandt, Burns, Fieleke, Fousek,
and Keran, Vice Presidents, Federal
Reserve Banks of Atlanta, Dallas,
Boston, New York, and San Francisco
respectively

Mr. Kareken, Economic Adviser, Federal
Reserve Bank of Minneapolis

Mr. Meek, Monetary Adviser, Federal
Reserve Bank of New York

In the agenda for this meeting, it was reported
that advices of the election of the following members and
alternate members of the Federal Open Market Committee for

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the year commencing March 1, 1977, had been received by the Secretary and the named individuals had executed their oaths of office.

The elected members and alternate members were as follows:

Frank E. Morris, President of the Federal Reserve Bank of Boston, with David P. Eastburn, President of the Federal Reserve Bank of Philadelphia, as alternate;

Paul A. Volcker, President of the Federal Reserve Bank of New York, with Thomas M. Timlen, 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;

Lawrence K. Roos, President of the Federal Reserve Bank of St. Louis, with Ernest T. Baughman, President of the Federal Reserve Bank of Dallas, as alternate;

James R. Guffey, President of the Federal Reserve Bank of Kansas City, 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 28, 1978, 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
Paul A. Volcker

Chairman
Vice Chairman

Arthur L. Broida
Murray Altmann
Normand R. V. Bernard
Thomas J. O'Connell
Edward G. Guy
Baldwin B. Tuttle
Stephen H. Axilrod

Secretary
Deputy Secretary
Assistant Secretary
General Counsel
Deputy General Counsel
Assistant General Counsel
Economist

Anatol Balbach, Richard G.
Davis, Thomas Davis, Robert
Eisenmenger, Edward Ettin,
James L. Kichline, Karl
Scheld, John E. Reynolds,
Edward M. Truman, Joseph
S. Zeisel

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 28, 1978.

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.

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

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on February 15, 1977, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period February 15 through March 14, 1977, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period February 15 through March 14, 1977, were approved, ratified, and confirmed.

By unanimous vote, 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 has increased in the current quarter from the reduced pace in the fourth quarter of 1976. In February industrial output and retail sales expanded substantially after being held down for a time by the effects of unusually severe weather. Employment rose considerably further; the unemployment rate

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increased somewhat to 7.5 per cent--as the labor force more than recovered the decline of January--but it remained below the 7.8 per cent of December. The wholesale price index for all commodities rose substantially in February, reflecting large increases for farm products and foods and for fuels and power. The index of average wage rates rose more moderately over the first 2 months of 1977 than it had on the average during 1976.

The average value of the dollar against leading foreign currencies has changed little over the past month. In January the U. S. foreign trade deficit increased further; exports were down a little from the fourth-quarter rate and imports were substantially higher.

Growth in M-1 slowed sharply in February from the moderate pace in January. At banks and thrift institutions, inflows of time and savings deposits other than large-denomination CD's continued to slacken. Business demands for short-term credit appear to have strengthened further in early 1977. Since mid-February short-term market interest rates have changed little on balance, but most longer-term rates have edged higher.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster bank reserve and other financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

At its meeting on January 18, 1977, the Committee agreed that growth of M-1, M-2, and M-3 within ranges of 4-1/2 to 6-1/2 per cent, 7 to 10 per cent, and 8-1/2 to 11-1/2 per cent, respectively, from the fourth quarter of 1976 to the fourth quarter of 1977 appears to be consistent with these objectives.

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These ranges are subject to reconsideration at any time as conditions warrant.

The Committee seeks to encourage near-term rates of growth in M-1 and M-2 on a path believed to be reasonably consistent with the longer-run ranges for monetary aggregates cited in the preceding paragraph. Specifically, at present, it expects the annual growth rates over the March-April period to be within the ranges of 4-1/2 to 8-1/2 per cent for M-1 and 7 to 11 per cent for M-2. In the judgment of the Committee such growth rates are likely to be associated with a weekly average Federal funds rate of about 4-5/8 to 4-3/4 per cent. If, giving approximately equal weight to M-1 and M-2, it appears that growth rates over the 2-month period will deviate significantly from the mid-points of the indicated ranges, the operational objective for the Federal funds rate shall be modified in an orderly fashion within a range of 4-1/4 to 5-1/4 per cent.

If it appears during the period before the next meeting that the operating constraints specified above are proving to be significantly inconsistent, the Manager is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

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 25, 1977, 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. Guidelines for the conduct of System operations in Federal agency issues.
7. Regulation relating to Open Market Operations of Federal Reserve Banks.
8. Rules of Organization, Rules Regarding Availability of Information, and Rules of Procedure.

It was agreed that the authorization for the lending of Government securities from the System Open Market Account,

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contained in paragraph 3 of the Authorization for Domestic Open Market Operations, should be retained at this time, subject to annual review.

By unanimous vote, paragraph 1(b) of the Authorization for Domestic Open Market Operations, relating to outright purchases and sales of bankers' acceptances, was amended, effective immediately, by adding the words "when appropriate" at the beginning of the paragraph and by reducing the dollar limit on holdings, specified at the end of the paragraph, from \$1 billion to \$100 million.

In connection with this action, it was understood that present outright holdings of bankers' acceptances would be allowed to mature without replacement and that, while this process was under way, actual holdings would exceed the newly established limit of \$100 million for a few months.

By unanimous vote, the paragraphs of the Authorization for Domestic Open Market Operations not affected by the preceding actions were reaffirmed. Reflecting the amendment to paragraph 1(b), the authorization reads as follows:

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

- I. 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) When appropriate, 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 \$100 million;

(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 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 $\frac{1}{4}$ 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.

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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, and in conformity with such procedural instructions as the Committee may issue from time to time:

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. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

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 balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. 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.

D. To maintain an over-all open position in all foreign currencies not exceeding \$1.0 billion, unless a larger position is expressly authorized by the Committee. For this purpose, the over-all open position in all foreign currencies is defined as the sum (disregarding signs) of open positions in each currency. The open position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i. e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the 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
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	360
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

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

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.

4. It shall be the normal 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. All operations undertaken pursuant to the preceding paragraphs shall be reported daily to the Foreign Currency Subcommittee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.
7. The Chairman 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 Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

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 3 G(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. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the proposed IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

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B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the proposed IMF Article IV.

By unanimous vote, the Procedural Instructions shown below were reaffirmed:

PROCEDURAL INSTRUCTIONS

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any transaction which would result in a change in the System's over-all open position in foreign currencies exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.

B. Any transaction which would result in gross transactions (excluding swap drawings and repayments) in a single foreign currency exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.

C. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any transaction which would result in a change in the System's over-all open position in foreign currencies exceeding \$500 million since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

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3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any transactions that are not of a routine character.

By unanimous vote, the Special Authorization shown below was reaffirmed:

SPECIAL AUTHORIZATION UNDER PARAGRAPH 1 (D) OF
AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

The Federal Open Market Committee authorizes the Federal Reserve Bank of New York to maintain an over-all open position in foreign currencies exceeding the figure of \$1 billion specified in paragraph 1(D) of the Authorization for Foreign Currency Operations by an amount equal to the remaining forward commitment associated with the System's outstanding 1971 swap drawings in Swiss francs.

It was agreed that the next meeting of the Committee would be held on Tuesday, April 19, 1977, beginning at 9:30 a.m.

The meeting adjourned.

Secretary