FEDERAL RESERVE

press release

For Use at 4:00 p.m. January 21, 1977

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on December 20-21, 1976.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on December 20-21, 1976

1. Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services in the fourth quarter had remained close to the pace in the third quarter--now indicated by revised estimates of the Commerce Department to have been at an annual rate of 3.8 per cent, compared with 4.5 per cent in the second quarter. The rise in average prices--as measured by the fixed-weighted index for gross domestic business product--appeared to have been somewhat faster than in the third quarter, when it had slowed to an annual rate of 4.3 per cent.

A staff analysis suggested that final purchases of goods and services in real terms were expanding at a higher rate in the fourth quarter than in the third--reflecting a substantial increase in growth of personal consumption expenditures and an acceleration of the rise in residential construction, offset only in part by a slowing of the expansion in business fixed investment. It also appeared that the strengthening in final demands was being accompanied by a substantial reduction in the rate of inventory accumulation.

The staff projections suggested that the rate of inventory accumulation would not decline further in the first quarter of 1977 and that, consequently, growth in real output of goods and services would pick up. Projections of economic activity for the rest of 1977, it was noted, depended on the assumptions made with respect to the economic policies that would be pursued by the new administration taking office on January 20. Currently, the question of the need for, and the character of, new fiscal stimulus was being considered by the incoming administration.

Retail sales now appeared to be much stronger than they had seemed to be a month ago. Sales were estimated to have risen considerably more in October than had been indicated earlier, and the advance estimate for November suggested a large further increase to a level appreciably higher than the average for the third quarter. Over the October-November period gains in sales were particularly strong at general merchandise stores and at furniture and appliance stores. In late November sales of new domestic automobiles began to recover, after having been reduced earlier by the strike-induced limitation of supplies; for November as a whole, sales were at an annual rate of 8.0 million units, compared with 7.6 million in October and an average of 8.7 million in the first three quarters of 1976. Sales of imported models fell in November from an advanced level in the preceding 2 months.

The index of industrial production rose by an estimated 1.2 per cent in November, more than recovering the losses in the preceding 2 months that had been caused in part by strikes in the automobile and farm machinery industries. More than half of the November increase resulted from the termination of the strikes, although moderate gains in output were widespread among other industries. At 132 per cent of the 1967 average in November, the total index had recovered to the pre-recession high reached in June 1974. Capacity utilization in the materials-producing industries was 81 per cent in November, compared with about 90 per cent in the second quarter of 1974.

In November employment in manufacturing recovered from the effects of strikes, and employment also expanded in the service sectors, in construction, and in mining. Adjusted for the effects of strikes, however, the increase in over-all payroll employment in nonfarm establishments was moderate.

As measured by the household survey, total employment rose considerably after 2 months of decline; however, the civilian labor force--which had changed little over the preceding 3 months--rose even more, and the unemployment rate increased from 7.9 to 8.1 per cent.

The advance in personal income--which had been sizable in October, in part because of an increase in pay scales in the Federal Government--was even greater in November. The gain in wage and salary disbursements was especially large in manufacturing, reflecting to a considerable extent the return to work after the major strikes were over, and it continued to be sizable in other private activities.

Indicators of residential construction activity had remained strong in recent months. Residential building permits rose in November. Although private housing starts declined further in November, the figure for October had been revised to show a somewhat smaller decrease than that indicated a month earlier; as a result, the October-November level of starts--at an annual rate of 1.7 million units--was about 10 per cent above the third-quarter average. In October, moreover, the dollar volume of mortgage commitments outstanding at savings and loan associations had continued to advance, again reaching a record.

On the other hand, the latest data suggested a weakening in the outlook for business plant and equipment expenditures. Although the most recent Department of Commerce survey of business plans, conducted in late October and November, indicated that a strong gain in spending was being planned for the current quarter, it suggested that the increases planned for the first two quarters of 1977 would be no greater than the rise in prices. Other data suggested that in the current quarter actual spending would fall short of that planned, but that the shortfall might be made up later on.

New orders for nondefense capital goods rose further in October. However, the rate of increase from June to October was appreciably below that during the first 6 months of the year. Backlogs of unfilled orders for such goods continued to change little in October. Construction contracts for commercial and industrial buildings--measured in terms of floor space--rose after having declined in September; the October level was close to the average for both the second and the third quarters.

The index of average hourly earnings for private nonfarm production workers advanced at an annual rate of about 7 per cent in November, somewhat more than in the preceding 2 months. However, over the 3-month and 6-month periods ending in November the index rose at annual rates of about 6 per cent and 6-1/2 per cent, respectively, compared with a rise of almost 8 per cent over the 12 months ending in December 1975. The moderation in the rate of increase since 1975 had occurred in all major industries.

The rise in wholesale prices of industrial commodities, which had accelerated around midyear, remained rapid in November; another substantial increase for the fuels and power group accounted for a large part of the rise although increases continued to be widespread among other commodity groups. Since May the index of industrial commodity prices had risen at an annual rate of nearly 10 per cent, compared with a rate of about 3 per cent over the first 5 months of the year. Average wholesale prices of farm products and foods changed little in November after having declined on the average over the preceding 4 months.

The consumer price index rose in both October and November at an annual rate of about 3-1/2 per cent, and in November it was 5 per cent higher than a year earlier. In the October-November period average retail prices of foods changed little while average prices of all other items--including services as well as commodities--increased at an annual rate of about 6 per cent.

The average value of the dollar against leading foreign currencies declined slightly over the 5 weeks between the November and December meetings of the Committee. The pound sterling and also the currencies associated in the European "snake" arrangement strengthened against the U.S. dollar, while the Canadian dollar depreciated sharply.

The U.S. foreign trade deficit, which had increased in September, remained substantial in October--with declines in both exports and imports. Exports of agricultural commodities rose sharply, mainly because of a jump in shipments of corn to areas of Europe that had suffered drought earlier in 1976, but exports of other commodities fell by a larger amount. In real terms, exports of nonagricultural commodities had been falling since midyear. Among imports, the reduction in October was about equally divided between fuels and other commodities.

In November expansion in total credit at U.S. commercial banks was somewhat slower than in October but was faster than in any other month of 1976. Banks added a substantial amount to their holdings of U.S. Government and other securities, and their outstanding business loans increased for the third consecutive month. While the expansion in business loans was appreciable, more than half was accounted for by acquisitions of bankers acceptances by some commercial banks that were enlarging their loan portfolios for purposes of their year-end statements.

Outstanding commercial paper issued by nonfinancial corporations rose slightly in November, after having declined in the preceding 2 months. Over the October-November period the expansion in the total of such commercial paper and of business loans at banks was larger than in any other 2-month period in more than 2 years, even after allowance for bank acquisitions of bankers acceptances.

The narrowly defined money stock (M-1), which had declined slightly in September and then grown at an annual rate of 13-3/4 per cent in October, was unchanged in November. The average rate of increase in M-1 was about 4-1/2 per cent over the 3 months, and 4-3/4 per cent over the 12 months, ending in November.

Growth in M-2 and M-3 moderated in November, reflecting the behavior of M-1, but was still substantial. Inflows to commercial banks of the types of time and savings deposits included in M-2 remained at the advanced rate of October, and inflows of deposits to thrift institutions--while down from the pace in October--continued strong. Offering rates on such deposits remained attractive in relation to yields on short-term market instruments, although a significant number of institutions were reported to have reduced rates offered on some types of deposits and to have withdrawn offerings of longer-term deposits.

System open market operations since the November meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Soon after that meeting, incoming data suggested that over the November-December period growth in M-1 would be in the lower half of the range that had been specified by the Committee while growth in M-2 would be near the midpoint of its specified range. Accordingly, System operations were conducted pursuant to the Committee's decision that the Manager should aim to reduce the Federal funds rate to about 4-7/8 per cent within the first week after the meeting and to 4-3/4 per cent within the following week--provided that growth in the monetary aggregates did not appear to be strong relative to the specified ranges. By the last week of November the Federal funds rate had declined to 4-3/4 per cent.

After the first week of December, incoming data suggested that in the November-December period growth in M-1 would be below its specified range while growth in M-2 would be at about the midpoint of its range. Therefore, System operations became somewhat more accommodative in the provision of reserves, and at the time of this meeting the Federal funds rate was about 4-5/8 per cent--near the lower limit of the specified range of 4-1/2 to 5-1/4 per cent.

On November 19 the Board of Governors of the Federal Reserve System announced its approval of actions by the directors of 11 Federal Reserve Banks reducing the discount rate from 5-1/2 to 5-1/4 per cent, effective November 22; soon afterward the rate was reduced at the remaining Reserve Bank. On December 17 the Board announced a structural adjustment in reserve requirements on demand deposits that would reduce required reserves by about $550 million. This action applied to net demand deposits held by member banks beginning in the week of December 16-22; under the lagged reserve system, it would reduce required reserves during the week of December 30-January 5.

Over the inter-meeting period, market interest rates declined substantially to their lowest levels in more than 2 years, under the influence of the actions to ease monetary conditions and of the continuing evidence of relatively slow growth in economic activity. Yields on bonds declined about 30 basis points. Yields on most short-term instruments fell 40 to 60 basis points to levels that suggested that market participants were expecting some further decline in the Federal funds rate. Most commercial banks reduced the prime rate on business loans from 6-1/2 to 6-1/4 per cent during the period, and two large banks reduced the rate to 6 per cent.

The volume of new bonds offered to the public by domestic corporations was unusually light in November as new issues of high-grade industrial firms and of finance companies fell substantially. However, declines in rates in the U.S. market attracted a record volume of publicly offered foreign bonds. A resurgence of offerings by domestic corporations appeared to be under way in December.

The supply of new State and local government bonds remained large in November. Total offerings of such bonds during the first 11 months of 1976 amounted to $32 billion, exceeding the previous record volume of offerings in all of 1975.

The U.S. Treasury raised $6.0 billion of new money during the inter-meeting period. In addition, it sold $1 billion of 2-year notes for payment in late December and announced an offering of $2-1/2 billion of 5-year notes to be auctioned before the end of the month.

Activity in the mortgage market apparently remained at a high level during November. Mortgage credit expansion continued to be dominated by loans for new and existing single-family houses, but the multifamily sector also strengthened somewhat.

With yields on market securities declining, downward pressures on home mortgage rates intensified. Although the latest available national series indicated little change in rates for primary home mortgages, trade sources suggested that some cutting of rates on these instruments was developing.

The recent declines in long-term interest rates were expected to encourage a heavy volume of capital market financing both by business corporations and by State and local governments during the early weeks of 1977. However, much of this financing seemed likely to involve either funding of short-term debt or advance refunding of bonds issued in earlier years when interest rates were substantially higher.

Growth in mortgage credit seemed likely to remain strong. Savings and loan associations, with a record volume of commitments outstanding, were expected to continue providing a large volume of mortgage credit. Also, the sizable premium prevailing for mortgage rates over bond yields was expected to encourage acquisitions of mortgages by more diversified types of lenders. At the same time, it appeared likely that continuing strong cash flows to insurance companies would sustain the demands of these companies for bonds.

At its telephone meeting on November 8 the Committee had agreed that from the third quarter of 1976 to the third quarter of 1977, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1, 4-1/2 to 6-1/2 per cent; M-2, 7-1/2 to 10 per cent; and M-3, 9 to 11-1/2 per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. It was agreed that the longer-term ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for annual periods.

In their discussion of economic developments and prospects at this meeting, Committee members generally agreed that the latest business statistics indicated a strengthening in the situation and that the recent sluggishness appeared to have been only a "pause" in the growth of real output rather than the forerunner of a new recession. It was noted that in November the rise in industrial production had exceeded the amount attributable to recovery from strikes, that increases in personal income and retail sales had been sizable, and that progress was apparently being made in adjusting inventories. Moreover, it was suggested that confidence had improved; in particular, it was thought that the business community had been reassured by indications that the incoming administration would take a cautious approach to economic problems and that it would not seek price and wage controls in any situation short of a national emergency. Despite the disappointing results of the Commerce Department survey of business spending plans for the first two quarters of 1977, one member expressed the opinion that the improvement in business confidence, combined with the recent declines in longer-term interest rates, would contribute to a significant expansion in plant and equipment outlays.

Although Committee members in general viewed the business situation and outlook as having improved, some noted that the strengthening thus far had not been great and that it was not certain that the pause had ended. Also, attention was called to a number of continuing and potential problems. Among these was the outlook for unemployment, which might remain high for some time to come, especially if the labor force continued to rise at a rapid pace, in part because of increasing participation of women. In this connection, it was suggested that specific Government programs to deal with sectoral problems might be far more effective in reducing unemployment than general monetary and fiscal policies.

Inflation also continued to be a source of concern; it was noted that while the rise in the consumer price index had moderated in recent months, the increase in average wholesale prices of industrial commodities had accelerated to an annual rate of about 10 per cent. It was also noted that there was continuing uncertainty about how much prices of imported oil would be raised at the start of 1977, and about how the impact of further increases in the price of oil would affect the performance of the economy.

It was observed during the discussion that the Federal budget deficit in fiscal 1976 had been substantial--especially when "off-budget outlays" and deficits of Government-sponsored agencies were taken into account--and that another deficit of almost the same size was in prospect for fiscal 1977 even without allowance for new stimulative measures. Some concern was expressed that fiscal stimulus might foster new inflationary expectations or that, as at times in the past, its effects might come so late in the expansion as to cause growth of real output to accelerate at a time when it should be moving gradually toward the longer-term rate of growth in potential output. The view was also expressed, however, that a degree of fiscal stimulus was desirable.

Members of the Committee did not differ greatly in their views on appropriate monetary policy for the period immediately ahead. With respect to the annual rate of growth in M-1 over the December-January period, most members favored a range of either 2-1/2 to 6-1/2 per cent or 3 to 7 per cent, although one suggested a range of 2 to 7 per cent. For M-2, there was general support for a range of 9 to 13 per cent.

Most members favored giving greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting, in part because projections of growth in monetary aggregates around the year-end were highly uncertain. A majority favored directing operations toward maintaining the Federal funds rate at about its prevailing level of 4-5/8 per cent for the time being, unless growth in the monetary aggregates appeared to be deviating significantly from the rates currently expected. Most of these members favored specifying an inter-meeting range for the Federal funds rate that was symmetrical around the prevailing rate--specifically, 4-1/4 to 5 per cent--but one preferred a range of 4 to 5 per cent.

A number of reasons were advanced for maintaining prevailing money market conditions at this time. These included the evidence of improvement in the economic outlook, the substantial declines in interest rates over the past few weeks, the recent reductions in Federal Reserve discount rates and in member bank reserve requirements, and the recent weakening in the value of the dollar in foreign exchange markets. Also noted were the uncertainties regarding the amount of fiscal stimulus that might be forthcoming, the large Federal deficit in prospect even without new fiscal measures, and the continuing inflation.

A minority of Committee members favored aiming at the outset of the coming period for a slight further reduction in the Federal funds rate--to about 4-1/2 per cent, the midpoint of the 4 to 5 per cent range that they preferred. A principal argument offered for this course was that it would tend to avoid the increases in other short-term interest rates that--in the light of current market expectations--might result if the prevailing Federal funds rate were maintained. Other arguments advanced were that a slightly lower Federal funds rate might encourage further declines in long-term rates, that it would tend to validate the reduction in reserve requirements, and that the evidence of an end to the period of slow growth in real output was not yet conclusive.

At the conclusion of the discussion the Committee decided that operations in the period immediately ahead should be directed toward maintaining the money market conditions now prevailing, including a weekly-average Federal funds rate of about 4-5/8 per cent. With respect to the annual rates of growth in M-1 and M-2 over the December-January period, the Committee specified ranges of 2-1/2 to 6-1/2 per cent and 9 to 13 per cent, respectively. The members agreed that, if growth in the aggregates should appear to be strong or weak relative to the specified ranges, the weekly-average Federal funds rate might be expected to vary in an orderly fashion within a range of 4-1/4 to 5 per cent. As at other recent meetings, the Committee decided that approximately equal weight should be given to M-1 and M-2 in assessing the behavior of the aggregates.

As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services in the fourth quarter has remained at about the reduced pace of the third quarter. In both October and November retail sales increased substantially. Industrial production rose appreciably in November--following 2 months of decline--in large part as a result of termination of strikes in two major industries, although advances in output were widespread among other industries. Employment in manufacturing also recovered from the effects of strikes. According to household survey data, the gain in total employment was large, but the unemployment rate increased from 7.9 to 8.1 per cent as the civilian labor force--which had changed little over the preceding 3 months--increased considerably. The wholesale price index for all commodities rose as much in November as in October, reflecting another substantial increase in average prices of industrial commodities; average prices of farm products and foods changed little. The advance in the index of average wage rates over recent months has remained below the rapid rate of increase during 1975.
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> The average value of the dollar against leading foreign currencies has declined slightly in recent weeks. The pound sterling and also the currencies associated in the European "snake" arrangement strengthened against the U.S. dollar, while the Canadian dollar depreciated sharply. In October the U.S. foreign trade deficit remained substantial.

M-1, which had expanded sharply in October, was unchanged in November. Although growth in M-2 and M-3 moderated, it remained substantial as inflows of the time and savings deposits included in these broader aggregates continued strong. Interest rates have declined appreciably in recent weeks. In late November Federal Reserve discount rates were reduced from 5-1/2 to 5-1/4 per cent, and in mid-December member bank reserve requirements were lowered somewhat.

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 maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against this action: None.

2. Foreign currency instruments

At this meeting the Committee agreed upon broad revisions in the Authorization for Foreign Currency Operations and the Foreign Currency Directive. The most recent basic revision in these documents had been made in June 1966, and several amendments to specific provisions had been adopted over the ensuing period.

The main purposes of the current revisions were to simplify and clarify the Committee's instructions to the Federal Reserve Bank of New York in this area and to bring the documents up to date in light of changes under way in the international monetary system and its functioning. These revisions were not intended to signify a change in policy orientation; they simply codified current practice under the evolving regime of floating exchange rates.

The main change in the Authorization was to replace the several separate limits on various types of spot and forward transactions with a single limit on the System's "over-all open position," as defined in paragraph 1(D). The previous separate limits, which had been developed in particular historical circumstances under the Bretton Woods system, had lost relevance under current circumstances or under the evolving exchange rate regime. The main change in the Directive was to omit the detailed listing of basic purposes and specific objectives of System foreign currency operations--many of which were anachronistic in current circumstances--and to indicate instead that System operations were generally to be directed at countering disorderly conditions in the exchange markets.

As revised, the two documents read as follows:

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:

Foreign bank	Amount of arrangement (Millions of dollars equivalent)
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.

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.

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 Commttee.

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.

Paragraph 1(D) of the new Authorization specified a limit of \$1.0 billion on the System's over-all open position in all foreign currencies "unless a larger position is expressly authorized by the Committee." The \$1.0 billion limit was intended to apply to the open position exclusive of the System's obligations in Swiss francs remaining under drawings made in 1971, which currently were in process of repayment under a schedule agreed upon with the Swiss National Bank. Accordingly, the Committee adopted the following special authorization:

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 \$1.0 billion specified in paragraph 1(D) of the Authorization for Foreign Currency Operations by an amount equal to the remaining forward commitments associated with the System's outstanding 1971 swap drawings in Swiss francs.

Votes for these actions: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against these actions: None.

The Committee also agreed upon certain procedural instructions. These were intended to clarify the respective roles of the Committee, the Foreign Currency Subcommittee designated in paragraph 6 of the Authorization, and the Chairman in providing guidance to the Manager of the System Open Market Account with respect to proposed or ongoing foreign currency operations under the Authorization and Directive. These instructions read as follows:

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.

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.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Vote against this action: Mr. Coldwell.

In dissenting from this action, Mr. Coldwell noted that paragraph 2 reserved to the full Committee the power to approve market transactions by the System and swap drawings by foreign central banks exceeding specified figures. However, that language was qualified by a parenthetical statement (similar to a statement in paragraph 1) indicating that such transactions could be approved by the Subcommittee or the Chairman under particular circumstances, relating to the availability of time. Mr. Coldwell would have preferred language indicating that such power--which extended to operations up to the limits permitted by the Authorization--was reserved to the full Committee except under circumstances of extreme emergency.

The foregoing actions were effective December 28, 1976.

3. Authorization for domestic open market operations

Paragraph 2 of the authorization for domestic open market operations authorizes the Federal Reserve Bank of New York (and, under certain circumstances, other Reserve Banks) to purchase short-term certificates of indebtedness directly from the Treasury, subject to certain conditions. This authorization is, in turn, based on a provision of Section 14 (b) of the Federal Reserve Act authorizing the Federal Reserve Banks to buy and sell obligations of specified types "directly from or to the United States," subject to certain conditions. It was noted at this meeting that, because the statutory authority in question had expired on November 1, 1976, paragraph 2 of the authorization had been in a state of *de facto* suspension since then, and that the paragraph would remain in suspension until the enactment of expected legislation extending the authority.