FEDERAL RESERVE

press release

For Use at 4:00 p.m. February 18, 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 January 17-18, 1977.

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 January 17-18, 1977

1. Domestic policy directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services (real gross national product) had slowed to an annual rate of 3.0 per cent in the fourth quarter, from 3.9 per cent in the third quarter and 4.5 per cent in the second. Such estimates also indicated that average prices--as measured by the fixed-weighted index for gross domestic business product--had risen at an annual rate of 5.0 per cent in the fourth quarter, compared with 4.3 per cent in the third and 5.2 per cent in the second.

According to those estimates, a sharp curtailment in business inventory accumulation during the fourth quarter had been the main factor in the reduction of growth in real output. The rise in business expenditures for fixed capital had also slowed, but total final purchases had risen at a somewhat more rapid pace than in the third quarter; in fact, at an annual rate of 4.8 per cent, growth in real final sales exceeded that in the first two quarters as well. In the

fourth quarter personal consumption expenditures had expanded sharply and residential construction had risen at an accelerated pace.

The staff projections suggested that the rate of growth in real GNP would increase appreciably in the first quarter of 1977 as the decline in business inventory accumulation came to a halt. Growth in final purchases of goods and services in real terms was projected to be sustained; it was expected that the rise in business investment in fixed capital would pick up while the expansion in personal consumption expenditures and in residential construction would moderate somewhat from the high rates in the fourth quarter of 1976.

Staff projections for subsequent quarters of 1977 incorporated assumptions that rebates of Federal income taxes and one-time payments to recipients of social security would be disbursed in the second quarter; that both personal income taxes and corporate taxes would be reduced; and that Federal spending for job-creating programs would be expanded. Reflecting these assumptions as well as expectations of a strengthening in business fixed investment, the projections suggested that real

GNP would grow at a moderately faster pace than in the first quarter. It was expected that the rate of increase in the fixed-weighted price index for gross business product would change relatively little during 1977.

Retail sales--which had strengthened considerably in October and November--were indicated by the advance estimate to have risen sharply further in December, with gains fairly widespread among categories of stores. The rise in the fourth quarter as a whole had been much larger than that in the third.

The number of new domestic automobiles sold rose to an annual rate of about 9-1/3 million in December, the highest rate in more than 3 years. To some extent, however, the rise reflected recovery from the strike that had limited sales in October and November; sales for the fourth quarter as a whole--at an annual rate of about 8-1/4 million--were down a little from the third-quarter pace. The number of foreign models sold was the same in the fourth quarter as in the third.

Indicators of residential construction activity had remained strong in recent months. Private housing starts rose sharply in December to an annual rate of more than

1.9 million units, the highest since August 1973. Starts in the fourth quarter, at an annual rate of about 1.8 million units, were up 15 per cent from the third quarter. Although residential building permits declined somewhat in December, from the third to the fourth quarter they rose about as rapidly as starts. Mortgage commitments outstanding at savings and loan associations had risen $1 billion further in November to a record level of $24.5 billion.

In contrast with developments in markets for consumer goods and services and for housing, current indicators of business fixed investment had been relatively weak. New orders for nondefense capital goods had declined sharply in November, and the average for October and November was only a little above that for the third quarter. Contract awards for commercial and industrial buildings--measured in terms of floor space--also had declined sharply in November and the average for October and November was below that of both the second and the third quarters.

Moreover, such indicators of business investment as shipments of nondefense capital goods, sales of trucks, and expenditures for nonresidential construction suggested that actual business outlays for plant and equipment would not show the strong gain in the fourth quarter that had been indicated by the Department of Commerce survey of spending plans taken in late October and November. That survey had also suggested that the increases planned for the first two quarters of 1977 would be no greater than the rise in prices. On the other hand, the later Department of Commerce annual survey, conducted in December, indicated that businesses were planning to spend 11.3 per cent more for plant and equipment in 1977 than in 1976. Thus, it appeared that the shortfall in the fourth quarter of 1976 might be made up early in 1977 and that capital spending might strengthen further during the course of the year.

The index of industrial production--which had risen 1.2 per cent in November, more than recovering the losses in the preceding 2 months caused in part by strikes--rose 0.7 per cent further in December. Expansion in production of motor vehicles accounted for a large share of the over-all gain in

December, but increases were widespread among other final products and also among materials other than metals. Over the 12 months ending in December 1976 the total index had risen about 7 per cent.

Payroll employment in nonfarm establishments expanded considerably in December--reflecting mainly increases among the service-producing industries, although employment in manufacturing also increased somewhat. The average factory workweek was unchanged, after having recovered in November from the effects of strikes. As measured by the household survey, total employment had increased in December while the civilian labor force had changed little, and the unemployment rate declined from 8.1 to 7.9 per cent. Most of the reduction in unemployment was among adult men; for this group, the rate declined from 6.5 to 6.2 per cent.

The advance in personal income--which had been large in November, in part because of the ending of major strikes--was even larger in December. Gains in wage and salary payments were widespread among industries, and large increases were reported for farm proprietors' income and for dividend payments.

The index of average hourly earnings for private nonfarm production workers advanced at an annual rate of about 5 per cent in December, somewhat less than in the two preceding months. Over the 12 months of 1976 the index rose about 6-3/4 per cent, compared with about 8 per cent over the 12 months of 1975.

The rise in the wholesale price index for all commodities remained rapid in December. Average prices of farm products and foods rose substantially, in large part because of sizable increases for pork, oilseeds, coffee, cocoa beans, tea, and fresh fruits and vegetables. The rise in average prices of industrial commodities--which had accelerated around midyear--slowed to a relatively low rate, mainly reflecting a reduction in prices for natural gas. Sizable increases were recorded for steel mill products, fabricated metal products, lumber and wood products, and refined petroleum products. Over the 12 months ending in December, the index for all commodities rose about 4-3/4 per cent, as industrial commodities advanced about 6-1/2 per cent and farm products and foods declined about 1 per cent.

The average value of the dollar against leading foreign currencies declined in December, but then it recovered somewhat as U.S. market interest rates rose not only in absolute terms but also in relation to rates in European markets. The pound sterling strengthened following negotiation of a $3.9 billion standby arrangement with the International Monetary Fund and subsequent announcement of a plan to seek an orderly reduction in the reserve currency role of sterling.

The U.S. foreign trade deficit increased in November, and the average for October and November was close to the substantial rate for the third quarter. For the 2-month period both exports and imports were somewhat below their high rates in the third quarter.

Total credit at U.S. commercial banks rose little during December after 2 months of sizable increases. Bank holdings of Treasury securities and of mortgages expanded during December, but bank holdings of other securities declined; outstanding loans to businesses contracted slightly following 2 months of appreciable expansion. Over the fourth quarter bank loans to businesses grew at an annual rate of about

9-1/2 per cent. However, about one-third of the growth in such loans represented acquisitions of bankers acceptances by some commercial banks.

The volume of commercial paper outstanding rose sharply during December for the second consecutive month. The volume issued by nonfinancial corporations expanded appreciably, after having declined in October and having risen only a little in November. Over the fourth quarter the combined total of nonfinancial commercial paper and business loans at banks grew at an annual rate of almost 10-1/2 per cent.

The narrowly defined money stock (M-1),[1/] which had grown at an annual rate of almost 14 per cent in October and had been unchanged in November, expanded at a rate of about 3 per cent in December. From the third to the fourth quarter, M-1 grew at a rate of 6 per cent. Over the year from the fourth quarter of 1975 to the fourth quarter of 1976, growth had been about 5-1/2 per cent.

1/ M-1 is composed of private demand deposits and currency in circulation.

Growth in M-2 and M-3[2] --which had moderated in November but had still remained substantial--accelerated somewhat in December, reflecting the renewal of growth in M-1. Inflows of the time and savings deposits included in these broader aggregates were almost as large as in November. Although there had been reports of recent reductions in interest rates paid on these deposits by some institutions, such rates in general remained more attractive than yields available on competing market instruments. From the third to the fourth quarter, M-2 and M-3 grew at annual rates of about 12 and 14 per cent, respectively. Over the year ending in the fourth quarter of 1976, growth had been 11 per cent for M-2 and 12-3/4 per cent for M-3.

At the December meeting, the Committee had decided to maintain prevailing bank reserve and money market conditions, provided that monetary aggregates appeared to be growing at

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2/ M-2 includes M-1 and commercial bank time and savings deposits other than large-denomination CD's. M-3 includes M-2 and deposits at nonbank thrift institutions (savings and loan associations, mutual savings banks, and credit unions).

about the rates then expected. Over most of the inter-meeting period incoming data suggested that the aggregates were growing at about the expected rates, and the Manager of the System Open Market Account conducted operations with a view to maintaining the Federal funds rate close to 4-5/8 per cent--the level prevailing at the time of the December meeting. Near the end of the inter-meeting period, incoming data began to suggest that over the December-January period growth in M-1 would be somewhat above the range that had been specified by the Committee but that growth in M-2 would be near the midpoint of its range. With the Committee scheduled to meet in a few days, the Manager continued to aim for a Federal funds rate of about 4-5/8 per cent, although with a little greater willingness to tolerate small deviations above that rate than below it.

Interest rates generally changed little during the latter half of December. In early January, however, substantial upward pressures developed, particularly on rates for intermediate-term Treasury issues--in part, apparently, because market expectations of some further decline in the Federal funds rate were not realized. Interest rates also appeared to be influenced by indications of improvement in the outlook for economic activity, by a more rapid

rate of growth in M-1 than had been generally anticipated, and by announcement of the incoming administration's fiscal proposals. Advances in rates over the inter-meeting period ranged from 10 to 40 basis points for short-term instruments, from 45 to 60 basis points for intermediate-term Treasury issues, and from 10 to 25 basis points for long-term corporate and Treasury bonds.

Gross issues of bonds offered to the public by domestic corporations amounted to nearly $2-1/2 billion in December--more than twice the reduced volume of November--and the total of such issues in January was expected to exceed $3 billion. Most of the new offerings in December had been from lower-rated industrial and finance companies, but in January a number of highly rated industrial companies were also offering new issues, apparently to take advantage of the still relatively favorable interest rates. In addition, several utility companies announced intentions to advance-refund or to call bonds issued in 1969 and 1970 when interest rates on such obligations had been substantially higher.

Although the volume of new State and local government bond offerings dropped in December, it was large for the

fourth quarter as a whole. Declines in rates on municipal bonds to relatively low levels in the fourth quarter had encouraged State and local governments to pre-refund higher-cost issues, to accelerate offerings that had been scheduled for later dates, and to continue reducing their reliance on short-term issues. In 1976 the volume of new issues of State and local government bonds was nearly 15 per cent larger than in 1975--the previous record year--while the volume of short-term financing declined.

The U.S. Treasury had raised $4 billion of new money in the 5 weeks since the December FOMC meeting, and it was expected to raise a larger amount in the 4 weeks following this meeting. The terms of the Treasury's mid-February refunding were due to be announced on January 26. Of the issues maturing in mid-February, only $2.1 billion were held by the public, and the Treasury was expected to take that occasion to raise several billion dollars of new money.

In primary mortgage markets, rates on new commitments for conventional home loans declined in December and early January. In secondary mortgage markets, rates declined during

December by more than in the primary markets, but they turned up in early January along with yields on other market securities.

It appeared likely that over-all demands for funds in securities markets would continue to be sizable during the months just ahead. Cash borrowing by the U.S. Treasury and Federal agencies combined was expected to remain large. Bond issues by business corporations and State and local governments seemed likely to continue heavy, partly because of widespread expectations that interest rates would be advancing later in the year. At the same time, however, it appeared likely that institutional investors would continue to have a sizable volume of funds available for investment in bonds.

In the discussion of the economic situation at this meeting, members of the Committee agreed that the outlook for growth in real output of goods and services had strengthened. Attention was called to the recent surge in retail sales--and the resulting improvement in inventory positions--and to the increasing strength in housing starts. It was suggested that, as a consequence of recent developments, business fixed investment was likely to increase more during the coming year than

had been expected heretofore and that expansion in over-all economic activity might well accelerate to a relatively rapid pace. It was also observed, however, that even if growth in real GNP during 1977 were significantly greater than projected by the staff, rates of resource use in the fourth quarter of the year still would not appear to be excessive; indeed, unemployment would still be relatively high. Because of the character of the fiscal measures in prospect and for other reasons, one or two members remarked that the rate of expansion in economic activity in 1977 was likely to be uneven.

Although Committee members in general now held a more favorable view of the economic situation and outlook than they had a month or two ago, attention was called to a number of problems. For one, the severity of the winter weather and its impact on the availability of fuels for industrial use posed a threat to output and employment in some parts of the country. Even though the unemployment rate was still unacceptably high, current and prospective rates of inflation also remained a source of major concern.

A measure of concern was also provoked by certain aspects of the Federal budget, after incorporation of assumptions about the new administration's fiscal proposals. It was noted that the high-employment deficit was projected to increase substantially in calendar 1977--to the highest level in relation to GNP since 1976--and that relatively large high-employment deficits tended to tighten financial markets and to exert upward pressures on interest rates. Should intermediate- and long-term interest rates rise significantly during 1977, it was observed, expansion in business fixed investment might well be less than would seem desirable. Concern also was expressed that the proposed second phase of the 2-year package of fiscal measures might overstimulate economic activity at a late stage in the expansion, as had happened at times in the past.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. In early November the Committee had specified the following ranges for growth over the period from the third quarter of 1976 to the third quarter of 1977: 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. The

ranges being considered at this meeting were for the period from the fourth quarter of 1976 to the fourth quarter of 1977.

In commenting on the ranges for growth in the monetary aggregates over the period from the fourth quarter of 1976 to the fourth quarter of 1977, most members concurred in a suggestion that the existing range for M-1 be retained and that the lower limits of the ranges for M-2 and M-3 be reduced by 1/2 of a percentage point. Several of these members indicated that they would also be agreeable to retaining the existing ranges for all three monetary aggregates.

In connection with the proposal favored by most members, it was noted that M-2 had increased 10.9 per cent over the course of 1976, compared with an average yearly rise of 8.3 per cent in the preceding decade; and that M-3 had increased 12.4 per cent over 1976, compared with an average yearly rise of 8.8 per cent in the preceding 10 years. Growth of the broader measures of money over 1976 had been unusually rapid in relation to growth of M-1. In large part this reflected ongoing changes in financial markets that reduced reliance on demand deposits for transactions purposes; it also reflected the attractiveness of interest rates paid on time and savings deposits in relation to rates on market instruments.

It was also noted that growth rates of M-2 and M-3 from the third to the fourth quarter of 1976 had exceeded the ranges adopted by the Committee in early November. For the period ahead, therefore, the ranges favored by most members would imply a moderation of growth in these aggregates.

Several members of the Committee suggested that in the period ahead a significant slowing of growth in the time and savings deposits included in the broader aggregates was likely to develop. They noted that some banks and thrift institutions already had reduced the rates they were offering on such deposits and had taken other steps to slow inflows. Moreover, in 1976 growth in M-2 and M-3 had been sustained by shifts of funds from outstanding market securities to time and savings deposits, and the effect of such stock adjustments was likely to be less important in 1977. Thus, growth rates of the broader aggregates seemed likely to slow both in absolute terms and in relation to growth of M-1.

The downward adjustments of the lower limits of the projected ranges for M-2 and M-3 reflected this possibility. They also reflected the Committee's intention to continue to

move gradually and as steadily as possible toward longer-run rates of monetary expansion consistent with general price stability. In this connection, it was noted that since April 1975, when 1-year growth ranges were first established for the monetary aggregates, the Committee had taken a number of small steps in pursuit of that objective. It was observed that the Committee ought to continue doing so in order to re-establish a foundation for economic stability over the longer term. At the same time, however, it was suggested that retaining the existing range for M-1 at this time would be consistent with efforts to accelerate the pace of economic expansion and to reduce unemployment from its unduly high rate.

One member suggested a variation of the proposal concurred in by most members: 1/2 of a percentage point reduction in the upper, rather than in the lower, limits of the ranges for M-2 and M-3 along with retention of the existing range for M-1. Another member, noting the influence of innovations in financial markets, expressed the view that for some time the Committee's longer-run ranges for M-2 and M-3 had not been consistent with its range for M-1; therefore he suggested

reducing the range for M-1 to 4 to 6 per cent and making small upward adjustments in the ranges for M-2 and M-3, leaving the ranges for the broader aggregates still well below the rates of growth from the third to the fourth quarter of 1976. Against the suggestion for a reduction in the range for M-1, it was observed that the staff projections of nominal GNP in combination with growth of M-1 within the existing range implied a sizable rise in the income velocity of M-1 in 1977, even after allowance for further contributions to the rise in velocity from financial innovations.

At the conclusion of its discussion the Committee arrived at a consensus calling for retention of the existing range for M-1 and reductions of 1/2 of a percentage point in the lower limits of the ranges for M-2 and M-3. The ranges thus were 4-1/2 to 6-1/2 per cent for M-1, 7 to 10 per cent for M-2, and 8-1/2 to 11-1/2 per cent for M-3. The associated range for the rate of growth in the bank credit proxy was 7 to 10 per cent. It was agreed that the longer-run 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 the year ahead.

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

As to policy for the period immediately ahead, members differed little in their preferences for ranges of growth in the monetary aggregates over the January-February period. For M-1, most members favored a range of 3 to 7 per cent; a number of members preferred 3-1/2 to 7-1/2 per cent, and one suggested 4 to 7 per cent. For M-2, most members favored a range of 7 to 11 per cent, while some preferred 7-1/2 to 11-1/2 per cent.

Differences of view were somewhat greater concerning the range for the Federal funds rate. A number of members preferred a relatively narrow range, one of 1/2 or 5/8 per cent, centered on the prevailing level of 4-5/8 per cent or on 4-3/4 per cent--

specifically, 4-1/4 to 5-1/4 per cent--because they believed that additional leeway for System operations should be provided in the event that over the January-February period growth in the aggregates appeared to be deviating significantly from the rates now expected.

One member suggested that the Committee give greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting--as it had decided to do at its December meeting--because of the uncertainties associated with projections of growth in monetary aggregates around the year-end. However, most members preferred to have operating decisions in the period ahead based primarily on the behavior of the monetary aggregates.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the Committee concluded that growth in M-1 and M-2 over the January-February period at annual rates within ranges of 3 to 7 per cent and 7 to 11 per cent, respectively, would be appropriate. It was understood that in assessing

the behavior of the aggregates, the Manager should continue to give approximately equal weight to the behavior of M-1 and M-2.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4-1/4 to 5 per cent. It was also agreed that early in the inter-meeting period the Manager should aim for a Federal funds rate in the area of 4-5/8 to 4-3/4 per cent, with specific operating decisions to depend in part on the state of securities markets. 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 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 standby 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.

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

Mr. Balles dissented from this action for the following reasons. In view of recent financial market innovations, he believed that the course of real GNP and prices now bore a closer relationship to the behavior of M-2 than to that of M-1. Therefore, he was concerned about the fact that growth in M-2 had been exceeding the Committee's longer-run range and about the consequent implications for future inflation. Accordingly, he thought that in the period ahead the System should aim initially for a Federal funds rate of about 4-3/4 per cent and should be prepared to aim over the course of the period for a rate as high as 5-1/4 per cent if the aggregates, especially M-2, appeared to be growing at rates significantly higher than the longer-run ranges.

2. <u>Agreements in connection with credit facility relating to official sterling balances</u>

For some time prior to this meeting discussions had been under way among representatives of central banks of the Group of Ten countries and Switzerland in regard to a medium-term standby credit facility relating to official sterling balances for the Bank of England. Concurrently, officials of the U.S. Treasury Department and the Federal Reserve System had been considering arrangements for U.S. participation in such a facility. As announced on January 10, an agreement in principle for a $3 billion facility was reached at a meeting in Basle, Switzerland, by representatives of the Bank for International Settlements (BIS), the Bank of England, and a number of other central banks, including the Federal Reserve. The U.S. share was $1 billion, to be provided through the Federal Reserve System and the U.S. Treasury's Exchange Stabilization Fund. At this meeting the Committee ratified the agreement reached in Basle and arrangements made with the Treasury Department for Federal Reserve-Treasury participation.

The objective of the Basle agreement was to help the United Kingdom achieve an orderly reduction in the reserve currency role of sterling and thus to avoid the kind of disturbances to the international monetary system that had occurred at times in the past as a result of fluctuations in official sterling balances. In general, the agreement provided for the extension of a $3 billion facility to the Bank of England by the BIS, with backing, as necessary, by the other participants, for a period of 2 years--and for a third year if mutually agreed upon by the participants. For its part, the United Kingdom agreed to reduce official sterling balances to working levels over the "drawdown" period. In exchange for official holdings of sterling, it would offer negotiable bonds denominated in currencies other than sterling and having maturities of 5 to 10 years. The Bank of England would be entitled to draw on the credit facility to the extent necessary to finance reductions in official sterling balances other than those associated with sales of foreign currency bonds. Repayments would begin at the end of the "drawdown" period and would be completed within the succeeding 4 years.

It was understood that eligibility to draw on the standby credit facility would be conditional on continuing eligibility of the United Kingdom to draw on the $3.9 billion credit recently negotiated with the International Monetary Fund (IMF). The facility could also be suspended if the United Kingdom were not making reasonable efforts to achieve reductions in official sterling balances; the Managing Director of the IMF was being asked to assist in making a determination on this score.

With respect to U.S. participation, the Federal Reserve and the Treasury had agreed that if the United States were required to provide financing to the BIS in support of the standby facility, the funds would be provided initially by the Federal Reserve through its existing swap arrangement with the BIS, taking the form of a usual 3-month swap, subject to three renewals. Should such financing be required continuously for more than one year, however, it would subsequently be provided by the Treasury, acting through the Exchange Stabilization Fund (ESF). Risk associated with such financing, whether provided by the Federal Reserve or the ESF, was to be borne equally by the two.

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

3. Agreement to "warehouse" currencies for the Exchange Stabilization Fund

At this meeting the Committee agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies held by the ESF--that is, to make spot purchases of foreign currencies from the ESF and simultaneously to make forward sales of the same currencies to the ESF--if that should prove necessary to enable the ESF to deal with potential liquidity strains. Specifically, the Committee agreed that the Federal Reserve would be prepared, if requested by the Treasury, to warehouse up to $1-1/2 billion of eligible foreign currencies, of which half would be for periods of up to 12 months and half for periods of up to 6 months.

In the discussion it was noted that such warehousing operations had proved useful from time to time in the past,

on occasions when the resources of the ESF had been inadequate to meet all the demands on them. It was also noted that, while the present agreement to warehouse currencies did not have a specific terminal date, it would be subject to review by the Committee at its organizational meeting each March in connection with the regular review of all outstanding authorizations. The members concurred in an observation that no modifications in the warehousing arrangement were likely to be proposed at the next organizational meeting, which was only 2 months away, but that the Committee could decide to reconsider the arrangement at a subsequent organizational meeting.

Votes to approve the warehousing arrangement: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes to disapprove: None.