FEDERAL RESERVE

press release

For Use at 4:00 p.m. March 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 February 15, 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 February 15, 1977

1. Domestic policy directive

Growth in real output of goods and services had slowed to an annual rate of 3.0 per cent in the fourth quarter of 1976--from 3.9 per cent in the third quarter and 4.5 per cent in the second--according to preliminary estimates of the Commerce Department. However, the pace of growth had accelerated as the quarter progressed. The information reviewed at this meeting suggested underlying strength in economic activity, although activity in January and early February had been affected by the unusually severe weather.

The index of industrial production had risen appreciably in November and December, to some extent in recovery from strikes. The index fell in January because of the severe winter weather and also, after midmonth, because of shortages of natural gas for industrial uses. Decreases in output were widespread among durable and nondurable manufacturing industries, and coal mining was curtailed sharply. However, electric and gas utilities expanded production to meet increased demand.

Retail sales had expanded 1-3/4 per cent in November and about 4 per cent in December. In January, according to the advance report, sales declined 2 per cent, reflecting decreases for most types of stores apparently because of the weather.

The number of new domestic automobiles sold in the first 20 days of January appeared to have held near the annual rate of 9-1/3 million recorded in December, when sales were stimulated to some extent by recovery from the strike that had limited output and sales earlier. However, sales fell sharply in the latter part of January, and for the month as a whole the annual rate was about 8-3/4 million.

Labor market surveys completed by mid-January indicated that employment had continued to expand. In the survey of payroll employment in nonfarm establishments, gains were reported in two-thirds of the industries covered, and the total rose substantially for the third consecutive month. By the time of the survey, however, the severe weather had already induced a reduction in employment in construction and a shortening in the length of the average workweek in manufacturing. In the household survey, the unemployment rate was reported to have fallen from 7.8 per cent in December to 7.3 per cent in January. Much of the decline reflected a drop in the number of persons seeking work, which may have been caused in part by the weather.

Personal income had expanded vigorously in the last 2 months of 1976; from the third quarter to the fourth it rose at an annual rate of about 11 per cent. This sizable gain reflected a rebound in manufacturing payrolls after termination of strikes, a recovery in farm income, an increase in Federal pay scales, and the disbursement by corporations of unusually large year-end dividends.

Indicators of residential construction activity had remained strong in the closing months of 1976. In December private housing starts rose sharply to an annual rate of more than 1.9 million units, the highest since the autumn of 1973. The rise was broadly based by region. For the fourth quarter as a whole starts were at an annual rate of about 1.8 million units, up 15 per cent from the third quarter. Starts of multi-family units gained more than 30 per cent from the third quarter to the fourth, reflecting not only a substantial increase in starts of units covered under Federally subsidized programs but also a large rise in units not so subsidized.

Businesses were planning to spend 11.3 per cent more for plant and equipment in 1977 than in 1976, according to the Department of Commerce annual survey conducted in December. New orders for nondefense capital goods in December recovered a part of the sharp decline recorded in November. Contract awards for commercial and industrial buildings--measured in terms of floor space--also had declined sharply in November and then in December recovered a part of the loss.

The staff projections, like those of a month earlier, 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. The projections continued to suggest that real GNP would grow at a substantially higher rate in the first half of 1977 than it had in the second half of 1976. As to the first quarter, it was still anticipated that growth in domestic final purchases of goods and services in real terms would be relatively well sustained, despite the severe winter weather, but the rebound in growth in real GNP was now expected to be considerably less than had been anticipated a month earlier. The projections now suggested that the rate of business inventory accumulation would decline further in the first quarter and that imports, specifically of fuels, would rise more than had been anticipated.

It was expected that the weather-induced output losses of the first quarter would soon be made up; for the second quarter, the projections suggested that real final sales would grow at a rapid rate and that business inventory investment would increase. It was anticipated that real GNP would grow at a relatively good rate in the second half of 1977. The projections still suggested that the rate of increase in the fixed-weighted price index for gross business product would change relatively little during this year.

Wage increases provided for in the first year of major collective bargaining agreements negotiated during 1976 were somewhat more moderate than those negotiated in 1975. Moreover, the index of average hourly earnings for private nonfarm production workers advanced 6-3/4 per cent over the 12 months of 1976, compared with almost 8 per cent during the previous year. In January 1977 the index rose sharply; however, the sharpness of the rise reflected marked increases in the indexes for the construction and service sectors, where rates of change from month to month have been volatile.

The wholesale price index for all commodities rose 0.5 per cent in January, almost the same as the average increase in the last 3 months of 1976. Average prices of industrial commodities rose a little more than in December but less than in the preceding 3 months. Increases were again widespread among industrial commodity groups; as in December, however, a decline was reported for the fuel and power group, reflecting some price reductions that actually had occurred a month or two earlier. Average prices of farm products and foods also rose, but the increase was relatively small.

The consumer price index rose 0.4 per cent in December, resulting in an increase of 4.8 per cent over the 12 months of 1976; during 1975 the index had risen 7.0 per cent. Average retail prices of foods changed little during 1976, in contrast with a rise of 6.5 per cent over the previous year. Average prices of other commodities and of services rose about 5 and 7 per cent, respectively, compared with increases of about 6 and 8 per cent in 1975.

The average value of the dollar rose somewhat against leading foreign currencies between mid-January and mid-February, with most of the rise occurring in the early part of the period. The value of the dollar increased against most continental European currencies and against the Canadian dollar but declined against the Japanese yen. The pound sterling was subjected to strong upward pressure in reaction to the international agreements concluded in early January to provide the United Kingdom with substantial funds to finance possible future intervention in support of the sterling exchange rate. However, the pound did not rise against the dollar, mainly as a result of exchange market intervention by the Bank of England.

The Mexican peso, which had been trading steadily at 5.0 U.S. cents since early December, fell abruptly on January 20 to 4.3 cents; later, it gradually recovered to 4.5 cents.

The U.S. foreign trade deficit increased further in December, and the deficit on an international accounts basis was a little larger in the fourth quarter than in the third. For all of 1976 the trade balance was in deficit by almost $10 billion, whereas for 1975 it had been in surplus by $9 billion.

Total credit at U.S. commercial banks increased considerably in January, following a small rise in December. Data for both months, however, were distorted by special influences--particularly a substantial increase in bank holdings of bankers acceptances late in 1976 that was largely reversed in January. Over the 2 months together, growth of total bank credit--although somewhat above the rather slow pace in the first half of 1976--was significantly below the rates in both the third quarter and the October-November period. Growth of business loans--excluding bankers acceptances--slowed sharply from the rate in the October-November period, and at the same time banks shifted from substantial acquisition to moderate liquidation of securities other than U.S. Treasury issues.

In the December-January period the outstanding volume of commercial paper issued by nonfinancial corporations rose sharply, after having changed little over the preceding 2 months. Nevertheless, the combined total of nonfinancial commercial paper and business loans at banks (excluding bankers acceptances) grew somewhat less in the latter 2-month period than in the earlier one, when business needs for financing had apparently been augmented to some extent by involuntary accumulation of inventories.

The narrowly defined money stock (M-1), which had grown at an annual rate of about 8 per cent in December, slowed to a rate of about 4-1/2 per cent in January. Although the month-to-month expansion in M-1 recently had been erratic, the average annual rate of growth over the 6 months ending in January was about 5-1/2 per cent.[1/]

1/ Revised measures of the monetary aggregates, reflecting new benchmark data for deposits at nonmember banks and revised seasonal factors, were published on February 17, 1977. On the basis of the revised figures, the annual rate of growth in M-1 in January and also over the 6 months ending in January was about 5-3/4 per cent.

Growth in M-2 and M-3 slowed appreciably in January from the rapid rates evident in December and in the fourth quarter. At banks and thrift institutions, inflows of the time and savings deposits included in the broader aggregates slowed somewhat, apparently because of reductions in interest rates paid on these deposits by some banks and thrift institutions and a rise in rates on competing market securities.

At its January meeting, the Committee had agreed that early in the inter-meeting period the Manager of the System Open Market Account should aim for a Federal funds rate in the area of 4-5/8 to 4-3/4 per cent and that afterwards 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. Throughout the inter-meeting period incoming data suggested that growth in both M-1 and M-2 over the January-February period would be well within the ranges that had been specified by the Committee. Accordingly, the Manager continued to direct operations toward maintaining the Federal funds rate in the area of 4-5/8 to 4-3/4 per cent.

Market interest rates--which had risen abruptly after the turn of the year--rose somewhat further in the weeks just after the mid-January meeting of the Committee, partly in reaction to the Treasury's announcement of the terms of its mid-February refunding and of cash needs during the first quarter. Later, however, rates backed down to about their mid-January levels. At their levels in mid-February market interest rates in general were significantly above their December lows, but they were still a little lower than at mid-November.

In the 4 weeks since the January FOMC meeting, the U.S. Treasury had raised $6.5 billion of new cash, including $3.8 billion raised in connection with the mid-February refinancing. New issues in the refinancing included $3.0 billion of 3-year notes, $2.0 billion of 7-year notes, and $750 million of 30-year bonds. The over-all size of the offerings was near the upper limit of market expectations. However, investor interest in the new issues proved to be considerable.

In the market for new corporate bonds, the volume of publicly offered new issues in January was not quite as large as had been expected because increased interest rates had prompted the postponement or cancellation of several issues. Nevertheless, the January volume was substantially above the monthly average in the fourth quarter of 1976. Offerings of new long-term securities by State and local governments rose sharply in January to $3.4 billion--a record for the month. About $500 million of this supply was attributable to the issuance of bonds in advance refundings, and about $700 million represented financing by municipal utilities.

During January yields rose in secondary mortgage markets along with those in other markets, but interest rates on new commitments for conventional home loans edged off somewhat further. At the end of December outstanding mortgage commitments at savings and loan associations had reached another new high, even though mortgage takedowns during the month had remained substantial.

At its January meeting the Committee had agreed that from the fourth quarter of 1976 to the fourth 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 to 10 per cent; and M-3, 8-1/2 to 11-1/2 per cent. The associated range for growth in the bank credit proxy was 7 to 10 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 recent economic developments and prospects, members of the Committee agreed that the underlying situation was strong and that the losses in output, hours of work, and income resulting from the weather would soon be made up. Most members agreed in general with the staff projections suggesting that growth in real GNP would accelerate to a rapid pace in the second quarter--reflecting not only the recovery from the weather-induced losses but also the disbursement of tax rebates and related payments--and then would continue at a relatively good rate throughout the second half of the year.

However, one or two members expressed concern that the weather disturbance and the tax rebates might cause large swings in business inventory investment and therefore in total GNP. In this connection, it was suggested that more attention should be paid to the behavior of final sales than to that of total output.

Despite the broad consensus on the outlook, several members called attention to actual and possible developments that might cause real GNP to deviate from the projected path. It was observed, for example, that severe weather--while having temporary effects on output, inventories, and incomes much like those of a major strike--would also transfer purchasing power from consumers to sellers of fuels, who most likely had a lower propensity to spend. Partly because of the high fuel bills, it was suggested, the tax rebates and and related payments might have less impact on consumer spending than one might have expected on the basis of the 1975 experience with rebates.

Looking to the latter part of 1977 and into 1978, some questions were raised about the adequacy of industrial capacity. In this connection, attention was called to the recent revisions in the Federal Reserve estimates of the rate of capacity utilization in manufacturing in the 1971-76 period. Concern was expressed that the margin of unused plant capacity that could be drawn into production might be low in relation to the amount of unemployed labor. It was also observed that rates of capacity utilization varied considerably among industries and that during business expansions bottlenecks begin to spread through the industrial system long before overall measures of capacity utilization reach relatively high levels.

It was suggested that the rise in prices might become more rapid as activity expanded during the period ahead. Historically, it was noted, average wholesale prices of industrial commodities had begun to rise at about the time that business activity had begun to recover, reflecting increases in prices of raw materials. In the current business expansion, that pattern had been superimposed upon the longer-run trend of inflation in the economy. With respect to the outlook for prices, it was noted also that the severe drought in the western part of the country may sharply reduce crops of fruits and vegetables.

One or two members of the Committee suggested that--although economic prospects appeared to be good--businessmen seemed to have become somewhat more uneasy in recent weeks about the near-term effects of the adverse weather, about the longer-term energy problem, about the possibility of imposition of some form of price controls, about the Government's fiscal policy, and about prospects for inflation. It was felt that this uneasy mood could inhibit decisions to make expenditures for plant and equipment. However, another member noted that some of the uncertainties that had worried businessmen only a few months ago--such as the "pause" in growth of economic activity and the size of the prospective increase in prices of imported oil--had been resolved. In his opinion, businessmen would soon take a more favorable view of the climate for capital investment. Still another member expressed concern about the possibility that business capital investment would rise too strongly at a late stage in the business expansion.

As to policy for the period immediately ahead, Committee members in general advocated continuation of about the current stance. They differed little in their preferences for ranges of growth in the monetary aggregates over the February-March period. For M-1, the members endorsed a range of 3 to 7 per cent, although one indicated a mild preference for a range of 3-1/2 to 7-1/2 per cent. For M-2, many members favored a range of 7 to 11 per cent. However, some advocated a slightly lower range--6 to 10 per cent--because M-2 had grown over recent months at a rate that was high relative to the Committee's longer-run range for that aggregate.

Almost all members favored directing operations initially toward the objective of maintaining the Federal funds rate in the area of 4-5/8 to 4-3/4 per cent. However, they differed somewhat in their preferences for the upper and lower limits of the inter-meeting range. The largest number of members preferred to continue the range of 4-1/4 to 5 per cent that had been specified at the January meeting. Some favored ranges of 4-1/4 to 5-1/4 per cent or 4-1/2 to 5-1/4 per cent, because they believed that additional leeway for System operations should be provided in the event that growth in the aggregates over the February-March period appeared to be significantly faster than now expected.

At the conclusion of the discussion the Committee decided that growth in M-1 and M-2 over the February-March period at annual rates within ranges of 3 to 7 per cent and 6-1/2 to 10-1/2 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.

In the judgment of the Committee, such growth rates of the aggregates were likely to be associated with a weekly-average Federal funds rate in the area of 4-5/8 to 4-3/4 per cent. The Committee agreed that if growth rates of the aggregates over the 2-month period appeared to be deviating significantly from the midpoints of the indicated ranges, the operational objective for the weekly-average Federal funds rate should be modified in an orderly fashion within a range of 4-1/4 to 5 per cent. 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 underlying strength in economic activity, although industrial production and retail sales were held down in January by the effects of unusually severe weather. Housing starts rose sharply in December, and labor market surveys completed by mid-January indicated a further rise in employment and a decline in the unemployment rate from 7.8 to 7.3 per cent. The wholesale price index for all commodities continued to rise, reflecting increases in the averages both for farm products and foods and for industrial commodities. The index of average wage rates rose sharply in January as a result of marked increases in the volatile construction and service sectors.
>
> The average value of the dollar against leading foreign currencies has risen somewhat over the past month. In December the U.S. foreign trade deficit increased further; in the fourth quarter as a whole the deficit was a little larger than in the third quarter.
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> M-1, which had expanded appreciably in December, grew at a moderate pace in January. Growth in M-2 and M-3 also moderated. At banks and thrift institutions, inflows of time and savings deposits other than large-denomination CD's slowed somewhat. Interest rates have changed relatively little on balance since mid-January.

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. 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 February-March period to be within the ranges of 3 to 7 per cent for M-1 and 6-1/2 to 10-1/2 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 midpoints 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 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.

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

2. Statement of policy regarding the Government in the Sunshine Act

From time to time at recent meetings the Committee had discussed the applicability of the Government in the Sunshine Act to its meetings. At this meeting the Committee concurred in an opinion of counsel that the Act would not apply because the Committee did not come within the definition of "agency" contained in the Act. The Committee further agreed that its present procedures and disclosure policy were already conducted in accordance with the intent and spirit of the Act and that its current practices in that regard would be continued.

After reaching these judgments, the Committee approved the following statement of policy:

On September 13, 1976, there was enacted into law the Government in the Sunshine Act, Pub. L. No. 94-409, 90 Stat. 1241 ("Sunshine Act"), established for the purpose of providing the public with the "fullest practicable information regarding the decisionmaking processes of the Federal Government...while protecting the rights of individuals and the ability of the Government to carry out its responsibilities."1/ The Sunshine Act applies only to those Federal agencies that are defined in Section 552(e) of Title 5 of the United States Code and "headed by a collegial body composed of two or more individual members, a majority of whom are appointed to such position by the President with the advice and consent of the Senate, and any subdivision thereof authorized to act on behalf of the agency."2/

The Federal Open Market Committee ("FOMC") is a separate and independent statutory body within the Federal Reserve System. In no respect is it an agent or 'subdivision' of the Board. It was originally established by the Banking Act of 1933 and restructured in its present form by the Banking Act of 1935 and subsequent legislation in 1942 (generally see 12 U.S.C. §263(a)). The FOMC's membership is composed of the seven members of the Board of Governors of the Federal Reserve System ("Board of Governors") and five representatives of the Federal Reserve Banks who are selected annually in accordance with the procedures set forth in Section 12A of the

1/ Government in the Sunshine Act, Pub. L. No. 94-409, §2, 90 Stat. 1241 (1976).
2/ Government in the Sunshine Act, Pub. L. No. 94-409, §3(a), 90 Stat. 1241 (1976).

Federal Reserve Act, 12 U.S.C. §263(a). Members of the Board of Governors serve in an _ex officio_ capacity on the FOMC by reason of their appointment as Members of the Board of Governors, not as a result of an appointment "to such position" (the FOMC) by the President. Representatives of the Reserve Banks serve on the FOMC not as a result of an appointment "to such position" by the President, but rather by virtue of their positions with the Reserve Banks and their selection pursuant to Section 12A of the Federal Reserve Act. It is clear therefore that the FOMC does not fall within the scope of an 'agency' or 'subdivision' as defined in the Sunshine Act and consequently is not subject to the provisions of that Act.

As explained below, the Act would not require the FOMC to hold its meetings in open session even if the FOMC were covered by the Act. However, despite the conclusion reached that the Sunshine Act does not apply to the FOMC, the FOMC has determined that its procedures and timing of public disclosure already are conducted in accordance with the spirit of the Sunshine Act, as that Act would apply to deliberations of the nature engaged in by the FOMC.

In the foregoing regard, the FOMC has noted that while the Act calls generally for open meetings of multi-member Federal agencies, 10 specific exemptions from the open meeting requirement are provided to assure the ability of the Government to carry out its responsibilities. Among the exemptions provided is that which authorizes any agency operating under the Act to conduct closed meetings where the subject of a meeting involves information "the premature disclosure of which would--in the case of an agency which regulates currencies, securities, commodities, or financial institutions, be likely to lead to significant financial speculation in currencies, securities, or commodities."3/

As to meetings closed under such exemption, the Act requires the maintenance of either a transcript, electronic recording or minutes and sets forth specified, detailed requirements as to the contents and timing of disclosure of certain portions or all of such minutes. The Act permits the withholding from the public of the minutes where disclosure would be likely to produce adverse consequences of the nature described in the relevant exemptions.

The FOMC has reviewed the agenda of its monthly meetings for the past three years and has determined that all such meetings could have been closed pursuant to the exemption dealing with financial speculation or other exemptions set forth in the Sunshine Act. The FOMC has further determined that virtually all of its substantive deliberations could have been preserved pursuant to the Act's minutes requirements and that such minutes could similarly have been protected against premature disclosure under the provisions of the Act.

The FOMC's deliberations are currently reported by means of a document entitled "Record of Policy Actions" which is released to the public approximately one month after the meeting to which it relates. The Record of Policy Actions complies with the Act's minutes requirements in that it contains a full and accurate report of all matters

3/ Government in the Sunshine Act, Pub. L. No. 94-409, §3(a), 90 Stat. 1242 (1976).

of policy discussed and views presented, clearly sets forth all policy actions taken by the FOMC and the reasons therefor, and includes the votes by individual members on each policy action. The timing of release of the Record of Policy Actions is fully consistent with the Act's provisions assuring against premature release of any item of discussion in an agency's minutes that contains information of a sensitive financial nature. In fact, by releasing the comprehensive Record of Policy Actions to the public approximately a month after each meeting, the FOMC exceeds the publication requirements that would be mandated by the letter of the Sunshine Act.

Recognizing the congressional purpose underlying enactment of the Sunshine Act, the FOMC has determined to continue its current practice and timing of public disclosures in the conviction that its operations thus conducted are consistent with the intent and spirit of the Sunshine Act.

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

3. Amendment to rules regarding availability of information

At this meeting, the Committee approved an amendment, effective March 12, 1977, to Section 271.6(a) of its rules regarding availability of information to implement an amendment to the Freedom of Information Act effected by the Government in the Sunshine Act. After incorporating this amendment the Section read as follows:

271.6 Information not Disclosed

Except as may be authorized by the Committee, information of the Committee that is not available to the public through other sources will not be published or made available for inspection, examination, or copying by any person if such information

(a) is specifically exempted from disclosure by statute (other than section 552b of Title 5 United States Code), provided that such statute (A) requires that the matters be withheld from the public in such a manner as to leave no discretion on the issue, or (B) establishes particular criteria for withholding or refers to particular types of matters to be withheld; or is specifically authorized under criteria established by an executive order to be kept secret in the interest of national defense or foreign policy and is in fact properly classified pursuant to such executive order.

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

4. Revision of guidelines for operations in Federal agency issues

At this meeting the Committee amended number 4 of the guidelines for the conduct of System operations in Federal agency issues to take account of the operations of the Federal

Financing Bank. The change, which was effective immediately, limits Federal Reserve purchases of Federal agency securities to issues of those agencies that are not eligible to borrow funds from the Federal Financing Bank, which began operations in mid-1974. Securities of the Bank itself are eligible for purchase by the System, although none is outstanding at present. Securities of Government-sponsored agencies--such as the Federal home loan banks, Federal National Mortgage Association, Federal land banks, Federal intermediate credit banks, and the banks for cooperatives--will continue to be eligible for System purchase under the new rules.

As amended, guideline number 4 read as follows:

> Purchases will be limited to fully taxable issues, not eligible for purchase by the Federal Financing Bank, for which there is an active secondary market. Purchases will also be limited to issues outstanding in amounts of $300 million or over in cases where the obligations have a maturity of five years or less at the time of issuance, and to issues outstanding in amounts of $200 million or over in cases where the securities have a maturity of more than five years at the time of issuance.

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