BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

CONFIDENTIAL (FR)

February 3, 1969.

To: Federal Open Market Committee

From: Robert C. Holland

Enclosed is a memorandum from the Secretariat, dated today and entitled, "Additional material re the Treasury debt ceiling problem."

Robert C. Holland, Secretary
Federal Open Market Committee.

Enclosure.

CONFIDENTIAL (FR)

Date: February 3, 1969.

To: Federal Open Market Committee

From: The Secretariat

Subject: Additional material re the Treasury debt ceiling problem.

This memorandum has been prepared for the Committee's use in connection with the contemplated discussion at the February 4 meeting of the proposal for assisting the Treasury in connection with cash and debt ceiling problems by warehousing Stabilization Fund holdings of foreign exchange. The staff thought it might be helpful, in sharpening the issues and in articulating a possible basis for Committee agreement on the matter, to draft a hypothetical entry for the FOMC policy record reporting and explaining a Committee "action." For this purpose it has been assumed that the Committee agrees informally on February 4 that it would look with favor on the warehousing proposal; that at some later date, in response to a Treasury request, a formal vote is taken by telegram with an affirmative result; and that this action by members is ratified at the following meeting of the Committee. The policy record entry would be included in the record for the latter meeting.

If the proposal is in fact approved informally on Tuesday and implemented at a later date--and if the Treasury makes no general public announcement about various actions taken to stay within the debt limit--the Committee may want to consider the possibility of current public disclosure rather than having disclosure wait on publication of the policy record three months later. The text of such a current disclosure could draw on that of the hypothetical policy record entry given below, and it might be made by the System alone or in a joint press announcement with the Treasury.

While arguments against current disclosure can be advanced, there are at least two in its favor. First, since the transactions involved would be for a highly unusual purpose and could be large, an immediate explanation to the Congress and public might be considered desirable. Secondly, the transactions would be reflected in a rise in the category "Other F.R. accounts (net)" in the System's weekly condition statement, and there might well be inquiries from the press and others about the cause of the rise. (Space permitting, it might be possible to include explanatory information in the condition statement itself.)

The policy record entry might run along the following lines:

> 2. Authority to purchase and sell foreign currencies.
>
> At this meeting the Committee ratified two actions that had been taken by the members on (date). The members had authorized the Federal Reserve Bank of New York, for System Open Market Account, to "warehouse" temporarily Exchange Stabilization Fund holdings of foreign exchange for a purpose beyond those previously authorized; and in a related action they had amended the authorization for System foreign currency operations by adding the words "and express authorizations by the Committee pursuant thereto" at the end of the introductory text of the first paragraph. As amended, this text read as follows:
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> "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:"

Votes for ratification of these actions: Messrs. (etc.)

At the meeting of the Committee held on February 4, 1969, the System Account Manager had reported that total Federal debt subject to the legal debt ceiling was currently close to that ceiling, and was likely to remain so for the next several months; and that as a result the Treasury might encounter difficulties in its efforts to meet its obligations for payments while conforming to the debt ceiling statute. The Manager also reported that the Treasury was exploring possible alternative means of meeting its cash needs while staying within the debt ceiling. In this connection it was noted that among the factors contributing to the currently low cash position of the Treasury were past operations of the Exchange Stabilization Fund in acquiring pounds sterling and German marks -- current holdings of which aggregated about $800 million -- in implementing the international financial policies of the United States. The Treasury was expected, if the need arose, to ask the Federal Reserve to "warehouse" temporarily some or all of the Stabilization Fund's holdings of foreign currencies--that is, to purchase such currencies from the Stabilization Fund under an agreement providing for their resale to the Fund within a reasonably short period of time.

The Committee previously had authorized the Federal Reserve Bank of New York to have outstanding up to $1 billion in forward commitments to deliver foreign currencies to the Stabilization Fund, for the purposes of (1) facilitating repayment by the Treasury of maturing bonded debt denominated in foreign currencies and (2) warehousing Stabilization Fund holdings of foreign exchange to assist the Fund in the event its resources proved inadequate from time to time to meet all demands on them. An authorization for the latter purpose had been granted in November 1967, and expanded in September 1968, in connection with Treasury participation in international packages of credit assistance for sterling. The present $1 billion limit on the volume of such forward commitments had been established by an amendment, effective September 24, 1968, to paragraph 1C(1) of the authorization for System foreign currency operations.

In the discussion at the Committee meeting on February 4, 1969, the members had agreed that under the existing circumstances it would be appropriate in the months immediately ahead for the Federal Reserve to warehouse Stabilization Fund holdings of foreign exchange temporarily if necessary for the purpose of enabling the Treasury to meet its cash needs while staying within the debt ceiling. It was the consensus of the Committee, however, that warehousing operations for this purpose should not be formally authorized unless and until the Treasury indicated that there was no practicable alternative to such operations.

Because the possible need for warehousing operations for this purpose was expected to be quite temporary, and because no part of the currently authorized sum of $1 billion of forward commitments to the Stabilization Fund was outstanding at the moment, the members agreed that there was not likely to be an immediate need to amend paragraph 1C(1) of the authorization to increase the dollar limit specified there. It was noted, however, that a temporary increase in that limit might be needed later, should requirements for such forward commitments for two or more purposes happen to coincide.

The amendment to paragraph 1 of the authorization described above had also been discussed at the February 4 meeting of the Committee. It was noted then that paragraphs 2 and 4 of the foreign currency directive (relating, respectively, to foreign currency operations in general and to forward transactions) provided for operations to be undertaken under express authorities granted by the Committee in addition to operations undertaken for the specific purposes listed in those paragraphs. The members agreed that the indicated amendment to the authorization would be helpful in making clear--in this and other similar cases--that the language of the authorization extended to operations under express authorities as well as to those under the specific language of the directive.

On (date), the Secretary of the Treasury advised Chairman Martin that circumstances had arisen in connection with the debt ceiling in which there was no practicable alternative to having the Federal Reserve warehouse temporarily foreign currency holdings of the Stabilization Fund. Accordingly, the members of the Committee voted on that date to approve the actions described above.

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In the light of information received after preparation of his memorandum of January 31, 1969, Mr. Hackley advises that the first sentence beginning on page 4 of his memorandum, referring to possible sales of foreign currencies in the market should, be regarded as omitted. In addition, the first words of the last sentence beginning on page 5 should read "Since the purposes" instead of "Since two of the purposes." He advises further, however, that he continues to be of the opinion stated in the first complete paragraph on that page, but that there may be even greater likelihood of criticism of the kind suggested in the next following paragraph.