Del. P Cicely

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

December 3, 1973

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Arthur L. Broida

Attached for your information is a memorandum for the record describing an action relating to the System Open Market Account taken by Chairman Burns this morning in response to a request from the Treasury Department.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 3, 1973

To FOMC Records

From Arthur L. Broida

Subject:

CONFIDENTIAL (FR)

In the forenoon on Monday, December 3, 1973, Chairman Burns, acting in his capacity as Chairman of the Federal Open Market Committee, and in response to an inquiry by Paul Volcker, Under Secretary of the Treasury, advised Mr. Volcker that if warranted by developments relating to debt ceiling legislation pending in Congress, the System would refrain from tendering to the Treasury for redemption on Thursday, December 6, 1973, its holdings of approximately $1.6 billion of Treasury bills maturing on that date.[1/]

The law providing for a temporary debt ceiling of $465 billion had expired at midnight, Friday, November 30, 1973, and since that time the debt ceiling had been at its permanent statutory level of $400 billion, well below the amount of outstanding debt subject to the limitation. So long as the outstanding debt remained above the ceiling, the Treasury was legally unable to issue new debt subject to the ceiling in either a cash or exchange offering.

In recent days the Treasury had taken a number of special measures designed to minimize the resulting disruption of the nation's

1/ The System would, of course, receive no interest on the bills in question for the holding period beyond their December 6 maturity date.

financial affairs, and it was currently engaged in contingency planning directed toward the same end in the event that new debt ceiling legislation was not enacted by various dates in the future. In connection with such contingency planning, Mr. Volcker had telephoned Chairman Burns shortly after 9:30 a.m. on December 3 to ask whether the Federal Reserve, under existing law and regulations, could and would make a formal commitment at this time to refrain from tendering for redemption its holdings of Treasury bills maturing on December 6, in the event that the statutory debt ceiling remained below the amount of outstanding debt on that date. If the Federal Reserve did not tender those holdings for redemption, the Treasury would be able to meet other obligations for a somewhat longer period.

Chairman Burns replied that he would consider the question in consultation with appropriate staff members and respond as soon as possible, hopefully by 10:30 a.m.

At Chairman Burns' direction, the matter was considered at the Board by the Committee's General Counsel (Mr. O'Connell), Senior Economist (Mr. Partee), and Secretary (Mr. Broida), and Mr. Keir of the Board's Division of Research and Statistics; and at the Federal Reserve Bank of New York by the Committee's Deputy General Counsel (Mr. Guy) and Deputy Manager (Mr. Sternlight), and Mr. Young, Assistant General Counsel of the New York Bank. In addition, Mr. Sternlight consulted by telephone with Mr. Holmes, Manager, who was out of town at the time.

On the basis of these consultations, Mr. O'Connell advised Chairman Burns that in his opinion, which was shared by the other staff members involved, (1) there were no statutory impediments to the proposed action by the Federal Reserve; (2) such action was not inconsistent with any outstanding regulation, rules, or authorizations of the Federal Open Market Committee; (3) under his inherent powers the Chairman of the Committee had the authority to make the proposed commitment, even in the absence of any consultation with the Committee; and (4) that it would be desirable to give Committee members timely advice of the commitment, if made.

At approximately 11 a.m. Chairman Burns informed Mr. Volcker of the decision described in the first paragraph of this memorandum.