

12/20-21/76

Meeting of Federal Open Market Committee

December 20-21, 1976

MINUTES OF ACTIONS

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Monday and Tuesday, December 20-21, 1976, beginning at 3:30 p.m. on Monday.

PRESENT: Mr. Burns, Chairman  
Mr. Volcker, Vice Chairman  
Mr. Balles  
Mr. Black  
Mr. Coldwell  
Mr. Gardner  
Mr. Jackson  
Mr. Kimbrel  
Mr. Lilly  
Mr. Partee  
Mr. Wallich  
Mr. Winn

Messrs. Baughman, Guffey, Mayo, and Morris,  
Alternate Members of the Federal Open  
Market Committee

Messrs. MacLaury, Eastburn, and Roos, Presidents  
of the Federal Reserve Banks of Minneapolis,  
Philadelphia, and St. Louis, respectively

Mr. Broida, Secretary  
Mr. Altman, Deputy Secretary  
Mr. Bernard, <sup>1/</sup> Assistant Secretary  
Mr. O'Connell, General Counsel  
Mr. Axilrod, Economist (Domestic Finance)  
Mr. Gramley, <sup>2/</sup> Economist (Domestic Business)  
Messrs. Brandt, Davis, Kichline, Parthemos,  
Reynolds, and Zeisel, <sup>2/</sup> Associate Economists

1/ Attended Monday session only.

2/ Attended Tuesday session only.

Mr. Pardee, Deputy Manager for Foreign  
Operations

Mr. Sternlight, Deputy Manager for  
Domestic Operations

Messrs. Coyne and Keir, Assistants to  
the Board of Governors

Messrs. Gemmill and Kalchbrenner, 3/  
Advisers, Divisions of International  
Finance and Research and Statistics,  
respectively, Board of Governors

Mr. Paulus, 3/ Chief, Banking Section, Division  
of Research and Statistics, Board of  
Governors

Mr. Smith, 3/ Chief, Financial Markets Section,  
Division of International Finance, Board  
of Governors

Mr. Beck, 3/ Senior Economist, Division of Research  
and Statistics, Board of Governors

Mrs. Farar, Economist, Open Market  
Secretariat, Board of Governors

Mrs. Deck, Staff Assistant, Open Market  
Secretariat, Board of Governors

Messrs. Boehne, Doll, Eisenmenger, and  
Scheld, Senior Vice Presidents,  
Federal Reserve Banks of Philadelphia,  
Kansas City, Boston and Chicago,  
respectively

Messrs. Burns, Karnosky, and Keran, Vice  
Presidents, Federal Reserve Banks of  
Dallas, St. Louis, and San Francisco  
respectively

Mr. Hall, Assistant Vice President, Federal  
Reserve Bank of Cleveland

Mr. Duprey, Economic Adviser, Federal  
Reserve Bank of Minneapolis

Ms. Tschinkel, Adviser, Federal Reserve  
Bank of New York

3/ Attended part of Monday session only.

By unanimous vote, the following revised Authorization for Foreign Currency Operations, revised Foreign Currency Directive, and Special Authorization were approved, on the understanding that they would become effective upon the resolution subsequent to the meeting of a technical question concerning the wording of a clause in the Directive. The actions were effective December 28, 1976.

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:

| <u>Foreign bank</u>  | <u>Amount of<br/>arrangement<br/>(Millions of<br/>dollars equivalent)</u> |
|--|---|
| 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<br>Settlements:                                       |   |
| Dollars against Swiss francs   | 600   |
| Dollars against authorized<br>European currencies other<br>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.

SPECIAL AUTHORIZATION UNDER PARAGRAPH 1(D) OF  
AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

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 commitment associated with the System's outstanding 1971 swap drawings in Swiss francs.

With Mr. Coldwell dissenting, the following procedural instructions relating to foreign currency operations were approved, to become effective simultaneously with the foregoing instruments:

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.

Secretary's Note: The following actions were taken on Tuesday, December 21, 1976.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on November 16, 1976, were approved.

By unanimous vote, the System Open Market transactions in foreign currencies during the period November 16 through December 20, 1976, were approved, ratified, and confirmed.

By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers' acceptances during the period November 16 through December 20, 1976, were approved, ratified, and confirmed.

By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

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.

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.

By unanimous vote, transfer to the National Archives of the FOMC memoranda of discussion for 1971, on the basis described in a memorandum from the Secretariat dated December 8, 1976, was authorized.

The Committee took note of the present state of de facto suspension of paragraph 2 of the Authorization for Domestic Open Market Operations as a consequence of the expiration, on October 31, 1976, of the underlying statutory authority contained in a provision of Section 14(b) of the Federal Reserve Act.

It was agreed that the next meeting of the Committee would be held on January 18, 1977, at 9:30 a.m.

The meeting adjourned.

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Secretary