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

CONFIDENTIAL (FR)

December 7, 1971

To: Federal Open Market Committee

Subject: Release of 1966 FOMC minutes.

From: Arthur L. Broida

The staff recommends that the Committee authorize the release of its minutes for the calendar year 1966 in the same manner as has been employed for earlier minutes--namely, by transmitting the original signed copies to the National Archives and placing bound volumes containing reproductions in the libraries of all Federal Reserve offices. The attached memorandum from the Secretariat concerns passages that are recommended for deletion when these minutes are initially released.

Several months will be required for the reproduction and binding of the copies to be placed in System libraries and, on the basis of past experience, it is likely that some time will elapse before the National Archives will be in a position to meet requests for microfilm copies of the originals. Accordingly, the staff suggests that, if the Committee approves the release of these minutes, a few Xerox "work copies" be made available for inspection at the Board and the New York Bank in the period before the bound copies are available. A similar procedure was employed when the 1962-65 minutes were released.

It is contemplated that release of the 1966 minutes will be discussed by the Committee at its meeting on December 14, 1971.

Attachments

BOARD OF GOVERNORS
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WASHINGTON, D.C. 20551

CONFIDENTIAL (FR)

December 7, 1971

To: Federal Open Market Committee

From: The Secretariat

Subject: Passages recommended for deletion when 1966 FOMC minutes are initially released.

As you know, when the 1962-65 FOMC minutes were released to the public a number of passages deemed to be "sensitive" were withheld. A prefatory note included with the minutes for each of those years, shown in appendix A to this memorandum, explained that (1) deletions were made only for certain specified reasons, (2) the point at which each deletion occurred was noted, and (3) the general nature of the omitted material was indicated by footnote. The preface concluded with a statement that the deleted passages would be reviewed from time to time to determine whether they could be released.

On the assumption that the Committee would want to follow the same procedure when it released its 1966 minutes, the staffs at the Board and the New York Bank have reviewed those minutes and have identified eighteen passages which are recommended for deletion.[1/] The pages containing those passages are shown in appendix B. In the copies sent to the National Archives, the words enclosed in brackets would be omitted and the explanatory footnotes shown at the bottom of the pages would be added.

1/ In the course of a final review the staff has concluded that certain additional passages in the minutes for June 28, 1966, should be discussed with officials of the Bank of England before those minutes are released. It is hoped that this can be done at the time of the December Basle meeting, and any resulting recommendations made orally to the Committee at its meeting on December 14.

Of the eighteen passages, seven are proposed for deletion at the request of the Bank of England. Of these, six (cases 1, 2, 3, 6, 12, and 17) contain quantitative information on British forward operations, and the seventh (case 7) reports the reactions of the Bank of England to particular British budgets. The information contained in these passages is still considered to be confidential by the Bank of England. The Bank indicated that it would have no objection to the publication of a number of other passages on which their views were requested.

The remaining passages report views on matters in the area of foreign currency operations. In the staff's judgment the publication of these passages at present would not be in the interest of good international relations.

The review of the 1966 minutes by the staffs at the Board and the New York Bank covered the material relating to domestic as well as foreign currency operations, but no passages in the former area are being recommended for deletion. Also, a representative of the Treasury (Mr. Page Nelson), who has reviewed these minutes, has not recommended any deletions.

The staff also has reviewed the passages in the 1962-65 minutes that were initially withheld and does not recommend any of them for release at this time. It might be noted in this connection that when the Bank of England expressed no objection to publication of certain references in the 1966 minutes to "overnight" accommodations provided by the Federal Reserve and the Treasury, the question was raised regarding their present attitude toward release of a similar reference in the 1965 minutes that had been withheld at their request. They indicated that they would withdraw that earlier request on the understanding that when the reference in question was released it would be done in a manner that would not attract particular public attention. In the staff's view that objective would be better served by releasing the reference at a time when other previously withheld passages were being made public, rather than in isolation.

Attachments

Appendix A

(Text of note included at front of volume of FOMC minutes for each year in period from 1962 through 1965)

## Prefatory note

Certain pages in the minutes of the Federal Open Market Committee for the years 1962 through 1965 have been replaced in the materials transmitted to the National Archives by substitute pages on which particular passages contained in the original minutes are deleted. In each such case, the point at which the deletion has been made is noted and the general nature or subject of the omitted passage is indicated by footnote.

Deletions have been made only for the following reasons:

1. The passage contains information relating to the affairs, policies, or views of particular foreign central banks or governments which they wish to have held in confidence at this time.

2. The passage contains comments about foreign countries, institutions, or individuals of such a nature that its release at this time was deemed not to be in the interests of good international relations.

3. The passage contains information of such a nature that, in the judgment of the U.S. Treasury Department, its release at this time would not be in the interests of the United States.

4. The passage contains information about the internal affairs of a named business organization.

It is anticipated that the originals of all pages for which substitutes have been introduced will be reviewed from time to time to determine whether they can be released.

# Appendix B

**Passages recommended for deletion**
**1966**

1966 - Case 1
(Bracketed passage to be deleted.)



Looking farther ahead, however, Mr. MacLaury continued, one could not ignore the implications for the United States gold stock of the situation in the London gold market. During 1965 a record volume of private demand for gold absorbed virtually the entire new supply coming from South African and other mines and from Russian sources, with the result that the Gold Pool ended the year with virtually no net accumulation of gold. As demand continued to run ahead of supply, the $40 million reserve in the Gold Pool at the beginning of 1966 had been exhausted and it again became necessary to reactivate the gold sale consortium. Since then the Pool had lost another $19 million net. There still was reason to believe that Russia would need to sell another $200 million or so of gold between now and April, which might provide some further breathing space. Over the longer pull, though, unless international political and financial tensions moderated considerably during the spring and summer months, there could be fairly heavy pressure upon the Gold Pool arrangements.

On the exchange markets, Mr. MacLaury said, sterling had continued to show strength. From September through January, the swing in the Bank of England's exchange position had amounted to more than $2 billion. Of that amount, $420 million had been reflected in reserve increases,[1/] [$700 million in net repayments of central bank debt, and roughly $1 billion in liquidation of forward contracts.] During January, the Bank of England made repayments of central bank debt totaling $325 million--$275 to the Federal Reserve and $50 million

1/ Part of one sentence has been deleted at this point for one of the reasons cited in the preface. The deleted material referred to ways in which the Bank of England's dollar gains had been employed.

1966 - Case 2
(Bracketed passage to be deleted.)



to the Bank for International Settlements--[1/] [and it had about $300 million of forward contracts reaching maturity during the month. However, the gross dollar inflow during the month was very substantial, amounting to roughly $535 million.] That still left, at month-end, a net drain of roughly $90 million on British reserves.

Mr. MacLaury reported that there was general agreement among most of the British and American officials involved that the British would run a serious risk of damaging the recovery of confidence in sterling if they were to show a sizable reserve decline for January. To avert that risk, several courses of action were open. First, the Bank of England might have made a new drawing on the swap line; but that course was opposed both by the Bank of England and by the System, on the grounds that it would represent a leapfrogging procedure of employing a new drawing to pay off an earlier drawing. Second, the British Government might have drawn on its portfolio of United States securities, but that alternative was flatly rejected by Chancellor Callaghan. Third, the British Government might have drawn on its $250 million line of credit with the Export-Import Bank, but that course was opposed for U.S. balance of payments reasons by the U.S. Treasury. There remained the fourth alternative of employing the joint Treasury-Federal Reserve authorization granted last September of $400 million for exchange operations to support the recovery of sterling. As it turned out, the $90 million needed to prevent a

1/ One sentence and part of another have been deleted at this point for one of the reasons cited in the preface. The deleted material referred to other operations of the Bank of England in January.

1966 - Case 3
(Bracketed passage to be deleted.)



seemed to be involved in the difficulties for sterling. The U.K. trade figures for January were disappointing, although that perhaps was fortuitous; more seriously, the trend of wages and prices remained inflationary; and the expectations of an election, now scheduled for March 31, had further unsettled the market. Also unsettling was the discussion of a suggestion by a group of European and American economists that the margins for exchange rate fluctuations might be widened. That suggestion was disturbing because of fears that sterling might move to the lower limit of the wider range, and that such a development might be a prelude to devaluation.

Mr. Coombs went on to say that the Bank of England began the month of February with net outpayments of close to $400 million, of which $290 million represented debt payments to the System and to the U.S. Treasury.[1/] [During February, more than $300 million of forward contracts also fell due and, with the adverse shift in the market atmosphere, a number of those contracts were apparently settled by running down existing sterling balances rather than buying the sterling needed with dollars.] Despite the fact that the Bank of England's reserves benefited during the month to the extent of $100 million by operations undertaken by the Federal Reserve Bank of New York and by the Bank of Italy, they approached the month end with a prospective deficit of somewhat more than $250 million. Today Chancellor Callaghan was expected to announce that the British Government had taken into the

1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence referred to certain other operations of the Bank of England.

purpose. Thus the initiative could be left with the British; even if the Committee were to place no restrictions on the use of System credits, the Bank of England would be compelled to restrict its use of them in order to draw on the European central banks.[1/] [Mr. Coombs added that that circumstance provided an excellent example of the way in which the U.S. could find itself locked into situations by application of the principle of multilateral surveillance, which gave enormous bargaining power to small countries that might be inclined to take extremely conservative positions.]

Chairman Martin commented that the matter Mr. Coombs had raised was an extremely important one, and that it would be desirable for all members of the Committee to follow developments with respect to sterling closely over the coming weeks.

Mr. Daane remarked that it was desirable, in his judgment, for the Committee to allow the Special Manager the maximum possible degree of flexibility to deal with the situation.

In reply to questions by Mr. Mitchell, Mr. Coombs said that the Bank of England's total use of its swap line with the System probably had amounted to about $2 billion. The Bank had twice drawn the full amount available and it had made a number of additional drawings of a few days each around month-ends. Of the $200 million authorized in September for System covered purchases of sterling, $80 million had been used. Last fall $30 million had been employed in direct support of the sterling rate. The remainder had been

1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a further comment by Mr. Coombs on the subject under discussion.

1966 - Case 5
(Bracketed passage to be deleted.)



the System and the Treasury might reduce their authorizations for covered sterling purchases from the present combined level of $400 million to $315 million. Alternatively, the authorizations might be continued at $400 million, with $315 million earmarked for the more restrictive purpose. The matter remained to be negotiated with the Treasury.

Mr. Daane said he thought the latter course--continuing the $400 million authorization--would be preferable. Mr. Coombs agreed.[1/] [To pursue the former course, he said, would amount to cutting back U.S. credit facilities to the Bank of England at the instigation of a small group of European countries. That, in his judgment, would be an unfortunate precedent, which might be followed by efforts to get other countries to reduce their lines of credit to the U.S.]

Mr. Swan asked whether the informal earmarking Mr. Coombs had suggested earlier would be for British drawings under the swap line or for U.S. covered purchases of sterling under the September authorizations. Mr. Coombs replied that to retain the greatest flexibility it might be best to relate the earmarking to the over-all total of available U.S. credit lines to Britain--including the System's $750 million swap arrangement with the Bank of England, which was now wholly on a standby basis; the Treasury's $200 million authorization for covered sterling purchases, which was not now in use; and the $120 million remaining under the Committee's $200 million authorization for covered sterling purchases. From the technical point of view, however, he was anxious to keep available for market intervention for general purposes the authorization for covered

1/ Two sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material reported further comments by Mr. Coombs on the subject under discussion.

1966 - Case 6
(Bracketed passage to be deleted.)



and that--in combination with a heavier flow of new gold from South Africa and sales of $30 or $35 million by a still unidentified central bank--had managed to keep the London gold market in rough balance.

Sterling still remained a problem, Mr. Coombs reported. During March the Bank of England experienced reserve drains of $225 million, of which $150 million represented debt repayments to the Bank of Italy and the Bank for International Settlements,1/ [while the remaining $75 million was probably accounted for by a runoff of forward contracts.] At the month-end the U.S. Treasury provided a $150 million overnight swap, enabling the British to show a reserve reduction of only $75 million. For the month of April the British again faced the discouraging prospect of starting the month with an immediate deficit reflecting the $150 million repayment to the U.S. Treasury; and, mainly owing to money market pressures, they had subsequently lost another $50 million. He was hopeful that with the end of the Easter holidays sterling would show renewed strength this week as money market pressures reversed themselves. Also, there might be some sizable purchases of sterling for oil company account which might significantly reduce the April deficit as the month progressed.

On balance, however, the position of sterling remained vulnerable, Mr. Coombs said. The problem was particularly worrisome because the present was a period in which sterling ordinarily was seasonally strong. In effect, the British elections had cut off the recovery of sterling that had been underway, and the question

1/ Part of a sentence has been deleted at this point for one of the reasons cited in the preface. The deleted material referred to other operations by the Bank of England.

1966 - Case 7
(Bracketed passage to be deleted.)



already been paid off. The $50 million from the Federal Reserve was on the customary three-month basis but might be paid off before maturity.

Mr. Coombs went on to say that the initial market reactions to the British budget announcement on May 3 were unfavorable, and there was a risk that sterling might drop sharply. The New York Reserve Bank bought two million pounds for Treasury account, and that seemed to put a floor under the price of sterling. Subsequently another two million were bought for Bank of England account, pushing the sterling rate up somewhat. Those operations seemed to have a stabilizing effect on expectations, and bridged the few hours required for the market to digest the real significance of the budget. As the details became understood--particularly with respect to the payroll tax--the market stabilized on its own.

It was Mr. Coombs' impression that the British budget did provide for a rather strong restrictive effect on the economy, particularly in the first year, although there were a good many unknowns regarding the manner in which it would be administered.[1/] [Perhaps the most hopeful sign was that the Bank of England people seemed reasonably satisfied; as the Committee would recall, they had been acutely dissatisfied with last year's budget. However, there still remained the key problem of price and wage stabilization, which had been the quid pro quo for the package of international assistance of last September.]

1/ Two sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material consisted of further comments by Mr. Coombs on British economic policies, including a comment on attitudes of others towards the British budget.

1966 - Case 8
(Bracketed passage to be deleted.)



Thereupon, the proposed new sterling balance credit arrangements were noted without objection.

Mr. Ellis then remarked that it had been about a year since the Committee had last discussed the possibility of negotiating reciprocal currency arrangements with Venezuela and Mexico. Those two countries had made substantial progress in improving their financial positions and he asked whether the Committee should not consider the question again.

In response to the Chairman's request for comment, Mr. Coombs said the main development in the area since the Committee's earlier discussion was that the U.S. Treasury had negotiated swap arrangements with the central banks of Venezuela and Mexico. It would be useful to learn what the Treasury's experience had been under those arrangements, and whether the Treasury intended to maintain the relationships or might prefer to have the Federal Reserve share in them.1/ [To his mind, however, the key question was whether negotiation of swap lines with the two countries would expose the System to pressures for similar arrangements with other countries in Latin America that were in less strong positions. If there was some basis on which a clear line could be drawn separating Venezuela and Mexico from the rest of Latin America, a good case might be made for having swap lines with the two countries. If not, the System might be well advised not to enter into such arrangements. In any case, he thought a study would be useful.]

1/ Four sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material reported further comments by Mr. Coombs on the question of possible swap arrangements with Venezuela and Mexico.

1966 - Case 9
(Bracketed passage to be deleted.)



recovering from the crisis. The general feeling was that the strike should not have occurred and no one seemed to know what could be done about it.

Mr. Hayes remarked that the way in which the succession at the Bank of England had been worked out was widely approved in the London financial community.[1/] [Nevertheless, there were some views to the effect that the change inevitably meant a weakening of the position of the central bank in relation to the Government.]

In concluding, Mr. Hayes noted that he had joined Mr. Shepardson, and Mr. David Hayes of the Board's staff, at the recent 150th anniversary celebration of the Bank of Norway in Oslo. Their reception had been a cordial one and the affair on the whole was a pleasant experience.

Chairman Martin noted that Mr. Bopp recently had attended the International Monetary Conference in Madrid and the Annual Meeting of the Bank for International Settlements, and had visited the Bundesbank, the Bank of France, and the Bank of England. The Chairman invited Mr. Bopp to comment.

Mr. Bopp said he had nothing new or encouraging to report but that he was able to confirm on the basis of personal contacts the reports that System members had been bringing to the Committee for some time.

There was widespread agreement that inflationary pressures existed throughout the Western World, Mr. Bopp observed. In Europe and particularly on the continent construction was rampant. There was a widespread view on the continent that the United States and the United Kingdom were primarily responsible for those developments. Mr. Holtrop,

1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a further comment by Mr. Hayes on reactions to the succession at the Bank of England.

Chairman of the Bank for International Settlements, was particularly emphatic that the inflation had been exported from the United States to the continent. He (Mr. Bopp) had responded to that line of argument by saying that until just recently the United States had had relatively large unutilized resources and stable prices. In short, the U.S. had not until recently had inflation and it was not convincing to blame a country which did not have inflation for exporting it elsewhere.[1/] [He had acquired a real and genuine sympathy for the U.S. representatives who had to listen to the monthly lecture from Mr. Holtrop.]

There was also widespread feeling, Mr. Bopp continued, that too much of the burden of restraining inflation was being placed on monetary policy and that no central bank was receiving adequate support from fiscal policy. He had indicated that credit conditions in the United States were significantly tighter than was evidenced by looking merely at the discount rate. The scarcity of funds was reflected more in the Federal funds rate which at times was as much as one per cent above the discount rate.

Mr. Bopp had found the greatest sympathy and understanding of the American position in the United Kingdom which historically had assisted other parts of the world and, therefore, appreciated the American efforts to reconstruct Europe after the War.

Mr. Blessing had commented to Mr. Bopp that Germany now had about 1,300,000 foreign workers, mostly from Spain and Italy and some from Turkey and North Africa. Recently there were seven to eight vacancies for each unemployed person. Mr. Blessing had indicated that

1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a further comment by Mr. Bopp.

1966 - Case 11
(Bracketed passage to be deleted)



he had no fear at all that tight credit would create unemployment of German workers.[1/]

[Mr. Bopp concluded by noting that the wide gap between the poor peasant in Spain and the wealth of a few was obvious, as was the use of limited resources for vast public projects such as the Franco Mausoleum in the Valley of the Fallen. The vast power, extent, and organization of the Romans was still evident and squeezed itself into the very marrow of one's bones.]

Chairman Martin then noted that Mr. Young recently had participated in a mission to Vietnam to help that country deal with its financial problems, and he asked Mr. Young to tell the Committee about the negotiations.

Mr. Young said the mission was for the purpose of working with the Vietnamese Government in developing a reasonable stabilization program. The mission consisted of a team from the International Monetary Fund going at the request of the Vietnamese Government; a group of three persons from the White House, State Department, and the Treasury to work on the problem from the U.S. point of view; and finally, himself, participating in the capacity of adviser to the Governor of the central bank. As matters turned out, his own role was largely that of mediator between the IMF and U.S. Government groups.

The mission could hardly have been launched under less promising circumstances, Mr. Young continued. Vietnam was on the brink of civil war, the army had been withdrawn from active combat to deal with the internal situation, and military developments were

1/ Two sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material reported certain further observations by Mr. Bopp.

On the exchange markets, Mr. Coombs continued, the speculative attack on sterling witnessed during the past month was more sustained in intensity than that of November 1964, and in certain respects more dangerous. Perhaps he could best summarize the magnitude of the crisis by noting that, from July 1 through Friday, July 22, the drain on British reserves amounted to roughly $1.1 billion, and it would have been increased by $145 million if the New York Reserve Bank had not undertaken market operations for Treasury and System Account to support sterling.[1/] [In addition, the Bank of England entered into new forward contracts in the amount of approximately $750 million. All told, therefore, official intervention in the spot and forward markets for sterling from July 1 through July 22 came to very nearly $2 billion, on top of similar intervention during June of $500 million or so.]

The sheer magnitude of those figures--which, of course, were extremely confidential--suggested a remarkably wide swing of the leads and lags against sterling and the buildup of a huge short position. Before the new British program was announced there was some hope on both the British and U.S. side that strong market action to push up the sterling rate might force some quick covering of short positions. An abrupt swing, such as had occurred last September, did not seem likely, however. For one thing, the deterioration in sentiment this year was considerably greater. Secondly, last September's announcement concerned a new international package of assistance for sterling, the significance of which could be quickly

1/ Two sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material referred to certain exchange market operations, including operations undertaken by the Bank of England.

1966 - Case 13
(Bracketed passage to be deleted.)



Mr. Shepardson asked whether the purpose of the proposed overnight credit extension to the British was to allow them to window-dress their reserve statement.

Mr. Coombs replied affirmatively,[1/] [but added that the more basic purpose was to save them from bankruptcy.] The market had no inkling of the actual size of their July reserve loss, and if the British published figures showing a large loss a panic situation was likely to result that might lead to either the imposition of exchange controls or devaluation.

Mr. Robertson asked whether the Treasury had already agreed to provide a $200 million overnight credit, and Mr. Coombs said he thought that the decision was fairly solid. He noted that the Treasury had extended a $100 million overnight credit at the end of June.

Mr. Shepardson then asked how long the situation might be papered over.

In reply, Mr. Coombs noted that the British had not revealed their actual reserve losses for three months in mid-1965. They had then shown true figures, by and large, from September 1965 through May 1966. Actual losses had not been disclosed in June, and they would not be again in July. If the Government remained in power and there was no general strike, the new program should begin to have an effect in the next few months and could bring about a gradual turn in the situation. He was not suggesting that the outlook was hopeless, but rather that there were serious risks of which the Committee should be aware.

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1/ Part of a sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a further comment by Mr. Coombs on the rationale for the proposed credit.

1966 - Case 14
(Bracketed passage to be deleted.)



Mr. Shepardson then asked what Mr. Coombs would expect if the hoped-for turn did not eventuate and there was a break-through in the sterling situation in August or September.

Mr. Coombs replied that under such circumstances short-term central bank credits would do no good whatever. That was why he had suggested making the additional $200 million swap drawing an overnight arrangement. Of course, the British still had about $1 billion in medium-term credits available, including $500 million in drawing rights on the IMF, a $250 million Export-Import Bank credit, and $250 million in possible credits from the BIS. They also had about $500 million in their portfolio of American securities. He did not think any problem need be anticipated in connection with repayment of British drawings already outstanding.[1/] [But on new credits in present circumstances he thought it would be best to arrange, whenever practicable, for repayment in one day to keep the pressure on the British.]

Mr. Robertson said that it might be the better part of wisdom for the British to camouflage their reserve losses. On the other hand, it might very well be that publication of the true reserve loss was necessary in order to win public acceptance of the wage-price freeze, and that the System would be doing the British a disservice in helping them to paper it over. He did not feel he knew enough about the situation to reach an independent judgment on the question, but he thought the fact that it had two sides should be recognized.

1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a further comment by Mr. Coombs on British use of the swap arrangement.

1966 - Case 15
(Bracketed passage to be deleted.)



that, while he obviously had not had an opportunity to consider all of the details, he was in sympathy with the basic program objectives and felt it desirable to make the effort to prevent what could be a disintegration of the present financial system. The Treasury had indicated that it hoped the Committee would have a full discussion today and would be prepared to go ahead with the program on short notice if and when final Administration clearance was obtained, which might be a matter of weeks, days, or hours.

Mr. Robertson stated that he had talked to the Secretary this morning about the matter. The Secretary was inclined to favor the approach and hoped the Committee would approve the use of the particular instrument, subject to action being triggered by notice from the Secretary to the Chairman or Acting Chairman of the Board of Governors, so that if it was necessary to move it would be possible to move fast, without a need to reassemble the Committee.

Mr. Hickman asked whether there had been any indication of the attitude of the major European central banks, and Mr. Coombs expressed the view that the attitude of the Bank of Italy would probably be favorable. In the case of the Bundesbank, as the Committee would recall, several approaches had been made to them over the past year about the possibility of increasing the swap line to $500 million. He had not been able to determine what was blocking those efforts, but he thought the Group of Ten deliberations may have been a factor.[1/] [He hoped the Germans would accept a swap-line increase. If they did, the rest probably would fall in line rather quickly.]

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1/ Two sentences have been deleted at this point for one of the reasons cited in the preface. The deleted material reported further comments by Mr. Coombs on the subject under discussion.

it. It did represent a considerable agreement and consensus on the elements of contingency planning for reserve creation. But the real meat of the meetings at The Hague was in the sessions of the Ministers and Governors, which involved a debate between the U.S. Secretary of the Treasury and the French Finance Minister on whether or not to go forward into the second stage of contingency planning and, if so, under what conditions.[1/] [The Secretary clearly came off best in the debate.] The communique issued at The Hague, which would be sent to each Committee member along with the report of the Deputies, indicated that U.S. interests were fully protected in getting into the second stage of the negotiations, which would involve wider participation. It pointed out that one of the principles involved was that the interest of all countries in the smooth working of the international monetary system was recognized. That was the U.S. position, and had been all the way through the negotiations. The communique said that it was appropriate to look now for a wider framework for consideration of questions that would affect the world economy as a whole, and it recommended a series of joint meetings in which the Deputies would take part along with the Executive Directors of the Monetary Fund. It indicated that a report should be expected no later than the middle of 1967. Nine of the countries of the Group of Ten had agreed to go into the second stage, and the French had been isolated in their negative position.

The meeting then recessed and reconvened at 1:50 p.m., with the same attendance as at the morning session.

1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a further observation by Mr. Daane on the subject under discussion.

1966 - Case 17
(Bracketed passage to be deleted.)



generally, the prospective Italian purchase would represent in part a compensation for gold losses resulting from Italian participation in the London gold pool. If other central banks should decide to follow the Italian example, the usefulness of the pool to the United States would, of course, be correspondingly reduced.

On the London gold market, Mr. Coombs continued, conditions had been fairly quiet in recent weeks, with the pool picking up about $20 million during October as a result of Egyptian sales plus a heavier flow of newly-mined gold from South Africa. As of the moment, the pool had available $32 million of the $270 million originally committed, plus a supplementary commitment of $50 million agreed to last September, for a total of $82 million. Yesterday and today there were heavy demands in the gold market with the price moving up to $35.18. As he had indicated at other recent meetings, in his view the gold market was likely to prove to be the single most troublesome source of problems for the dollar in the period ahead.

On the exchange markets, Mr. Coombs said, sterling remained a problem.[1/] [So far this month, the Bank of England had made further progress in paying off forward contracts, which had been reduced since the middle of September by nearly $1 billion.] On the other hand, there had been no sustained inflow into the reserves; in fact, as of Friday, November 18, the Bank of England was down about $40 million so far this month. The market reception of the excellent trade figures reported for October was disappointing. Yesterday

1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a comment by Mr. Coombs on Bank of England operations.

1966 - Case 18
(Bracketed passage to be deleted.)



desire to bring it under multilateral surveillance by representatives of Governments rather than of central banks. He suspected, however, that the continental lines to the U.K. would themselves eventually take on a semi-permanent character, so the Dutch might well end up having made no more than an empty debating point. Second, and more important, he thought they were worried about the objectives of U.S. policy at the moment--specifically, about the goals with respect to reforms in the international monetary system--and were not sure how the U.S. thought the swap network would fit in.

In any case, Mr. Coombs said, it had already been indicated to the Dutch on several occasions that the System would prefer not to have any reluctant partners in the network; and that, if the Netherlands Bank should find it inconvenient to prolong the increase in the swap line, the point certainly would not be pressed.1/ [He suspected that they realized that they would attract to themselves a fair amount of unwanted publicity if it became generally known that they had withdrawn part of their credit lines to the U.S.] Accordingly, he felt reasonably sure that the September increase in the credit lines with the Netherlands Bank would ultimately harden into a permanent increase. In his judgment, much the same considerations applied to the increase of $50 million in the swap line with the National Bank of Belgium. Against that background, he would like to recommend Committee approval for renewal for another three months of the $50 million increases in the two swap lines in question, if the other parties were agreeable.

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1/ A sentence has been deleted at this point for one of the reasons cited in the preface. The sentence reported a further comment by Mr. Coombs on possible Dutch thinking on the subject under discussion.