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

August 11, 1972

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Arthur L. Broida

Subject: Proposed attachment to memorandum of discussion for July 18 FOMC meeting.

It has been suggested that, for the sake of completeness of the record, an account should be included in the memorandum of discussion for the FOMC meeting held on the morning of July 18, 1972 of the contingency plans which members of the Committee approved on June 29, 1972, when it had appeared possible that Congress would not enact new debt ceiling legislation before the end of the fiscal year. Mr. Holmes referred briefly to those plans in the last paragraph of his statement at the July 18 meeting. (See page 39 of the preliminary draft memorandum of discussion, sent to you on August 8.) We propose to attach the following footnote to that reference: "A description of the contingency plans referred to is appended to this memorandum as Attachment C."

A preliminary draft of Attachment C is enclosed. It will be appreciated if you will review this draft and advise by Monday, August 21, whether you have any changes to suggest.

Attachment

Preliminary draft

CONFIDENTIAL (FR)

ATTACHMENT C

Description of contingency plans approved by Committee members on June 29, 1972

On June 29, 1972, available members of the Committee were informed of discussions under way with U.S. Treasury officials concerning possible means for mitigating some of the adverse consequences for Federal finance of any delay in the enactment of new debt ceiling legislation then pending before Congress. It was noted that the legislation in question provided for extension of the temporary $450 billion debt ceiling until October 31, 1972, and that if it were not enacted the following day the debt ceiling would decline to its permanent level of $400 billion, more than $25 billion below the debt estimated to be actually outstanding. In that event, until new debt ceiling legislation was enacted (or until the outstanding debt declined below $400 billion), the Treasury would be unable to issue new securities (including U.S. savings bonds) or to replace maturing securities. It was noted among other things that during the following week the Treasury might not be able to deliver to successful bidders the $4.1 billion of Treasury bills scheduled to be auctioned on June 30, or to roll over nonmarketable securities which had been sold earlier to foreign monetary authorities and which matured then.

The contingency plan under discussion was for the System to purchase directly from the Treasury late on June 30 up to $5 billion of Treasury securities, the maximum direct purchases authorized by law, if it appeared likely that the debt ceiling legislation would be delayed. It was proposed that the System acquire $4.1 billion of Treasury bills, for the purpose of delivering such bills to successful bidders in the June 30 auction in the event that the Treasury was unable to make delivery; and to acquire up to $900 million of other Government securities for the purpose of resale to eligible purchasers. The plan also provided for a revision to be made in the procedures currently in effect for allocating securities in the System Open Market Account, in the event securities acquired from the Treasury included any U.S. savings bonds. This revision was deemed desirable for administrative reasons.

All members of the Committee (except Messrs. Burns and Hayes, who were absent from the country, and with Mr. Treiber acting as alternate for Mr. Hayes) voted contingent approval of the actions set forth below. The members approved the following special FOMC authorization, contingent on a determination by the Vice Chairman of the Board of Governors that it was in the national interest in light of delay in the enactment of new debt ceiling legislation:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury, on June 30, 1972, for System Open Market Account, up to $4.1 billion of Treasury bills maturing on October 5, 1972, and January 4, 1973, at rates equal to the average rates established in the Treasury's bill auctions on that date; and, if the Treasury is unable to deliver the bills auctioned on June 30, 1972, because of delay in enactment of new debt ceiling legislation, to resell to successful bidders in that auction, for delivery on Thursday, July 6, 1972, such amounts of three- and six-month bills as they would have received, at the prices they would have paid, had the Treasury been able to deliver the bills auctioned.

The Federal Reserve Bank of New York is also authorized and directed to purchase directly from the Treasury, on June 30, 1972, for System Open Market Account, up to $900 million of other U.S. Government securities at interest rates comparable to prevailing rates on Government securities of similar type and maturity, and to resell such securities to eligible purchasers.

Certain provisions of the continuing authority directive with respect to domestic open market operations, specified below, are herewith suspended to the extent necessary to permit the implementation of the operations described above and to the extent consistent with existing law. The suspended provisions are (1) that of paragraph 1(a) limiting sales of U.S. Government securities to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York; (2) that of paragraph 1(a) limiting changes in the aggregate System Account holdings of U.S. Government and Federal agency securities between meetings of the Committee to $2.0 billion; (3) those of paragraph 2 specifying that securities purchased directly from the Treasury shall be for the account of the Federal Reserve Bank of New York unless that Bank is closed, and shall be limited to special short-term certificates of indebtedness bearing a rate 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York; and (4) that of paragraph 2 limiting total holdings of securities purchased directly from the Treasury at any one time to $1 billion.

The members also approved an amendment to paragraph 2 of the procedure for allocation of securities in the System Open Market Account, specifying that Reserve Bank participations in System Account holdings of U.S. savings bonds could be apportioned on any basis deemed reasonable by the Federal Reserve Bank of New York, contingent on the acquisition of any savings bonds by the System on June 30.

New debt ceiling legislation was passed by the Congress late in the day on June 30, and the Treasury advised that it was unnecessary to implement the contingency plans. (The legislation was subsequently signed into law by the President on July 1.) Accordingly, the Vice Chairman of the Board of Governors did not make the determination that the special authorization was in the national interest, and that authorization did not become effective. Similarly, the amendment to System Account allocation procedures did not become effective.