A meeting of the Federal Open Market Committee was held on Tuesday, November 24, 1964, at 3:30 p.m , EST. This was a telephone conference meeting and each individual was in Washington except as otherwise indicated in parentheses in the following list of those participating:

PRESENT:	Mr. Martin, Chairman	
	Mr. Hayes, Vice Chairman	(New York)
	Mr. Balderston	
	Mr. Daane	
	Mr. Hickman	(Cleveland)
	Mr. Mills	
	Mr. Robertson	
	Mr. Shepardson	
	Mr. Shuford	(St. Louis)
	Mr. Swan	(San Francisco)
	Mr. Wayne	(Petersburg, Virginia)

Mr. Sherman, Assistant Secretary	
Mr. Broida, Assistant Secretary	
Mr. Hackley, General Counsel	
Mr. Brill, Associate Economist	
Mr. Stone, Manager, System Open Market Account	(New York)
Mr. Coombs, Special Manager, System Open Market Account	(New York)

Mr. Molony, Assistant to the Board of Governors
Messrs. Katz and Reynolds, Associate Advisers, Division of International Finance, Board of Governors
Mr. Furth, Consultant, Board of Governors
Miss Eaton, General Assistant, Office of the Secretary, Board of Governors

Mr. Sanford, Vice President of the Federal Reserve Bank of New York (New York)

On the day preceding this meeting, the Bank of England had increased its discount rate from 5 to 7 per cent, and the Board of Governors had taken two actions: (1) it had approved actions by the directors of five Federal Reserve Banks increasing the discount rates of those Banks from 3-1/2 to 4 per cent, effective November 24, 1964, and (2) it had amended the Board's Regulation Q to increase the maximum rates that member banks were permitted to pay on time deposits and on savings deposits held for less than one year, also effective November 24, 1964.

Chairman Martin observed that he had called this meeting in light of the Board's actions of the preceding day and in view of the continuing pressures on the pound in foreign exchange markets that might necessitate some further assistance to the United Kingdom. At the outset, the Chairman said, he wanted to emphasize the need for everyone participating in these discussions to exercise great care to protect the confidentiality of the matters to be discussed and thus avoid contributing to public unrest. He thought the System personnel deserved congratulations on the manner in which the actions of the preceding day had been carried out. The situation was still difficult, however, and it was quite possible that the United Kingdom would need additional assistance in its efforts to defend the pound. A specific purpose of this meeting was to consider whether the Committee would wish to authorize an increase in the reciprocal currency arrangement with the Bank of England by $250 million to $750 million. The Chairman then asked Mr. Coombs to report the most recent market developments to the Committee and to make any recommendations for Committee action that he thought appropriate.

Mr. Coombs reported that both sterling and the dollar had made a reasonably strong showing on the European exchange markets during the morning hours today. Around noon, European time, however, the situation swung around sharply as heavy selling pressure on sterling developed in the continental market centers. The Bank of England had made a firm stand at rates around $2.7860, intervening both in London and New York, but had suffered heavy reserve losses in the process. Reserve losses so far today, Mr. Coombs said, had amounted to $213 million, mainly arising out of intervention operations in London.

So far as the Federal Reserve Bank of New York and the Bank of England could tell, there had been no special event today which had triggered this speculative attack. It rather seemed to be rooted in a continued lack of confidence in the ability of the Labor Government to defend sterling. This suspicion of the British Government had been greatly aggravated by widespread resentment in the European business and financial communities over the 15 per cent surcharge placed on British imports near the end of October, and by widespread rumors of an impending breakdown in political and financial cooperation. As of the moment, the British had now fully utilized not only the $500 million of continental and Canadian central bank credits, but had also drawn the entire $500 million available under the Federal Reserve swap line.

Furthermore, Mr. Coombs said, it seemed to be fully accepted not only in European governmental circles but also in the exchange markets that the prospective $1 billion drawing by the British Government on the International Monetary Fund might be utilized to pay off $1 billion in credits obtained by the United Kingdom during the past two months. In effect, therefore, the present credit resources of the British Government had now been exhausted and further intervention to defend sterling would become a charge on the British reserves. The market sensed this situation.

The British Government, Mr. Coombs continued, thus faced the prospect of a severe depletion of their already limited reserve availabilities unless the present crisis of confidence could somehow be countered. As he saw it, there were now two main alternatives. First, the British might decide to devalue sterling. This would probably precipitate an international financial crisis of the first magnitude. He would expect to see a major speculative drive on the London gold market and sooner or later an even more dangerous attack on the U.S. dollar. If the British devaluation were to trigger devaluations of other currencies, such an attack on the U.S. dollar might develop swiftly and in a huge volume.

Mr. Coombs thought, therefore, that it was essential to avoid at all costs recourse to the devaluation alternative and to try to deal directly with the confidence factor by putting on a display of international financial cooperation through a new and very large package of short-term credit to the U.K. He thought that the situation was extremely dangerous and that a "now or never" effort should be made. In round figures, Mr. Coombs said, the Committee might think in terms of a total international credit package of $2 billion over and above the present swap line of $500 million and the short-term European and Canadian Bank credit of $500 million, both of which would be presumably repaid out of the British drawing on the IMF.

In building up such a $2 billion package, Mr. Coombs thought, the U.S. share would probably have to be about $500 million. He was hopeful that the Treasury or the Export-Import Bank might be able to provide $250 million, one-half of the U.S. share. The remaining $250 million from the U.S. side should, he believed, be provided by an increase in the Federal Reserve swap line with the Bank of England from $500 million to $750 million.

Chairman Martin asked Mr. Hayes if he had any comments, and Mr. Hayes replied that he would add only that he was fully in accord with Mr. Coombs' recommendation.

Mr. Hickman asked what the prospects were for obtaining the $1.5 billion credits from non-U.S. sources called for by the proposal. Mr. Coombs replied that since noon, European time, when the market situation had reversed, he had discussed the problem with officials of the Bank of Canada, who were now consulting with their Government. He thought there was a fair and perhaps a good chance that the Canadians would put up $150 million. He also had alerted the German Federal Bank to the situation, but so far he had not been able to contact any other central banks.

Mr. Hayes reported that in a conversation with officials of the Bank of England this morning he had suggested that the U.S. might be able to help assemble the package of credits. They had asked, however, that no steps in this direction be taken until they had had an opportunity to decide whether they wanted the credits.

Chairman Martin said that, in his judgment, the issue before the Committee now was whether the Federal Reserve was prepared to increase the reciprocal currency agreement with the United Kingdom by $250 million if a package of credits such as that outlined by Mr. Coombs was put together. The British might decide not to request such credits, but that matter, he thought, was outside the purview of the Committee at present. He would hope that the System would adopt a posture of being as helpful as it could.

Mr. Wayne asked whether his understanding was correct that the proposed Committee action today would be conditional on the development of a package of credits such as had been described and also on a decision by the Bank of England that they needed such credits. Chairman Martin replied in the affirmative. He thought it would be helpful to authorize an increase in the swap line today on those two conditions, so that the System would be in a better position to act, if necessary, over the next several days which included the Thanksgiving Day holiday in the U.S. and a weekend.

Mr. Wayne commented that he felt the Committee should act with promptness and forcefulness.

Mr. Hickman said his only question was whether the proposed authorization might not be too limited. Perhaps the Committee should authorize an increase of as much as $500 million in the swap line with the United Kingdom in light of the possibility that the amounts to be sought from other sources might not all be forthcoming.

Mr. Mills said he was somewhat concerned that the approach being taken might reflect some elements of panic on the System's part. There had been no discussion of conditions that the Federal Reserve System might place on a further extension of credit to the British. He was not clear as to what assurances the Committee might have that assistance rendered at this time would plug the gap and save the situation rather than simply constitute a further contribution and a further liability assumed by the Federal Reserve. Mr. Hayes could have been in error in offering the System's services in the effort to make up this package. The continental European countries might well view such actions as reflecting more than enlightened self-interest on the System's part; perhaps they would take them to indicate that the situation posed a problem to the U.S. and that there was concern about the stability of the dollar. It seemed to Mr. Mills that it would be better for the British to make their own arrangements.

Mr. Hayes responded that it was primarily the task of the Treasury, rather than of the System, to see that the British made the best possible arrangements and to assure that their program was successful. He also emphasized that the System was not taking any risks under procedures followed for the swap arrangements. As to how the package was arranged, he agreed that the other countries should help. However, it was conceivable to him that the attitude of continental European countries toward the proposed package of credits would be strengthened if they felt that the United States supported it fully. This country clearly had a self-interest in avoiding a crisis that could involve the dollar.

Mr. Mills said that he was not challenging the suggestion that the United States should be helpful in the present situation. But he did have doubts about the approach on psychological grounds. There was no certainty that the proposed package would solve the problem, and he was sure that the continental Europeans would not approach the problem without concern over the means by which it ultimately would be resolved.

Mr. Daane said it seemed to him that Mr. Hayes' position was correct. In his own thinking he began with the view that Mr. Coombs had expressed: that the proposed package of credits was by far the better of the two alternatives Mr. Coombs had outlined, and it was the last resort open at present. Secondly, with respect to the U S. share, he agreed that the Committee should demonstrate its willingness to participate, in the interest of furthering international financial cooperation. But he thought it would be better for the larger share of the total package to come from sources other than the United States, particularly since the drain on sterling had come from countries other than the U.S. He did not believe it would be wise for the arrangements to have the appearance of reflecting primarily Anglo-American cooperation.

Mr. Hayes agreed. With respect to Mr. Hickman's comment, he felt that the Committee should consider increasing the swap line by $250 million at present with the realization that the Special Manager might want to recommend that the Committee authorize a larger increase if necessary to make up a deficit in the total package.

Chairman Martin said that he thought Mr. Mills had touched on a matter of legitimate concern, but one that was a problem primarily for the United Kingdom and the U.S. Treasury. In his opinion $250 million was a reasonable amount by which to increase the swap line at present. He added that the negotiations for the total package would have to take place promptly, and he inquired whether the Committee was prepared to authorize the recommended increase.

> Thereupon, an increase in the swap arrangement with the Bank of England to $750 million, as recommended by Mr. Coombs, was approved unanimously, subject to the agreement of the Bank of England and to the satisfactory development of a package of credits of the type described by Mr. Coombs. In taking this action, it was understood that the aggregate amount of foreign currencies held under reciprocal currency arrangements authorized in the continuing authority directive with respect to foreign currency operations was increased by $250 million to $2.350 billion.

Chairman Martin reiterated that the matters discussed at this meeting should be considered highly confidential by all concerned. He added that Committee members not in Washington would be kept informed of developments.

Thereupon the meeting adjourned.

Secretary's Note: Advice of completion of the arrangements for assistance to the United Kingdom was received on November 25. An amended continuing authority directive was transmitted to the Federal Reserve Bank of New York, and the following announcement was released to the press at approximately 2 p.m. EST:

The Federal Reserve System and the U.S. Treasury today issued the following statement:

Eleven countries and the United Kingdom today made arrangements providing $3 billion to back up Britain's determination to defend the pound sterling.

Today's funds are in addition to the $1 billion drawing the United Kingdom will obtain from the International Monetary Fund at the end of this month under an existing standby.

Austria, Belgium, Canada, France Germany, Italy, Japan. The Netherlands, Sweden, Switzerland, and the United States, joined by the Bank for International Settlements, moved quickly to mobilize a massive counter attack on speculative selling of the pound.

The International Monetary Fund drawing, which can have a maturity up to 3 years, will enable the British to pay off all outstanding short term credits from central banks, including the Federal Reserve. The currency swap arrangement with the Federal Reserve System has been raised by $250 million to $750 million, and a $250 million credit has been made available by the U.S. Export-Import Bank. (These amounts are included in the total package of $3 billion.)

Assistant Secretary