

Meeting of Federal Open Market Committee

March 21, 1972

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 Tuesday, March 21, 1972, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Hayes, Vice Chairman
Mr. Brimmer
Mr. Coldwell
Mr. Daane
Mr. Eastburn
Mr. MacLaury
Mr. Maisel
Mr. Mitchell
Mr. Robertson
Mr. Sheehan
Mr. Winn

Messrs. Francis, Heflin, Mayo, and Swan,
Alternate Members of the Federal Open
Market Committee

Messrs. Morris, Kimbrel, and Clay, Presidents
of the Federal Reserve Banks of Boston,
Atlanta, and Kansas City, respectively

Mr. Holland, Secretary
Mr. Broida, Deputy Secretary
Messrs. Altmann, Bernard, and Molony,
Assistant Secretaries
Mr. Hackley, General Counsel
Mr. Partee, Senior Economist
Mr. Axilrod, Economist (Domestic Finance)
Mr. Solomon, Economist (International Finance)
Messrs. Boehne, Bryant, Gramley, Green,
Hersey, Hocter, Kareken, and Link,
Associate Economists
Mr. Holmes, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market
Account

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Mr. O'Connell, General Counsel, Board of
Governors

Messrs. Keir, Pierce, Wernick, and
Williams, Advisers, Division of
Research and Statistics, Board of
Governors

Mr. Wendel, Chief, Government Finance
Section, Division of Research and
Statistics, Board of Governors

Miss Eaton, Open Market Secretariat
Assistant, Office of the Secretary,
Board of Governors

Messrs. Eisenmenger, Parthemos, Taylor,
Scheld, Andersen, and Tow, Senior Vice
Presidents, Federal Reserve Banks of
Boston, Richmond, Atlanta, Chicago,
St. Louis, and Kansas City, respectively

Mr. Debs, Vice President, Federal Reserve
Bank of New York

Mr. Lynn, Director of Research, Federal
Reserve Bank of San Francisco

Mr. Cooper, Assistant Vice President,
Federal Reserve Bank of New York

The Secretary reported that advices had been received of the election by the Federal Reserve Banks of members and alternate members of the Federal Open Market Committee for the term of one year beginning March 1, 1972; that it appeared that such persons were legally qualified to serve; and that they had executed their oaths of office.

The elected members and alternates were as follows:

Alfred Hayes, President of the Federal Reserve Bank of New York, with William F. Treiber, First Vice President of the Federal Reserve Bank of New York, as alternate;

David P. Eastburn, President of the Federal Reserve Bank of Philadelphia, with Aubrey N. Heflin, President of the Federal Reserve Bank of Richmond, as alternate;

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Willis J. Winn, President of the Federal Reserve Bank of Cleveland, with Robert P. Mayo, President of the Federal Reserve Bank of Chicago, as alternate;

Bruce K. MacLaury, President of the Federal Reserve Bank of Minneapolis, with Eliot J. Swan, President of the Federal Reserve Bank of San Francisco, as alternate;

Philip E. Coldwell, President of the Federal Reserve Bank of Dallas, with Darryl R. Francis, President of the Federal Reserve Bank of St. Louis, as alternate.

By unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1973, with the understandings (1) that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee; and (2) that insofar as the titles of the positions to which they were elected differed from those heretofore specified in the Committee's By-Laws and Rules of Organization, conforming changes were to be made in those documents:

Arthur F. Burns	Chairman
Alfred Hayes	Vice Chairman
Robert C. Holland	Secretary
Arthur L. Broida	Deputy Secretary
Murray Altmann, Normand R.V. Bernard, and Charles Molony	Assistant Secretaries
Howard H. Hackley	General Counsel
David B. Hexter	Assistant General Counsel
J. Charles Partee	Senior Economist
Stephen H. Axilrod	Economist (Domestic Finance)
Robert Solomon	Economist (International Finance)

Edward G. Boehne, Ralph C.
 Bryant, Lyle E. Gramley,
 Ralph T. Green, A.B. Hersey,
 William J. Hocter, John H.
 Kareken, and Robert G. Link Associate Economists

Secretary's Note: In consequence of the foregoing action, the opening sentences of Sections 2, 3, and 6 of Article II of the Committee's By-Laws, and the first sentence of Section 3 of the Committee's Rules of Organization, were amended to read as follows:

By-Laws:

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ARTICLE II. OFFICERS

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Section 2. Secretary and Deputy and Assistant Secretaries - At its first meeting on or after March 1 of each year, the Committee shall elect a Secretary and one or more Deputy and Assistant Secretaries to serve until the first meeting on or after March 1 of the next year. . . .

Section 3. Economists - At its first meeting on or after March 1 of each year, the Committee shall elect one or more Economists to serve until the first meeting on or after March 1 of the next year. The Committee shall also from time to time, as it may decide, designate one or more of its elected Economists as Senior or Associate Economists, or otherwise qualify their titles. The Economists shall prepare for the use of the Committee and present to it such information about business and credit conditions as will assist the Committee in the determination of open-market policies, and shall perform such other duties as the Committee may require.

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Section 6. Filling Vacancies - At any meeting the Committee may fill any vacancy in the offices described in this Article.

Rules of Organization:

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SECTION 3 - PERSONNEL

(a) Official Staff.-The official staff of the Federal Open Market Committee includes its Secretary, Deputy Secretary, and Assistant Secretaries, General Counsel and Assistant General Counsel, and Senior Economist, Economists, and Associate Economists, who perform the duties indicated by their titles. . . .

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Federal Open Market Committee after February 28, 1973.

By unanimous vote, Alan R. Holmes and Charles A. Coombs were selected to serve at the pleasure of the Federal Open Market Committee as Manager of the System Open Market Account and as Special Manager for foreign currency operations for such Account, respectively, it being understood that their selection was subject to their being satisfactory to the Directors of the Federal Reserve Bank of New York.

Secretary's Note: Advice subsequently was received that Messrs. Holmes and Coombs were satisfactory to the Board of Directors of the Federal Reserve Bank of New York for service in the respective capacities indicated.

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By unanimous vote, the action of Committee members on February 29, 1972, increasing from \$2 billion to \$3 billion the limit on changes between Committee meetings in System Account holdings of U.S. Government and Federal agency securities specified in paragraph 1(a) of the continuing authority directive, was ratified.

By unanimous vote, the limit on changes between Committee meetings in System Account holdings of U.S. Government and Federal agency securities specified in paragraph 1(a) of the continuing authority directive was reduced from \$3 billion to \$2 billion.

By unanimous vote, the action of Committee members on March 7, 1972, suspending until close of business on March 21, 1972, the lower limit on repurchase agreement rates specified in paragraph 1(c) of continuing authority directive, was ratified.^{1/}

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee on January 11, 1972, were approved.

The memoranda of discussion for the meetings of the Federal Open Market Committee on January 11 and February 14, 1972, were accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period February 15 through March 20, 1972, were approved, ratified, and confirmed.

^{1/} Messrs. Brimmer and Robertson dissented from the March 7 action. Having so recorded their positions they did not consider it necessary to dissent also from the ratification.

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By unanimous vote, renewal for further periods of three months of the four System drawings on the National Bank of Belgium maturing in the period April 4-28, 1972, was authorized.

It was agreed that a subcommittee, consisting of the Chairman and Vice Chairman of the Committee and the Vice Chairman of the Board of Governors, or designated alternates, should be authorized to act on behalf of the Committee with respect to the manner of effectuating the revaluation clause in the System's swap contract with the National Bank of Belgium.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period February 15 through March 20, 1972, 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 current economic policy directive:

The information reviewed at this meeting suggests that real output of goods and services is increasing in the current quarter at about the stepped-up rate attained in the fourth quarter of 1971. Several measures of business activity have strengthened recently and demands for labor have improved somewhat, but the unemployment rate remains high. Wholesale prices continued to rise rapidly in January and February, in part because

of large increases in prices of foods. However, the advance in wage rates slowed markedly after the post-freeze surge in December. Following a period of sluggish growth, the narrowly defined money stock increased sharply in February, partly reflecting a substantial reduction in U.S. Government deposits. Inflows of time and savings funds at bank and nonbank thrift institutions continued rapid in February, although below January's extraordinary pace. Short-term interest rates have risen considerably in recent weeks while yields on long-term securities have changed little on balance. Exchange rates for most major foreign currencies against the dollar appreciated further in February and early March, as recurrent speculative outflows of capital added to the U.S. balance of payments deficit. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of international developments and possible Treasury financing, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

It was agreed that the authorization for the lending of Government securities from the System Open Market Account should be retained at this time.

Consideration was then given to the continuing authorizations of the Committee, according to the customary practice of reviewing such matters at the first meeting in March of every year.

Secretary's Note: It had been agreed at the meeting on March 10, 1970, that certain authorizations among those that the Committee had reviewed annually in the past would remain effective until otherwise directed by the Committee, and would no longer be submitted routinely for review each year. Instead, it was understood that these authorizations would be called to the

Committee's attention before the first meeting in March of each year and that members would be given an opportunity to raise any questions they had concerning them. Accordingly, copies of the authorizations in question (listed below) had been distributed to the Committee on February 28, 1972, with a request that members advise the Secretariat if they wished to have any placed on the agenda for consideration at today's meeting. No such requests were received.

The authorizations in question were as follows:

1. Procedure for allocations of securities in the System Open Market Account.
2. Distribution list for periodic reports prepared by the Federal Reserve Bank of New York.
3. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank was unable to function.
4. Resolutions providing for continued operation of the Committee, and for certain actions by the Reserve Banks, during an emergency.
5. Resolution relating to examinations of the System Open Market Account.

It was agreed to retain the existing procedure for making minutes and other records of the Committee available to employees of the Board of Governors and the Federal Reserve Banks, including authorization to the Secretary to act on the Chairman's behalf in considering proposals for the addition of members of the Board's staff to the list of those having access to Committee minutes and other records.

By unanimous vote, the continuing authority directive to the Federal Reserve Bank of New York with respect to domestic open market operations, as shown below, was reaffirmed:

CONTINUING AUTHORITY DIRECTIVE WITH RESPECT TO
DOMESTIC OPEN MARKET OPERATIONS

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent current economic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than \$2.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed (1) \$125 million or (2) 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York, whichever is the lower;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from non-bank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York or, if the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate $1/4$ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$1 billion.

3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

By unanimous vote, the authorization for System foreign currency operations, as shown below, was reaffirmed:

AUTHORIZATION FOR SYSTEM 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:

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. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

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 foreign currencies listed in paragraph A above, up to the following limits:

(1) Currencies purchased spot, including currencies purchased from the Stabilization Fund, and sold forward to the Stabilization Fund, up to \$1 billion equivalent;

(2) Currencies purchased spot or forward, up to the amounts necessary to fulfill other forward commitments;

(3) Additional currencies purchased spot or forward, up to the amount necessary for System operations to exert a market influence but not exceeding \$250 million equivalent; and

(4) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$200 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to the limit specified in paragraph 1B(1) above; and

(2) Other forward commitments to deliver foreign currencies, up to \$550 million equivalent.

D. 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.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for 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 arrangement (millions of dollars equivalent)</u>
Austrian National Bank	200
National Bank of Belgium	600
Bank of Canada	1,000
National Bank of Denmark	200
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,250
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	300
Bank of Norway	200
Bank of Sweden	250
Swiss National Bank	1,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,000

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 and no attempt shall be made to establish rates that appear to be out of line with underlying market forces.

4. It shall be the 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. A Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.

7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) 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 Secretary;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities; and

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.

10. The Special Manager of the System Open Market Account for foreign currency operations shall keep the Committee informed on conditions in foreign exchange markets and on transactions he has made and shall render such reports as the Committee may specify.

By unanimous vote, the foreign currency directive, as shown below, was reaffirmed:

FOREIGN CURRENCY DIRECTIVE

1. The basic purposes of System operations in foreign currencies are:

A. To help safeguard the value of the dollar in international exchange markets;

B. To aid in making the system of international payments more efficient;

C. To further monetary cooperation with central banks of other countries having convertible currencies, with the International Monetary Fund, and with other international payments institutions;

D. To help insure that market movements in exchange rates, within the limits stated in the International Monetary Fund Agreement or established by central bank practices, reflect the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public; and

E. To facilitate growth in international liquidity in accordance with the needs of an expanding world economy.

2. Unless otherwise expressly authorized by the Federal Open Market Committee, System operations in foreign currencies shall be undertaken only when necessary:

A. To cushion or moderate fluctuations in the flows of international payments, if such fluctuations (1) are deemed to reflect transitional market unsettlement or other temporary forces and therefore are expected to be reversed in the foreseeable future; and (2) are deemed to be dis-equilibrating or otherwise to have potentially destabilizing

effects on U.S. or foreign official reserves or on exchange markets, for example, by occasioning market anxieties, undesirable speculative activity, or excessive leads and lags in international payments;

B. To temper and smooth out abrupt changes in spot exchange rates, and to moderate forward premiums and discounts judged to be disequilibrating. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified or curtailed unless upon review and reassessment of the situation the Committee directs otherwise;

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include (1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions. Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken if the Special Manager reaches a judgment that they may help to reestablish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. In such cases, the Special Manager shall consult as soon as practicable with the Committee or, in an emergency, with the members of the Subcommittee designated for that purpose in paragraph 6 of the Authorization for System foreign currency operations; and

D. To adjust System balances within the limits established in the Authorization for System foreign currency operations in light of probable future needs for currencies.

3. System drawings under the swap arrangements are appropriate when necessary to obtain foreign currencies for the purposes stated in paragraph 2 above.

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances;

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(iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements, and to facilitate operations of the Stabilization Fund; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, April 18, 1972, at 9:30 a.m.

The meeting adjourned.


Secretary