FEDERAL RESERVE
press release

For Use at 4:00 p.m. November 19, 1976

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meetings on October 19 and November 8, 1976.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on October 19, 1976

1. Domestic policy directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services had slowed a little further in the third quarter to an annual rate of 4 per cent, from 4.5 per cent in the second quarter. According to these estimates, expansion in personal consumption expenditures had picked up somewhat in the third quarter from the reduced rate in the preceding quarter; business fixed investment had continued to expand at a moderate pace; and residential construction had continued to recover, although less rapidly than earlier in the year. At the same time, however, businesses apparently added somewhat less to inventories than in the second quarter, and net exports of goods and services were reduced as the rise in the dollar volume of exports fell short of that in imports. The rise in personal disposable income slowed considerably, and the rate of personal savings declined.

Staff projections continued to suggest that growth in real GNP would pick up somewhat in the fourth quarter and would be sustained at about the fourth-quarter rate well into 1977. However, the projected rates of growth were slightly below those of a month earlier, chiefly because the expected expansion in business fixed investment had been scaled down somewhat. It was still anticipated that personal consumption expenditures would grow at a faster rate than they had in the second and third quarters of 1976; that residential construction would increase at a moderate pace; and that business investment in inventories would increase in line with sales.

In September retail sales had changed little, according to the advance report; moreover, revised figures for August showed less of an increase than had been reported a month earlier. The rise in total retail sales in the third quarter as a whole was close to the reduced pace of growth in the second quarter. Sales of new cars were at an annual rate of just over 10 million units in the third quarter, about the same as in the preceding two quarters. On the other hand, sales at retail outlets other than those for automobiles and building materials expanded somewhat more in the third quarter than in the second. The third-quarter gain was comparatively large for sales at general merchandise stores.

Industrial production was unchanged in September, after having risen at an annual rate of about 6 per cent on the average over the preceding 6 months. Output was held down by a strike, beginning at midmonth, that curtailed production of automobiles and trucks at the plants of a major producer. The effect of that strike was offset in part by increases in production after settlement of strikes in the rubber and bituminous coal industries. In September production of household durable goods and of consumer nondurable goods rose somewhat, and output of business equipment continued to expand at a slow pace. Production of materials was about unchanged. In the third quarter as a whole, capacity utilization in the materials-producing industries was 81 per cent, compared with a rate of about 80 per cent in the preceding quarter.

After adjustment for strikes, payroll employment in nonfarm establishments continued to expand in September at a relatively moderate pace. In contrast with the immediately preceding months, a large part of the gain in September was in manufacturing. As measured by the household survey, both total employment and the civilian labor force declined in September, and the unemployment rate edged down from 7.9 to 7.8 per cent, the rate that had been recorded in July.

Growth in personal income in September was somewhat above the reduced rate in August, but it was still below the average monthly rate over the whole period of economic recovery that had begun in early 1975. In both August and September income of farm proprietors declined, reflecting decreases in prices received for a number of commodities. In recent months, moreover, growth in wage and salary payments had slowed.

New orders for nondefense capital goods--which had risen by an unusually large amount in July, marking the seventh consecutive month of advance--fell back in August to about the June level. However, the average for July and August was well above the monthly average for the second quarter. Unfilled orders for such goods changed little in August, following a sizable increase in July. Contract awards for commercial and industrial buildings--measured in terms of floor space--edged down in both July and August, but the average level for the 2 months about equaled that for the second quarter.

Private housing starts were reported to have increased sharply in September, following the rebound in August--suggesting a sizable increase from the second to the third quarter. In August the dollar volume of mortgage commitments outstanding at savings and loan associations had continued to advance, reaching a new record level, and in recent weeks interest rates on home mortgages--especially in the more sensitive secondary market--had edged down.

The index of average hourly earnings for private nonfarm production workers rose little in September. On a quarterly-average basis the rate of increase in the third quarter was up slightly from that in the preceding two quarters, but it remained below the rapid rate during 1975.

The wholesale price index for all commodities rose sharply in September, after little change in August and a moderate rise in the preceding 3 months. Average prices of farm products and foods increased, after 2 months of decline, but they remained lower than a year earlier. Average prices of industrial commodities rose somewhat more in September than in other recent months, reaching a level about 6-3/4 per cent higher than in September 1975.

The average value of the dollar against leading foreign currencies remained relatively steady over the 4 weeks between the September and October meetings of the Committee. The dollar declined somewhat against the German mark and associated currencies in the European Community "snake" arrangement, but it rose against the pound sterling and the French franc. On October 18 the mark was revalued by an average of 3 per cent against the associated currencies; specifically, the mark was adjusted upward by 2 per cent against the Belgian franc and Dutch guilder, by 3 per cent against the Norwegian krone and Swedish krona, and by 6 per cent against the Danish krone.

The U.S. foreign trade deficit diminished somewhat in August, but it was still nearly twice as large as the monthly-average deficit in the second quarter. From the second quarter to the July-August period imports rose at a much faster pace than exports, reflecting large increases in imports of fuels, industrial supplies, and some consumer goods.

Data released since the September meeting indicated that in the second quarter the current account of U.S. international transactions had been in surplus, despite the deficit in merchandise trade. From the first to the second quarter direct investment transactions--both U.S. and foreign direct investment--shifted from net outflows to net inflows.

In other industrial countries, as in the United States, the pace of economic expansion had slowed since the spring. For most countries, according to the latest data available, industrial production in July or August was only at about the level of 4 months earlier, and despite rapid advances in late 1975 and early 1976, it had not regained its pre-recession peak in any of the major countries. Nevertheless, inflation rates in most countries remained high.

In September total credit at U.S. commercial banks expanded at an annual rate of about 6 per cent; total loans and holdings of securities other than U.S. Treasury obligations both grew at a more rapid pace than in August while holdings of Treasury securities declined. Business loans expanded appreciably, but a sizable part of the increase reflected acquisitions of bankers acceptances by money center banks that were adjusting their end-of-month statements. A decline in outstanding commercial paper of nonfinancial businesses exceeded the increase in loans at banks, so that total short-term business credit contracted.

The narrowly defined money stock (M_1)--which had grown at rates of 6-3/4 and 6 per cent in July and August, respectively--was about unchanged in September.[1/] On a quarterly-average basis M_1 grew at a rate of about 4 per cent in the third quarter, compared with about 8-1/2 per cent in the second

1/ The monetary growth rates reported at this meeting were based on revised measures of the monetary aggregates--reflecting new benchmark data for deposits at nonmember banks--that were published on Oct. 21, 1976. In general, the revisions were small.

quarter. This retardation in growth could be accounted for in part by the slowing of the expansion in nominal GNP. Weekly data suggested that growth in M_1 was rebounding in October.

Despite the lack of growth in M_1 in September, the broader monetary aggregates (M_2 and M_3) grew substantially, as inflows of the time and savings deposits included in those aggregates were exceptionally strong. Expansion in savings deposits was particularly large. Businesses and State and local governments apparently continued to divert funds into such accounts from demand deposits and market securities. Commercial banks and thrift institutions in general appeared to have maintained interest rates offered on time and savings deposits at the ceilings allowed under Regulation Q even though rates on competing market securities had dropped below those ceilings. On a quarterly-average basis, M_2 and M_3 grew in the third quarter at rates of about 9 and 11-1/2 per cent, respectively, compared with about 10-3/4 and 12 per cent in the second quarter.

System open market operations since the September meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Data that had become available in the days immediately following the September meeting suggested that in the September-October period growth in M_1 would be near the midpoint of the range that had been specified by the Committee and that growth in M_2 would be within its range. Accordingly, System operations had been directed toward maintaining conditions of reserve availability consistent with a Federal funds rate of about 5-1/4 per cent--the rate prevailing at the time of the September meeting.

Data that became available at the end of September indicated a substantial weakening in the growth of demand deposits. It appeared that in the September-October period growth in M_1 would be below the lower end of the specified range while growth in M_2 would be close to the midpoint of its range. In those circumstances the System began to be a little more accommodative in the provision of reserves, and the Federal funds rate eased to about 5 per cent.

Over the inter-meeting period the System's slightly more accommodative posture, in conjunction with continuing indications of a slowing in the pace of economic expansion and downward revisions in various, widely publicized projections of growth in GNP, led to fairly sizable declines in market interest rates. Decreases in rates ranged from 10 to 35 basis points on short-term instruments, to as much as 50 basis points on some intermediate-term Treasury notes, and from 5 to 25 basis points on long-term bonds. Yields on new State and local government bonds and on new corporate issues reached their lowest levels since February 1975 and February 1974, respectively.

Stock prices declined sharply over the inter-meeting period. In recent months many corporations had reported substantial gains in earnings per share, but prices apparently were affected more by various uncertainties in the outlook.

Gross offerings of new corporate bonds expanded somewhat in September from their summer low, but the volume remained much smaller than that in the heavy financing months of last winter and spring. In the market for State and local government bonds, the volume of new issues remained unusually large in September, and there was improvement in investors' reception of lesser-rated issues.

The Treasury continued to borrow sizable amounts of funds during the inter-meeting period, raising about $4-1/2 billion of new money. Market expectations of the size of the Treasury's fourth-quarter requirements for new cash were reduced considerably, in response to a substantial shortfall in Federal outlays in the third quarter from earlier budget forecasts and to a rise in the Treasury's cash balance to a record level at the end of September. Nevertheless, the Government's financing requirements were generally expected to be greater in the fourth quarter than they had been in the third. The Treasury was expected to announce the terms of its mid-November refunding on October 27; of the maturing issues, the public held about $4 billion.

Business demands for credit also were expected to be somewhat larger in the fourth quarter than in the third. In particular, it appeared likely that public offerings of corporate bonds would rise significantly from seasonally low levels in the summer and that short-term business borrowing would pick up somewhat. It also seemed likely that borrowings by State and local governments would remain large, as such governmental units continued to take advantage of improved market conditions to finance programs that had been postponed because of earlier market unsettlement.

During the Committee's discussion of the economic situation, several members expressed the view that the economic outlook was less favorable now than it had been a month or two ago, and that the risk of a shortfall from expected growth rates in real GNP had increased. One member indicated that, while the expansion was proving to be less vigorous in 1976 than he had hoped, he was optimistic that conditions would improve in 1977. No member suggested that a decline in economic activity was likely, but some of the members expressed concern that the rate of growth in coming quarters would not achieve a sufficient reduction in unemployment. Serious concern was also expressed by various members about the persistence of a high rate of inflation.

In the course of the discussion, it was pointed out that uncertainty about the fiscal policy that would be pursued in the months ahead--and about projections of economic activity for coming quarters--was greater than usual. For that matter, the preliminary Commerce Department estimates of GNP for the third quarter were subject to revisions in either direction. It also was noted that available statistics on retail sales did not reflect the most recent developments, and that there had been some indication that sales at general merchandise stores had improved in the first half of October. And while the declines in farm prices had reduced farm income, they also had had favorable implications for consumption and for the over-all rate of inflation. One member suggested that the resolution of the uncertainties always associated with a Presidential election might possibly have some beneficial effects on the behavior of the economy, however the election turned out.

Those concerned that the economic expansion might remain sluggish offered several reasons for that view. First, the slower growth of personal income since spring--which was attributed mainly to the slower growth of production, although in August and September the decline in agricultural income had been an important factor--might have lasted long enough to begin having feed-back effects on spending and output. Second, the combination of protracted sluggishness in markets for consumer goods and the decline in stock prices--which might be indicative of some deterioration in confidence--raised questions about how strongly businessmen would pursue plans for expenditures on fixed capital. Third, demands for U.S. exports could be adversely affected both by the slowing in economic growth in other industrial countries and by a recent turn toward restrictive policies in a number of European countries.

It was also observed in the discussion that under existing circumstances it might well have been a mistake to think that a full recovery in economic activity here and abroad would be achieved quickly. The fundamental explanation for the recent worldwide pattern of sluggish economic activity was likely to be found in a common basic cause. Following a period of speculative excesses of various kinds, the United States and other countries had experienced an unexpected and severe recession at a time when many people had come to believe that recessions could no longer occur. As a result, businessmen in this country, and for that matter around the world, had become more cautious than before in managing inventories and in planning outlays for fixed capital. But, it was added, confidence was gradually returning in the business community and readjustments that had been postponed too long were taking place.

A question was raised during the discussion as to whether traditional fiscal and monetary policies could be relied on to the same extent in the current environment, where inflation coexisted with somewhat sluggish expansion in activity, as in the past. Rather, structural modifications of various kinds might well be necessary to restore full health to the economy.

At its July meeting the Committee had agreed that from the second quarter of 1976 to the second quarter of 1977, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M_1, 4-1/2 to 7 per cent; M_2, 7-1/2 to 9-1/2 per cent; and M_3, 9 to 11 per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. At this meeting the Committee held a preliminary discussion of the appropriate ranges for growth in the monetary aggregates for the period from the third quarter of 1976 to the third quarter of 1977. Chairman Burns' testimony before the Senate Banking, Housing and Urban Affairs Committee concerning those ranges was scheduled for November 11, 1976. Since 23 days would elapse before that testimony, it was agreed to defer a decision on the growth ranges until November 8.

With respect to annual rates of growth in the aggregates over the October-November period, most members favored a range of 5 to 9 per cent for M_1, given the rebound in growth already in train for October. For M_2, most members favored a range of 9 to 13 per cent. While it was noted that these ranges were high in relation to the Committee's 12-month ranges for growth in these aggregates, it was argued that the Committee should consider that M_1 had not grown at all in September and that recent and prospective rates of growth in M_2--and in M_3 as well--reflected the temporary stimulus provided by recent declines in yields on market securities to levels below the rates being offered on deposits. Two members favored slightly lower 2-month ranges--specifically, 4-1/2 to 8 or 4-1/2 to 9 per cent for M_1 and 8 to 12 per cent for M_2.

With respect to money market conditions in the period until the next meeting, most members favored a slight easing. Of these, a number advocated seeking to reduce the weekly-average Federal funds rate from its present level of about

5 per cent to 4-7/8 per cent in the first week of the period, and permitting the rate to vary, depending on the behavior of the monetary aggregates, within a range of 4-1/2 to 5-1/4 per cent over the remaining weeks. Others, chiefly those who placed more stress on the elements of weakness in the economic outlook, favored aiming in the near term for a slightly larger reduction in the funds rate--to 4-3/4 per cent--unless incoming data on the monetary aggregates suggested unexpectedly strong growth. Most of the latter group favored specifying an intermeeting range for the funds rate of 4-1/4 to 5-1/4 per cent, although one expressed a preference for a range of 4-1/2 to 5-1/4 per cent.

Not everyone favored some immediate easing. One member who preferred a 4-1/2 to 5-1/4 per cent range for the Federal funds rate suggested that no reduction from the current level of about 5 per cent be sought unless the monetary aggregates appeared to be weaker than expected; another indicated that he had some marginal preference for that course. With respect to the formulation of the last paragraph of the domestic policy directive, one member suggested placing greater emphasis on money market conditions than in the directive issued at the previous meeting. Others, however, preferred to retain language similar to that adopted in September.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the Committee concluded that growth in M_1 and M_2 over the October-November period at annual rates within ranges of 5 to 9 per cent and 9 to 13 per cent, respectively, would be appropriate. It was understood that, in assessing the behavior of the aggregates, the Manager should continue to give approximately equal weight to the behavior of M_1 and of M_2.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4-1/2 to 5-1/4 per cent. It was also agreed that the Manager should aim to reduce the Federal funds rate to about 4-7/8 per cent within the next week, and to decide on subsequent objectives on the basis of incoming data on the monetary aggregates. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services slowed somewhat further in the third quarter. In September retail sales changed little, following a sizable increase in August. Industrial production was unchanged in September; in the latter half of the month output of automobiles and trucks was curtailed by a strike at plants of a major producer. Payroll employment in nonfarm establishments rose further; according to household survey data, the unemployment rate edged down from 7.9 to 7.8 per cent, as total employment and the civilian labor force both declined. The wholesale price index for all commodities rose sharply in September; average prices of farm products and foods increased, after 2 months of substantial declines, and average prices of industrial commodities rose somewhat more than in other recent months. The advance in the index of average wage rates has remained somewhat below the rapid rate of increase during 1975.
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> The average value of the dollar against leading foreign currencies has remained relatively steady in recent weeks, declining somewhat against the German mark and associated European currencies but rising against the pound sterling and the French franc. On October 18 the mark was revalued by an average of 3 per cent against the associated European currencies. In

August the U.S. foreign trade deficit remained larger than the monthly average in the second quarter; over all, the current account had been in surplus in the second quarter.

M_1 was about unchanged in September. However, M_2 and M_3 grew substantially, as inflows of the time and savings deposits included in these broader aggregates were exceptionally strong. Market interest rates generally have declined further in recent weeks.

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 achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against this action: None.

Two days after the meeting, on October 21, available data indicated surprisingly strong growth in the monetary aggregates in the latest weeks and suggested that over the October-November period rates of growth in both M_1 and M_2 would be at about the upper limits of the 2-month ranges specified by the Committee.

Therefore, unless later data provided contrary indications, any reduction in the Federal funds rate in the current week--pursuant to the Committee's consensus at the meeting on October 19--would probably have to be reversed in the next week.

Against that background, and in light of the unexpected spurt in growth of the monetary aggregates, Chairman Burns recommended that the Manager be instructed to continue to aim for a Federal funds rate of about 5 per cent during the current week. All members of the Committee, with the exception of Mr. Coldwell, concurred in the Chairman's recommendation. (Messrs. Timlen and Mayo responded as alternates for Messrs. Volcker and Winn, respectively.)

Data becoming available during the following week continued to suggest unexpected strength in the monetary aggregates. In response to an inquiry from the Manager concerning the appropriate interpretation of the Committee's instructions, Chairman Burns noted that at the meeting held on October 19 the Committee had agreed upon a policy course that contemplated a slight easing of money market conditions, and that the objective for the weekly-average Federal funds rate would have been reduced to about 4-7/8 per cent had there not been subsequent indications of surprising strength in the monetary aggregates. Accordingly, the Chairman advised that in his judgment any significant increase in the funds rate at this time from the prevailing level of 5 per cent would be inconsistent with the Committee's intent. No member of the Committee expressed the view that a rise in the Federal funds rate would be appropriate.

2. Longer-run growth ranges for monetary aggregates

On November 8, 1976, the Committee held a telephone conference meeting for the purpose of reaching a decision on the growth ranges for the monetary aggregates for the period from the third quarter of 1976 to the third quarter of 1977. It was observed in the discussion that the growth ranges adopted should serve to encourage economic expansion. It was also observed--with respect to the longer-run--that if a reasonable degree of price stability was to be restored in the country, substantial reductions in the growth rates of the aggregates would be required over the next few years. In the latter connection, it was noted that during the past year or so the Committee had made some small reduction in its 1-year growth ranges.

For M_1, the discussion of the ranges for the year beginning with the third quarter of 1976 largely revolved around two alternatives: 4-1/2 to 7 per cent, the range that had been agreed upon in July for the year beginning with the second quarter, and 4-1/2 to 6-1/2 per cent.

A principal argument advanced in favor of a reduction at this time in the upper limit of the M_1 range to 6-1/2 per cent was that recent changes in financial technology--some of which had resulted from regulatory changes--were working to lower the volume of demand deposits that the public wished to hold for transactions purposes. These changes had resulted in a significant increase in the velocity of M_1 over the year ending with the third quarter of 1976, and they were likely to have continuing effects over the coming year. Account was taken of the risk that a reduction in the upper limit for M_1 now, when the economy was experiencing a "pause," might be misinterpreted by the public as a step toward greater monetary restraint. It was noted, however, that a 4-1/2 to 6-1/2 per cent range for growth in M_1 over the coming year would permit a considerable increase in M_1 growth from the rate of about 4-1/2 per cent actually recorded over the past year, should an increase prove to be desirable. Thus, such a growth range would provide ample scope for faster monetary growth, while still seeking a gradual return to general price stability.

Among the considerations advanced in favor of retaining the 4-1/2 to 7 per cent range for M_1 at this time were the uncertainties in the economic outlook--which, it was suggested, had increased somewhat since the mid-October meeting. Also, it was noted that growth of M_1 from the second to the third quarter of 1976 had been at an annual rate of about 4 per cent, or somewhat below the lower limit of the range adopted in July for the year beginning with the second quarter. For that reason, even if the same range of percentage growth rates was retained for the year beginning with the third quarter, the absolute levels implied for the fourth and subsequent quarters would be below those that had been implied by the decision in July.

With respect to the broader aggregates, a number of members who favored--or were prepared to accept--a reduction in the upper limit for M_1 suggested that any such change be accompanied by some increase in the upper limits of the ranges for M_2 and M_3. It was noted that growth in the broader aggregates had been considerably higher relative to growth in M_1 than had been anticipated at the time of the July meeting, when the upper limits of the ranges for M_2 and M_3 had been reduced. Expansion in the types of time and savings deposits included in the broader aggregates had been larger than expected mainly because short-term market interest rates had proved to be lower than anticipated while rates offered by bank and nonbank thrift institutions had remained generally at regulatory ceilings. Under such circumstances, it was observed, it would be appropriate to accommodate higher rates of growth in M_2 and M_3 than contemplated in July, if they should develop.

Various reasons for not raising the upper limits of the ranges for M_2 and M_3 were offered in the discussion. It was suggested that a reduction in the upper limit for M_1, with no change in the limits for the broader aggregates, would to some degree achieve the realignment of the ranges that appeared to be indicated, and that simultaneous increases and decreases in the different ranges could prove confusing to the public. It was also noted that the rates of growth in M_2 and M_3 from the second to the third quarter were close to, or above, the upper limits of the ranges adopted in July. If the relatively slow third-quarter growth in M_1 was viewed as an argument against reducing its range, by analogous reasoning the relatively rapid growth in the broader aggregates could be viewed as militating against an increase in their ranges.

At the conclusion of its discussion the Committee arrived at a consensus calling for a reduction of 1/2 of a percentage point in the upper limit of the range for M_1 and increases of the same amount in the upper limits of the ranges for M_2 and M_3. The new ranges thus were set at 4-1/2 to 6-1/2 per cent for M_1, 7-1/2 to 10 per cent for M_2, and 9 to 11-1/2 per cent for M_3. The associated range for the rate of growth in the bank credit proxy was unchanged at 5 to 8 per cent. It was agreed that the longer-term ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for the year ahead.

The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the third quarter of 1976 to the third quarter of 1977: M_1, 4-1/2 to 6-1/2 per cent; M_2, 7-1/2 to 10 per cent; and M_3, 9 to 11-1/2 per cent.

Votes for this action: Messrs. Burns, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, Winn, Guffey, and Timlen. Votes against this action: None. Absent and not voting: Messrs. Balles and Volcker. (Messrs. Guffey and Timlen voted as their respective alternates.)

3. Special authorization with respect to drawings on Swiss National Bank

At its meeting on September 21, the Committee had voted to approve the following special authorization:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to arrange for repayment of the System's outstanding swap commitments to the Swiss National Bank (concurrent with repayment by the U.S. Treasury of Treasury notes denominated in Swiss francs and held by the Swiss National Bank), within a 3-year period by means of quarterly payments on a schedule that is mutually satisfactory to the Swiss National Bank, the U.S. Treasury, and the Federal Reserve. This authorization shall become effective upon final approval of technical details by the Chairman of the Federal Open Market Committee.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Wallich, and Winn. Votes against this action: None. Absent and not voting: Mr. Partee.

The technical details of the arrangements were approved by Chairman Burns on October 26, 1976, and the authorization became effective on that date.

At the time of the September 21 meeting the Federal Reserve had outstanding commitments of $1,147 million equivalent on its swap line with the Swiss National Bank. These commitments represented the balance remaining on drawings made in May and August 1971--the latter just before the U.S. Government suspended the convertibility of the dollar into gold and other reserve assets. In addition, the Swiss National Bank held U.S. Treasury notes denominated in Swiss francs in the amount of $1,599 million equivalent.

On August 15, 1971, when the suspension of convertibility was announced, the Federal Reserve had outstanding commitments in Swiss francs of $1,600 million equivalent, including $600 million drawn on the Bank for International Settlements that was later consolidated with the commitments to the Swiss National Bank. The Federal Reserve had made some progress in repaying these commitments during 1972, 1973, 1974, and early 1976, using francs acquired both through market purchases and in direct transactions with the Swiss

National Bank. It was recognized, however, that substantial market purchases for the purpose of making larger repayments would have augmented the already strong upward pressures on the franc. Accordingly, discussions were undertaken with a view to securing a negotiated settlement that would avoid disturbing the exchange markets.[1/]

The Manager reported at the September 21 meeting that a tentative arrangement had been worked out among the Federal Reserve, the U.S. Treasury, and the Swiss National Bank establishing an orderly procedure for the repayment within 3 years of both the System's and the Treasury's indebtedness to that Bank. After discussion, the Committee had approved the proposed arrangements, subject to the provision that the Committee's authorization would become effective upon final approval of technical details by the Chairman.

1/ During this period discussions also were under way with the Swiss (as well as the Belgian) monetary authorities with respect to various aspects of outstanding System drawings, including adjustments to reflect changes in currency valuations. In December 1975 the dollar equivalent of the commitments to the Swiss National Bank incurred by the System in 1971 had been adjusted upward by $196 million to take account of the two U.S. dollar devaluations of 1971 and 1973.