FEDERAL RESERVE
press release

For Use at 4:10 p.m. November 24, 1978

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 meeting on October 17, 1978.

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 description 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 17, 1978

1. Domestic policy directive

The information reviewed at this meeting suggested that output of goods and services had expanded moderately in the third quarter, but that the rate of growth appeared to be somewhat below the average annual rate of about 4-1/4 per cent estimated by the Commerce Department for the first two quarters of the year. The rise in average prices--as measured by the fixed-weight price index for gross domestic business product--was rapid in the third quarter, although it was well below the annual rate of about 12 per cent in the second quarter.

Staff projections for the year ending in the third quarter of 1979 were little changed from those of a month earlier. They continued to suggest that output of goods and services would grow somewhat more slowly than over the first three quarters of 1978. The rate of inflation was expected to remain rapid, although also moderating a bit from its pace thus far in 1978. The unemployment rate was projected to change little from its September level.

In September the index of industrial production increased an estimated 0.5 per cent, close to the average rate of expansion in the preceding 4 months. Nonfarm payroll employment changed little in September following relatively small increases in July and August. In manufacturing, employment was essentially unchanged in September and the average workweek held steady at an advanced level. The unemployment rate edged up from 5.9 to 6.0 per cent, the rate prevailing on the average since the first quarter of the year.

Total private housing starts declined slightly in August, but they remained above an annual rate of 2 million units. Sales of new houses fell for the third consecutive month; however, a surge in sales of existing dwellings raised total sales of single-family homes to a new high.

The dollar value of total retail sales was estimated to have increased considerably in September following the large rise now indicated for August. For the third quarter as a whole, however, the advance in retail sales was substantially below the exceptional gain in the second quarter. Unit sales of new automobiles fell in September to an annual rate well below the average pace since early spring.

Newly revised data suggested that the index of average hourly earnings of private nonfarm production workers had risen at an annual rate of 7.9 per cent through September 1978 compared with an increase of 7.4 per cent for 1977 as a whole. In August, as in July, the consumer price index rose more moderately than in most earlier months of the year, as prices of some foods declined substantially. In September, however, producer prices of food products turned up sharply and contributed to a marked rise in prices of producer finished goods. Announcement of a new Government program aimed at moderating increases in prices and wages was expected to be made shortly after this meeting.

The trade-weighted value of the dollar against major foreign currencies fell substantially from mid-September to mid-October in frequently volatile exchange markets. The U.S. trade deficit declined sharply in August, reversing the pronounced increase in July; for the 2 months the deficit was close to the rate for the second quarter and well below the high rate for the first quarter.

The expansion in total credit at U.S. commercial banks, which had slowed in August, accelerated in September nearly to the pace experienced on the average in earlier months of the year. Bank investments and security loans rose in September after having declined in August, while growth in real estate and business loans moderated only slightly from the rapid rates recorded in other recent months. Outstanding commercial paper of nonfinancial businesses rose somewhat in September following a small decline in August.

Growth in the narrowly defined money supply (M-1) accelerated further in September to an annual rate of about 14 per cent from 8.5 per cent in August. However, data for early October suggested a sharply reduced growth rate in the current month. Inflows of the interest-bearing deposits included in M-2 and M-3 remained strong in September, and growth in the broader monetary aggregates also accelerated somewhat.

At its meeting on September 19 the Committee had decided on ranges of tolerance for the annual rates of growth in M-1 and M-2 during the September-October period of 5 to 9 per cent and 6-1/2 to 10-1/2 per cent, respectively. The Committee had agreed that early in the coming inter-meeting period operations should be directed toward a Federal funds rate of around 8-1/2 per cent, slightly above the prevailing level of about 8-3/8 per cent. Subsequently, if the 2-month growth rates of M-1 and M-2 appeared to be significantly above or below the midpoints of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 8-1/4 to 8-3/4 per cent.

Following the September 19 meeting the Manager of the System Open Market Account began to seek bank reserve conditions consistent with an increase in the weekly average Federal funds rate to around 8-1/2 per cent. As September progressed, incoming data suggested that growth in M-1 would be around the upper limit of the range specified by the Committee and that growth in M-2 would be in the upper portion of its range. Accordingly, the Manager sought reserve conditions consistent with further increases in the Federal funds rate, and by late September the rate was around 8-3/4 per cent, the upper limit of the inter-meeting range specified by the Committee. During the first half of October the objective for the funds rate remained 8-3/4 per cent, although on many days the rate was above or below that level for technical reasons.

A considerable rise in interest rates on most short-term market instruments was associated with the increase in the Federal funds rate during the inter-meeting period. Yields on Treasury and corporate bonds also moved somewhat higher, but they remained below their July peaks. Yields on State and local government bonds changed little, reflecting in part a markedly reduced volume of new issues. In late September commercial banks increased the rate on loans to prime business borrowers from 9-1/2 to 9-3/4 per cent; in mid-October this rate was raised further to 10 per cent.

The Board of Governors announced an increase in Federal Reserve Bank discount rates from 7-3/4 to 8 per cent on September 22 and a further increase to 8-1/2 per cent on October 13. Both actions were taken primarily to bring the discount rate into closer alignment with other short-term interest rates, but also in recognition of conditions affecting the dollar in foreign exchange markets. The Board indicated in addition that the 1/2 percentage point increase of mid-October was approved in light of the continued high rate of inflation and the recent rapid expansion of the monetary aggregates.

In the Committee's discussion of the economic situation and outlook, the members generally agreed that real output of goods and services was likely to grow moderately over the year ending in the third quarter of 1979, at a rate about or a little below that projected by the staff. Given their expectations for output, the members anticipated that over the period the unemployment rate would change little from its recent level or would increase somewhat. All members expected that average prices of goods and services would continue to rise rapidly.

Despite the general agreement that real output was likely to grow moderately over the next four quarters, some members cited elements in the current situation that could contribute to a downturn in activity before the end of the period. It was pointed out, for example, that the current business expansion--now well into its fourth year--had lasted for a long time by historical standards and that the dynamics of business fluctuations suggested that a downturn might well develop sometime within the coming year. Also, business cycle history provided little encouragement for the expectation that growth in output could gradually be slowed to a pace more or less consistent with its long-run potential and with relative stability in the unemployment rate. Moreover, rapid inflation was viewed as a serious threat to the sustainability of the expansion in output, although buying of goods might be buoyed for a time by anticipation of further price increases.

At the same time, attention was drawn to favorable elements in the economic situation. Specifically, housing starts and residential construction had been maintained at higher levels than had been expected earlier, and the outlook for business fixed investment seemed to have strengthened lately. Altogether, final sales apparently had picked up in recent months while growth in output had moderated, tending to improve prospects for activity in the months immediately ahead. Finally, there were grounds for believing that improvement in the net export position would lend strength to domestic output.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At its meeting in July 1978 the Committee had specified the following ranges for the period from the second quarter of 1978 to the second quarter of 1979: M-1, 4 to 6-1/2 per cent; M-2, 6-1/2 to 9 per cent; and M-3, 7-1/2 to 10 per cent. The associated range for growth in commercial bank credit was 8-1/2 to 11-1/2 per cent. The ranges being considered at this meeting were for the period from the third quarter of 1978 to the third quarter of 1979.

In contemplating ranges for growth of the monetary aggregates over the year ahead, the Committee faced unusual uncertainties. First, commercial banks were authorized to introduce an automatic transfer service (ATS) on November 1, although there was a chance that introduction would be stayed by court action; and in the closing days of the session of the Congress just ended, Federally chartered depositary institutions in New York State were authorized to offer NOW accounts. ATS would provide for automatic shifts of funds from interest-earning savings accounts to demand accounts, and thus would enable customers to hold much lower balances in demand accounts. This service, therefore, seemed likely to alter substantially the relationship between growth of M-1 and growth of nominal GNP.

Second, no authoritative information was yet available on the President's new program to moderate increases in wages and prices, which was expected to be announced shortly after this meeting. In the Committee's discussion of longer-run ranges, the point was stressed that the program would have its greatest potential for moderating inflationary expectations if it were perceived by the public as an additional measure in the campaign against inflation and not as a substitute for fiscal and monetary restraint.

With respect to ATS, a staff analysis had suggested that during a transition period a significant shift in funds from demand deposits to savings deposits at commercial banks was almost sure to occur, but its size was uncertain. Therefore, the rate of growth of M-1 over the year ahead was likely to be lower than otherwise, but the amount of the reduction could be within a fairly wide range. Growth of M-2, on the other hand, might be raised marginally, reflecting minor shifts of deposits from nonbank thrift institutions to savings accounts at commercial banks. It appeared unlikely that growth of M-3 would be noticeably affected.

A new measure of money, designated M-1+, had been developed by the staff to provide background information with regard to the behavior of money, particularly the transactions demand for money, during the transition period. Growth of this aggregate--defined as M-1 plus savings deposits at commercial banks, NOW accounts at nonbank thrift institutions, and demand deposits at mutual savings banks--would not be affected by shifts from demand deposits to savings deposits at commercial banks.

Members of the Committee suggested different approaches to take account of the uncertainties noted above in setting the longer-run ranges for the aggregates. One proposal was to adopt ranges for M-1, M-2, and M-3 as before, in the expectation that introduction of ATS would have little effect on growth of the aggregates in the few months before the Committee would again consider its longer-run ranges. Under this approach, a supplementary range for growth in M-1 adjusted for estimated effects of ATS and a range for growth in M-1+ might be indicated as "memorandum items" for monitoring purposes.

Another proposal was to drop M-1 from the list of aggregates, adopting longer-run ranges only for M-2 and M-3 at this time. It was suggested, along with this proposal, that additional work on the concepts and measurement of money be undertaken with a view to adopting new measures when the Committee next considered its longer-run ranges.

Additional proposals involved retaining M-1 and adopting ranges for M-1, M-2, and M-3 as before, with specific adjustments to take account of the special uncertainties. One proposal was to adjust downward both the upper and the lower limits of the range for M-1 by an estimate of the probable effects of ATS. Another was to widen the range for M-1, chiefly by reducing the lower limit. A third was to couple such a widening of the range for M-1 with notation of a supplementary range for M-1+ to aid in evaluating the behavior of both M-1 and M-2.

At the conclusion of the discussion, the Committee decided that the existing ranges for M-2 and M-3 provided for rates of monetary growth over the year ahead that were consistent with a moderation of inflation under the President's program. Thus, the Committee adopted ranges of 6-1/2 to 9 per cent for M-2 and 7-1/2 to 10 per cent for M-3 for the period from the third quarter of 1978 to the third quarter of 1979. The Committee also indicated that it expected growth of M-1 to be within a range of 2 to 6 per cent over that period. That range was both lower and wider than the range of 4 to 6-1/2 per cent that had been adopted in July, in recognition of the uncertainty concerning the size and speed of the expected shift of deposits from demand to savings accounts resulting from the introduction of ATS. The associated range for commercial bank credit was 8-1/2 to 11-1/2 per cent. The Committee also decided that growth of M-1+ within a range of 5 to 7-1/2 per cent appeared to be generally consistent with the ranges of growth for the other monetary aggregates.

> The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the third quarter of 1978 to the third quarter of 1979: M-2, 6-1/2 to 9 per cent; M-3, 7-1/2 to 10 per cent. M-1 was expected to grow within a range of 2 to 6 per cent over the period, depending in part on the speed and extent of transfers from demand to savings deposits resulting from the introduction of ATS. The associated range for bank credit is 8-1/2 to 11-1/2 per cent. Growth of M-1+ (M-1 plus savings deposits at commercial banks and NOW accounts) in a range of 5 to 7-1/2 per cent was thought to be generally consistent with the ranges for the foregoing aggregates.

> Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Jackson, Partee, and Mrs. Teeters. Votes against this action: Messrs. Wallich, Willes, and Winn. Absent and not voting: Mr. Gardner.

Messrs. Wallich, Willes, and Winn dissented from this action because, with the Committee's longstanding objective of slowing the rate of inflation in mind, they preferred to specify an upper limit of less than 6 per cent for the rate of growth of M-1, adjusted for the estimated effects of ATS. In their view, the upper limit of 6 per cent, adjusted for ATS, represented an unwarranted increase from the 6-1/2 per cent upper limit of the existing (pre-ATS) range.

In the discussion of policy for the period immediately ahead, members of the Committee noted that the uncertainties associated with introduction of ATS would affect growth of the monetary aggregates in the October-November period--the 2-month period for which growth ranges were being considered--in much the same way as they would growth over the year ahead. Specifically, growth of M-1 over the 2-month period might well be less than otherwise by a significant but undetermined amount, and growth of M-2 might be marginally greater.

As in the case of the longer-run ranges, various proposals were advanced for taking account of the unusual uncertainties. In general, these proposals involved placing less emphasis on the behavior of M-1 as a guide to operations in the inter-meeting period and more on the behavior of M-2, rather than the approximately equal weight that typically had been given to the two aggregates. One proposal was to drop M-1 altogether as an operating guide. Another was to give primary emphasis to M-2 and to specify only an upper limit for M-1 rather than a range, reflecting a judgment that rapid growth in M-1 would have significance for policy while slow growth might represent chiefly transfers from demand to savings accounts because of the introduction of ATS. A third proposal was to widen the range for M-1, while indicating a range for M-1+ as an aid in evaluating the behavior of the other monetary aggregates. At the same time, most members of the Committee favored giving greater weight than usual to monev market conditions in the conduct of operations in the period until the next meeting of the Committee.

In the discussion, concern was expressed about recent rates of monetary growth, and most members believed that some additional firming in money market conditions in the period immediately ahead was needed to help assure a slowing in growth over the months ahead. They favored directing open market operations toward an increase in the Federal funds rate to about 9 per cent shortly after this meeting, with an inter-meeting range of 8-3/4 per cent to either 9-1/4 or 9-1/2 per cent.

Other members believed that for the time being operations should be directed toward maintaining the money market conditions currently prevailing, as represented by a Federal funds rate of around 8-7/8 per cent, because they felt that such a pause was needed to evaluate the lagged impact of the substantial increases in interest rates over recent months. These members suggested an inter-meeting range of 8-3/4 to 9 per cent.

With respect to the monetary aggregates, a number of members proposed a range of 1/2 to 6-1/2 per cent for the annual rate of growth in M-1 over the October-November period. Those members who preferred to specify only an upper limit, rather than a range, for growth in M-1 over the 2-month period suggested limits of 5, 6, and 7 per cent. For M-2, a range of 5-1/2 to 9-1/2 per cent was proposed by the largest number of members; one slightly higher and one slightly lower were also suggested.

At the conclusion of the discussion the Committee agreed to instruct the Manager to seek a Federal funds rate of around 9 per cent early in the period before the next regular meeting and subsequently to maintain the rate within a range of 8-3/4 to 9-1/4 per cent. With regard to the specific objective for the Federal funds rate within that range, the Committee instructed the Manager to be guided mainly by a range of tolerance for the annual rate of growth in M-2 over the October-November period of 5-1/2 to 9-1/2 per cent, provided that the rate of growth in M-1 over that period did not exceed 6-1/2 per cent.

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

The information reviewed at this meeting suggests that real output of goods and services grew moderately in the third quarter, although the pace was somewhat below the average for the first two quarters of the year. In September, as in August, the dollar value of total retail sales rose considerably. Industrial production continued to expand while nonfarm payroll employment changed little. The unemployment rate edged up from 5.9 to 6.0 per cent. Average producer prices of finished goods rose substantially in September, as prices of foods increased sharply after having declined for 2 months. The advance in the index of average hourly earnings has been somewhat faster so far in 1978 than it was on the average during 1977.

The trade-weighted value of the dollar against major foreign currencies has declined further since mid-September in frequently volatile exchange markets. The U.S. trade deficit fell sharply in August, reversing the jump recorded in July; for the 2 months the deficit was close to the rate for the second quarter.

Growth in M-1, which had been rapid in August, accelerated in September. Inflows of the interest-bearing deposits included in M-2 and M-3 remained strong, and expansion in the broader aggregates also accelerated somewhat. Short-term market interest rates have risen further in recent weeks; long-term rates also have increased, but they remain below their July peaks. An increase in Federal Reserve discount rates from 7-3/4 to 8 per cent was announced on September 22; another increase to 8-1/2 per cent was announced on October 13.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging continued moderate economic expansion and contributing to a sustainable pattern of international transactions. In setting ranges for the monetary aggregates, the Committee recognized the uncertainties concerning the effects that the November 1 introduction of the automatic transfer service (ATS) would have on measures of the money supply, especially M-1. Against that background, the Committee agreed that appropriate monetary and financial conditions would be furthered by growth of M-2 and M-3 from the third quarter of 1978 to the third quarter of 1979 within ranges of 6-1/2 to 9 per cent and 7-1/2 to 10 per cent, respectively. The narrowly defined money supply (M-1) was expected to grow within a range of 2 to 6 per cent over the period, depending in part on the speed and extent of transfers from demand to savings deposits resulting from the introduction of ATS. The associated range for bank credit is 8-1/2 to 11-1/2 per cent. Growth of M-1+ (M-1 plus savings deposits at commercial banks and NOW accounts) in a range of 5 to 7-1/2 per cent was thought to be generally consistent with the ranges of growth for the foregoing aggregates. These ranges are subject to reconsideration at any time as conditions warrant.

In the short-run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to developing conditions in domestic and international financial markets more generally and to uncertainties associated with the introduction of ATS. Early in the period before the next regular meeting, System open market operations shall be directed at attaining a weekly average Federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly average Federal funds rate within the range of 8-3/4 to 9-1/4 per cent. In deciding on the specific objective for the Federal funds rate the Manager shall be guided mainly by a range of tolerance for growth in M-2 over the October-November period of 5-1/2 to 9-1/2 per cent, provided that growth of M-1 over that period does not exceed an annual rate of 6-1/2 per cent.

Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Jackson, Partee, Wallich, and Winn. Votes against this action: Mrs. Teeters and Mr. Willes. Absent and not voting: Mr. Gardner.

Mrs. Teeters dissented from this action because she believed that for the time being operations should be directed toward maintaining the money market conditions currently prevailing. In her view, the Committee should wait to evaluate the effects of the substantial increases in interest rates over recent months before contemplating additional firming in money market conditions.

Mr. Willes dissented from this action because he believed that it allowed for unacceptably rapid monetary growth. He preferred an upper limit of 5 per cent for growth of M-1 over the October-November period; with respect to the Federal funds rate, he favored raising the objective to 9-1/4 per cent during the inter-meeting period, barring unforeseen weakness in monetary growth, and providing leeway to raise the objective to 9-1/2 per cent if the monetary aggregates appeared to be growing more rapidly than expected.

Subsequent to the meeting, on October 31, the Committee voted to approve a delegation of authority to Chairman Miller to take certain actions in implementation of a broad Government program to strengthen the dollar in foreign exchange markets and thereby to counter continuing domestic inflationary pressures, if he determined that the arrangements with the U.S. Treasury and with certain foreign monetary authorities were substantially as contemplated in a consultation among the members of the Committee on the preceding day.

Early on the morning of November 1 the Treasury and the Federal Reserve announced measures being taken to implement such a program. Specifically, the Board of Governors approved (1) an increase of 1 percentage point, from 8-1/2 to 9-1/2 per cent, in the discount rate at the Federal Reserve Bank of New York, effective immediately, and (2) establishment of a supplementary reserve requirement, in addition to the existing reserve requirements on deposits at member banks, equal to 2 per cent of time deposits in denominations of $100,000 or more. At the same time the System announced increases in its reciprocal currency (swap) arrangements with the central banks of Germany, Japan, and Switzerland by a total of $7.6 billion, to $15 billion, and activation of the swap arrangement with the Bank of Japan. It further stated that the foreign currencies available under the expanded arrangements would be used along with foreign currencies available to the Treasury in a program of forceful intervention in the exchange markets in coordination with foreign central banks to correct recent excessive movements in exchange rates.

In a joint Treasury-Federal Reserve statement, other measures to mobilize key foreign currencies were announced. They included drawings on the U.S. reserve tranche in the International Monetary Fund, for part of which activation of the General Arrangements to Borrow was contemplated; sales of special drawing rights; and issuance of U.S. Treasury securities denominated in foreign currencies. It was also announced that the Treasury would increase its sales of gold to at least 1-1/2 million ounces monthly beginning in December.

As part of this program, on October 31 the Federal Open Market Committee voted to approve a delegation of authority to Chairman Miller to modify the domestic policy directive by raising the range for the Federal funds rate to 9-1/2 to 9-3/4 per cent and by instructing the Manager, in deciding on the specific objective for the rate within that range, to be guided by developing conditions in domestic and international financial markets. The Chairman approved the modification of the directive on November 1, effective on that date.

> Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Partee, Mrs. Teeters, Messrs. Wallich, Willes, and Winn. Votes against this action: None. Absent and not voting: Messrs. Gardner and Jackson.

2. Authorization for foreign currency operations

On October 31 the Committee also voted to approve a delegation of authority to Chairman Miller to negotiate increases in the System's swap arrangements with the German Federal Bank, the Bank of Japan, and the Swiss National Bank. In addition, the Committee voted to aprpove a concurrent amendment to paragraph 2 of the authorization for foreign currency operations to raise correspondingly the amounts specified there for the swap arrangements with those central banks.

On November 1 the Chairman approved increases of $2 billion, $3 billion, and $2.6 billion in the System's swap arrangements with the German Federal Bank, the Bank of Japan, and the Swiss National Bank, respectively. Accordingly paragraph 2 of the authorization was amended, effective on that date, to read as follows:

The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the 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:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	360
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Partee, Mrs. Teeters, Messrs. Wallich, Willes, and Winn. Votes against this action: None. Absent and not voting: Messrs. Gardner and Jackson.

Paragraph 1D of the Committee's authorization for foreign currency operations authorizes the Federal Reserve Bank of New York, for the System Open Market Account, to maintain an over-all open position in all foreign currencies not to exceed $1.0 billion, unless a larger position is expressly authorized by the Committee. On June 20, 1978, the Committee had authorized an over-all open position of $1.5 billion.

On October 27, 1978, the Committee authorized an increase in this limit to $2 billion in view of the scale of recent and potential Federal Reserve operations in the foreign exchange markets undertaken pursuant to the Committee's foreign currency directive.

> Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Partee, Mrs. Teeters, Messrs. Wallich, Willes, and Winn. Votes against this action: None. Absent and not voting: Messrs. Gardner and Jackson.

On October 31 the Committee voted to approve a delegation of authority to Chairman Miller to authorize an open position of $5 billion. On November 1 the Chairman authorized an open position of that amount.

> Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Partee, Mrs. Teeters, Messrs. Wallich, Willes, and Winn. Votes against this action: None. Absent and not voting: Messrs. Gardner and Jackson.

3. Authorization for domestic open market operations

On November 3, 1978, Committee members voted to increase from $3 billion to $5 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 authorization for domestic open market operations, effective immediately, for the period ending with the close of business on November 21, 1978.

> Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Partee, Mrs. Teeters, Messrs. Wallich, Willes, and Winn. Votes against this action: None. Absent and not voting: Messrs. Gardner and Jackson.

This action was taken on recommendation of the System Account Manager. The Manager had advised that large-scale sales of Treasury securities since the October meeting--required mainly to counter the effect on member bank reserves of a steep decline in Treasury balances at the Federal Reserve Banks and to accommodate substantial purchases of Treasury bills by foreign central banks--had reduced the leeway for further sales to $365 million. It now appeared likely that additional sales would be required as current projections indicated a need for further reserve-absorbing operations over the coming weeks.