FEDERAL RESERVE press release

For Use at 4:30 p.m. May 18, 1990

The Federal Reserve Board 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 March 27, 1990.

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 March 27, 1990

1. Domestic policy directive

The information reviewed at this meeting suggested some pickup in the expansion of economic activity from the upward-revised but still sluggish pace now indicated for the fourth quarter. Although the strengthening reflected, at least in part, favorable weather and a rebound from strike-related disturbances late in 1989, underlying demands appeared to be continuing to expand at a moderate pace. Revised data signaled more momentum in final sales near year-end than had been indicated previously, and robust employment growth in January and February suggested that output, especially in the service-producing sector, was being well maintained. Despite a rebound in the motor vehicles industry, manufacturing activity remained sluggish. Consumer prices rose more rapidly over January and February, only partly as a result of increases in the prices of food and energy items; wage data pointed to no significant change in prevailing trends.

Total nonfarm payroll employment increased sharply in the first two months of the year after growing at a reduced pace on average in previous months. Employment in construction jumped, apparently as a result of unusually good weather, and job gains in the services industries continued strong, notably in health services. In the manufacturing sector, employment was down on balance over the January-February period despite the return to work in February of auto workers laid off at the start of the year; job losses were evident in a number of industries, including electrical equipment, machinery, and lumber. The civilian unemployment rate remained at 5.3 percent in both January and February.

In February, industrial production retraced more than half of a sharp January decline, reflecting a swing in the production of motor vehicles. Abstracting from a variety of transitory influences associated with unusual winter weather, a strike in the aircraft industry late last year, and an inventory correction in the motor vehicles sector, industrial production had been flat on balance since last autumn. In February, total industrial capacity utilization partially recovered from a substantial January decline but remained below the high level of a year earlier.

Real personal consumption expenditures, abstracting from swings in spending for motor vehicles and energy-related items, were about flat in January after expanding at a relatively slow pace in the two previous months. Outlays for goods other than fuel oil and motor vehicles had been weak while expenditures for services had remained strong. Total retail sales rose on balance in January and February, but adjusted for recent increases in prices, sales in February probably were little changed from the fourth-quarter average. Unusually mild weather contributed to a higher level of housing starts in January and February. Single-family construction was strong in both months; in the multi-family sector, starts fell sharply in February but averaged somewhat above the fourth-quarter pace over the two months.

Business capital spending, adjusted for inflation, appeared to have turned up after a decline in the fourth quarter. Shipments of nondefense capital goods rose sharply in February following a sizable advance in January associated with a rebound in shipments of aircraft to domestic firms after the strike late in the fourth quarter. The February increase reflected greater purchases of communications equipment and many types of industrial machinery, as well as a further rise in shipments of aircraft. New orders for nondefense capital goods, excluding aircraft, rose in February and were considerably above their fourth-quarter level. Nonresidential construction activity rebounded in January from a substantial December decline, as the weather turned unseasonably warm; however, data on construction contracts and building permits continued to suggest a soft outlook for coming months. Manufacturers' inventories rose in January, largely because of increases in stocks of work-in-process in the transportation equipment sector. Outside of transportation equipment, the inventory-to-shipments ratio had changed little on balance since mid-1988. At the retail level, reductions in auto dealers' stocks more than accounted for declines in inventories in December and January.

The nominal U.S. merchandise trade deficit widened in January from a sharply lower December rate, as the value of imports rose more than that of exports. Nevertheless, the deficit remained essentially unchanged from the fourth-quarter average. Much of the sharp increase in the value of imports in January reflected a jump in imports of oil; however, imports of consumer goods, foods, and industrial supplies also rose strongly. Exports increased substantially in January to a level well above their fourth-quarter average. Indicators of economic activity in the major foreign industrial countries generally suggested strength in the continental European economies, notably France, Germany, and Italy. Among other industrial countries, growth had slowed in Japan and had remained sluggish in the United Kingdom and Canada.

Producer prices for finished goods were unchanged in February, as energy prices partially retraced their sharp rise in January and food prices rose more slowly. At the consumer level, prices rose less rapidly in February than in January, but the increases in both months were substantial and the pickup from 1989 was only partly the result of increases in prices of food and energy items. Among other goods and services, several components posted sizable increases. Average hourly earnings fluctuated considerably in January and February, owing to shifts in employment status among manufacturing and construction workers, but the year-over-year increase remained in the range evident since late 1988.

At its meeting on February 6-7, 1990, the Committee had adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that provided for giving equal weight to developments that might require an adjustment in either direction during the intermeeting period. The Committee had agreed that some firming or some easing in reserve conditions would be equally acceptable during the intermeeting period, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The contemplated reserve conditions were expected to be consistent with growth of M2 and M3 over the period from December through March at annual rates of about 7 and 3-1/2 percent respectively.

Reserve conditions had remained essentially unchanged over the period since the February meeting. Excluding some special-situation borrowing early in the intermeeting period that was related to liquidity pressures at one sizable bank, adjustment plus seasonal borrowing had averaged about $160 million in the three full reserve maintenance periods since the meeting. The federal funds rate held steady at about 8-1/4 percent over the period, but other short- and intermediate-term interest rates edged higher, apparently reflecting the interpretation by financial markets of incoming economic data as pointing, on balance, to some firming of economic activity and to persisting price pressures. Treasury bond yields fluctuated over a fairly wide range, falling slightly on balance over the period, while major indexes of stock prices rose somewhat. The collapse of a major securities firm had little effect on investment-grade financial markets, but the failure, along with potential sales of low-rated bonds by some large institutional holders, contributed to a further widening of the yield spread between noninvestment-grade instruments and other long-term securities.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose over the intermeeting period. The dollar's appreciation occurred at a time when short- and long-term interest rates abroad were increasing relative to interest rates in the United States. Much of the rise of the dollar was against the yen and the pound sterling, but the dollar also gained relative to the mark. The strength of the dollar apparently owed in part to perceptions that the U.S. economy might be strengthening and to market concerns regarding various political and financial difficulties in key foreign countries.

Growth of M2 rose in February from a reduced January pace, reflecting strength in transaction and other liquid accounts; partial data suggested some moderation in March. On balance, the expansion of M2 had been damped somewhat in early 1990 by the rise in opportunity costs of holding M2 instruments, as offering rates on retail deposits, especially at shorter maturities, had not been adjusted upward in line with the rise in market rates. Growth of M3 also picked up in February but remained below that of M2. The expansion of this aggregate continued to be curbed by the apparent ongoing contraction in the assets and associated funding needs of thrift institutions.

The staff projection prepared for this meeting suggested that the economy was likely to expand at a somewhat faster pace over the next several quarters than in the fourth quarter of 1989. Consumer demand was expected to pick up substantially from the fourth-quarter pace but to grow at a more moderate rate later. Business capital spending was likely to increase, though the rise could be limited by further downward pressure on profit margins associated with relatively sluggish growth of final demands. Greater caution on the part of lenders might tend to restrain spending, especially for commercial real estate, and some of the recent weather-related boost to nonresidential construction activity and homebuilding was expected to be reversed in coming months. Net exports were projected to make little contribution to growth of domestic production over the rest of the year. The projection assumed moderate restraint on expenditures at all levels of government. On balance, the need to contain inflation might involve some additional pressures in financial markets. Price pressures were expected to ease only gradually, and little improvement was anticipated in the underlying trend of inflation over the projection horizon.

In the Committee's discussion of the economic situation and outlook, members observed that the latest information, including recent revisions to data released earlier, suggested a somewhat stronger economic performance than had been apparent at the time of the February meeting. The employment statistics for January and February exhibited particular strength, but members cautioned that the latter had to be weighed against indications of relatively restrained growth in overall spending. Several commented that it was more difficult than usual to discern underlying economic trends because of the temporary effects of unusual weather conditions and other special factors in recent months. Developments on the financial side, including the possibility of reduced credit availability, constituted a risk to the continuing expansion. On balance, however, the members viewed sustained growth in business activity as a reasonable expectation for the next several quarters. With regard to the outlook for inflation, they recognized that much of the recent surge in key measures of inflation could be attributed to transitory, weather-related factors that had resulted in sharp increases in the prices of food and energy, but they also expressed a great deal of concern about the apparent lack of improvement in underlying inflation trends. While the economy seemed to be on a course that should prove consistent with reduced inflationary pressures over time, given appropriate fiscal and monetary policies, recent developments suggested that little or no progress toward lower inflation was likely to be made during the quarters immediately ahead.

Members reported that business conditions remained uneven in different sectors of the economy and in different parts of the country, depending on the mix of local industries, but overall activity appeared to be growing at least modestly in most if not all regions. Further expansion for the nation as a whole was likely to be sustained mainly by consumer expenditures, though growth in the latter might well moderate somewhat over the quarters ahead in conjunction with reduced gains in disposable incomes. In addition, the agricultural and energy sectors of the economy, which appeared to have strengthened in some regions, could provide important support to the overall expansion in business activity. Foreign trade was characterized by some members as the area of greatest uncertainty in the business outlook. Foreign demand was helping to maintain production in a number of industries that were experiencing reduced domestic demand, and some improvement in the overall trade balance was anticipated in response to the earlier depreciation of the dollar and to stronger economic growth in a number of foreign countries. Business fixed investment could continue to be inhibited by weak profit margins and an excess of commercial space in many parts of the country, though members reported that substantial commercial building activity remained under way in several regions. Residential construction had been relatively vigorous in recent months, reflecting exceptionally favorable weather conditions in many parts of the country; however, current mortgage rates together with financing difficulties being experienced by some builders and depressed housing markets in many areas were seen as pointing to weaker housing activity over the quarters ahead. With regard to the government sector, growth in federal spending for goods and services was projected to be relatively restrained; in addition, many state and local governments were experiencing budgetary problems that were likely to lead them to curb spending or to raise taxes.

Financial developments introduced a degree of uncertainty into the current economic situation; on the whole, they were likely to exert some restraining influence on overall economic activity, though it was difficult to judge their quantitative significance. Interest rates had increased noticeably since year-end; this rise probably reflected growing concerns about inflation in conjunction with a stronger near-term outlook for the economy, but higher interest rates likely would damp demand, especially in construction and other interest-sensitive sectors. In addition, members had heard numerous reports of reduced availability of credit to smaller businesses, notably home builders. Credit terms also were reported to have been tightened by some lenders on new auto loans and home equity loans. However, outside of lending for corporate restructuring purposes and certain real estate transactions, it was difficult to find firm indications of greater credit rationing in aggregate financial statistics. Some tightening of credit standards probably was a desirable development in terms of correcting for past excesses and adjusting to a more moderate pace of business activity, but a number of members expressed concern that significant further restraint on credit availability, should it occur, could have adverse consequences for the overall economy.

Turning to the outlook for prices and wages, members commented that, while increases in key measures of inflation were likely to moderate after their recent spurt, the prospects for inflation remained the most disturbing aspect of the economic outlook. Apart from what appeared to be transitory hikes in food and energy costs in late 1989 and early 1990, a number of other prices had increased somewhat more rapidly than earlier, and that development tended to underscore the deeply imbedded nature of the current inflation problem. Despite relatively tight conditions in labor markets, the trend in labor compensation costs did not appear to be worsening, but some members expressed concern that wage pressures might increase if inflation did not recede from its recent pace. On the other hand, the intensity of competition in many markets made it difficult or impossible for affected businesses to pass on cost increases in the form of higher prices, and the addition of new plant capacity would heighten competition in a number of industries. On balance, little or no progress in reducing inflation appeared to be in prospect for the quarters immediately ahead, but if recent developments did not lead to a worsening of inflationary expectations, a decline in cost pressures and the underlying rate of inflation still appeared likely for the longer run in the context of sustained, moderate growth in economic activity.

In the Committee's discussion of policy for the intermeeting period ahead, most of the members indicated a preference for maintaining an unchanged degree of pressure on reserve positions. While recent economic information could be interpreted as pointing to a reduced risk of a recession and to greater or at least more deeply imbedded inflationary pressures than were foreseen earlier, these members concluded that it would be premature to tighten reserve conditions on the basis of a few months of data, particularly in light of the special factors at work that made it difficult to assess underlying trends. Some of these members also noted that various developments, including the rise in most interest rates since the beginning of the year, the more recent strength of the dollar in foreign exchange markets, indications of some slowing in monetary growth, and the apparent tightening of credit standards could be viewed as having the same effects on the economy as a modest firming of reserve conditions. Because a firming of policy would be unexpected, it could prove unsettling in the foreign exchange markets and in financial markets more generally. On balance, in light of the uncertainties that were involved, these members preferred to maintain a steady policy course for now, subject to a careful evaluation during the intermeeting period of developments that might signal some intensification of inflationary pressures. A few members, who were particularly concerned about the outlook for inflation, preferred an immediate move to somewhat tighter reserve conditions, especially if the directive for this meeting did not include a presumption that any intermeeting adjustments were more likely to be in the direction of some tightening. In their view the risks to the expansion of some modest firming were minimal under current conditions, and those risks needed to be accepted to place monetary policy more firmly on an anti-inflationary course consistent with the Committee's objectives.

During the Committee's discussion, members referred to a staff analysis that pointed to some reduction in the expansion of M2 over the months ahead on the assumption of an unchanged degree of reserve pressures. It was recognized that the rate of M2 growth could fluctuate over a relatively wide range during the second quarter, as balances were adjusted in conjunction with large seasonal tax payments. Additional uncertainty related to the possibility of a major increase in expenditures by the Resolution Trust Corporation, associated with resolving the affairs of intervened thrift institutions, that would tend to depress monetary growth, especially M3, by substituting in effect Treasury financing for monetary liabilities. Apart from such special factors, monetary growth could be expected to moderate somewhat in lagged response to the earlier updrift in interest rates and less rapid expansion of nominal GNP. A number of members commented that M2 growth at a rate somewhat below the pace that had prevailed on average since mid-1989 and more comfortably within the Committee's range for the year would be a welcome development; such growth would enhance the prospects of reconciling the objectives of sustained economic expansion with the need for progress in bringing inflation under control.

In regard to possible intermeeting adjustments in the degree of reserve pressure, a majority of the members indicated that they preferred a directive that did not bias prospective operations toward tightening or easing. Many of these members agreed that the risks of a recession appeared to have receded and that intermeeting developments should be watched with special attention to potential developments that might signal an intensification of inflationary pressures. Nonetheless, because of the considerable uncertainty surrounding the near-term outlook, they did not want to include a presumption in the directive about the likely direction of any adjustment. In addition, adoption of a directive tilted toward some firming could be viewed as having greater policy implications than usual because it would represent a change from recent directives and from the thrust of policy since the spring of 1989. It also would be inconsistent with the preference of a number of members for making any intermeeting adjustment toward tightening at this stage only on the basis of relatively conclusive economic, financial, or money supply developments. Other members indicated that their concerns about the prospects for inflation inclined them to favor a directive that was tilted toward possible firming during the intermeeting period. It was noted in this connection that even in the absence of any firming during the period ahead, the subsequent release of such a directive would underscore the Committee's readiness to take prompt and appropriate steps to bring inflation under control.

At the conclusion of the Committee's discussion, all but two of the members indicated that they preferred or could accept a directive that called for maintaining the current degree of pressure on reserve positions and that did not include any presumption about the likely direction of any intermeeting adjustments in policy. Accordingly, slightly greater or slightly lesser reserve restraint would be appropriate during the period ahead depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The unchanged reserve conditions contemplated at this meeting were expected to be consistent with growth of M2 and M3 at annual rates of about 6 percent and 4 percent respectively over the three-month period from March through June. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests some pickup in the expansion of economic activity from the sluggish rate in the fourth quarter. Total nonfarm payroll employment increased sharply in January and February after growing at a reduced pace on average in previous months; a surge in the service-producing sector and a weather-related rebound in construction were only partly offset by a net decline in manufacturing. The civilian unemployment rate remained at 5.3 percent. In February, production in the manufacturing sector retraced its large January decline, reflecting a swing in the production of motor vehicles. Consumer spending has been affected in recent months by fluctuations in expenditures for motor vehicles and energy-related items but on balance has expanded at a relatively slow pace; outlays for goods have been weak while expenditures for services have remained strong. Unusually mild weather contributed to a higher level of housing starts in January and February. Business capital spending, adjusted for inflation, appears to have turned up after a decline in the fourth quarter, reflecting a pickup in expenditures on motor vehicles and aircraft. The nominal U.S. merchandise trade deficit widened in January from its low December rate but remained at roughly its fourth-quarter average. Consumer prices rose more rapidly over January and February, only partly as a result of increases in prices of food and energy.

Most short- and intermediate-term interest rates have risen a little since the Committee meeting on February 6-7; rates in long-term debt markets show mixed changes over the period. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose over the intermeeting period; much of the appreciation of the dollar was against the yen.

Growth of M2 and M3 picked up considerably in February, reflecting strength in transaction and other liquid accounts; partial data for March suggested some slowing from the February pace.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in February established ranges for growth of M2 and M3 of 3 to 7 percent and 2-1/2 to 6-1/2 percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from March through June at annual rates of about 6 and 4 percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Johnson, Kelley, LaWare, Ms. Seger, and Mr. Stern. Votes against this action: Messrs. Boykin and Hoskins.

Mr. Boykin dissented because he felt that the risks were on the side of accelerating inflation and, therefore, he preferred a policy directive tilted toward increased reserve pressures should there be indications of greater than anticipated strength in economic activity during the intermeeting period. He stated that an asymmetric directive leaning toward firmer reserve pressures would convey important and stabilizing information to the financial markets about the seriousness of the Federal Reserve in pursuing its goal of price stability.

Mr. Hoskins dissented because he preferred an immediate firming of reserve conditions. In his view, inflation pressures remained relatively strong and suggested that greater monetary restraint was necessary to facilitate progress toward the Committee's long-term goal of price stability. He was concerned that any delay in tightening policy might lead to the need for more aggressive actions later.

2. Authorization for Domestic Open Market Operations

The Committee approved a temporary increase of $4 billion, to a level of $12 billion, in the limit between Committee meetings on changes in System Account holdings of U.S. government and federal agency securities. The increase amended paragraph 1(a) of the Authorization for Domestic Open Market Operations and was effective for the intermeeting period ending with the close of business on May 15, 1990.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Johnson, Kelley, LaWare, Ms. Seger, and Mr. Stern. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that the current leeway of $8 billion for changes in System Account holdings might not be sufficient over the intermeeting period because of a large projected rise in Treasury balances at the Federal Reserve Banks after the tax payment date in mid-April.

3. Authorization for Foreign Currency Operations

At this meeting, the Committee reviewed its operations in the foreign currency markets. Transactions for System Open Market Account in those markets are carried out within the general framework of policy on exchange rates established by the U.S. Treasury in consultation with the Federal Reserve and are implemented at the Federal Reserve Bank of New York, typically in conjunction with similar transactions for the U.S. Treasury's Exchange Stabilization Fund (ESF). Members commented that such operations at times can serve a useful purpose, especially in helping to avert or to correct disorderly conditions in the foreign exchange markets. At the same time, many expressed strong skepticism that intervention operations can by themselves have a lasting effect on the value of the dollar in foreign currency markets, given that the effects of these operations on bank reserves are routinely sterilized. However, some argued that even sterilized intervention can, in some circumstances, have desired effects on exchange rates, especially if carried out in concert with parallel operations by the monetary authorities of other nations or if such operations signal adjustments to fiscal or monetary policies.

Over the past year, very large purchases of foreign currencies had raised System holdings to historically high levels, although relative to U.S. imports such holdings were still moderate compared with those of other countries. Some members expressed concern that the increased System holdings carried the risk of sizable losses if the dollar were to strengthen substantially.

While recognizing the potential difficulties that were involved, a majority of the members agreed that continued System operations in the foreign exchange markets in association with Treasury transactions can serve a useful purpose. Such operations can contribute to national economic objectives under certain circumstances, and the System should continue to participate in the formulation of exchange rate policy. However, they also felt that the cumulative amount of foreign currency operations for System Account might have been more limited than had been the case over the past year.

At the conclusion of this discussion, the Committee approved an increase from $21 billion to $25 billion in the limit on holdings of foreign currencies that is specified in paragraph 1.D of the Committee's Authorization for Foreign Currency Operations. That limit applies to the overall open position in all foreign currencies held in the System Open Market Account and is based on historical acquisition costs. The limit had been increased in steps from $12 billion in May 1989 to $21 billion in December 1989. While purchases of foreign currencies had been relatively limited in recent months, such purchases in combination with accruing interest on holdings had raised the total to nearly $21 billion at the time of the meeting.

Votes for this action: Messrs. Greenspan, Corrigan, Boehne, Boykin, Johnson, Kelley, Ms. Seger, and Mr. Stern. Votes against these actions: Messrs. Angell, Hoskins, and LaWare.

Messrs. Angell, Hoskins, and LaWare dissented because they did not want to provide System funding for additional intervention in the foreign exchange markets. They were uncomfortable with the large holdings of foreign currencies now in the System Account and felt that aggressive intervention policies could lead to sizable additional increases in such holdings. Messrs. Angell and Hoskins also expressed concern that the intervention carried out over the past year had undermined the credibility of the System's monetary policy by contributing to uncertainty concerning the System's priority toward achieving price level stability. Mr. Hoskins also believed that intervention was ineffective unless accompanied by changes in monetary policy that would be inconsistent with price stability objectives. Mr. LaWare felt that massive and frequent operations tended to reduce the effectiveness of intervention when the latter might otherwise prove useful in countering disorderly conditions in the exchange markets.

Agreement to "Warehouse" Foreign Currencies

On September 19, 1989, the Committee had approved an increase from \$5.0 billion to \$10.0 billion in the amount of eligible foreign currencies that the System was prepared to "warehouse" for the Treasury and the ESF. Currently, a total of \$9.0 billion of such currencies was being warehoused for the ESF. The purpose of the facility is to supplement as needed the resources of the Treasury and the ESF for financing their purchases of foreign currencies. Warehousing involves spot purchases of foreign currencies from the Treasury or the ESF and simultaneous forward sales of the same currencies at the same exchange rates to the Treasury or the ESF. Under a longstanding interpretation by the Committee and its General Counsel, warehousing transactions are open market operations in foreign currencies that are authorized under the Federal Reserve Act. Warehousing is included under paragraphs 1.A and 1.B of the Committee's "Authorization for Foreign Currency Operations" and its use is referenced under paragraph 3.B of the Committee's Foreign Currency Directive.

At this meeting, the Committee agreed to accommodate any further Treasury and ESF requests for financing under the warehousing facility up to a limit of $15 billion.

> Votes for this action: Messrs. Greenspan, Corrigan, Boehne, Boykin, Johnson, Kelley, Ms. Seger, and Mr. Stern. Votes against these actions: Messrs. Angell, Hoskins, and LaWare.

Messrs. Angell, Hoskins, and LaWare indicated that in light of the significant policy issues raised by the duration and scale of the intervention activity, they were unable to concur, as a matter of policy, with the Committee's decisions to increase further the authorization for warehousing foreign currencies. Messrs. Angell and Hoskins also were concerned that substantial increases in the authorized limits on holdings of foreign currencies by the Federal Reserve System for the U.S. Treasury and the ESF under the warehousing authority were inappropriate in the absence of a definitive indication of Congressional intent in this area. The transactions in question, which are repurchase agreements that have the characteristics of a loan to the Treasury, could be viewed as avoiding the Congressional appropriations process called for under the Constitution.