MEMORANDUM OF DISCUSSION

A meeting of the Federal Open Market Committee was held on Thursday, March 14, 1968, at 5:30 p.m., at the call of Chairman Martin. This was a telephone conference meeting, and each individual was in Washington except as otherwise indicated in parentheses in the following list of those participating.

PARTICIPATING:
Mr. Martin, Chairman
Mr. Brimmer
Mr. Daane
Mr. Ellis (Boston)
Mr. Hickman (Cleveland)
Mr. Maisel
Mr. Mitchell
Mr. Robertson
Mr. Sherrill
Mr. Clay, Alternate for Mr. Galusha (Kansas City)
Mr. Coldwell, Alternate for Mr. Kimbrel (Dallas)
Mr. Treiber, Alternate for Mr. Hayes (New York)

Mr. Holland, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Molony, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Brill, Economist
Messrs. Axilrod, Hersey, Partee, Reynolds, and Solomon, Associate Economists
Mr. Holmes, Manager, System Open Market Account (New York)
Mr. Coombs, Special Manager, System Open Market Account

Mr. Cardon, Assistant to the Board
Mr. Sammons, Associate Director, Division of International Finance, Board of Governors
Mr. Kiley, Associate Director, Division of Bank Operations, Board of Governors

Mr. Ring, Assistant Director, Division of Bank Operations, Board of Governors
Mr. Gramley, Adviser, Division of Research and Statistics, Board of Governors
Mr. Bernard, Special Assistant, Office of the Secretary, Board of Governors
Mrs. Semia, Technical Assistant, Office of the Secretary, Board of Governors
Miss McWhirter, Analyst, Office of the Secretary, Board of Governors

Messrs. Bilby and MacLaury, Vice Presidents of the Federal Reserve Bank of New York (New York)
Mr. Geng, Assistant Vice President of the Federal Reserve Bank of New York (New York)

Chairman Martin noted that this meeting had been called to consider (1) certain recommendations of the Special Manager relating to the System's swap network with foreign banks in light of recent international developments; (2) possible revision of the Committee's current economic policy directive, in light of those developments and the Board's action earlier today approving increases in discount rates at a number of Reserve Banks from 4-1/2 to 5 per cent, effective tomorrow; and (3) a proposed revision in the procedures with respect to allocations of securities in the System Open Market Account, in view of the decline in gold certificate reserves of the Reserve Banks to a level approaching the statutory minimum. In connection with the last item, the Chairman noted that legislation to repeal the gold cover requirement against Federal Reserve notes was still under consideration by Congress.

As would be announced later today, Chairman Martin continued, a decision had been made to suspend operations of the London gold pool, and the governors of the central banks participating in the pool had agreed to meet in Washington over the coming week-end (March 16 and 17) to discuss the international financial situation and reach decisions with regard to future gold policy. The Chairman then asked Mr. Coombs to present his recommendations.

Mr. Coombs said that in his judgment the international financial system was moving toward a crisis more dangerous than any since 1931. The hurricane of speculation that had occurred on the gold market was likely to be succeeded by a similar hurricane on the exchange markets.

At present, Mr. Coombs continued, U.S. monetary authorities were faced with two major problems in international financial markets. First, it was important to protect the exchange parity network--based on the official price of $35 per ounce for gold--by making sure that the System's swap lines were fully adequate to absorb the massive flows of hot money across the exchanges that might be expected to follow the anticipated action on gold. Such flows of short-term funds would be of the very type that the swap network was designed to cope with. Secondly, it was necessary to make sure that the Euro-dollar market was not disrupted by wholesale repatriation of European and other short-term funds, whether for reasons of fear or lack of forward cover at reasonable rates. There was a major risk that, as a result of fears about currency parities, forward market facilities would temporarily disappear, as they had recently in the case of sterling.

Mr. Coombs indicated that the U.S Treasury had agreed to assist in protecting both the exchange parity network and the Euro-dollar market by authorizing the provision for Treasury account of unlimited forward cover facilities in European currencies. Also, he had just received assurances from Under Secretary Deming that the latter understood fully the Federal Reserve's need for a Treasury backstop for its swap and forward operations. Mr. Deming believed that there would be no serious problem in working out an appropriate arrangement. There had been a great deal of confusion about that matter because it had been mistakenly assumed by some that the Treasury would have to settle in gold all swap debts the System itself was unable to repay within an appropriate period. In fact, however, the Treasury would have several alternative methods for settling such debts, including drawing on the International Monetary Fund, issuing securities denominated in foreign currencies, and using the new Special Drawing Rights if they were activiated.

Against that background, Mr. Coombs recommended that he be authorized to undertake negotiations looking toward increases in a number of the System's swap lines, on the understanding that any such increases, and the corresponding amendments to paragraph 2 of the authorization for System foreign currency operations, would become effective upon a determination by Chairman Martin that they were in the national interest. Specifically, he recommended negotiations with the following foreign banks, looking toward increases in the swap lines not to exceed the amounts indicated (in millions of dollars equivalent):

Foreign bank	Maximum increase	Maximum new swap line
National Bank of Belgium	175	400
Bank of Canada	250	1,000
Bank of Italy	250	1,000
Bank of Japan	250	1,000
Netherlands Bank	175	400
Bank of Sweden	100	300
Swiss National Bank	200	600
Bank for International Settlements:		
System drawings in Swiss francs	200	600
System drawings in other authorized European currencies	400	1,000

Mr. Coombs noted that the selection of swap lines for which he proposed to negotiate increases and the amounts he had suggested reflected judgments as to the probable location and magnitudes of the pressures that were likely to require borrowing or lending under the swap network.

In view of the gravity of the current emergency, Mr. Coombs said, he would also recommend that the Committee be prepared for the time being to take a more liberal view of the time period appropriate for swap drawings than had been customary in the past.

The machinery of the whole international financial system would undoubtedly be so seriously shaken by current developments that reversals of the speculative flows of funds might well take longer than they typically had before. He suggested that the Committee be prepared to allow swap drawings arising out of the current emergency to run for as long as a full year if necessary. At the end of a full year, however, the System could expect the Treasury to arrange for repayment of any swap debts still remaining.

In conclusion, Mr. Coombs observed that drawings under the swap network had become the normal way of dealing with hot money flows. The manner in which the network itself had evolved reflected institutional practices and policies of European central banks that dated back many decades. He thought that in the present emergency the United States could not expect any truly revolutionary changes in those practices and policies, and that if there was to be any hope of preventing a major collapse of the foreign exchange and international credit markets--particularly the Euro-dollar market--the course he had recommended was the safest one.

Chairman Martin then asked Mr. Solomon to present the views of the Board's staff regarding Mr. Coombs' recommendations.

Mr. Solomon said that the Board's staff agreed fully with Mr. Coombs on the gravity of the situation facing the international monetary system. The staff believed in doing all that could be done to avoid disruption in the foreign exchange and Euro-dollar markets. Their main concern, if they had any differences with Mr. Coombs, focused on two related problems. First, the year ahead could be one of turmoil in international financial markets, and at the end of the year the Federal Reserve might well find itself with very heavy obligations under the swap network. Hopefully, the markets would settle down and there would be reflows of funds that would permit repayment of those obligations. If such reflows did not occur, however, twelve months hence the System might have obligations to foreign central banks running into billions of dollars which would have to be paid off in one way or another.

Secondly, Mr. Solomon continued, it was possible that a significant part--although not necessarily all--of those obligations would have to be paid off in gold. The Board's staff believed the United States should be prepared to finance its balance of payments deficit in gold to the extent necessary. At the same time, in a year in which this country and its swap partners were working together to achieve international stability, it would be unfortunate if the United States had to use gold to repay debts that were incurred as the result of speculative flows to foreign central banks.

Under the present circumstances, Mr. Solomon remarked, it seemed to the Board's staff that the central banks of all major countries in the swap network should be prepared to cooperate in an effort to avoid those problems. Hopefully, the foreign central banks themselves would provide forward cover for their commercial banks as needed to permit the latter to stay in the Euro-dollar market.

Mr. Solomon observed in conclusion that any differences in the views of the Board's staff from those of Mr. Coombs were largely matters of emphasis.

Chairman Martin remarked that the issue facing the Committee was how it could best assure that the System's resources were used wisely and effectively in the present difficult situation. He suggested that each member of the Committee speak in turn, raising any questions he had and expressing his views on the Special Manager's recommendations.

Mr. Mitchell indicated that as he understood Mr. Coombs' proposal, the swap network would be enlarged by about $2 billion, from roughly $7 billion to $9 billion. He wondered why an increase had not been recommended in the swap line with the German Federal Bank.

Mr. Coombs replied that at the moment he did not foresee an immediate need to increase the German swap line because of various existing arrangements under which the Germans were willing to take in dollars on an uncovered basis.

In response to another question by Mr. Mitchell, Mr. Coombs said that the System's outstanding drawings under the swap lines now totaled $557 million.

Mr. Mitchell then said that he would prefer not to increase the swap lines and not to draw further on them. It seemed to him, as it had at the time of the Committee's preceding meeting, that the world was moving into a situation of fundamental disequilibrium in international monetary relationships. Under present circumstances--which in his judgment involved the beginning of the demonetization of gold, brought about in an unexpected way--it was no longer possible to apply the rules of the game that had been followed earlier in the 1960's. In the current crisis situation and with new international monetary relationships developing, he thought the United States should carefully conserve its resources and in particular should protect its credit resources. The British had mortgaged too much of their assets in defending the pound, and while the situations were not closely comparable he would not want to see the United States follow a similar course in defending the dollar.

One other aspect of the matter troubled Mr. Mitchell. The central banks of Western Europe, Japan, and the United States were all involved in the current crisis together, but if the System absorbed the dollar accruals of its swap partners by making drawings under the swap network it would, in a sense, be giving them a "free ride." He thought that under the circumstances the other central banks should be prepared to hold uncovered dollars until the situation had calmed down somewhat. They should not--and perhaps would not--be asking the System to give them guarantees.

Mr. Mitchell concluded that the Special Manager might be authorized to use the present network as he felt appropriate and proper and, if necessary, permit drawings to remain outstanding for longer than the customary period. But he (Mr. Mitchell) would prefer not to have the existing swap facilities utilized more heavily unless the other central banks involved insisted, and he would not like to see the swap network enlarged.

Mr. Daane said he would support the Special Manager's recommendations, both for increasing the size of the swap lines and for their use. With respect to a point raised by Mr. Mitchell, he (Mr. Daane) thought that the System's swap partners would not be asking for guarantees other than those that were normally associated with the use of swap lines. It seemed to him that when markets were in a state of turmoil and speculative flows had ccelerated, it was better to utilize the swap network in the customary manner than to introduce a new element of uncertainty by intimating that the swap facilities were not to be employed on the same basis as before. He shared the Board staff's concern regarding the repayment problem; there might be difficulties ahead in that connection. In the past, however, it had been necessary to repay only a small part of System swap drawings in gold, and as the Special Manager had noted there would be additional means of repayment if swap drawings were still outstanding at the end of a year's time.

Mr. Maisel said his position was closer to that of Mr. Mitchell than of Mr. Daane. The critical point, he thought, was that the United States could no longer do business as usual in the international markets. There had to be a general recognition of the fact that in order to maintain the existing international monetary system all central banks had to coordinate their reserve policies. Since the United States could not maintain the current international system by itself, other countries had to assume their share of the burden. That required a complete reworking of past arrangements, particularly with regard to gold holdings and methods of handling reserves. He thought it was important that the System not mortgage the future by increasing its swap lines until there was general agreement among central banks regarding new international monetary arrangements.

Accordingly, Mr. Maisel continued, he would prefer to operate in a normal way under the existing swap arrangements until after the discussions that were planned for this week-end with the governors of the central banks in the gold pool. If necessary, the Committee could reconvene on Sunday to decide whether changes in the swap arrangements should be made.

Mr. Brimmer agreed with Mr. Daane that the Special Manager's recommendations should be supported. Precisely because of the present difficulties in foreign exchange markets, he thought the Committee should not attempt to innovate on short notice. Rather, it should make an effort to keep within existing guidelines insofar as possible. He had no independent basis for judging whether the leeway under existing swap lines was adequate but was prepared to rely on the Special Manager's judgment that greater leeway might be needed. In any case, it was proposed only to authorize negotiations looking toward increases in swap lines, and it would be necessary to operate on the basis of existing lines while those negotiations were in process. He saw no great danger in approving the Special Manager's recommendations and was particularly inclined to do so in light of today's action increasing Federal Reserve discount rates.

Mr. Sherrill said he also would support the Special Manager's recommendations. It was quite possible that the central bank governors would decide at the meeting this week-end to institute a two-price system for gold, with the free market price differing from the official price of $35 per ounce. Such an agreement undoubtedly would lead to major adjustments in international financial markets, and during the transition period larger swap lines might well be needed.

However, Mr. Sherrill continued, if at all possible he would prefer to see the enlargements of the swap lines negotiated on a special basis, in which it was understood that repayments of any drawings under them would be made by means other than gold. He hoped the System's swap partners would agree to such special arrangements and thus share the risks involved with the United States.

Mr. Treiber said that under the existing circumstances he concurred in Mr. Coombs' recommendations.

Mr. Ellis asked whether Mr. Coombs thought it was important for the Committee to act on his recommendations today rather than waiting until after the week-end meeting had been held.

Mr. Coombs replied that he would recommend Committee action today on two grounds. First, the volume of transactions in foreign exchange markets was likely to be particularly heavy tomorrow. It was quite possible that the day's operations would be substantial enough to exhaust the remaining leeway on some of the swap lines, possibly those with the central banks of Belgium and the Netherlands. Beginning at the time the European financial markets opened--3 a.m., New York time--he and his staff would be consulting by telephone with officials of European central banks. Questions were likely to arise in those conversations as to the System's attitude with respect to possible increases in the swap lines, and it would be desirable for the New York Bank people to be able to respond immediately and specifically. Secondly, similar questions probably would arise in the course of the week-end meeting. On both grounds, he thought it was highly important to have an indication of the Committee's position before the week-end.

Mr. Ellis then indicated that he was willing to support the Special Manager's recommendations.

Chairman Martin, who had just returned to the meeting after a brief absence, said he had been talking by telephone with Governor O'Brien of the Bank of England. Governor O'Brien had been discussing with the Prime Minister and the Chancellor of the Exchequer the possibility of closing the London financial markets tomorrow and declaring the day a bank holiday. They were agreeable to such a course, subject to one difficulty on which they asked the help of the United States. Specifically, they hoped they could rely on the U.S. monetary authorities to support sterling in the New York market, perhaps by acquiring pounds on a guaranteed basis.

The Chairman indicated that he had responded with the statement that he would put the matter before the Federal Open Market Committee. He then asked the Special Manager to comment.

Mr. Coombs said that such a commitment could be a large one, and he was not prepared at the moment to make a specific recommendation regarding it. It might be desirable to obtain an indication from the British of the volume of support they thought would be involved.

In answer to a question by Mr. Daane about potential U.S. resources available to support sterling, Mr. Coombs said that the System had roughly $110 million left under the guaranteed sterling authorization and $400 million under the swap lines. He was not certain about the amount available under the Treasury's guaranteed sterling authorization but thought it was between $200 million and $250 million.

Mr. Coombs added that the Treasury might be asked to provide the resources needed for the purpose. Also, the British might be asked to explore the possibilities of drawing on their swap lines with continental central banks. He saw no reason for the United States to assume the entire burden. He expressed the hope that a satisfactory solution could be worked out, but the first step would be to get estimates from the British of the volume of support for sterling likely to be required.

Chairman Martin said there would be real advantages in having a bank holiday in London tomorrow and he was inclined to take a sympathetic view of Governor O'Brien's suggestion. While he doubted that the British authorities would be able to make any firm estimates of the amount of support that would be needed, he proposed that Mr. Coombs be authorized to discuss the matter both with them and with the U.S. Treasury in an effort to work out some reasonable course of action. He would not favor asking the Treasury to assume the whole burden of any support operations that might be undertaken by the United States. Rather, the System and the Treasury should share jointly in any such operations.

The Chairman asked whether there were any objections to that approach, and none was heard.

In reply to a question by Mr. Treiber, Chairman Martin said he did not know whether the gold markets in other countries would also be closed. He was presently trying to contact Dr. Stopper, President of the Swiss National Bank, to discuss whether the market in Zurich could be closed. There had been no attempt to contact the French.

The discussion of the Special Manager's recommendations then resumed with comments by Mr. Hickman, who indicated that he concurred in them. He was concerned, however, about the potential credit standing of the System, if the swap debts could not be unwound within a year's time and had to be paid off partly in gold. It was not clear to him from Mr. Coombs' earlier comments whether the Treasury had agreed to set aside gold to cover any System swap debts not repaid in a year's time. If not, he thought an effort should be made to obtain a firm commitment to that effect from the Treasury as quickly as possible.

Mr. Coombs replied that Under Secretary Deming fully understood the need for the Treasury to provide a backstop for the System's swap drawings, but had not yet had an opportunity to discuss the matter with Secretary Fowler. As he (Mr. Coombs) had indicated earlier, there were various ways of repaying System swap debts besides the use of gold, including drawing on the Fund, issuing securities denominated in foreign currencies, and using SDR's when they were activated. In connection with SDR's, it was quite possible that the processes leading up to activation would now be accelerated.

Mr. Coombs added that recent experience was relevant to the question of the manner in which new swap debts might be repaid. From the end of December until March 8 of this year, about \$1.2 billion of System swap debt had been repaid with the use of only \$25 million of gold.

Mr. Clay asked whether Mr. Coombs would comment on the suggestion by Mr. Sherrill that arrangements might be made for special repayment provisions, not involving gold, in connection with any enlargement of the swap lines.

Mr. Coombs replied that he would not recommend an attempt to negotiate formal agreements on such special arrangements. A proposal of that kind was likely to be viewed as calling for a basic change in the nature of the swap arrangements and might well result in misunderstandings. In any case, the European central banks undoubtedly would want to consult with their governments before signing any formal agreement and the ensuing negotiations were likely to drag on for a considerable time. Meanwhile, the market situation could easily slip out of control. He thought the System could count on the voluntary cooperation of the European central banks in limiting their takings of gold.

Mr. Clay said he would vote in favor of the proposed swap line increases, although he would have some misgivings in the absence of formal agreements on repayment provisions of the type Mr. Sherrill had suggested. He thought every opportunity should be taken to get such agreements.

Mr. Coldwell said that like Mr. Mitchell he had some reservations about the desirability of increasing the swap lines at a time when a new set of international financial relationships was in process of developing. But if Mr. Coombs thought the increases would be helpful and Chairman Martin concurred, he (Mr. Coldwell) would vote for them. He did not think the additions to the swap lines should be negotiated on a different basis; he was fearful that some central banks might then question the value of their swap line with the System and withdraw from the network altogether.

Mr. Robertson said he shared the concerns of Messrs. Mitchell and Maisel. In particular, he was disturbed by the possible analogy with Britain's recent course that Mr. Mitchell had noted. He thought approval today of the Special Manager's recommendations might very well be construed as pushing the panic button. He would prefer to refrain from taking such actions until after Chairman Martin had had an opportunity to discuss them with the other central bank governors over the week-end.

Chairman Martin said that while he also had some of the concerns Mr. Robertson and others had expressed, he believed that in the present emergency situation the Committee should not tie the hands of the Special Manager. Accordingly, he was inclined to concur in the latter's recommendations, particularly now that a note of caution had been sounded by several members.

Chairman Martin then proposed that the Committee vote on the Special Manager's recommendations.

Mr. Mitchell asked whether it would be feasible for the Committee to authorize the Special Manager to undertake preliminary negotiations for the recommended increases in swap lines, on the understanding that each such increase would be referred back to the Committee for approval after negotiations had been completed.

Mr. Coombs commented that he had recommended a more flexible approach--having any of the proposed swap line increases become effective when Chairman Martin determined that they were in the national interest--because of the likely need for prompt action in the current emergency.

Mr. Maisel asked whether the staff thought that undertaking negotiations regarding swap line increases in itself was likely to alter the basic situation by implying a commitment to effect the increases if the other parties were agreeable to them.

Mr. Solomon said that the concern of the Board's staff did not focus primarily on the risks of undertaking negotiations. It related rather to the risk that immediate heavy use of the System's swap lines would weaken the general bargaining position of the United States in the year ahead. Earlier he had indicated that the staff was concerned about the incurrence of heavy obligations that might require use of a substantial amount of gold for repayment, but that concern had been assuaged to some extent by Mr. Coombs' subsequent comments. The staff was still concerned, however, about the obligations themselves. To repay them, even if no substantial amount of gold was used, the United States would have to go deeply into its credit tranche at the Fund. While under certain circumstances it would be appropriate to draw on the credit tranche to finance a deficit in the U.S. balance of payments, he did not think it appropriate to do so to repay obligations resulting from speculative capital flows. Foreign central banks should be willing to hold any dollar accumulations resulting from such flows.

Mr. Daane commented that if in fact the speculative flows were not reversible and the swap debts remained outstanding beyond a year's time, the latter would in effect become a part of the entire U.S. financing problem. Under such circumstances he thought it would be appropriate to draw on the credit tranche for their repayment. He was hopeful, however, of seeing the type of reversal of speculative flows that had occurred in the past and that would permit a reduction in the System's swap debts before the end of a year.

Mr. Coombs said that any negotiations on the swap lines conducted over the week-end would, of course, fall within the context of the over-all U.S. policy position. Until that position emerged clearly, he would be subject to the instructions of Chairman Martin and Secretary Fowler.

Mr. Mitchell said he planned to vote against the Special Manager's recommendation regarding swap line increases. He did not object in principle to a delegation of authority to the Chairman to make a determination as to whether particular actions were in the national interest. However, he could not concur in a proposal as far-reaching as that made today without provision for further consideration by the Committee when, in his judgment, it was feasible to defer final action.

With Messrs. Maisel, Mitchell, and Robertson dissenting, the Committee authorized the Special Manager to undertake negotiations looking toward increases in a number of the System swap lines, on the understanding that any such increases and corresponding amendments to paragraph 2 of the authorization for System foreign currency operations would become effective upon a determination by Chairman Martin that they were in the national interest. Negotiations were authorized for increases in the swap lines with the following foreign banks to new levels not exceeding the amounts indicated (millions of dollars equivalent):

National Bank of Belgium	400
Bank of Canada	1,000
Bank of Italy	1,000
Bank of Japan	1,000
Netherlands Bank	400
Bank of Sweden	300
Swiss National Bank	600
Bank for International Settlements:	
System drawings in Swiss francs	600
System drawings in other authorized European currencies	1,000

It was agreed that the Committee would take a more liberal view for the time being of the time period appropriate to swap drawings.

Secretary's note: On March 17, Chairman Martin determined that negotiations had been satisfactorily completed with respect to increases, to the levels indicated above, in the swap lines with (1) the Bank of Canada, (2) the Bank of Japan, (3) the Netherlands Bank, (4) the Swiss National Bank, and (5) the Bank for International Settlements. On March 17 Chairman Martin made the same determination with respect to an increase in the swap line with the Bank of Sweden to $250 million equivalent.

Also, members of the Committee authorized the Special Manager to undertake negotiations looking toward increases in the reciprocal currency arrangements with (1) the German Federal Bank, from $750 to $1,000 million equivalent, on March 16, 1968; and (2) with the Bank of England, from $1,500 to $2,000 million equivalent, on March 17, 1968. It was understood that such increases and the corresponding amendments to paragraph 2 of the authorization for System foreign currency operations would become effective upon a determination by Chairman Martin that they were in the national interest. Chairman Martin so determined on March 17, 1968. Messrs. Robertson and Maisel, in voting to approve the negotiation of a swap line increase with the German Federal Bank, noted that they continued to hold the general reservations concerning swap line increases at this juncture that they had expressed at the telephone conference meeting of the Committee held on March 14, but that since the majority of the Committee had approved such increases they felt it was appropriate that Germany also be included.

As a result of these actions, the table contained in paragraph 2 of the authorization for System foreign currency operations was amended, effective March 17, 1968, to read as follows:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	100
National Bank of Belgium	225
Bank of Canada	1,000
National Bank of Denmark	100
Bank of England	2,000

Bank of France	100
German Federal Bank	1,000
Bank of Italy	750
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	400
Bank of Norway	100
Bank of Sweden	250
Swiss National Bank	600
Bank for International Settlements:	
System drawings in Swiss francs	600
System drawings in authorized European currencies other than Swiss francs	1,000

Chairman Martin then called for comments on the draft current economic policy directive the staff had submitted for consideration by the Committee.1/

Mr. Coldwell said he would prefer an alternative formulation for the directive, reading as follows: "It is the policy of the Federal Open Market Committee to provide such short-term reassurance as may seem appropriate and necessary to reestablish confidence, while maintaining a fundamental policy of firmness."

Mr. Brimmer said it had been pointed out to him that the staff's proposal involved essentially the same type of modification that had been made in the Committee's directive on November 27, 1967, following the devaluation of sterling and the increase in Federal Reserve discount rates to 4-1/2 per cent. Briefly, the proposed new language was intended to provide the Manager with the

1/ Appended to this memorandum as Attachment A.

leeway necessary to adapt to new circumstances without changing the basic thrust of policy. On that basis, he favored adoption of the staff's draft, with the understanding that the Committee would reconsider the directive at its next meeting or earlier if necessary.

Mr. Ellis said he thought the language suggested by Mr. Coldwell might pose problems of interpretation. He also preferred the staff's draft.

Mr. Treiber observed that he agreed with Messrs. Brimmer and Ellis.

> By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following current economic policy directive:

> In light of recent international financial developments, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm but orderly conditions in the money market, taking into account the effects of increases in Federal Reserve discount rates.

Chairman Martin then suggested that the Committee consider the revised procedures with respect to allocations of securities in the System Open Market Account that the staff was proposing in light of the facts that legislation to repeal the 25 per cent gold cover requirement against Federal Reserve notes had not yet been enacted and that System gold certificate reserves were approaching the statutory minimum. He asked Mr. Holland to present the staff proposal in this regard.

Mr. Holland noted that the Board and the Reserve Bank Presidents had reviewed the wide range of proposals contained in the staff memorandum of January 23, 1968, entitled "Problems with respect to Gold Reserve Requirements against Federal Reserve Notes."1/ Members of the Board and the Presidents had indicated a preference for shifting from the present procedure to a daily reallocation procedure, and the staffs at the Board and the Federal Reserve Bank of New York had developed language for that purpose.

After Mr. Holland had read the text of the staff's proposal Chairman Martin asked if there were any comments or suggestions, and none was heard.

By unanimous vote, procedures with respect to allocation of securities in the System Open Market Account were revised to read as follows:

1. The Board's Division of Bank Operations shall assemble, in the morning of each business day, data on the Federal Reserve note liability of each Bank and total gold reserves of each Bank for the preceding day.

2. The Division of Bank Operations shall determine from these data the amount of adjustment needed in each Bank's gold reserves to equalize, to five places to the right of the decimal with the last digit rounded, the reserve ratios of the 12 Federal Reserve Banks at the close of business on the preceding day. The amount of adjustment, rounded to the nearest dollar, will be furnished to the Federal Reserve Bank of New York.

1/ A copy of this memorandum has been placed in the files of the Committee.

3. The Federal Reserve Bank of New York shall then reallocate the securities in the System Open Market Account as of the preceding day in such a way as to provide each Bank with a net settlement as close as possible to the amount of adjustment in paragraph 2.

4. The Board's staff and each Federal Reserve Bank shall then be notified of the amounts involved and the Interdistrict Settlement Fund may be closed after giving effect to the adjustments.

5. Profits and losses on the sale of securities from the Account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.

Chairman Martin asked that the members of the Committee stand in readiness during the week-end and the early part of the coming week for consultation on any matter that might require their consideration.

It was agreed that the next meeting of the Committee would be held on Tuesday, April 2, 1968, at 9:30 a.m.

The meeting then adjourned.

Secretary

ATTACHMENT A

March 14, 1968

Draft Directive for Consideration by Federal Open Market Committee at its Meeting on March 14, 1968

In light of recent international financial developments, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm but orderly conditions in the money market, taking into account the effects of increases in Federal Reserve discount rates.