

Meeting of Federal Open Market Committee

June 8, 1971

MINUTES OF ACTIONS

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, June 8, 1971, at 9:30 a.m.

**PRESENT:** Mr. Burns, Chairman  
Mr. Brimmer  
Mr. Clay  
Mr. Daane  
Mr. Kimbrel  
Mr. Maisel  
Mr. Mayo  
Mr. Mitchell  
Mr. Morris  
Mr. Robertson  
Mr. Sherrill  
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Coldwell, Eastburn, and Swan, Alternate Members of the Federal Open Market Committee

Messrs. Heflin and Francis, Presidents of the Federal Reserve Banks of Richmond and St. Louis, respectively

Mr. Holland, Secretary  
Mr. Broida, Deputy Secretary  
Messrs. Bernard and Molony, Assistant Secretaries  
Mr. Hexter, Assistant General Counsel  
Mr. Partee, Economist  
Messrs. Axilrod, Eisenmenger, Hersey, Scheld, Solomon, Taylor, and Tow, Associate Economists  
Mr. Holmes, Manager, System Open Market Account  
Mr. Coombs, Special Manager, System Open Market Account

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Mr. Leonard, Assistant Secretary, Office  
of the Secretary, Board of Governors  
Mr. Coyne, Special Assistant to the Board  
of Governors  
Mr. Wernick, Adviser, Division of Research  
and Statistics, Board of Governors  
Mr. Keir, Associate Adviser, Division of  
Research and Statistics, Board of  
Governors  
Mr. Bryant, Associate Adviser, Division of  
International Finance, Board of  
Governors  
Mr. Wendel, Chief, Government Finance  
Section, Division of Research and  
Statistics, Board of Governors  
Miss Eaton, Open Market Secretariat  
Assistant, Office of the Secretary,  
Board of Governors  
Miss Orr, Secretary, Office of the  
Secretary, Board of Governors

Messrs. MacDonald and Strothman, First  
Vice Presidents, Federal Reserve Banks  
of Cleveland and Minneapolis, respec-  
tively  
Messrs. Link, Parthemos, and Craven,  
Senior Vice Presidents, Federal  
Reserve Banks of New York, Richmond,  
and San Francisco, respectively  
Messrs. Willes, Hocter, Andersen, and  
Green, Vice Presidents, Federal  
Reserve Banks of Philadelphia, Cleve-  
land, St. Louis, and Dallas, respec-  
tively  
Mr. Meek, Assistant Vice President,  
Federal Reserve Bank of New York  
Mr. Duprey, Senior Economist, Federal  
Reserve Bank of Minneapolis

By unanimous vote, the minutes of actions taken at the  
meeting of the Federal Open Market Committee held on May 11,  
1971, were approved.

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The memorandum of discussion for the meeting of the Federal Open Market Committee held on May 11, 1971, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period May 11 through June 7, 1971, were approved, ratified, and confirmed.

By unanimous vote, a delay in the liquidation of outstanding System drawings on the National Bank of Belgium beyond June 30, 1971, was authorized.

By unanimous vote, renewal for a further period of three months of the System drawing on the National Bank of Belgium maturing on July 7, 1971, was authorized.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period May 11 through June 7, 1971, were approved, ratified, and confirmed.

By unanimous vote, the dollar limit specified in paragraph 2 of the continuing authority directive, on Federal Reserve Bank holdings of short-term certificates of indebtedness purchased directly from the Treasury, was increased from \$1 billion to \$2 billion. As amended, paragraph 2 read as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, if the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or

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more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate  $1/4$  of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$2 billion.

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

The information reviewed at this meeting suggests that real output of goods and services is expanding moderately in the current quarter, following the first-quarter surge that primarily reflected the resumption of higher automobile production. The unemployment rate remained high in May. Wage rates in most sectors are continuing to rise at a rapid pace. In the first four months of 1971 the consumer price index increased at a slower pace than earlier, in considerable part because of a decline in mortgage interest rates; the rate of advance in wholesale prices of industrial commodities, which had moderated in the first quarter, stepped up again in April and May. The money stock both narrowly and broadly defined expanded even more rapidly in May than in April but growth in the bank credit proxy remained moderate. Interest rates on most types of market securities rose sharply further during much of May, reflecting continuing uncertainties about domestic and international financial prospects; more recently rates on long-term securities have declined on balance, but mortgage rates have risen. The U.S. merchandise trade balance, which was in small surplus in the first quarter, worsened in April. The deficit in the over-all balance of payments has diminished since early May, when capital outflows were swollen by expectations of changes in foreign exchange

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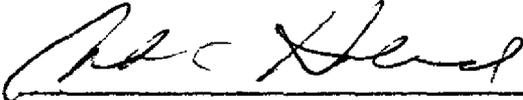
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rates, but it remains large. Differentials between short-term interest rates in the United States and in major foreign countries narrowed on balance in April and May, but differentials between rates in the United States and in the Euro-dollar market recently have widened as rates in that market moved up sharply in early May. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the resumption of sustainable economic growth, while encouraging an orderly reduction in the rate of inflation, moderation of short-term capital outflows, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to moderate growth in monetary aggregates over the months ahead, taking account of developments in capital markets. System open market operations until the next meeting of the Committee shall be conducted with a view to achieving bank reserve and money market conditions consistent with those objectives.

It was agreed that the next meeting of the Federal Open Market Committee would be held in Washington, D.C., on Tuesday, June 29, 1971, at 9:30 a.m.

The meeting adjourned.

  
Secretary