

Meeting of Federal Open Market Committee

July 16, 1968

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, July 16, 1968, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Brimmer  
Mr. Daane  
Mr. Galusha  
Mr. Hickman  
Mr. Kimbrel  
Mr. Maisel  
Mr. Mitchell  
Mr. Robertson  
Mr. Sherrill  
Mr. Bopp, Alternate<sup>1/</sup>

Messrs. Clay, Coldwell, and Scanlon,  
Alternate Members of the Federal Open  
Market Committee

Messrs. Francis and Swan, Presidents  
of the Federal Reserve Banks of  
St. Louis and San Francisco,  
respectively

Mr. Holland, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Molony, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Brill, Economist  
Messrs. Axilrod, Hersey, Kareken,<sup>1/</sup> Mann,  
Partee, and Reynolds, Associate  
Economists

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<sup>1/</sup> Entered the meeting at the point indicated.

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Mr. Holmes, Manager, System Open Market Account

Mr. Coombs, Special Manager, System Open Market Account

Mr. Cardon, Assistant to the Board of Governors

Mr. Williams, Adviser, Division of Research and Statistics, Board of Governors

Mr. Wernick, Associate Adviser, Division of Research and Statistics, Board of Governors

Mr. Bernard, Special Assistant, Office of the Secretary, Board of Governors

Mr. Baker, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Miss Eaton, Open Market Secretariat Assistant, Office of the Secretary, Board of Governors

Messrs. Latham and Black, First Vice Presidents of the Federal Reserve Banks of Boston and Richmond, respectively

Messrs. Eastburn, Parthemos, Brandt, Baughman, Jones, Tow, Green, and Craven, Vice Presidents of the Federal Reserve Banks of Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco, respectively

Mr. Garvy, Economic Adviser, Federal Reserve Bank of New York

Mr. Cooper, Manager, Securities and Acceptance Departments, Federal Reserve Bank of New York

Mr. Anderson, Financial Economist, Federal Reserve Bank of Boston

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on June 18, 1968, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee held on June 18, 1968, was accepted.

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By unanimous vote, the action taken by Committee members on July 2, 1968, approving an increase, effective immediately, in the reciprocal currency arrangement with the Bank of France from \$100 million to \$700 million, and the corresponding amendment to paragraph 2 of the authorization for System foreign currency operations, was ratified.

By unanimous vote, John H. Kareken was elected Associate Economist of the Committee to serve until the first meeting of the Committee after February 28, 1969, with the understanding that in the event of the discontinuance of his official connection with the Federal Reserve Bank of Minneapolis, he would cease to have any official connection with the Federal Open Market Committee.

Mr. Kareken entered the meeting at this point.

By unanimous vote, the System open market transactions in foreign currencies during the period June 18 through July 15, 1968, were approved, ratified, and confirmed.

Mr. Bopp entered the meeting at this point.

By unanimous vote, paragraph 1C(1) of the authorization for System foreign currency operations was amended to increase the limit on outstanding System forward commitments to deliver foreign currencies to the Stabilization Fund from \$350 million to a level to be determined by Chairman Martin (or, in his absence, Mr. Robertson) in light of the participation of other countries

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in the proposed funding arrangement for sterling balances but not exceeding \$1,050 million equivalent, subject to the understanding that the action would become effective upon a determination by Chairman Martin (or, in his absence, Mr. Robertson) that it was in the national interest.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 18 through July 15, 1968, were approved, ratified, and confirmed.

By unanimous vote, new procedures for System subscriptions in Treasury cash refundings, as proposed in the Manager's memorandum of July 10, 1968, were approved. It was agreed that a letter concerning the new procedures should be sent to the Secretary of the Treasury.

Secretary's Note: On July 18, 1968, the following letter was sent to the Secretary of the Treasury over the Chairman's signature:

I am enclosing a memorandum prepared by the Manager of the System Open Market Account regarding the handling of System subscriptions to Treasury refunding offerings in the light of recent innovations in Treasury debt management techniques.

These innovations--which involved combining an exchange offering of new securities with a cash offering--have a number of obvious advantages from the point of view of debt management and System operations. There is, however, a disadvantage in that--for practical reasons--the System's options for exchanging its holdings of maturing issues are limited. As a result, the System's

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subscriptions tend to be predetermined by the Treasury's choice of a particular debt management technique--a situation that may not be the best for monetary management. This anomalous situation could be avoided if the suggestions contained in the memorandum were adopted by the Treasury and I commend them to you.

I emphasize that what is involved is a technical problem and not a question of basic relationships between the Treasury and the Federal Reserve. I know that we both feel strongly that any Treasury offering must meet the test of the market and that the Treasury does not want to look to special System support of its financing operations. I am sure that we would agree also that it is essential for the Federal Reserve to have ample facilities for rolling over its holdings of maturing issues, including the possibility of subscribing to both long- and short-term issues in any optional Treasury refunding operation.

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 indicates that over-all economic activity continued to expand rapidly in the second quarter, with inventory accumulation accelerating while the rise in capital outlays and in consumer spending slowed. The new fiscal restraint measures are expected to contribute to a considerable moderation of the rate of advance in aggregate demands. Industrial prices have been increasing less rapidly than earlier but consumer prices have continued to rise substantially and wage pressures remain strong. Growth in bank credit and time and savings deposits has been moderate on average in recent months; growth in the money supply has been larger as U.S. Government deposits have been reduced. Conditions in money and capital markets have eased somewhat, mainly in response to the increase in fiscal restraint. Although there recently have been large inflows of foreign capital, the U.S.

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foreign trade balance and underlying payments position continue to be matters of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, continued resistance to inflationary pressures and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of forthcoming Treasury financing activity, System open market operations until the next meeting of the Committee shall be conducted with a view to accommodating the tendency toward somewhat less firm conditions in the money market that has developed since the preceding meeting of the Committee; provided, however, that operations shall be modified, to the extent permitted by Treasury financing, if bank credit appears to be deviating significantly from current projections.

It was agreed the next meeting of the Committee would be held on Tuesday, August 13, 1968, at 9:30 a.m.

The meeting adjourned.

  
Secretary