

Meeting of Federal Open Market Committee

August 18, 1970

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, August 18, 1970, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Hayes, Vice Chairman
Mr. Brimmer
Mr. Daane
Mr. Francis
Mr. Heflin
Mr. Hickman
Mr. Maisel
Mr. Mitchell
Mr. Robertson
Mr. Sherrill
Mr. Swan

Messrs. Galusha, Kimbrel, Mayo, and Morris, Alternate Members of the Federal Open Market Committee

Messrs. Clay and Coldwell, Presidents of the Federal Reserve Banks of Kansas City and Dallas, respectively

Mr. Broida, Deputy Secretary
Messrs. Kenyon and Molony, Assistant Secretaries
Mr. Hackley, General Counsel
Mr. Partee, Economist
Messrs. Axilrod, Craven, Garvy, Hocter, Parthemos, Reynolds, and Solomon, Associate Economists
Mr. Coombs, Special Manager, System Open Market Account

Messrs. Bernard and Leonard, Assistant Secretaries, Office of the Secretary, Board of Governors
Mr. Cardon, Assistant to the Board of Governors
Mr. Coyne, Special Assistant to the Board of Governors

8/18/70

-2-

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

Mr. Melnicoff, First Vice President, Federal Reserve Bank of Philadelphia
Messrs. Eisenmenger and Tow, Senior Vice Presidents, Federal Reserve Banks of Boston and Kansas City, respectively
Messrs. Sternlight, Brandt, Scheld, Nelson, and Green, Vice Presidents, Federal Reserve Banks of New York, Atlanta, Chicago, Minneapolis, and Dallas, respectively
Mr. Bowsher, Assistant Vice President, Federal Reserve Bank of St. Louis
Mr. Gustus, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Sandberg, Securities Trading Officer, Federal Reserve Bank of New York

Secretary's note: Advices had been received of the election by the Federal Reserve Banks of Cleveland and Chicago of Mr. Robert P. Mayo, President of the Federal Reserve Bank of Chicago, as alternate member of the Federal Open Market Committee to represent those Federal Reserve Banks for the balance of the one-year term expiring February 28, 1971; and it appeared that Mr. Mayo was legally qualified to serve. Mr. Mayo had executed his oath of office prior to this meeting.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on July 21, 1970, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee held on July 21, 1970, was accepted.

8/18/70

-3-

By unanimous vote, the System open market transactions in foreign currencies during the period July 21 through August 17, 1970, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period July 21 through August 17, 1970, were approved, ratified, and confirmed.

With Messrs. Hayes, Brimmer, and Francis dissenting, 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 economic activity, which edged up slightly in the second quarter after declining appreciably earlier in the year, may be expanding somewhat further. Prices and wage rates generally are continuing to rise at a rapid pace. However, improvements in productivity appear to be slowing the rise in costs, and some major price measures are showing moderating tendencies. Credit demands in securities markets have continued heavy, and interest rates have shown mixed changes since mid-July after declining considerably in preceding weeks. Some uncertainties persist in financial markets, particularly in connection with market instruments of less than prime grade. In July the money supply rose moderately on average and bank credit expanded substantially. Banks increased holdings of securities and loans to finance companies, some of which were experiencing difficulty in refinancing maturing commercial paper. Banks sharply expanded their outstanding large-denomination CD's of short maturity, for which rate ceilings had been suspended in late June, and both banks and nonbank thrift institutions experienced large net inflows of consumer-type time and savings funds. The over-all balance of payments remained in heavy deficit in the second quarter,

8/18/70

-4-

despite a sizable increase in the export surplus. In July the official settlements deficit continued large, but there apparently was a marked shrinkage in the liquidity deficit. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to promote some easing of conditions in credit markets and somewhat greater growth in money over the months ahead than occurred in the second quarter, while taking account of possible liquidity problems and allowing bank credit growth to reflect any continued shift of credit flows from market to banking channels. System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining bank reserves and money market conditions consistent with that objective, taking account of the effects of other monetary policy actions.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, September 15, 1970, at 9:30 a.m.

The meeting adjourned.


Deputy Secretary