

Meeting of Federal Open Market Committee

December 15, 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, December 15, 1970, at 9:30 a.m.

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

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

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

Mr. Holland, Secretary
Mr. Broida, Deputy Secretary
Messrs. Kenyon and Molony, Assistant
Secretaries
Mr. Hackley, General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Partee, Economist
Messrs. Axilrod, Craven, Gramley, Hersey,
Hocter, Jones, Reynolds, and Solomon,
Associate Economists
Mr. Holmes, Manager, System Open Market Account

Messrs. Bernard and Leonard, Assistant Secre-
taries, Office of the Secretary, Board of
Governors

Mr. Coyne, Special Assistant to the Board of
Governors

Messrs. Wernick and Williams, Advisers,
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 Ormsby, Special Assistant, Office of
the Secretary, 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

Mr. MacDonald, First Vice President, Federal
Reserve Bank of Cleveland

Messrs. Eisenmenger, Link, Taylor, and Tow,
Senior Vice Presidents, Federal Reserve
Banks of Boston, New York, Atlanta, and
Kansas City, respectively

Messrs. Bodner, Snellings, Scheld, and Green,
Vice Presidents, Federal Reserve Banks of
New York, Richmond, Chicago, and Dallas,
respectively

Messrs. Gustus and Kareken, Economic Advisers,
Federal Reserve Banks of Philadelphia and
Minneapolis, respectively

Mr. Sandberg, Securities Trading Officer,
Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meeting
of the Federal Open Market Committee held on November 17, 1970, were
approved.

The memorandum of discussion for the meeting of the Federal
Open Market Committee held on November 17, 1970, was accepted.

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By unanimous vote, the System open market transactions in foreign currencies during the period November 17 through December 14, 1970, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period November 17 through December 14, 1970, were approved, ratified, and confirmed.

With Mr. 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 output of goods and services has declined since the third quarter, largely as a consequence of the recent strike in the automobile industry, and that unemployment has increased. Resumption of higher automobile production is expected to result in a bulge in activity in early 1971. Wage rates generally are continuing to rise at a rapid pace, but gains in productivity appear to be slowing the increase in unit labor costs. Movements in major price measures have been diverse; most recently, wholesale prices have shown little change while consumer prices have advanced substantially. Market interest rates declined considerably further in the past few weeks, and Federal Reserve discount rates were reduced by an additional one-quarter of a percentage point. Demands for funds in capital markets have continued heavy, but business loan demands at banks have been weak. Growth in the money supply was somewhat more rapid on average in November than in October, although it remained below the rate prevailing in the first three quarters of the year. Banks acquired a substantial volume of securities in November, and bank credit increased moderately after changing little in October. The foreign trade balance in September and October was smaller than in any other

2-month period this year. The over-all balance of payments deficit on the liquidity basis remained in October and November at about its third-quarter rate. The deficit on the official settlements basis was very large as banks continued to repay Euro-dollar liabilities. 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, System open market operations shall be conducted with a view to maintaining the recently attained money market conditions until the next meeting of the Committee, provided that the expected rates of growth in money and bank credit will at least be achieved.

By unanimous vote, renewal for further periods of one year of the following swap arrangements, having the indicated amounts and maturity dates, was approved:

| <u>Foreign bank</u> | <u>Amount of arrangement (millions of dollars)</u> | <u>Maturity of latest authorized renewal</u> |
|--------------------------|--|--|
| National Bank of Belgium | 500 | December 22, 1970 |
| Bank of Canada | 1,000 | December 30, 1970 |
| Bank of France | 1,000 | December 28, 1970 |
| German Federal Bank | 1,000 | December 16, 1970 |
| Bank of Italy | 1,250 | December 30, 1970 |
| Netherlands Bank | 300 | December 30, 1970 |

In connection with the foregoing action, it was reported that some of the central banks affected had raised certain technical questions regarding procedures used in the operation of the swap arrangements and that discussions of the matter with those central banks were currently under way. It was agreed that a subcommittee, consisting of the Chairman and Vice Chairman of the Committee and

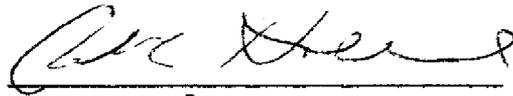
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the Vice Chairman of the Board of Governors, or designated alternates, should be authorized to act on behalf of the Committee with respect to the matter, on the understanding that the subcommittee would communicate with the full Committee if it had any serious doubts about the appropriate course of action.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, January 12, 1971.

The meeting adjourned.


Secretary