

Meeting of Federal Open Market Committee

January 12, 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, January 12, 1971, at 9:30 a.m.

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

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, Parthemos, Reynolds, and Solomon,
Associate Economists
Mr. Holmes, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market
Account

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Messrs. Bernard and Leonard, Assistant Secretaries, 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. Gemmill, 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. Scheld and Green, Vice Presidents, Federal Reserve Banks of Chicago and Dallas, respectively
Messrs. Gustus and Kareken, Economic Advisers, Federal Reserve Banks of Philadelphia and Minneapolis, respectively
Mr. Geng, Assistant Vice President, 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 December 15, 1970, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee held on December 15, 1970, was accepted.

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By unanimous vote, the System open market transactions in foreign currencies during the period December 15, 1970, through January 11, 1971, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period December 15, 1970, through January 11, 1971, 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 declined in the fourth quarter of 1970, largely as a consequence of the recent strike in the automobile industry. Unemployment increased further in December. The 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. The rise in both wholesale and consumer prices appears to have moderated recently, following substantial increases earlier in the fall. Most market interest rates turned down again in recent days, 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 remain weak. Although growth in the money supply accelerated in December, over the fourth quarter as a whole it was at a rate below that prevailing in the preceding three quarters. Banks made substantial further additions to their holdings of securities in December, and bank credit increased sharply. The foreign trade surplus has declined markedly in recent months. The over-all balance of payments deficit on the liquidity basis in the fourth

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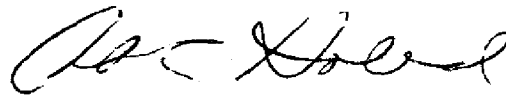
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quarter was apparently about as large as in the third quarter. The deficit on the official settlements basis was very large as banks continued to repay Euro-dollar liabilities. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the resumption of sustainable economic growth, while encouraging an orderly reduction in the rate of inflation and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to promote accommodative conditions in credit markets and moderate expansion in monetary and credit aggregates. 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 those objectives, taking account of the forthcoming Treasury financing.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, February 9, 1971, at 9:30 a.m.

The meeting adjourned.


Secretary