

Meeting of Federal Open Market Committee

May 11, 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, May 11, 1971, at 9:30 a.m.

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

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 Holony, Assistant  
Secretaries  
Mr. Hackley, General Counsel  
Mr. Partee, Economist  
Messrs. Axilrod, Eisenmenger, Gramley, Hersey,  
Reynolds, Scheld, 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. Cardon, Assistant to the Board of Governors  
Mr. O'Brien, 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  
Messrs. Bryant and Gemmill, Associate Advisers,  
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, respectively  
Messrs. Link and Craven, Senior Vice Presi-  
dents, Federal Reserve Banks of New York  
and San Francisco, respectively  
Messrs. Hocter, Snellings, Andersen, and Green,  
Vice Presidents, Federal Reserve Banks of  
Cleveland, Richmond, St. Louis, 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 meet-  
ing of the Federal Open Market Committee held on April 6, 1971, were  
approved.

The memorandum of discussion for the meeting of the Federal  
Open Market Committee held on April 6, 1971, was accepted.

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By unanimous vote, the System open market transactions in foreign currencies during the period April 6 through May 10, 1971, were approved, ratified, and confirmed.

It was agreed that a subcommittee consisting of the Chairman and Vice Chairman of the Committee and the Vice Chairman of the Board of Governors, or designated alternates, should be authorized to act on behalf of the Committee with respect to any response that might be made to central banks in the System's swap network raising questions similar to that raised recently by one such central bank concerning the appropriate interpretation of certain language in the swap contracts.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period April 6 through May 10, 1971, were approved, ratified, and confirmed.

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 rose substantially in the first quarter primarily because of the resumption of higher automobile production, and more moderate growth appears to be in prospect for the current quarter. The unemployment rate remained high in

April. Wage rates in most sectors are continuing to rise at a rapid pace. The rate of advance in consumer prices and in wholesale prices of industrial commodities moderated in the first quarter, but the rise in industrial prices stepped up again in April. The money stock both narrowly and broadly defined expanded substantially further in April but growth in bank credit slowed. Inflows of consumer-type time and savings funds to banks moderated, partly as a result of reductions in the interest rates offered by banks, but flows to nonbank thrift institutions continued heavy. Interest rates on most types of short- and long-term market securities rose sharply in April and early May, reflecting uncertainties about domestic, and more recently international, financial prospects. The over-all balance of payments deficit in the first four months of 1971 was exceptionally large, in great part reflecting short-term capital outflows. Recently, after further large international flows of funds, several European central banks suspended sales of their currencies for dollars; subsequently, announcements were made that the German mark and Dutch guilder would be permitted to float for the time being, and that the Swiss franc and Austrian schilling were being revalued. 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.

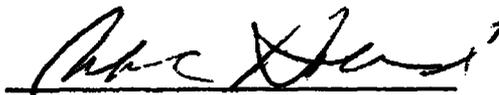
To implement this policy, the Committee seeks to moderate growth in monetary and credit aggregates over the months ahead, taking account of the current Treasury financing, developments in capital markets, and uncertainties in foreign exchange markets. System open market operations until the next meeting of the Committee shall be aimed initially at maintaining currently prevailing money market conditions, and thereafter conducted with a view to maintaining bank reserves and money market conditions consistent with the above-cited objectives.

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It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, June 8, 1971, at 9:30 a.m.

The meeting adjourned.

  
Secretary