

Meeting of Federal Open Market Committee

July 17, 1973

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 17, 1973, at 9:30 a.m. As indicated below, only a limited number of staff members were in attendance during the first part of the meeting.

PRESENT: Mr. Burns, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Balles  
Mr. Brimmer  
Mr. Bucher  
Mr. Daane  
Mr. Francis  
Mr. Holland  
Mr. Mayo  
Mr. Morris  
Mr. Sheehan

Messrs. Clay, Kimbrel, and Winn, Alternate  
Members of the Federal Open Market  
Committee

Messrs. MacLaury and Coldwell, Presidents  
of the Federal Reserve Banks of  
Minneapolis and Dallas, respectively

Mr. Broida, Secretary  
Mr. Altmann, Assistant Secretary  
Mr. O'Connell, General Counsel  
Mr. Partee, Senior Economist  
Mr. Axilrod, Economist (Domestic Finance)  
Messrs. Bryant and Reynolds, Associate  
Economists  
Mr. Sternlight, Deputy Manager, System  
Open Market Account  
Mr. Coombs, Special Manager, System  
Open Market Account

Mr. Melnicoff, Deputy Executive Director,  
Board of Governors  
Mr. Coyne, Assistant to the Board of  
Governors  
Mr. Gemmill, Advisor, Division of International  
Finance, Board of Governors

Messrs. Willes and Black, First Vice Presidents  
of the Federal Reserve Banks of Philadelphia  
and Richmond, respectively

By unanimous vote, the System open market transactions in  
foreign currencies during the period June 19 through July 16, 1973,  
were approved, ratified, and confirmed.

By unanimous vote, renewal for further periods of 3 months of  
System drawings on the National Bank of Belgium, the Swiss National  
Bank, and the Bank for International Settlements, maturing in the  
period August 2-23, 1973, was authorized.

The following then entered the meeting:

Mr. Bernard, Assistant Secretary  
Messrs. Andersen, Eisenmenger, Gramley,  
Scheld, and Sims, Associate Economists  
Mr. Feldberg, Secretary to the Board of  
Governors  
Mr. O'Brien, Special Assistant to the  
Board of Governors  
Messrs. Keir, Wernick, and Williams, Advisers,  
Division of Research and Statistics,  
Board of Governors  
Mr. Struble, Senior Economist, Government Finance  
Section, Division of Research and Statistics,  
Board of Governors  
Mrs. Ferrell, Open Market Secretariat  
Assistant, Office of the Secretary,  
Board of Governors  
Mrs. Peters, Secretary, Office of the  
Secretary, Board of Governors

Messrs. Boehne, Taylor, and Doll, Senior Vice Presidents, Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively

Messrs. Davis, Hocter, and Green, Vice Presidents, Federal Reserve Banks of New York, Cleveland, and Dallas, respectively

Mr. Meek, Monetary Adviser, Federal Reserve Bank of New York

Mr. Broaddus, Assistant Vice President, Federal Reserve Bank of Richmond

Mr. Rolnick, Economist, Federal Reserve Bank of Minneapolis

By unanimous vote, the action of members of the Federal Open Market Committee on July 6, 1973, increasing from \$2 billion to \$3 billion the limit specified in paragraph 1(a) of the authorization for domestic open market operations on net changes between Committee meetings in System Account holdings of U. S. Government securities and agency issues, for the period through the close of business on July 17, 1973, was ratified.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on May 15, 1973, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee held on May 15, 1973, was accepted.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 19 through July 16, 1973, 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 for the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity moderated in the second quarter from the exceptionally rapid pace of the two preceding quarters. Increases in employment were relatively substantial, however, and in June the unemployment rate dropped below 5 per cent. Wage rates advanced at a faster pace during the second quarter than earlier in the year. In the months immediately preceding the price freeze imposed in mid-June, the rise in prices of both industrial commodities and farm and food products remained extraordinarily rapid.

The U.S. merchandise trade balance worsened in May as import prices rose sharply further, but the trade deficit remained well below the first-quarter average. In foreign exchange markets, the jointly floating continental European currencies rose sharply further against the dollar in early July. After the first week in July, the dollar recovered somewhat on the basis of market expectations of official intervention. On July 10 the Federal Reserve announced substantial increases in its swap arrangements with other central banks.

Both the narrowly and more broadly defined money stock rose sharply in May and June, although inflows of consumer-type time and savings deposits slackened somewhat in the latter month. Expansion in bank credit continued at a substantial pace. Since mid-June both short- and long-term market interest rates have advanced considerably further, with the sharpest increases in the short-term sector. On June 29 increases were announced in Federal Reserve discount rates, from 6-1/2 to 7 per cent, and in member bank reserve requirements; on July 5 ceiling interest rates were increased on time and savings deposits at commercial banks and other thrift institutions.

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In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than occurred on average in the first half of the year.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, August 21, 1973, at 9:30 a.m.

The meeting adjourned.

  
Secretary