

Meeting of Federal Open Market Committee

May 21, 1974

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 21, 1974, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Black  
Mr. Brimmer  
Mr. Bucher  
Mr. Clay  
Mr. Holland  
Mr. Kimbrel  
Mr. Mitchell  
Mr. Sheehan  
Mr. Wallich  
Mr. Winn

Messrs. Coldwell, MacLaury, Mayo, and Morris,  
Alternate Members of the Federal Open Market  
Committee

Messrs. Balles and Francis, Presidents of  
the Federal Reserve Banks of San Francisco  
and St. Louis, respectively

Mr. Broida, Secretary  
Mr. Altmann, Deputy Secretary  
Mr. Bernard, Assistant Secretary  
Mr. Nicoll, Assistant General Counsel  
Mr. Partee, Senior Economist  
Mr. Axilrod, Economist (Domestic Finance)  
Messrs. Brandt, Bryant, Davis, Doll, Gramley,  
Hocter, Parthemos, Pierce, and Reynolds,  
Associate Economists

Mr. Holmes, Manager, System Open Market Account  
Mr. Coombs, Special Manager, System Open Market  
Account

Mr. Melnicoff, Managing Director for  
Operations and Supervision, Board  
of Governors

Mr. Chase, Adviser to the Board of  
Governors

Mr. Coyne, Assistant to the Board of  
Governors

Mr. Wonnacott, Associate Director,  
Division of International Finance,  
Board of Governors

Messrs. Keir and Williams, Advisers,  
Division of Research and Statistics,  
Board of Governors

Mr. Gemmill, Adviser, Division of  
International Finance, Board of  
Governors

Mr. Struble, Senior Economist, Division  
of Research and Statistics, Board of  
Governors

Miss Pruitt, Economist, Open Market Secretariat,  
Board of Governors

Mrs. Ferrell, Open Market Secretariat Assistant,  
Board of Governors

Mr. Willes, First Vice President, Federal Reserve  
Bank of Philadelphia

Messrs. Eisenmenger, Boehne, Scheld, and  
Sims, Senior Vice Presidents, Federal  
Reserve Banks of Boston, Philadelphia,  
Chicago, and San Francisco,  
respectively

Messrs. Jordan and Green, Vice Presidents,  
Federal Reserve Banks of St. Louis and  
Dallas, respectively

Mr. Kareken, Economic Adviser, Federal Reserve  
Bank of Minneapolis

Mr. Cooper, Assistant Vice President, Federal  
Reserve Bank of New York

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By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on April 15-16, 1974, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee held on April 15-16, 1974, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period April 6 through May 20, 1974, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period April 16 through May 20, 1974, 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 for the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that real output of goods and services--which had declined appreciably in the first quarter--is likely to change little in the current quarter and that price increases are continuing exceptionally large. In April industrial production and manufacturing employment expanded somewhat, after having declined for 4 months. The unemployment rate edged down to 5 per cent, as the civilian labor force declined. Wholesale prices of farm and food products declined substantially further, but increases among industrial commodities again were widespread and extraordinarily large. The advance in wage rates has accelerated somewhat in recent months, and unit labor costs have been rising at a fast pace.

In April and early May the dollar depreciated further against leading foreign currencies, and the balance of payments remained in deficit on the official settlements basis. Rising import costs for petroleum and other products contributed to a sizable deficit in U.S. foreign trade in March.

Growth in the narrowly defined money stock slackened somewhat in April from the rapid pace in the preceding 2 months, and the more broadly defined money stock continued to expand moderately. Deposit experience at nonbank thrift institutions deteriorated sharply. Business short-term credit demands remained exceptionally strong. These demands were concentrated in banks, and to help finance loan growth, banks issued a record amount of large-denomination CD's and continued to borrow in the commercial paper and Euro-dollar markets. Private short-term market interest rates have risen sharply further in recent weeks and conditions in financial markets have been uneasy. Treasury bill rates also rose in late April and early May, but have declined markedly in recent days. Long-term rates have continued upward. Effective April 25, Federal Reserve discount rates were raised one-half point to 8 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

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To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain about the prevailing restrictive money market conditions, provided that the monetary aggregates appear to be growing at rates within the specified ranges of tolerance.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, June 18, 1974, at 9:30 a.m.

The meeting adjourned.

  
Arthur L. Swida  
Secretary