

Meeting of Federal Open Market Committee

May 28, 1968

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 28, 1968, at 9:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Brimmer
Mr. Daane
Mr. Ellis
Mr. Galusha
Mr. Hickman
Mr. Kimbrel
Mr. Maisel
Mr. Mitchell
Mr. Robertson
Mr. Sherrill

Messrs. Bopp, Clay, Coldwell, and Scanlon,
Alternate Members of the Federal Open
Market Committee

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

Mr. Holland, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Molony, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Brill, Economist
Messrs. Axilrod, Hersey, Kareken, Mann,
Partee, Solomon, and Taylor,
Associate Economists
Mr. Holmes, Manager, System Open Market
Account
Mr. Coombs, Special Manager, System Open
Market Account

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Mr. Cardon, Assistant to the Board of
Governors

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

Mr. Wernick, Associate Adviser, Division
of Research and Statistics, Board of
Governors

Mr. Keir, Assistant Adviser, Division of
Research and Statistics, Board of
Governors

Mr. Bernard, Special Assistant, Office of
the Secretary, Board of Governors

Miss Eaton, General Assistant, Office of
the Secretary, Board of Governors

Miss McWhirter, Analyst, Office of the
Secretary, Board of Governors

Messrs. Eisenmenger, Eastburn, Parthemos,
Baughman, Andersen, Tow, Green, and
Craven, Vice Presidents of the Federal
Reserve Banks of Boston, Philadelphia,
Richmond, Chicago, St. Louis, Kansas
City, Dallas, and San Francisco,
respectively

Mr. Garvy, Economic Adviser, Federal Reserve
Bank of New York

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

Mr. Duprey, Economist, Federal Reserve Bank
of Minneapolis

By unanimous vote, the minutes of actions taken at the
meetings of the Federal Open Market Committee held on April 19 and
30, 1968, were approved.

The memoranda of discussion for the meetings of the Federal
Open Market Committee held on April 19 and 30, 1968, were accepted.

By unanimous vote, the System open market transactions in
foreign currencies during the period April 30 through May 27, 1968,
were approved, ratified, and confirmed.

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By unanimous vote, paragraph 1B(3) of the authorization for System foreign currency operations was amended, effective immediately, to read as follows:

1B(3). Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$300 million equivalent.

By unanimous vote, renewal for a further period of three months of the \$100 million swap arrangement with Bank of France, maturing June 28, 1968, was approved.

By unanimous vote, renewal for a further period of six months of the \$50 million fully drawn portion of the swap arrangement with the National Bank of Belgium, maturing June 24, 1968, was approved.

By unanimous vote, renewal for further periods of three months of two System drawings on the National Bank of Belgium, maturing June 12 and June 19, 1968, respectively, was authorized.

By unanimous vote, renewal for further periods of three months of the System's Swiss franc drawings on the Swiss National Bank and the Bank for International Settlements, maturing June 18 and June 21, 1968, respectively, was authorized.

By unanimous vote, renewal for further periods of three months of two drawings by the Bank of England, maturing June 11 and June 28, respectively, was authorized.

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By unanimous vote, paragraph 4 of the foreign currency directive was amended, effective immediately, to read as follows:

Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements, and to facilitate operations of the Stabilization Fund; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period April 30 through May 27, 1968, 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 indicates that the very rapid increase in over-all economic activity is being accompanied by persisting inflationary pressures. There has been little or no growth on average in bank credit and time and savings deposits over the past two months, although the money supply has expanded considerably as U.S. Government deposits have declined. In recent

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weeks both short- and long-term interest rates have risen sharply on balance from their earlier advanced levels, partly in reaction to shifting expectations with regard to the likelihood of fiscal restraint. There has been some revival of speculative activity in the private gold market and in foreign exchange markets. The U.S. foreign trade balance and over-all payments position continue to be a matter of serious concern. In this situation, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of reasonable equilibrium in the country's balance of payments, while taking account of the potential for severe pressures in financial markets if fiscal restraint is not forthcoming.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining firm conditions in the money market; provided, however, that operations shall be modified if bank credit appears to be deviating significantly from current projections or if unusual pressures should develop in financial markets.

It was agreed that the next meeting of the Committee would be held on Tuesday, June 18, 1968, at 9:30 a.m.

The meeting adjourned.


Secretary