

Meeting of Federal Open Market Committee

July 21, 1970

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 21, 1970, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Brimmer
Mr. Daane
Mr. Francis
Mr. Heflin
Mr. Hickman
Mr. Maisel
Mr. Robertson
Mr. Sherrill
Mr. Swan
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. Partee, Economist
Messrs. Axilrod, Garvy, Gramley, Hersey, Hocter, Jones, and Reynolds, Associate Economists
Mr. Holmes, Manager, System Open Market Account

Mr. Bernard, Assistant Secretary, 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. Baker, Economist, 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

Mr. Baughman, First Vice President, Federal
Reserve Bank of Chicago
Messrs. Eisenmenger and Taylor, Senior Vice
Presidents, Federal Reserve Banks of
Boston and Atlanta, respectively
Messrs. Bodner, Snellings, Scheld, Billington,
and Green, Vice Presidents, Federal Reserve
Banks of New York, Richmond, Chicago,
Kansas City, and Dallas, respectively
Messrs. Gustus and Kareken, Economic Advisers,
Federal Reserve Banks of Philadelphia and
Minneapolis, respectively
Mr. Lynn, Director of Research, Federal
Reserve Bank of San Francisco
Mr. Cooper, Manager, Securities and Acceptance
Departments, 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 June 23, 1970, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee held on June 23, 1970, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period June 23 through July 20, 1970, were approved, ratified, and confirmed.

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By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 23 through July 20, 1970, 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 real economic activity changed little in the second quarter after declining appreciably earlier in the year. Prices and wage rates generally are continuing to rise at a rapid pace. However, improvements in productivity appear to be slowing the rise in costs, and some major price measures are showing moderating tendencies. Since mid-June long-term interest rates have declined considerably, and prices of common stocks have fluctuated above their recent lows. Although conditions in financial markets have improved in recent weeks uncertainties persist, particularly in the commercial paper market where the volume of outstanding paper has contracted sharply. A large proportion of the funds so freed apparently was rechanneled through the banking system, as suggested by sharp increases in bank loans and in large-denomination CD's of short maturity--for which rate ceilings were suspended in late June. Consequently, in early July bank credit grew rapidly; there was also a sharp increase in the money supply. Over the second quarter as a whole both bank credit and money supply rose moderately. The over-all balance of payments remained in heavy deficit in the second quarter. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to orderly reduction in the rate of inflation, while encouraging the resumption of sustainable economic growth and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of persisting market uncertainties, liquidity strains, and the forthcoming Treasury financing, the Committee seeks to promote moderate growth in money and bank credit over the months ahead, allowing for a possible continued shift of credit flows from market to banking channels. 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 that objective; provided, however, that operations shall be modified as needed to counter excessive pressures in financial markets should they develop.

By unanimous vote, the resolution authorizing certain actions by the Federal Reserve Banks that had last been reaffirmed on March 10, 1970, was amended to read as follows:

RESOLUTION OF FEDERAL OPEN MARKET COMMITTEE AUTHORIZING
CERTAIN ACTIONS BY FEDERAL RESERVE BANKS DURING AN EMERGENCY

The Federal Open Market Committee hereby authorizes each Federal Reserve Bank to take any or all of the actions set forth below during war or defense emergency when such Federal Reserve Bank finds itself unable after reasonable efforts to be in communication with the Federal Open Market Committee (or with the Interim Committee acting in lieu of the Federal Open Market Committee) or when the Federal Open Market Committee (or such Interim Committee) is unable to function.

(1) Whenever it deems it necessary in the light of economic conditions and the general credit situation then prevailing (after taking into account the possibility of providing necessary credit through advances secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act), such Federal Reserve Bank may purchase and sell obligations of the United States for its own account, either outright or under repurchase agreement, from and to banks, dealers, or other holders of such obligations.

(2) In case any prospective seller of obligations of the United States to a Federal Reserve Bank is unable to tender the actual securities representing such obligations because of conditions resulting from the emergency, such

Federal Reserve Bank may, in its discretion and subject to such safeguards as it deems necessary, accept from such seller, in lieu of the actual securities, a "due bill" executed by the seller in form acceptable to such Federal Reserve Bank stating in substantial effect that the seller is the owner of the obligations which are the subject of the purchase, that ownership of such obligations is thereby transferred to the Federal Reserve Bank, and that the obligations themselves will be delivered to the Federal Reserve Bank as soon as possible.

(3) Such Federal Reserve Bank may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts in the general account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed \$5 billion at any one time.

(4) Such Federal Reserve Bank may engage in operations of the types specified in the Committee's authorization for System foreign currency operations when requested to do so by an authorized official of the U.S. Treasury Department; provided, however, that such Bank shall take all steps practicable at the time to insure as far as possible that, in light of the information available on other System foreign currency operations, its own operations do not result in the aggregate in breaching any of the several dollar limits specified in the authorization.

Authority to take the actions set forth shall be effective only until such time as the Federal Reserve Bank is able again to establish communications with the Federal Open Market Committee (or the Interim Committee), and such Committee is then functioning.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, August 18, 1970, at 9:30 a.m.

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The meeting adjourned.

Secretary's note: On July 15, 1970, the second of the two letters quoted below was sent to Mr. Elmer B. Staats, Comptroller General of the United States, over the signature of Mr. Holland. This letter was in response to Mr. Staats' letter of June 30, 1970, quoted immediately below, to Chairman Burns.

Dear Mr. Burns:

The Chairman of the Joint Economic Committee of the Congress has asked the General Accounting Office to review the accounting standards and practices of dealers in Federal Government securities in relation to their reporting to the Federal Reserve System. A copy of the Chairman's request has been furnished to Mr. Peter Keir of your staff.

The Committee is concerned with the soundness of the dealers' accounting in support of the data they report to the Federal Reserve System, in the reliability and adequacy of these data, and in the accuracy of the reported profits taking into account the methods of allocating expenses. Our review is to be directed entirely to these matters through interview, interrogation and observation of dealers' activities. The knowledge and experience of officials of the Federal Reserve Bank of New York who are involved with the dealers' operations and reporting could provide valuable insight as a basis for our review approach and possibly for an entree to the dealers selected.

We plan to secure our basic data directly from the dealers and to rely on the Federal Reserve Bank of New York to validate such data from the Bank's reports and records if needed. This should avoid any question of compromising confidential data reported to the Bank by the dealers.

In view of the Committee's interest in speedy completion of our review, we would very much appreciate your cooperation in arranging with the Federal Reserve Bank of New York to assist our representatives and give them the benefit of their expertise.

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Dear Mr. Staats:

I am replying to your letter of June 30, 1970, in which you asked for assistance in responding to a request from Chairman Patman of the Joint Economic Committee who asked for a review of the accounting standards and practices used by U.S. Government securities dealers in their reports to the Federal Reserve System. It is our understanding that the General Accounting Office would secure the necessary information for complying with Chairman Patman's request by direct interviews and observation of the dealers' activities and that the necessary basic data would be obtained directly from the dealers. The Federal Reserve, notably officials at the Federal Reserve Bank of New York, would undertake to provide the GAO staff with technical advice and might in addition be asked to validate from the records of the Federal Reserve Bank of New York data which the dealers will provide.

Members of the Federal Open Market Committee, which has jurisdiction in this area, have indicated their willingness to have the Federal Reserve cooperate in this study in the manner you have outlined. It is their understanding that the confidential nature of the dealers' reports to the System would be protected and on this basis they interpose no objection to proceeding promptly with the study.

A handwritten signature in cursive script, appearing to read "Joe H. ...", written over a horizontal line.

Secretary