

Meeting of Federal Open Market Committee

August 24, 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, August 24, 1971, 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. 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, Francis, and MacLaury, Presidents  
of the Federal Reserve Banks of Richmond,  
St. Louis, and Minneapolis, respectively

Mr. Holland, Secretary  
Mr. Broida, Deputy Secretary  
Mr. Molony, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Partee, Economist<sup>1/</sup>  
Mr. Solomon, Associate Economist  
Mr. Holmes, Manager, System Open Market Account  
Mr. Coombs, Special Manager, System Open  
Market Account

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<sup>1/</sup> Left the meeting at the point indicated.

8/24/71

-2-

Mr. MacDonald, First Vice President, Federal Reserve Bank of Cleveland

Mr. Katz, Adviser, Division of International Finance, Board of Governors<sup>1/</sup>  
Messrs. Bryant and Pizer, Associate Advisers, Division of International Finance, Board of Governors

By unanimous vote, the Committee ratified the actions of members on August 9 and 11, 1971, respectively, approving increases in the Federal Reserve swap lines with the National Bank of Belgium from \$500 million to \$600 million and with the Swiss National Bank from \$600 million to \$1 billion, and the conforming amendments to paragraph 2 of the authorization for System foreign currency operations, with these several actions effective on August 12, 1971.

As a result of these actions, paragraph 2 of the authorization for System foreign currency operations was amended, effective August 12, 1971, to read as follows:

The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
Austrian National Bank	200
National Bank of Belgium	600

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<sup>1/</sup> Entered the meeting at the point indicated.

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
Bank of Canada	1,000
National Bank of Denmark	200
Bank of England	2,000
Bank of France	1,000
German Federal Bank	1,000
Bank of Italy	1,250
Bank of Japan	1,000
Bank of Mexico	130
Netherlands Bank	300
Bank of Norway	200
Bank of Sweden	250
Swiss National Bank	1,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,000

By unanimous vote, the System open market transactions in foreign currencies during the period July 27 through August 23, 1971, were approved, ratified, and confirmed.

By unanimous vote, renewal of a \$35 million System drawing on the National Bank of Belgium maturing September 10, 1971, was authorized.

By unanimous vote, the Committee approved an increase in the Federal Reserve swap line with the Swiss National Bank from \$1 billion to \$1,333 million, and the conforming amendment to paragraph 2 of the authorization for System foreign currency operations, to become effective if and when Chairman Burns determined that such action was in the national interest.<sup>1/</sup>

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<sup>1/</sup> Mr. Katz was present during the discussion of this matter.

8/24/71

-4-

Secretary's Note: After subsequent discussions among Federal Reserve, Treasury, and Swiss National Bank officials, it was determined that alternative means for accomplishing the objective in view would be preferable. Accordingly, the increase in the swap line was not effectuated.

The meeting then recessed and reconvened at 2:25 p.m. In attendance were those present at the morning session as well as the following:

Mr. Bernard, Assistant Secretary  
Messrs. Axilrod, Eisenmenger, Garvey,  
Scheld, Taylor, and Tow, Associate  
Economists

Mr. Altmann, Assistant Secretary, Office  
of the Secretary, Board of Governors

Mr. Cardon, Assistant to the Board of  
Governors

Mr. Coyne, Special Assistant to the Board  
of Governors

Mr. O'Connell, General Counsel, Board of  
Governors

Mr. Williams, Adviser, Division of Research  
and Statistics, Board of Governors

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

Mr. Baker, Economist, 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

Mr. Craven, Senior Vice President, Federal  
Reserve Bank of San Francisco

8/24/71

-5-

Messrs. Sternlight, Willes, Hocter,  
Snellings, Jordan, and Green, Vice  
Presidents, Federal Reserve Banks of  
New York, Philadelphia, Cleveland,  
Richmond, St. Louis, and Dallas,  
respectively  
Mr. Kareken, Economic Adviser, Federal  
Reserve Bank of Minneapolis  
Mr. Meek, Assistant Vice President,  
Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee on July 27, 1971, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee held on July 27, 1971, was accepted.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period July 27 through August 23, 1971, were approved, ratified, and confirmed.<sup>1/</sup>

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 output of goods and services has been expanding moderately, that unemployment has remained substantial, and that prices and wages have been rising rapidly on

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<sup>1/</sup> Mr. Partee left the meeting before the discussion of the following matter.

8/24/71

-6-

average in recent months. However, the economic program announced by the President on August 15 enhances prospects for higher rates of growth in real economic activity, increased job opportunities, and curtailed inflationary pressures. In July inflows of consumer-type time and savings funds slowed markedly at banks but inflows to nonbank thrift institutions continued large. Growth in the narrowly defined money stock remained rapid in July, but growth in broadly defined money slowed and bank credit continued to expand at about the second-quarter pace. Interest rates on most types of market securities declined sharply in the days following the announcement of the new program. The deficit in the U.S. balance of payments reached extraordinarily large proportions in early August, mainly reflecting an acceleration of capital outflows related to expectations of shifts in foreign exchange rates. Following the suspension of convertibility of the dollar into gold and other reserve assets, major European central banks discontinued foreign exchange market operations for a week. When most of the European markets were reopened on August 23 these central banks pursued diverse exchange rate policies, but all allowed at least some types of market transactions to take place at rates of exchange for their currencies relative to the dollar above previous upper intervention limits. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions consistent with the aims of the new governmental program, including sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to achieve more moderate growth in monetary and credit aggregates over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to achieving bank reserve and money market conditions consistent with that objective.

By unanimous vote, paragraph 1(a) of the continuing authority directive to the Federal Reserve Bank of New York with respect to domestic open market operations was amended to read as follows:

8/24/71

-7-

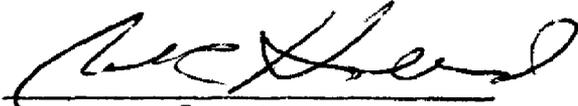
To buy or sell U.S. Government securities and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than \$2.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting.

In connection with the foregoing action, the Committee approved certain guidelines for the conduct of System operations in the securities of Federal agencies.

Secretary's Note: It was understood that decisions with respect to the implementation of outright operations in agency issues, and the announcement thereof, would be made by Chairman Burns after consultation with the System Account Manager.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, September 21, 1971, at 9:30 a.m.

The meeting adjourned.

  
Secretary