

Meeting of Federal Open Market Committee

July 18, 1972

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 18, 1972, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Hayes, Vice Chairman
Mr. Brimmer
Mr. Bucher
Mr. Coldwell
Mr. Daane
Mr. Eastburn
Mr. MacLaury
Mr. Robertson
Mr. Sheehan
Mr. Winn

Messrs. Heflin and Mayo, Alternate Members of
the Federal Open Market Committee

Messrs. Morris, Kimbrel, and Clay, Presidents of
the Federal Reserve Banks of Boston, Atlanta,
and Kansas City, respectively

Mr. Broida, Deputy Secretary
Messrs. Altmann and Bernard, Assistant
Secretaries
Mr. Hackley, General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Partee, Senior Economist
Mr. Axilrod, Economist (Domestic Finance)
Mr. Solomon, Economist (International Finance)
Messrs. Bryant, Gramley, Green, Hersey, and
Hocter, Associate Economists
Mr. Holmes, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market
Account

Mr. Melnicoff, Deputy Executive Director,
Board of Governors
Mr. Coyne, Special Assistant to the Board of
Governors
Messrs. Pierce, Werrick, and Williams,
Advisers, Division of Research and
Statistics, Board of Governors
Mr. Pizer, Adviser, Division of International
Finance, Board of Governors
Messrs. Kiley and Ring, Associate Director
and Assistant Director, respectively,
Division of Federal Reserve Bank
Operations, Board of Governors^{1/}
Mr. Struble, Economist, Division of Research
and Statistics, Board of Governors
Mrs. Rehanek, Secretary, Office of the
Secretary, Board of Governors

Messrs. Leonard and Merritt, First Vice
Presidents, Federal Reserve Banks of
St. Louis and San Francisco, respectively
Messrs. Parthemos, Taylor, Scheld, Tow, and
Craven, Senior Vice Presidents, Federal
Reserve Banks of Richmond, Atlanta, Chicago,
Kansas City, and San Francisco, respectively
Mr. Garvy, Economic Adviser, Federal Reserve
Bank of New York
Mr. Jordan, Vice President, Federal Reserve Bank
of St. Louis
Mr. Fieleke, Assistant Vice President and
Economist, Federal Reserve Bank of Boston
Mr. Kaminow, Research Officer and Economist,
Federal Reserve Bank of Philadelphia
Mr. Duprey, Senior Economist, Federal Reserve
Bank of Minneapolis
Mr. Sandberg, Manager, Acceptance and Securities
Departments, Federal Reserve Bank of New York

By unanimous vote, the action of members of the Federal Open
Market Committee on July 6, 1972, amending the operational paragraph
of the current economic policy directive issued on June 20, 1972, by

^{1/} Entered meeting at point indicated.

the addition of a reference to international developments was ratified.^{1/}

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee on May 23, 1972, were approved.

The memorandum of discussion for the meeting of the Federal Open Market Committee on May 23, 1972, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period June 20 through July 17, 1972, were approved, ratified, and confirmed.

By unanimous vote, renewal for further periods of 3 months of the 8 System drawings on the National Bank of Belgium maturing in the period August 4-25, 1972, was approved.

By unanimous vote, renewal for further periods of 3 months of the 2 System drawings on the Swiss National Bank maturing on August 10 and 17, 1972, was approved.

By unanimous vote, renewal for further periods of 3 months of the System drawings of Swiss and Belgian francs on the Bank for International Settlements maturing on August 11 and August 18, 1972, respectively, was approved.

^{1/} With this amendment, the operational paragraph read as follows:

To implement this policy, while taking account of possible Treasury financing, developments in capital markets, and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

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By unanimous vote, renewal for a further period of 3 months of the System drawing on the Bank of England maturing on August 17, 1972, was approved.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 20 through July 17, 1972, were approved, ratified, and confirmed.

With Mr. Coldwell 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 current economic policy directive:

The information reviewed at this meeting suggests that real output of goods and services increased at a faster rate in the second quarter than in the two preceding quarters. In June the unemployment rate declined, but it was still substantial. Wholesale prices of farm and food products advanced appreciably further in June and the rise in prices of industrial commodities remained substantial. Recent data suggest moderation in the pace of advance in wage rates. In foreign exchange markets, following disturbances leading to a floating of the pound sterling, the dollar has come under pressure and the reserves of European central banks have increased sharply. In May, the excess of merchandise imports over exports remained large, though a little less than in April.

Growth in the narrowly defined money stock was relatively slow in May and June, but preliminary weekly data suggest a pickup in early July. Growth in the broadly defined money stock was more substantial as inflows of consumer-type time and savings deposits to banks remained strong. Expansion in the bank credit proxy slowed sharply in June as U.S. Government deposits declined markedly. In recent weeks, long-term interest rates have changed little; rates in short-term markets have advanced, except for those on shorter-maturity Treasury bills.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to 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, while taking account of the forthcoming Treasury financing, developments in capital markets, and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

Messrs. Kiley and Ring entered the meeting.

By unanimous vote, the procedures for allocation of securities in the System Open Market Account were revised to read as follows:

1. Securities in the System Open Market Account shall be reallocated on the last business day of each month by means of adjustments proportionate to the adjustments that would have been required to equalize approximately the average ratios of gold holdings to note liabilities of the 12 Federal Reserve Banks based on the ratios of gold to notes for the most recent five business days.

2. Until the next reallocation the Account shall be apportioned on the basis of the ratios determined in paragraph 1, except that temporary interim adjustments may be made in the apportionments for two or more Banks when desirable in the judgment of the Director of the Board's Division of Federal Reserve Bank Operations and the Manager of the System Open Market Account.

3. Profits and losses on the sale of securities from the Account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.

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It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, August 15, 1972, at 9:30 a.m.

The meeting adjourned.


Arthur L. Brundage
Deputy Secretary