

Meeting of Federal Open Market Committee

February 9, 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, February 9, 1971, at 9:15 a.m.

PRESENT: Mr. Burns, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Brimmer  
Mr. Daane  
Mr. Francis  
Mr. Heflin  
Mr. Maisel  
Mr. Mitchell  
Mr. Robertson 1/  
Mr. Sherrill  
Mr. Swan  
Mr. Mayo, Alternate

Messrs. Kimbrel and Morris, Alternate Members of  
the Federal Open Market Committee

Messrs. Eastburn, Clay, and Coidwell, 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. Hexter, Assistant General Counsel  
Mr. Partee, Economist  
Messrs. Axilrod, Craven, Garvy, Gramley, Hersey,  
Hocter, Jones, Parthenos, Reynolds, and  
Solomon, Associate Economists  
Mr. Holmes, Manager, System Open Market Account  
Mr. Coombs, Special Manager, System Open Market  
Account

1/ Withdrew from the meeting at the point indicated.

2/9/71

-2-

Messrs. Bernard and Leonard, Assistant Secretaries, Office of the Secretary, Board of Governors  
Mr. Cardon, Assistant to the 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. Bryant, Associate Adviser, Division of International Finance, Board of Governors  
Mr. Wendel, Chief, 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  
Miss Orr, Secretary, Office of the Secretary, Board of Governors

Messrs. MacDonald and Strothman, First Vice Presidents, Federal Reserve Banks of Cleveland and Minneapolis, respectively  
Messrs. Eisenmenger, Taylor, and Tow, Senior Vice Presidents, Federal Reserve Banks of Boston, Atlanta, and Kansas City, respectively  
Messrs. Scheld and Green, Vice Presidents, Federal Reserve Banks of Chicago and Dallas, respectively  
Messrs. Gustus and Kareken, Economic Advisers, Federal Reserve Banks of Philadelphia and Minneapolis, respectively  
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 held on January 12, 1971, were approved.

By unanimous vote, the Committee ratified the affirmative action the members had taken on the recommendation, transmitted by wire of

2/9/71

-3-

January 22, 1971, to suspend a provision of paragraph 1(A) of the continuing authority directive (the provision limiting exchanges with the Treasury of securities held in System Account to maturing issues) to the extent of enabling the Account Management to prerefund \$4 billion of System Account holdings of the 7-3/4 per cent note of November 1971 in the current Treasury financing.

By unanimous vote, the System open market transactions in foreign currencies during the period January 12 through February 8, 1971, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period January 12 through February 8, 1971, were approved, ratified, and confirmed.

Mr. Robertson withdrew from the meeting prior to the action reported below.

With Mr. Francis dissenting, 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 suggests that real output of goods and services, which declined in the fourth quarter of 1970, is rising in the current quarter primarily because of the resumption of higher automobile production. The unemployment rate remained high in January. Wage rates in most sectors are continuing to rise at a rapid pace, and recent increases in some major price measures have been relatively large. Interest rates have fallen considerably further in recent

2/9/71

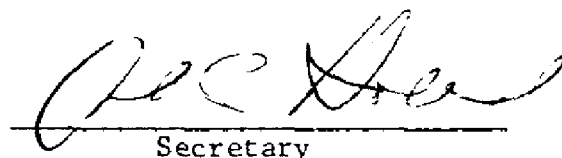
-4-

weeks despite continued heavy demands for funds in capital markets, and differentials between interest rates in the United States and those in major foreign countries have widened further. Federal Reserve discount rates were reduced by an additional one-quarter of a percentage point to 5 per cent. Bank credit increased considerably further in January, as business loan demands strengthened somewhat and banks made substantial further additions to their holdings of securities. The money stock narrowly defined grew modestly in January following a stronger December rise, but money more broadly defined expanded sharply further as a result of continued rapid growth in consumer-type time and savings deposits. The over-all balance of payments deficit in the fourth quarter was about as large as in the third quarter on the liquidity basis; on the official settlements basis the deficit increased further from the very high third-quarter level as banks continued to repay Euro-dollar liabilities. More recently, the issuance of a special Export-Import Bank security to foreign branches of U.S. banks helped to moderate the flow of dollars to foreign central banks. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to the resumption of sustainable economic growth, while encouraging an orderly reduction in the rate of inflation and the attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining prevailing money market conditions while accommodating additional downward movements in long-term rates; provided that money market conditions shall promptly be eased somewhat further if it appears that the monetary aggregates are falling short of the growth path desired.

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

The meeting adjourned.

  
Secretary