

Meeting of Federal Open Market Committee

April 6, 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, April 6, 1971, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman
Mr. Hayes, Vice Chairman
Mr. Brimmer
Mr. Clay
Mr. Daane
Mr. Kimbrel
Mr. Maisel
Mr. Mayo
Mr. Morris
Mr. Robertson
Mr. Sherrill

Messrs. Coldwell and Swan, Alternate Members of the Federal Open Market Committee

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

Mr. Holland, Secretary
Mr. Broida, Deputy Secretary
Messrs. Bernard and Molony, Assistant Secretaries
Mr. Backley, General Counsel
Mr. Pardee, Economist
Messrs. Avilroa, Lischmeager, Garvy, Granley, Hersey, Reynolds, Scheld, Solomon, and Tow, Associate Economists
Mr. Holmes, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

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Mr. Kenyon, Deputy Secretary, Office of the Secretary, Board of Governors
Mr. Leonard, 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. Gemmill, 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. Melnicoff, MacDonald, and Strothman, First Vice Presidents, Federal Reserve Banks of Philadelphia, Cleveland, and Minneapolis, respectively
Mr. Craven, Senior Vice President, Federal Reserve Bank of San Francisco
Messrs. Hocter, Brandt, Andersen, and Green, Vice Presidents, Federal Reserve Banks of Cleveland, Atlanta, St. Louis, and Dallas, respectively
Messrs. Gustus and Kareken, Economic Advisers, Federal Reserve Banks of Philadelphia and Minneapolis, respectively
Messrs. Geng and Wallace, Assistant Vice Presidents, Federal Reserve Banks of New York and Richmond, respectively

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on March 9, 1971, were approved.

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The memorandum of discussion for the meeting of the Federal Open Market Committee held on March 9, 1971, was accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period March 9 through April 5, 1971, were approved, ratified, and confirmed.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period March 9 through April 5, 1971, were approved, ratified, and confirmed.

With Messrs. Hayes and Kimbrel 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 rose substantially in the first quarter primarily because of the resumption of higher automobile production, but that the unemployment rate remained high. More moderate growth in real GNP appears to be in prospect for the current quarter. Wage rates in most sectors are continuing to rise at a rapid pace. The rate of advance in consumer prices and in wholesale prices of industrial commodities appears to have moderated recently. In March bank credit and the money stock both narrowly and broadly defined again expanded substantially, although the increases were less sharp than in February. Inflows of consumer-type time and savings funds to banks and nonbank thrift institutions reached unusually high levels in the first quarter as interest rates on competitive short-term market instruments declined considerably further. In recent weeks, however, key short-term interest rates have moved up somewhat on balance. Yields on new issues of corporate and municipal bonds

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declined during much of March despite a continuing heavy calendar of offerings, but most recently long-term market yields have also risen somewhat. The overall balance of payments deficit in the first quarter was exceptionally large. The trade surplus for the first two months was very small, and capital outflows have been stimulated by wide short-term interest rate differentials. Despite recent reductions in the discount rates of several European central banks, these differentials remain wide. 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, moderation of short-term capital outflows, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the Treasury financing the terms of which are to be announced late in the month, System open market operations until the next meeting of the Committee shall be conducted with a view to attaining temporarily some minor firming in money market conditions, while continuing to meet some part of reserve needs through purchases of coupon issues in the interest of promoting accommodative conditions in long-term credit markets; provided that money market conditions shall be modified if it appears that the monetary and credit aggregates are deviating significantly from the growth paths desired.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, May 4, 1971, at 9:30 a.m.

The meeting adjourned.


Secretary