

Meeting of Federal Open Market Committee

September 21, 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, September 21, 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, Swan, and Winn,
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
Messrs. Axilrod, Hersey, and Solomon,
Associate Economists

Messrs. Bryant and Gemmill, Associate
Advisers, Division of International
Finance, Board of Governors

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Messrs. Bodner and Sternlight, Vice Presidents,
Federal Reserve Bank of New York

By unanimous vote, the System open market transactions in foreign currencies during the period August 24 through September 20, 1971, were approved, ratified, and confirmed.

By unanimous vote, renewal of the six System drawings on the National Bank of Belgium maturing in the period October 7-28, 1971, was authorized.

It was agreed that the authorization for the lending of Government securities from the System Open Market Account, contained in paragraph 3 of the continuing authority directive with respect to open market operations, should be retained at this time.

By unanimous vote, the Committee's "Guide for Emergency Operations," initially approved on May 29, 1962, was amended in the manner recommended in Mr. Maisel's memorandum of September 14, 1971, primarily for the purpose of removing references to "due bills."

By unanimous vote, the resolution authorizing certain actions by the Federal Reserve Banks during an emergency, which had last been revised on July 21, 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) 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.

(3) 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.

The following persons then entered the meeting:

Mr. Bernard, Assistant Secretary
Messrs. Eisenmenger, Gramley, Scheld, and
Tow, Associate Economists

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

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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. Wendel, Chief, 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

Messrs. Parthemos, Andersen, and Craven, Senior
Vice Presidents, Federal Reserve Banks of
Richmond, St. Louis, and San Francisco,
respectively

Messrs. Willes, Hocter, Brandt, Nelson, and
Green, Vice Presidents, Federal Reserve Banks
of Philadelphia, Cleveland, Atlanta,
Minneapolis, and Dallas, respectively

Mr. Schadrack, Adviser, Federal Reserve Bank of
New York

Mr. Cooper, Manager, Securities and Acceptance
Departments, Federal Reserve Bank of New York

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period August 24 through September 20, 1971, 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:

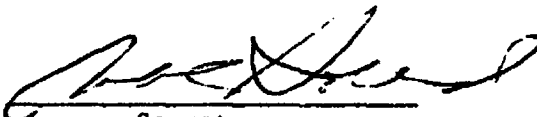
The information reviewed at this meeting suggests that the Government's new economic program has reduced inflationary expectations and has improved prospects for higher rates of growth in real economic activity and employment. In the current quarter, however, real

output of goods and services is expanding modestly and unemployment remains substantial. Prior to the imposition of the 90-day freeze, prices and wages were rising rapidly on average. In August inflows of consumer-type time and savings funds to nonbank thrift institutions moderated and inflows to banks remained at a reduced rate. Growth in the narrowly defined money stock, which had been rapid through July, slowed sharply in August; and growth in broadly defined money continued to slacken. However, the rate of expansion in the bank credit proxy stepped up, mainly reflecting a marked rise in U.S. Government deposits. Market interest rates, which declined sharply following the announcement of the new program, have since fluctuated irregularly. The U.S. balance of payments continues to be in a position of substantial basic deficit. Speculative capital outflows have diminished recently. Most major foreign currencies are trading in the exchange markets at rates against the dollar a few per cent higher than on August 13. Negotiations have begun on additional measures to reduce payments imbalances and on other improvements in the international monetary system. 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 moderate growth in monetary and credit aggregates, taking account of developments in capital markets. 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.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, October 19, 1971, at 9:30 a.m.

The meeting adjourned.



Secretary