BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

September 10, 1962.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

In view of the continuing discussion of the form and wording of the Committee's current economic policy directive, the members of the Committee may find suggestive and helpful the draft of a possible directive prepared by Mr. Knipe. This particular formulation is not being circulated as a proposal for adoption by the Committee but is distributed as one example of the way in which a directive might be worded. An accompanying sheet contains some of the background facts considered by Mr. Knipe in formulating this draft.

It will be recalled that the general form of the directive was modified at the December 19, 1961, meeting, and in considering the formulation of a directive, it may be helpful to review the minutes of that meeting, particularly pages 29-58 and 64-72.

Ralph A. Young

Ralph A. Young, Secretary,
Federal Open Market Committee.

Enclosures.

DIRECTIVE

Continue to hold Free Reserves in the $375-$425 million range, unless the bill rate declines for several days below 2.65 per cent. In the event of such a decline, withdraw reserves temporarily, and in moderate amounts, to restore the bill rate to the range of 2.65-2.75 per cent. The only reason for this overriding caveat is to try to avoid the outflow of international liquid funds seeking higher yields on a covered basis.

Aside from this concern with the international movement of liquid funds, the aim of policy is to encourage further growth of commercial bank assets and deposits. At this general level ($400 million) of Free Reserves, the Committee believes that there is no conflict between national and international objectives, i.e., policy can continue to be stimulative without an accompanying sharp decline in short interest rates.

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The background facts considered in formulating this draft may be summarized as follows:

(1) The economy is in the 18th month of a cyclical rise which has at no time shown any great vigor.

(2) Resources are not fully utilized. Unemployment is at 5.8 per cent.

(3) Prices are reasonably stable--with small rises clearly not brought about by overemployment, i.e., not related in any ascertainable way to an over-stimulative monetary policy.

(4) Economic indicators are mixed, uncertain. On the basis of comparisons with the last two cycles, little additional upward movement would be expected.

(5) In the second half of August, the Money Supply, seasonally adjusted, at $144.8 billion, was at approximately the same level where it has been since last December. It is up about $3 billion (2.1 per cent) from August a year ago.

(6) Money Supply, broadly defined to include Time Deposits, seasonally adjusted, was up $15.6 billion (11 per cent) in August, from August a year ago.

(7) Bill rates, at 2.80, are up about 40 basis points from a year ago; medium yields are down about 30 basis points, at 3.50 per cent; long yields are essentially unchanged, at 3.95 per cent, from a year ago.

(8) Free Reserves were at $404 million in the three weeks ending September 5.

(9) Nonborrowed Reserves are running nearly $1 billion higher than a year ago.