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 on Tuesday, November 27, 1956, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Erickson
Mr. Fulton
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman

Messrs. Allen, Bryan, Leedy, and Williams, Alternate Members of the Federal Open Market Committee

Messrs. Leach, Irons, and Mangels, Presidents of the Federal Reserve Banks of Richmond, Dallas, and San Francisco, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Hostetler, Parsons, Roelse, Willis, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on November 13, 1956, were approved.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period November 9, 1956 through November 20, 1956, and at this meeting a supplementary report covering commitments executed November 21 through November 26, 1956, was distributed. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse said that the past two weeks had presented a difficult period. It was largely a psychological situation but there has been a substantial number of transactions in dealers' hands to be worked out, and there had been an occasional urgent sale. In addition, press stories suggesting the likelihood of an increase in the discount rate had increased the difficulties. The Government securities market had declined quite sharply during this period with some of the aspects of the 1953 developments but so far there had been no "snowballing." In response to a question from Mr. Balderston as to whether there had been evidence of foreign selling, Mr. Rouse responded in the affirmative, stating that there had been steady selling of Treasury securities from countries in Western Europe and that it had not been limited to bills.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period November 9 through November 26, 1956, were approved, ratified, and confirmed.

Mr. Young made a statement on recent business developments in which he summarized and supplemented the information given in the staff memorandum distributed under date of November 23, 1956. His report was substantially as follows:

Despite the shortness of time since the last meeting, late information does add a little to that reported then. For instance, it is now clearer that the economic effects of the Middle East crisis are very serious and will not soon be overcome. Domestically, momentum of business advance is further confirmed. At the same time, some data "straws in the wind" are suggestive of possible slackening of economic advance later.

As to specifics:

In Western Europe, petroleum shortages have already led to consumption cutbacks; a 20 per cent reduction in oil consumption for a six-month period is in prospect; some scare buying has developed in consumer markets in several countries; and balance of payments strains for both Britain and France have intensified. International shipping rates have risen sharply further.

In this country, industrial prices have continued to show an upward tendency. The price advance for fabricated items has been extended and prices of basic industrial materials have also risen, in part because of Middle East crisis. For industrial products, the price rise from mid-October to mid-November, was 1/2 per cent or about the same as in the preceding month. The average of wholesale prices continued stable, reflecting the effect of offsetting declines in farm prices. Lower farm prices resulted mainly from seasonal reductions in prices of livestock.

Consumer prices to mid-October showed about the same rise as mid-August to mid-September, and will possibly show as much again to mid-November. This will mean that over a million workers or more will get a 2 to 3 cent an hour cost-of-living advance the first pay period of December. Another million approximately will become eligible for a 3-cent cost-of-living wage increase in January. Some 3-1/2 to 4 million workers are now covered by cost-of-living clauses in union wage agreements.

Current data on industrial output point to a further gain in the Board's index for November of 1 or 2 index points, pushing the index into new high ground. Durable goods activity accounts for most of this up push, but nondurable goods output, especially in textile lines, is also showing further rise this month.

New automobile sales have shown strengthening this month in response to new model introductions, and used car sales have about held stable. Advertised prices of used cars, after allowance for depreciation, remain at about last month's levels, indicating considerable strength in the used car market. Used car prices typically recede when new models are introduced.

Department store sales have finally shown strong upward rebound, and with sales of auto dealers on the uptrend, November retail sales should show an appreciable rise over a year ago. In October, they were barely 2 per cent ahead of October a year ago.

October reports from FHA, VA, and FNMA field offices have just become available. While construction and mortgage money conditions are reported still tighter and builders plans are said to continue downward, some other factors are on the stronger side. Residential construction costs held steady for the second consecutive month as did also new home selling time; sales of existing houses are reported to have improved.

Preliminary estimates of total national product for the fourth quarter are placing the figure at $422 billion, up about $8 billion from the third quarter and $20 billion or 5 per cent from a year ago. About half of the GNP rise over the year, of course, represents price rise.

Among the informational "straws in the wind," the following are the main items:

The value of contract awards was off significantly in October. Awards for residential construction were off most, but awards for industrial and public utility construction were also off considerably. This showing of contract awards may merely reflect a shifting seasonal pattern, for the awards series, as is well known, is highly variable.

Informal and highly preliminary reports on the McGraw-Hill plant and equipment expenditure survey suggest that the final report will point to only a small percentage rise in expenditures in 1957 from present levels. Indications in last fall's survey were that these expenditures might be expected to show an appreciable further rise in 1957.

In last meeting's report, attention was called to the present stage of inventory development. Data on business inventory positions are far from satisfactory for current appraisal purposes, in part because of complexity of measurement. On a value basis, it seems clear that inventories relative to sales are now considerably higher than a year ago and about the same as in the first part of 1953. Conditions are, of course, quite different as between the two periods, for one thing because national security expenditures were being cut back in early 1953 while currently they are expanding a little. At the same time, inventory abundance at a stage of full momentum with intensive resource utilization, suggests that inventory trends need close watching.

Another "straw in the wind" is to be found in the renewed rise of business failures in October. Number of failures from

May to September ran about a fifth higher than earlier and failure liabilities also averaged about this same percentage higher but showed more month to month change. In September, failures in number and liabilities fell sharply. In October, they have risen again to a new postwar high. This level, however, is still a little under that of the late thirties.

Finally, the number of corporate earnings reports reflecting a cost-profit squeeze continues to increase. Of a sample of 388 large manufacturing companies whose earnings reports are followed by the Board's staff, more than two-fifths reported lower third quarter earnings than last year.

Against these informational "straws in the wind," one must keep in mind the uncertain potentialities of the Middle East crisis. In the existing state of nonwar, outbreak of hostilities is a possibility constantly to be reckoned with. For war prevention objectives, some step-up in the Government's military expenditures may be unavoidable over the months ahead. Such a step-up would work to sustain or even increase demand pressures in the economy.

Following a brief discussion of the decrease in profits of many corporations in the third quarter of this year and of the rise in business failures during October, Chairman Martin asked Mr. Thomas for a summary of credit developments and prospects, and he made the following statement:

The most striking recent financial development has been the sharp decline in Treasury bond prices during the last few days. This has been accompanied by a rise in Treasury bill rates to a new high level, which has occurred despite a relatively easy reserve position for member banks as a group. As pointed out by one market commentator and suggested by others, the Federal Reserve does not have to impose additional restraints--the existing ones are severe enough.

The bond market is once again going through the process of dropping to a new level and this process is always an ordeal until a level is reached at which transactions are resumed. The current decline in Treasury bond prices was preceded by sharp decreases in prices of corporate and of State and municipal bonds, and by higher offering yields on new issues. In contrast to earlier periods of declining bond prices, stock prices have also been weak.

Explanation for this market behavior can be found largely in the analysis of the economic situation already presented to you. The weight of the evidence indicates that demands for goods and services are likely to continue pressing against the limits of supply. This means that the demands for credit will continue to be equally pressing. At the same time, credit availability is probably more restricted than it has been previously. Banks are somewhat less willing to borrow to expand their loans; they have largely run out of liquid assets to sell; and to sell longer-term securities would involve severe losses. Other financial institutions are also having difficulty in selling Government securities to acquire other loans and investments that are available. Nonfinancial corporations are not buying bills and other short-term securities to the same extent as they were a year ago, because they have other uses for their funds and are having difficulty in borrowing in the market for capital expenditures.

It is possible that some would-be borrowers are apprehensive of even tighter credit conditions and are anticipating needs, thus helping to bring on the situation they fear. If this were occurring, however, the excess funds might come back into the short-term market and there is as yet no evidence of such a movement. Banks and other investors, in fear of higher interest rates and in order to take losses for tax purposes, may be attempting to liquidate bonds regardless of price and without the offsetting purchases that characterize tax swaps. Another element of money market pressure has been the continued tight reserve positions of New York and Chicago banks, notwithstanding the easier situation for member banks as a group.

Business financial pressures have continued strong throughout the year. While income tax payments are relatively low in this period, advance provision must be made for the heavy tax payments that will be required in the first half of next year. Moreover financing of customers through accounts receivable usually increases sharply at this time of the year. Short-term financing needs slackened in summer and early fall, as the rate of inventory accumulation was reduced, but plant and equipment expenditures have continued to rise.

Internal sources of funds have not kept pace with these financing requirements. Profits in the second half have been lower than in the first half of the year and below those in the second half of 1955, while increased dividend payments have largely offset the further growth in retained depreciation allowances. Reductions in liquid asset balances and increased short-term borrowing earlier in the year had reduced corporate liquidity by mid-1956 to the lowest point in the postwar period, and the need to restore liquidity and to provide for future tax payments has limited further financing from these sources. Business needs for external financing, particularly for long-term funds, have therefore remained strong since midyear, and flotations of securities have been in record volume.

Treasury cash financing and refunding operations that have been hanging over the market have been completed for this year. Perhaps the market has felt that there may have been some nursing of it which can be ended now that Treasury needs are met. Views as to the prospects for a budget surplus have been undergoing some scrutiny recently. In view of higher income estimates, it seems likely that, barring a tax cut, budget receipts will exceed the estimates of the midyear Budget Review for fiscal 1957, and will increase further in fiscal 1958. There has been some discussion, however, of a tax cut for small corporations that might carry with it other cuts.

Prospects for expenditures are still uncertain. There are intimations of some increase over previous estimates in spending for defense purposes, and additional expenditures are in prospect for the new highway program and for old-age benefit payments. Interest costs are rising and agricultural programs are still an uncertain element.

Present indications are that there will be some surplus if taxes are not reduced and it may even be big enough to undermine objections to a tax cut. Hence the balancing effect of a budget surplus and further public debt retirement upon expansion in other sectors for the coming year is still not assured.

Results of recent Treasury financing operations provide a June maturity of only $1.3 billion of tax certificates, whereas funds available for debt retirement in that month may be as much as $4 or $5 billion. Hence the refinancing scheduled for January and February can include some additional June maturities.

Total loans and investments of city banks have increased somewhat in the past four weeks, largely because of bank purchases of the new special bill issue in the latest week. Eliminating that change, a largely seasonal expansion in business loans was approximately offset by a reduction in investments. The commercial loan increase of about $650 million was little less than that in the same period last year, but the other types of loans showed little change this year in contrast to substantial increases a year ago in real estate and consumer loans. Hence the increase in total loans has continued less than a year ago. Bank sales of Government securities (eliminating the recent bill purchase) have also been smaller than they were at this time last year.

Bank deposit growth in recent weeks has apparently not been up to usual seasonal amounts. Currency in circulation, however, after lagging somewhat in October, has subsequently shown a greater than seasonal increase. Turnover of bank deposits continued at a high level in October.

Net borrowed reserves of member banks have been at a relatively low level during the past two or three weeks, notwithstanding a substantial increase in required reserves in connection with sales of the special Treasury bill around the middle of November. Float generally has continued at a relatively high level. System purchases of bills, including those acquired under repurchase contracts, have increased by $470 million since the end of October.

In order to cover usual heavy needs for reserves in December and keep net borrowed reserves below $200 million, the System will need to acquire an additional $500 million of bills during the next two weeks. Some of these may be supplied through additional repurchase contracts, which are profitable for dealers when the bill rate is above the Federal Reserve repurchase rate. In view of the delicate state of the market and the special needs for considerable liquidity, at this time of the year, it would seem appropriate to keep net borrowed reserves at $200 million or even lower through December.

In response to a question from Chairman Martin, Mr. Thomas said that it appeared that the increase in the money supply during calendar year 1956 would approximate 1-1/2 per cent if current projections were realized.

Chairman Martin next turned to discussion of open market policy and at his request Mr. Hayes expressed his views on the situation and the policy that he would recommend. Mr. Hayes' statement was as follows:

1. There seems to be little that's new to report in the general business and credit situation since our meeting two weeks ago. In most branches of activity the economy is still expanding, although housing is an important exception. Full consequences of the Suez crisis are still none too clear. However, the likelihood of oil shipments to Europe has reversed the previous downtrend of oil prices,

the probability of a new tanker program may add to the demand for steel over an extended period, and defense expenditures are likely to increase in fiscal 1958 and perhaps toward the end of fiscal 1957. The Middle East situation undoubtedly still contains explosive possibilities calling for a watchful attitude on our part.

2. Residential construction prospects continue to deteriorate. October housing awards were off 16% from a year ago, and gains in nonresidential awards were insufficient to prevent a decline of 8% in total construction awards. Most forecasts point to some further declines in housing activity next year.

3. Retail trade, while admittedly at a high level, has been less buoyant than might be expected under present conditions of high output, employment, and income. Department store sales in New York, after showing a sharp rise in the week ended November 17, turned down again last week, and for the last 4 weeks were 1 per cent below a year ago. Domestic auto sales for 1957 are now estimated at about 6.5 million units--10% more than in 1956--but this can hardly be considered better than an informed guess at this early stage of the season.

4. While optimism is certainly dominant in the views expressed by most business economists, it is interesting to note that the median figure for the Federal Reserve Board index of industrial production recently forecast by a group of the System's own business economists was 148 for the second quarter of 1957--representing a gain over the present figure which would be scarcely in line with long term normal growth.

5. As for capital expenditures, a number of national and regional surveys point to a gain of about 10% in 1957 over 1956, but this would imply no gain over current levels. As we have previously noted, there is accumulating evidence that the boom in capital investment may be cresting out in 1957.

6. Since the last meeting there has been further substantiation of the reversal in the decline in business loans which had prevailed through most of October. It seems probable that the expansion of such loans witnessed in recent weeks will continue through the rest of the fourth quarter, but the total gain for the quarter for all member banks appears likely to be somewhat smaller than in the fourth quarter of 1955. In recent weeks banks have experienced a further loss of liquidity through sales of U. S. Government securities, although their holdings of Treasury bills have now been increased somewhat by the latest special issue.

The banks in the central money markets are still in an extremely tight position. On a national basis our projections now point to net borrowed reserves of $48 million in the current statement week, $407 million in the week of December 5th, and $713 million in the week of December 12th.

7. With the recent refunding out of the way, we hope that the Treasury's financial requirements will no longer need to be a major consideration in the determination of monetary policy, as they have been during most of the last two months. On the other hand, the capital markets are in a highly sensitive state, with a sizable calendar of offerings still overhanging the market and with unusually difficult marketing conditions causing confusion in the municipal, and to some extent in the corporate, market. Moreover, there are some indications that U. S. Government bond yields are still out of line with those obtainable on corporate and municipal bonds. These sensitive conditions are accentuated by doubts as to whether current Treasury bill rates point to the likelihood of a further discount advance. Those doubts were intensified, and not diminished, by a purported System statement on the Dow-Jones ticker on Friday, November 23, which has been interpreted as confirmation that the System has up to now regarded a further rise as necessary, and is only postponing that action temporarily. Pressure on prices of both bills and the new certificates seems to result chiefly from lack of sizable investor demand rather than from any heavy selling, although selling is currently picking up in intermediate and longer term areas, contributing to the further downward price movements in that part of the market.

8. Credit restraint seems now to be taking hold more severely than at any time in the past two years. We can see no justification for any increase in the recent degree of restraint in view of the uncertainties both in the domestic economy and in the international outlook. We would be opposed to any increase of the discount rate at this time, and we feel that any suggestion of an increase should be avoided as potentially disruptive of the money and securities markets. In the area of open market operations, the System should buy Treasury bills quite liberally in the next three weeks to prevent seasonal needs from generating greater restraint than now exists. We think it would be desirable for the System account to make these purchases day by day in relatively moderate amounts on each operation so that it may enter the market frequently as a buyer. In fact, we

> would not hesitate to buy amounts in excess of those needed to offset seasonal factors, in an effort to keep the disturbed conditions now prevailing in the security markets from developing into a disorderly situation. In order to emphasize the importance of preventing an intensification of present pressures because of seasonal influences, we would suggest that the directive might be changed by amending part (b) of the first paragraph to read "to restraining inflationary developments in the interest of sustainable economic growth, while avoiding further pressures in the money, credit, and securities markets resulting from seasonal factors."

Mr. Johns said that he would continue to characterize the economy as one of full employment at or approaching capacity in many respects. There were elements in the picture that should be taken as counseling moderation in any attempt to strengthen the Committee's restrictive policy, however. Parts of the economic review presented by Mr. Young suggested that soft spots might develop in the economy in the future. The upward movement that had been confidently forecast by many as a post-election development had not yet become evident. The international situation also created uncertainties in the outlook. In these uncertain circumstances, Mr. Johns said, he would be inclined to make no overt changes in policy. We were approaching a difficult year-end situation and actions by the Committee should not accentuate these problems. The Committee would have to supply reserves over the year-end after which it would have to absorb a considerable volume of reserves, Mr. Johns noted. He agreed with Mr. Hayes that the present effects of the restrictive policy were perhaps biting deeper than they had been and that their cumulative effects were becoming quite easily observable. The impaired liquidity of banks and the failure of bank credit to expand seasonally this fall indicated that the restrictive policy had taken firm hold. Mr. Johns said that a change in discount rate should not be undertaken at this time and that the reserves that would be needed toward the year-end should be supplied without reluctance.

Mr. Bryan reported no marked developments in the Sixth District; the economy was continuing to expand but at a slackening pace with an evident tightening of credit. On the national picture, the situation was complex. We were having one of the wildest capital goods booms that had ever been seen, superimposed on a consumer spending boom which in turn was superimposed on a demand for more leisure on the part of the American public. It was difficult to know what the Committee's policy should be, Mr. Bryan said; the short-term situation was almost certainly inflationary with price rises and cost rises occurring across the board. However, the long-run situation complicated the Committee's problem immensely and raised a question as to what the Committee now should do. The economy was rather clearly developing excess capacities in many lines attributable to the present capital goods boom. There was excess capacity in textiles, farm implement, and other industries including probably the automobile industry. Shortly there probably would be excess capacity in the building materials industry. This poses the classical problem as to what monetary policy should be when the short-run and long-run problems give possibly different indications. This problem is similar to that of knowing how to use monetary policy when a boom is caused by a segmented expansion in one sector of the economy or by a geographically localized situation.

Mr. Bryan's conclusion was that the Committee should not now ease its present restrictive policy. He doubted whether overt action should be taken in the form of a change in discount rates at the moment since such action would signal a shift toward a tighter policy, but he would not wish to preclude the idea that the System might be compelled to further discount rate action before we were through with the capital goods boom. Mr. Bryan felt that open market operations should be directed toward maintaining at least the present degree of restraint and certainly not easing it. As to guideposts that should be used in open market operations in order to maintain that degree of restraint, he would take into account the behavior of the capital markets at the present time and would not supply reserves in amounts that would cause these capital markets to rise or that would prevent what he felt was a very constructive and necessary readjustment as between short- and long-term interest rates. The Committee obviously would wish to take action to prevent the appearance of disorder in the capital markets.

Mr. Williams summarized developments in the Philadelphia District as reported on the basis of field surveys among bankers and other businessmen. Their attitude seemed to be that "we have tight money; probably we need it; let's live with it." Mr. Williams also suggested that it was somewhat surprising that there was no great opposition to current credit policy in Philadelphia since the restraint seemed to be more effective among city than among country banks. There was, however, some evidence of apprehension in academic circles as to the dilemma the central bank might find itself in in trying to maintain full employment on the one hand and stable prices on the other.

Mr. Williams went on to say that the crucial question was whether additional restraint seemed appropriate in view of recent developments. The rise in the bill rate above the discount rate was not in itself sufficient reason for an increase at this time, he said, but if the bill rate were to continue above the discount rate for some time the case for an increase in discount rate would become stronger. In view of the present weakness in the capital markets and the possibility that the position of the bill rate above the discount rate was only temporary as a result of the recent Treasury financing, and taking into account the pressure that would develop on reserves during the next few weeks, Mr. Williams felt it desirable to watch developments closely before taking any action toward additional restraint. He also commented that timing was always important in policy actions and he observed that money markets always tighten up seasonally toward the end of the year. For this reason and because of other developments that could be expected during the next few weeks, his view was that reasons for changes in monetary policy should be more compelling at the present time than ordinarily. Thus, we might find that conditions after the turn of the year (but before the February 15 Treasury financing operation) would offer a more "normal" environment for considering a change in policy. Mr. Williams concluded that open market operations should be conducted with a view to seasonal developments, that the Committee should be especially sensitive to the possibility of developments that might take place in the capital markets, and that the System should not at this time make a change in discount rates.

Mr. Fulton said that activity in the Cleveland District was continuing at a very high rate. He commented on conditions in a number of individual industries, stating that there was no widespread indication of fear of a downturn among businessmen. Inventories were increasing somewhat but this was necessary for various industries if they were to be in a position to make reasonable deliveries of their products. Plant and equipment expenditures continued at a very high rate and this might bring about overcapacity in some industries. Demand for bank loans continued high, Mr. Fulton said, but he noted that insurance companies were resuming the purchase of mortgages that had been committed to them. Mr. Fulton felt it would be completely inappropriate to make any change in discount rate at this time. Existence of the bill rate at a level slightly above the discount rate was not disturbing to him feeling it was influenced by the

Treasury's recent financing. He felt there should be no apparent relaxation of pressure on the market but funds needed for the year end should be supplied willingly. While the Committee should make no change of policy, it should be alert to the needs of the financial community.

Mr. Robertson agreed that this was a very difficult period and he also agreed that the restrictive policy which the Committee had been following was probably biting harder now than at any time thus far. He felt, however, that the state of business activity was such that the Committee should not show any evidence of easing its policy. It should provide for seasonal needs as had been suggested but in doing so should maintain the same degree of restrictiveness that had been applied during the recent period. Mr. Robertson also said that now was not the appropriate time for a change in the discount rate, although that might become desirable shortly. If this approach were to be followed, he could see no need for changing the directive at this meeting.

Mr. Mills said that in his opinion the difficult position of the United States Government securities market had a first claim on the Committee's attention. In terms of policy action this would mean that second place should be given to consideration of setting any particular level of negative or positive free reserves. In elaborating on these views, Mr. Mills made a statement as follows:

> The extreme weakness in the U. S. Government securities market can be attributed to

1. Cumulative seasonal pressures which have acted to remove buying interest both for Treasury bills and longer term U. S. Government securities.

2. Congestion in the market for new securities where available investment funds are insufficient to clear the actual and potential supply of securities.

This is the type of situation that can lead to a crisis of confidence and a disorderly market unless the Federal Reserve System intervenes aggressively. This intervention should be in the form of stepped-up purchases of Treasury bills calculated to supply new reserves to a point in volume that will

1. Bring the yield on Treasury bills down to the discount rate, or below, and thereby signal that the System has no early intention of raising the discount rate.

2. Provide the commercial banks with a margin of reserves that will serve to assist in the retention of their present holdings of U. S. Government and other securities and thereby remove market concern as to the possibility of a further commercial bank divestment of securities with a resultant market pressure. A margin of new reserves in the hands of commercial banks would also permit them to extend a modest amount of new credit to security dealers undertaking the issuance and distribution of new security offerings. In combination, the provision of reserves that will permit the commercial banks to retain their present holdings of securities and to participate moderately in the distribution of new offerings of securities should communicate strength to the prices of longer term securities and tend to restore market confidence.

3. Strengthen the liquidity of the commercial banks.

Although the actions recommended will inject new reserves into the commercial banks, the existence of high loan-to-deposit ratios will act as a sufficient restraint to prevent any unwise expansion of bank credit and, in any event, the first step that commercial banks can be expected to take before considering expanding their loans will be to improve their liquidity. Under these circumstances it is, as indicated, unlikely that the acquisition of new reserves will stimulate an undesirable expansion of bank credit at this time.

In net result, the effect of the System policy actions proposed should be that of having given general support to the U. S. Government securities market in order to relieve seasonal pressures and to permit the commercial banks adequate reserve leeway with which to clear up the tight spots in the securities and credit markets. There should be ample time after the turn of the year for the System to reverse the actions proposed at this time if it should develop that a greater volume of reserves had been provided than was necessary to accomplish the objectives sought after.

Mr. Vardaman concurred in the remarks that had been made by the several Presidents who had spoken this morning and specifically stated that he was whole-heartedly in agreement with the statement made by Mr. Hayes. Also, he was in agreement with what he understood to be the implications of Mr. Mills' statement.

Mr. Leach said that the Fifth District economy was showing a little less price pressure than was found in some other areas. Cost increases were occurring in soft goods industries but at a slower rate than in heavy goods industries of other districts, where both negotiated and automatic wage increases have had greater effects. Even the smaller Fifth District increase could not, in the case of cotton textiles, be passed on in the form of higher prices, Mr. Leach said, although bituminous coal producers were able to pass on their higher wage costs to consumers.

On the national level, Mr. Leach felt that the only workable assumption for the Committee's purpose was that the Middle East situation would continue to create uncertainties for some months. These might well produce some increase in expansionary pressures, but available data reveal no significant change in the phase of business activity in recent weeks.

Mr. Leach did not think that the prospective developments warranted a change in credit policy at this time, and conditions in the capital and money markets were such that any added restraint now might add to difficulties. Consequently, he did not favor an increase in restraint. Neither would he wish to see any decrease in restraint. This would mean that there should be neither a change in the discount rate, nor should there be a change in the feel of the market. We know that announced capital issues have been postponed, he said, and it seems probable that many unannounced issues have also been postponed or cancelled. At the moment, it was Mr. Leach's feeling that monetary policy was accomplishing all that could reasonably be expected from it and that the possible gain from an attempt to increase tightness would be more than offset by the risk of undesirable developments in the securities markets.

Mr. Leedy said that he had no new information to report with respect to economic activity in the Tenth District. He noted, however, that in Oklahoma there would be some shifting of deposits at the end of the month connected with the ad valorem tax assessment, and that this had already been reflected in a rise in borrowings from the Federal Reserve Bank of Kansas City.

With respect to credit policy, Mr. Leedy said the domestic situation gave no basis for applying additional pressure. Rate of growth in almost every segment, including the credit field, had slowed down. The foreign situation complicated the picture but did not seem to call for additional restraint. He would not rule out the possibility that the bill rate may stay above the discount rate only temporarily. Projections indicated large amounts of reserves would be needed between now and the end of the year to prevent an increase in restraint, and Mr. Leedy said that he could see no objection to the course proposed by Mr. Hayes for open market operations during the immediate future. He felt that the management of the account should be given ample latitude during this period so that the System would not contribute to any further demoralization in the Government securities market.

Mr. Allen stated that expectations of a large harvest in the Seventh District were being realized and that industrial production was at a high level, reflecting in part the Detroit automobile situation. He noted that the industry now expected automobile production of 6-1/2 million passenger cars during the forthcoming model year, and that it was estimated that this might result in a rise of about 2 to 2-1/2 billion in automobile credit outstanding. After commenting on other factors in the Seventh District business and financial picture, Mr. Allen said that he would not favor a more restrictive credit policy at this time, and he certainly would not favor any easing of policy. He agreed with Mr. Hayes' recommendations for open market operations during the next two weeks.

After commenting on the Ninth District business and financial picture, Mr. Powell noted that nationally December was a month in which the Committee could permit restraints other than monetary restraint to have a major part in the restraining influence that seemed to be necessary. Retail inventories would begin to press on prices in certain areas and this would produce a degree of the restraint that was needed. He agreed with Mr. Mills that the Open Market Committee had a major responsibility to keep the Government securities market from becoming disorderly, stating that it would be desirable for the System account to purchase Treasury bills rather liberally at the present time, buying them somewhat in advance of the seasonal needs that were going to develop between now and the year end. Mr. Powell would not wish to see the discount rate increased at this time, adding that the Committee should aim at keeping the business situation on an even keel.

Mr. Mangels said that the Twelfth District economy continued at the same high level he had reported at other recent meetings. He agreed with the suggestion Mr. Hayes had made on the policy that should be followed during the next two weeks. He also concurred with the views expressed by a number of those present that the System should not increase the degree of restraint at this time but should supply reserves freely and willingly during the period immediately ahead. On the discount rate, Mr. Mangels said that his opinion was that there should be no change now. The executive committee of the San Francisco Bank would meet tomorrow, he said, and he felt sure there would be no action to change the rate at that time. However, a meeting of the directors of the San Francisco Bank was scheduled for December 13 and there was some indication that some of the directors might then suggest an increase. What the outcome of that discussion would be, he, of course, could not know at this time, Mr. Mangels said, and his recommendations would depend on developments between now and mid-December. Mr. Mangels concurred in the suggested change in wording of clause (b) of the directive as proposed by Mr. Hayes, stating, however, that he did not think it was particularly essential to make such a change.

Mr. Irons said that there had been little change in the situation in the Dallas District during the last month or two and that activities were continuing at a high level. He could see no change in the national picture that called for a modification of credit policy at this time. An element of strength in the outlook for 1957 was the expectation of continued large capital expenditures. While there appeared to be no reason for easing policy at this time, Mr. Irons felt that the Committee should give the management of the account substantial leeway to act during the next several weeks. Tone and feel of the market would be most important during this period, Mr. Irons said, and he could see no objection to putting $400 or $500 million into the market between now and the year end on the basis of the projections that had been prepared. He would not favor a change in discount rate now nor would he favor any other overt action to indicate a shift in credit policy.

Mr. Erickson said he had no additional information to report concerning activity in the Boston District. He referred to views expressed at an economic roundup recently which forecast a rise in gross national production and in the Board's production index during the first half of 1957, as well as an increase in the level of wholesale prices. He also told of discussions with an insurance company executive last week who reported a rise in the volume of policy loans, and he suggested that this indicated an increasing effect of restrictive monetary policy which was causing some persons to borrow for payment of taxes and others to borrow on life insurance policies because the banks were tightening up on their loans to individuals. In addition, the insurance company executive stated that they had reviewed their policy on forward commitments as had some other insurance companies, and were taking a more realistic position at present, which Mr. Erickson understood meant they were not committing themselves so far in the future as they had in the past. As for credit policy, Mr. Erickson said, he would favor no change in the directive at this time nor would he change the discount rate now. He agreed with the course suggested by Mr. Hayes for open market operations for the next two weeks.

Mr. Szymczak said that the two points made by Messrs. Hayes and Mills merited serious consideration. First, he felt that if the directive was to be changed that should have been done about a month ago, when we began to supply reserves to meet seasonal and Treasury requirements, but whether the Committee should change it now or whether it would be better to wait for developments during December and consider the matter again in January was a question. Mr. Hayes' suggested change would apparently call for nothing different from what the Committee was now doing. His own inclination was to lean toward the use of the broad language in the present directive so as to avoid the necessity for changing it too frequently to meet temporary situations. He felt that changes in the language of the directive should be used to indicate a more fundamental change in policy than was called for at this time.

The second point had to do with the Government securities market. Mr. Szymczak commented that this was one of the Committee's problems that had been with it ever since the Committee came into existence. He felt we had to take it into account realistically but it was a question of the extent to which the Committee should help the Government securities market and of the extent to which it should do only what was required in terms of monetary policy. He referred to earlier wording in the Committee's directives to operate with a view to an orderly Government security market and stated that it had been difficult for the System to get away from that consideration--which with time became major.

As to the discount rate, Mr. Szymczak said that to some extent the market had already discounted an increase of 1/4 of a per cent in the rate. However, he did not recommend an increase at this time. The System, he said, should not disturb the markets further by an action that would be looked upon as a dramatic step that would confirm to some the view that the System felt additional restraint was needed.

Mr. Szymczak said that he would favor a program under which the Committee would not go as far as Mr. Mills seemed to suggest but which would move in the direction in which the Committee has been moving for several weeks, that is, a program that would continue bill purchases between now and the end of the year.

Mr. Balderston said that Mr. Bryan had set forth the problem that had been concerning him. This certainly was not an appropriate moment for overt changes in monetary policy. Consequently, until the next meeting he would continue the present degree of restraint aiming at net borrowed reserves of around $200 million without a change in either the Committee's directive or in the discount rate. Mr. Balderston went on to say that he thought the Committee should be prepared for an emergency meeting or for a telephone hookup in the event of a disorderly securities market. If such a market should develop, he felt it important that the Committee not act prematurely.

As to the long run, Mr. Balderston said that he felt sure there was a fundamental change in the foreign and domestic outlook. The impact of the change on the domestic economy was not yet clear but it seemed to him probable that much of what Mr. Bryan had indicated would come to pass. If so, this would increase the strains in the domestic economy, especially in the metals and metal production industries. The inflationary pressure would be increased in this country at the very time the European economy was being starved for oil and some raw materials. Abroad, he foresaw a downturn of productivity as inevitable, a downturn that would most certainly be accompanied by cost and price rises, by a possible devaluation of currencies, and by pleas to the United States for financial and material assistance. These pleas, plus a step-up in military appropriations in this country, would cause Governmental expenditures to rise substantially during the next year. Mr. Balderston expressed concern that the nation was entering this situation loaded with debt and other commitments. Both inflationary and deflationary aspects are likely to occur simultaneously, and he did not think that general monetary controls alone would prove adequate. They would need to be strongly supported by fiscal policy. Mr. Balderston suggested that it was none too soon for the Treasury to plan steps that would cause the budget surplus to increase next year. Only if fiscal policy served as a full partner of monetary policy would it be possible to minimize the inflation. Mr. Balderston said he could see nothing that this Committee could do today to prepare for what he felt was an inevitable sickness abroad, but it seemed none too early to prompt the Treasury to make plans to prevent the disappearance of the budget surplus.

After Mr. Hayes, at Chairman Martin's request, re-read his suggested change in clause (b) of the Committee's directive, the Chairman said that while he did not think the matter of great importance, he favored the change. He felt it desirable that the wording of the directive not get frozen, and he believed there had been shades of change in what the Committee had been doing. He had vacillated back and forth a number of times in the past few weeks as to what was called for. He agreed with Mr. Bryan that short-term and long-term problems presented a dilemma as to the role of monetary policy. Chairman Martin said he also agreed with Mr. Mills that at the end of the year the capital and securities markets would become of major importance in the atmosphere in which the Committee was operating. To recognize this did not mean that the Committee wished to move toward a peg in the Government securities market. The Committee might have to put double the amount of reserves in the market, however, if it permitted a situation to develop too far before providing some additional reserves. His views were still colored, Chairman Martin said, by what happened at the end of 1951. He hoped the Committee would not let the market get away from it at this point. However, this did not mean that we needed to make overt changes in policy and he did not think there was any specific level of net borrowed reserves that offered a guidepost to bring about the desired situation. As Mr. Irons had pointed out, the Committee should be prepared in managing the System account to be alert to the amount of reserves that would be needed in the market between now and the end of the year.

Chairman Martin said that the Committee need not try to forecast business too far in advance but he felt that it should come to some conclusion as to the outlook. Since his return from Europe early this month he had been trying to reach a conclusion on this point and on the relationship of developments in the Middle East to our domestic situation. He believed it too early to say that the boom had ended in Europe. However, factors might be developing which would bring about a decline in business and the Committee should bear that in mind. He was not weakening in his conviction that the elements for growth in our economy were still with us, but a minor cyclical movement might be developing.

Turning to current policy, Chairman Martin said that while there seemed to be minor differences of opinion at this meeting, in general the consensus was surprisingly good. For his part he would favor a change in the wording of the directive along the lines Mr. Hayes had suggested.

Mr. Hayes again read his proposed change, which would supplement the existing words, "to restraining inflationary developments in the interest of sustainable economic growth," by adding "while avoiding further pressures in the money, credit, and securities markets resulting from seasonal factors."

Mr. Mills said that he felt the change Mr. Hayes had suggested in the directive would be desirable as a means of expressing in the record an indication that the Committee was alert to the kind of pressures that developed each year end. Such wording of the directive would indicate that the Committee was proceeding in a way that would modify these year-end developments.

Mr. Vardaman concurred in the views expressed by Chairman Martin and Mr. Mills, stating that it seemed to him important that the record show that the Committee recognized recent developments and their possible effect on the economy.

There followed a general discussion of the change that Mr. Hayes had proposed in the wording of clause (b) of the directive during which the consensus of comments indicated that some modification of the existing wording would be desirable. After considering various suggestions, there was agreement that clause (b) of the first paragraph of the Committee's directive should be changed to indicate that operations for the System account should be with a view among other things "to restraining inflationary developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions."

Mr. Rouse stated, in response to Chairman Martin's question, that he had no suggestions for other changes in the Committee's directive.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the following directive to the Federal Reserve Bank of New York, with the modification in clause (b) set forth above, was approved:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and

allowing maturities to run off without replacement) for the System open market account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Chairman Martin called upon Mr. Mills for a statement with respect to the proposal made at the meeting on November 13, 1956, that the limit on the authority of the Federal Reserve Bank of New York to purchase bankers' acceptances be increased. A memorandum from Mr. Rouse on this subject had been distributed to the members of the Committee under date of November 16, 1956.

Mr. Mills noted that the proposal made by Mr. Rouse was that the limit on the authority for direct purchases of bankers' acceptances by the New York Bank for its own account, as given by the Federal Open Market Committee at the meeting on March 2, 1955 and as renewed at the meeting on March 6, 1956, be increased from $25 million to $50 million. Reasons for the proposed increase, Mr. Mills said, were that the tight credit market and the withdrawal to a degree from the bankers' acceptance market of some foreign central banks had overloaded the market beyond its capacity to absorb the volume of acceptances offered, at least at the ruling rates that were in effect at the time of the meeting on November 13. For these reasons the Committee might wish to increase the limit on purchases as a safety valve since holdings of the New York Bank were rising toward the $25-million level. A disadvantage to the proposal was that the System, by giving support to the bankers' acceptance market, might narrow that market and reduce the incentive for dealers to exploit and expand the market beyond its present limits. Mr. Mills went on to say, however, that in view of the unsettled international situation and in view of the importance of foreign banks to the bankers' acceptance market, it would be his opinion that the limit on purchases of bankers' acceptances should be increased as suggested, but with the understanding that the System would tend to be a reluctant purchaser rather than a free purchaser of additional bankers' acceptances. At a later time, when a clearer view of the bankers' acceptance market could be revealed, the Committee should review the matter further to determine whether the limit should remain at $50 million or be reduced to the previous $25-million level.

Mr. Hayes stated that the New York Bank was suggesting that another limit be placed on the amount that might be purchased, namely, that it could not exceed either $50 million or 10 per cent of the total volume of prime bankers' acceptances outstanding at the end of the preceding month. It would be understood, he said, that the New York Bank would continue to deal only at the market and would not allow itself to become the residual buyer for bankers' acceptances. In addition to the value of acceptance purchases in giving assistance to dealers, Mr. Hayes felt that the acceptance should be a regular means of carrying on open market operations, being used as a money market instrument. He also stated that the Committee should feel free to review the authorization and to change it at any time.

Mr. Robertson said that he would oppose the suggested increase in authority to purchase bankers' acceptances. He felt that the arguments for the increase were exactly the same as those made when the proposal first came up, when the Committee agreed to go along with the idea on the basis that it would be desirable for the central bank to show an interest in the acceptance market but not for the purpose of carrying out monetary policy. It was his view that the current proposal was not for the purpose of showing an interest on the part of the central bank; rather, the central bank was becoming a residual buyer for acceptances and would be taking the excess supply off the market, at the going rate, at a time when regular buyers were not willing to do so. Mr. Robertson said that he felt it would be wiser if the Committee were to avoid subsidizing the acceptance dealers. If it wished to support the acceptance market it would be preferable to do so on the basis that had been followed years ago of standing ready to be a residual buyer of acceptances, but at a rate which would not provide dealers with a profit.

Mr. Allen said that he had questioned the desirability of this proposal on somewhat the same grounds that Mr. Robertson mentioned. He had reviewed all of the memoranda that had been supplied on this subject since 1954, he said, and on the basis of his knowledge and experience in dealing with this market he did not feel that System purchases of bankers' acceptances within the present $25 million limit were of any importance in supporting the market. He questioned who would be assisted by increasing the limit, stating that purchase of an additional $25 million would simply place more money with the banks that needed it today and that only those few banks would profit from the action. It was his view that this was a good time to permit the acceptance dealers and others interested in the market to go out and find a new market for the acceptance.

Mr. Hayes commented that a number of commercial bankers in New York and elsewhere had for some time been trying to build up the market for acceptances, and recently there had been some evidence of a broadening of the market.

Mr. Rouse said that as far as the New York Bank's operation was concerned, the volume of acceptances had fluctuated seasonally within the existing limit since the authority was given early in 1955, and in general it would continue to do that. He added that the Bank had not been a residual buyer at any time in this period and would not contemplate getting into that position.

Mr. Vardaman said that the decision should not be based on whether the authority would help the dealers. It was a question of the value of the authority in stimulating the use of the acceptance as an instrument in foreign or domestic trade. If the banks benefited that was all right with him, Mr. Vardaman said, and if the instrument was worth-while, which he believed it was, it was desirable to encourage the development of a market for its use.

Mr. Szymczak stated that he too favored developing the bankers' acceptance as a money market mechanism and that he would favor the increase in authority as proposed.

Mr. Thomas said that the acceptance was a particularly convenient instrument for Federal Reserve policy in that it enabled banks to create instruments to obtain reserves for seasonal purposes. It was a particularly convenient instrument for foreign trade. If the banks saw that the Federal Reserve was willing to buy, say, $50 million of acceptances, there would be more of an incentive to increase their use, and banks might move in the direction of reducing their commission on these instruments. It was Mr. Thomas' view that there would be a great advantage in having the System indicate an increased interest in this particular market.

Mr. Johns stated similar views, and he described the increased use of the bankers' acceptance that had developed among Memphis banks in financing cotton transactions. Mr. Johns said that he would favor wider use of the instrument.

Chairman Martin said that this was the basic point in the discussion, that is, whether the Committee believed that the acceptance was an instrument that should be encouraged. He noted that there was a difference of opinion, stating that Mr. Robertson had eloquently discussed the matter at a number of meetings of the Committee. There was a question whether we would achieve our purpose, but Chairman Martin stated that his judgment was that a showing of System interest in the market would help to develop it. He did not object to the Reserve Banks being residual buyers of acceptances. However, he did not feel the proposed increase was a matter of major importance although he would favor increasing the limit.

Mr. Robertson said that in his view such action would have the opposite effect on the development of an acceptance market. The more the System bought acceptances, the more it deprived the dealers of the incentive to go out and develop a market.

Mr. Mills said that he was impressed by the atmosphere of emergency and crisis that we faced in the money market. Whether the System dealt in Treasury bills as being the instrument nearest to money or in bankers' acceptances was just one step removed. When New York banks were experiencing unusually tight conditions the bankers' acceptance offered a means for adjusting their reserve position rather than going to the discount window. This was a flexible instrument which would provide reserves at a time when they were needed.

Messrs. Williams, Erickson, and Leach expressed themselves as favoring the development of a greater market for bankers' acceptances, and Mr. Balderston also indicated that he would favor approval of the increased limit on the authority for the New York Bank.

Chairman Martin reiterated that he, too, would favor the suggestion Mr. Mills had presented for increasing the authorization from $25 to $50 million on an experimental basis.

> Thereupon, upon motion duly made and seconded, the Committee authorized the Federal Reserve Bank of New York to buy and sell for its own account prime bankers' acceptances in accordance with the authorization given in March of 1955 and renewed on March 6, 1956, provided that the total amount of such acceptances held at any one time by the Bank should not exceed $50 million and provided further, that such holdings should not be more than 10 per cent of the total of

bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

On this action Mr. Robertson voted "no."

Mr. Allen, although not a member of the Committee, indicated that he would not favor the foregoing action.

Secretary's note: The resolution approved at the meeting on March 6, 1956, as changed by the foregoing action, reads as follows:

The Federal Open Market Committee hereby authorizes the Federal Reserve Bank of New York for its own account to buy from and sell to acceptance dealers, at market rates of discount, prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, at such times and in such amounts as may be advisable and consistent with the general credit policies and instructions of the Federal Open Market Committee, provided that the aggregate amount of such bankers' acceptances held at any one time by the Federal Reserve Bank of New York shall not exceed $50 million and provided further, that such holdings shall not be more than 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

The Federal Open Market Committee further authorizes the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in bankers' acceptances covering prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, subject to the same conditions on which the Federal Reserve Bank of New York is now or may hereafter be authorized from time to time by the Federal Open Market Committee to enter into repurchase agreements covering United States Government securities, except that the maturities of such bankers' acceptances at the time of entering into such repurchase agreements shall not exceed six months, and except that in the event of the

> failure of the seller to repurchase, such acceptances shall continue to be held by the Federal Reserve Bank or shall be sold in the open market. Such repurchase agreements shall be at the same rate as that applicable, at the time of entering into such agreements, to repurchase agreements covering United States Government securities.

Chairman Martin noted that the next meeting of the Committee was scheduled for 10:00 a.m. on Monday, December 10, 1956.

Chairman Martin stated that the members of the Board of Governors would like to have the Presidents of the Federal Reserve Banks comment concerning the maximum permissible rates of interest payable on time and savings deposits, as fixed by the Board of Governors in Regulation Q, Payment of Interest on Deposits. He noted that this matter had been discussed on a number of occasions over a period of time and stated that, in view of requests being received for a change in the limit, it would assist the Board if each of the Presidents would express his view concerning the rates that should be permitted under the regulation. A summary of their conclusions follows:

> Mr. Hayes said that in its recommendation to the Board of Governors, the New York Bank had initially recommended going to 2-3/4 per cent on time deposits with a maturity of 90 days or more and had recommended no change on the rate for savings deposits. The assumption had been that a differential of 1/4 per cent between the time deposit rate and the savings deposit rate would not be particularly significant. Subsequently, however, Mr. Hayes said that he had concluded that in view of rising market rates of interest he would prefer that the rates on both savings deposits and longer-term time deposits be increased to 3 per cent, with some related modification of shorter-term time

deposit rates. In his opinion such action would be justified in the light of current market rates of interest and in view of the fact that these rates had not been changed in 20 years.

Mr. Johns stated that he would support the views expressed by Mr. Hayes.

Mr. Bryan said that he was strongly in favor of going to 3 per cent as a permissive maximum rate on both time and savings deposits.

Mr. Williams noted that there was strong opposition in the Third District, especially in the outlying areas, to an increase in the maximum permissive rate. His personal position was that he was sensitive to the problem that had been presented by the New York banks and he indicated that some increase in the maximum rates might be called for.

Mr. Fulton was opposed to any increase in the maximum permissible rate on either time or savings deposits, feeling that it would encourage banks to reach for high-yield investments with possibly catastrophic results.

Mr. Leach stated that, while he previously had been opposed to an increase in the maximum permissible rate under Regulation Q and while most bankers would be opposed to an increase, if he were a member of the Board of Governors he would vote to increase the rate above the present 2-1/2 per cent ceiling on both time and savings deposits.

Mr. Leedy said that while an increase in the maximum would be unpopular with banks he could not see that the bankers' attitude should be controlling. Basically, he felt the Board should not be in the business of attempting to regulate rates on time deposits and he said it was particularly undesirable that they be regulated in the detail required by the law and Regulation Q. He could not see any justification, however, for continuing the maximum rate of 2-1/2 per cent that had been fixed in 1936 when the whole structure of interest rates was completely different from what it is now.

Mr. Allen said that the bankers in the Seventh District were opposed to an increase in the maximum permissible rate, that the directors of the Detroit Branch of the Chicago Bank yesterday adopted a resolution opposing an increase in the rate, and that he personally would not favor an upward movement in the rate until more banks had gotten closer to the existing 2-1/2 per cent maximum permitted and had shown that they could live with the expense implied by such a rate.

Mr. Powell said he would not be opposed to increasing the maximum permissible rate on time and savings deposits to 3 per cent, believing that to be a natural rate and the sort of rate that people feel that they should receive on long-term savings. Banks were making good profits and all other interest rates had risen to what he felt was a more normal level than had existed for many years. Since the banks could afford to pay more on savings, he would support a 3 per cent rate at this time.

Mr. Mangels said that the bankers in the Twelfth District would not favor an increase in the maximum rate. His personal view would support an increase in the maximum rate permitted on time deposits up to six months' maturity along the lines suggested in the question presented to the Presidents' Conference in September, but he would not favor an increase in the over-all ceilings under Regulation Q.

Mr. Irons would support an increase in the maximum rate to 3 per cent on both time and savings deposits. He would not be in favor of an increase in the rate on time deposits without a corresponding increase in the rate on savings deposits.

Mr. Erickson stated that he would now favor an increase in the maximum permissible rate on both time and savings deposits.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary