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, April 16, 1957, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Bryan
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Williams

Messrs. Irons, Leach, and Mangels, Alternate Members of the Federal Open Market Committee

Messrs. Erickson, Johns, and Deming, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Atkinson, Bopp, Marget, Roelse, and Young, Associate Economists
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. Larkin, Assistant Vice President, Federal Reserve Bank of New York
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Mr. Thompson, First Vice President, Federal Reserve Bank of Cleveland

Messrs. Hostetler and Daane, Vice Presidents, Federal Reserve Banks of Cleveland and Richmond, respectively; Messrs. Holland and Einzig, Assistant Vice Presidents, Federal Reserve Banks of Chicago and San Francisco, respectively; Mr. Parsons, Director of Research, Federal Reserve Bank of Minneapolis; Mr. Willis, Financial Economist, Federal Reserve Bank of Boston; and Mr. Bowsher, Economist, Federal Reserve Bank of St. Louis.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 26, 1957, 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 March 26 through April 10, 1957, as well as a supplementary report covering commitments executed April 11 through April 15, 1957. Copies of both reports have been placed in the files of the Committee.

Mr. Larkin stated that the Treasury bill rate in yesterday's auction averaged 3.19 per cent. There had been vigorous bidding and the total of tenders received was $2.9 billion, a new record. Demand for the bills this morning had driven the rate down to 3.11 per cent. Mr. Larkin also said that the pressure on New York Banks seemed to have lifted within the past few days, with the result that they had reduced their aggregate borrowings.

Mr. Robertson said that he wished to compliment the New York Bank and the Trading Desk for a very intelligent and effective handling of operations for the System account since the preceding meeting.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 26 through April 15, 1957, were approved, ratified, and confirmed.

Chairman Martin said that following the meeting held on March 26, a Reserve Bank inquired whether there would be objection to reproducing and distributing to all directors of the Bank and its branches the paper on "The Basic Economic Problem" presented by Mr. Young at the Committee meeting held on March 26. Chairman Martin went on to say that it had not been the practice to distribute material presented at Committee meetings to persons other than those who participated regularly in the open market work. While he thought it desirable to keep directors and others in the System as well informed as possible, he suggested that the question of distributing a paper such as the one Mr. Young had presented be discussed by the Committee before departure from the practice that had been followed in the past.

Mr. Mangels said that he felt Mr. Young's paper was excellent. He also thought it desirable for the Reserve Bank directors to have an opportunity to study the views that Mr. Young had presented. However, he questioned the advisability of distributing to a group as large as the Reserve Bank directors material that had been presented at a Committee meeting. He would be inclined not to distribute the paper unless it could be modified in a way to eliminate identification as something presented to the Federal Open Market Committee for consideration in connection with determination of policy, and also unless the paper could be changed to make its purpose more understandable to the directors.

Chairman Martin said he thought there was a great deal to the view expressed by Mr. Mangels. He would have no objection to the substance of Mr. Young's paper being discussed or distributed widely, but he felt the Committee should be careful not to permit the material presented for its consideration to become public property.

Mr. Hayes stated that he, too, felt there was much to Mr. Mangels' view. However, he thought the paper Mr. Young had presented could be modified and distributed as something that had nothing to do with the Open Market Committee but as a paper that represented an expression of views by a member of the Board's staff. The paper was a valuable contribution to general thinking on how to approach monetary policy, Mr. Hayes said, and, if it were not identified with formulation of policy by the Committee, he felt that a useful purpose would be served in making it available.

Following some further discussion, it was agreed that the Committee would continue the policy of not distributing to others than those authorized to receive open market records the materials presented for consideration at meetings of the Federal Open Market Committee.

At Chairman Martin's request Mr. Young made a statement on the economic situation as follows:

Economic activity generally moves on a high plateau--a plateau marked, however, by divers surface irregularities. Whether upward or downward tilt is to predominate next is the question everybody asks and nobody can answer. It seems best to assume a "watch and wait" attitude, hoping that needed offsetting adjustments will take place under conditions more actively competitive. As long as savings continue to be translated promptly into spending, such hope has real foundation.

Total national product for the first quarter is now estimated at $427 billion, up $3 billion from the fourth quarter. Most of the rise from the fourth quarter of last year represents higher prices; the gain in real terms was nominal, a development broadly confirmed also by the index of production.

For March, the production index is currently estimated at 146, with an April "guestimate" of, say, 145. While steel output and auto production have been off since February, output of minerals, (especially coal and oil) producers and military equipment, and textiles has been up.

At the business spending level, expenditures for inventory have been off sharply, the accumulation rate on an annual basis for the first quarter being under $1 billion compared with a rate of well over $4 billion for the preceding quarter. With cautious inventory policies reportedly the rule generally, and with cutback of retail automobile inventories setting in earlier this year than last, little stimulus is to be expected from the inventory spending source for the present.

Business spending for fixed capital has been rising further, but the evident increases had been much smaller than last year. In recent months, new orders of durable manufacturers, weighted heavily by metals, equipment, and machinery producers, have about been steady and close to shipments, so that the heavy backlog of unfilled orders has remained stable. Contract awards for industrial and commercial construction, after declining some late last year, have stabilized at a still high level and recently have shown a rising tendency.

Government spending for goods and services has been on the rise, and was a major factor in the GNP increase from the fourth to the first quarter. Federal Government spending may taper off for the second quarter, but State and local government spending seems destined to rise further.

Consumer spending and saving both continue to advance along with personal income. In March retail sales were off, but only slightly. While sales of new autos lagged, sales of furniture and appliances were again strong. Department store sales reattained the high level of the late fall. This year, consumer instalment credit has been expanding at a rate of about $200 million a month, mainly reflecting growth of automobile paper. The proportion of new cars being financed is a little below last year, maturities and downpayment patterns are about the same, and repossessions are higher, but not alarmingly so. The used car market continues fairly active, with prices stable.

Reflecting mainly the continuing impact of a small volume of FHA and VA underwriting, low downpayment demand for new houses seems about cut out of the market. This appears to have been a main factor in the decline in housing starts. Most recent mortgage market reports suggest some easing in the availability of funds for Federally underwritten mortgages and some reduction of discounts on them.

Reflecting continued high levels of spending generally, labor market changes have been mainly seasonal. In manufacturing, however, employment and average hours have undergone small further reductions, and hourly earnings have shown no change for the fourth consecutive month.

Prices in wholesale markets have been generally stable at levels about 4 per cent above a year ago. Recent changes in materials prices have been largely offsetting, with prices of finished goods more typically stable. Among farm product and food prices, prices of livestock and meats have been strong recently, averaging about 15 per cent above a year ago.

The consumer price index is believed to have risen further to mid-March, with food prices and rents about steady, but prices of other commodities and services up.

Demands abroad continue strong, as shown by U. S. export developments in the first quarter. In Britain and Germany, where activity leveled off earlier than in this country, there are indications of resumed expansion. In France and Japan and India, as well as in some other countries, inflationary conditions remain dominant. In France, at long last, some positive action in the direction of monetary restraint offers modest encouragement.

Mr. Thomas then made a statement on recent credit developments substantially as follows:

Demand for credit in the aggregate has continued large in recent weeks. Money rates, which declined somewhat in March, have become firmer and probably more accurately reflect the demand-supply factors in the market than they did three weeks ago. System operations have no doubt contributed to firming of money rates by permitting member bank borrowings to increase to around the maximum level of the past year. This is approximately the level that prevailed from late March to early May last year.

Despite the continuation of a large volume of borrowing for more than two weeks, Treasury bill yields have been slow in rising and have not reached the levels of early March, when member bank reserve positions were not as tight. This difference no doubt reflects the willingness of banks to borrow for particular reasons over the recent period of special demands in the money market. The special factors, some of which are customary for this time of the year, include tax payments, the Cook County tax shifts, and the Treasury financing.

With the passing of these temporary influences, pressures are again building up in the money market, and as in April of other recent years some further rise in money rates may be expected. The situation this year, however, differs from that of 1956 and also from that of 1955 in some respects. In the first place, both banks and dealers hold substantial amounts of the recent new Treasury issues in their portfolios, and they may prefer to continue to borrow rather than liquidate securities on a weak market. Moreover, in each of the two previous years, Reserve Bank discount rates were increased around mid-April; these actions were more or less anticipated by the market and there was some endeavor to liquidate holdings. No discount rate increase is expected in the near future. Another factor that may be of considerable importance is that with Treasury bill rates, as well as rates on the recently acquired new issues, somewhat above the discount rate, banks find it profitable to borrow and retain their holdings rather than liquidate them to reduce borrowings. Finally, it appears that private credit demands are somewhat less vigorous this year than in the two previous years. The Treasury is the principal borrower, showing an increase in credit demands compared with previous years. This shift from less private borrowing to somewhat more Government borrowing is an important aspect of the current situation that needs to be taken into consideration in the determination of System policy. It should not be considered as a reason for relaxation of restraints.

The Treasury reduced its outstanding debt less in the first quarter of this year than in any other recent year, and, in fact, because of increased redemptions of savings bonds and attrition on maturing issues, together with a smaller surplus and drawings by the International Monetary Fund, the Treasury has had to borrow new money, contrary to usual practice at this season. In addition, FNMA has issued over $600 million of its new obligations this year. When this occurs the Treasury obtains cash to offset previous expenditures, but the pressure on the money market is equivalent to increased Treasury borrowing.

The Treasury cash position may now be large enough to defer any further market borrowing until July, but there remain some important uncertainties. Much will depend upon receipts from nonwithheld personal income taxes, just beginning to be received in volume, because smaller earnings from capital gains last year may reduce these returns below estimates. Redemptions of savings bonds, further drawings upon the International Monetary Fund, and operations of FNMA are other possible sources of drain. Expenditures for national security have continued to run above estimates. If these possible drains are sufficiently large, some cash borrowing might be needed before mid-June. An offering for maturing F and G bonds could provide some funds in June, but because of various delays such an offering may not be feasible in time to cover the substantial May maturities. It should be pointed out that the Treasury is sanguine about the possibility of avoiding further borrowing until July.

New capital issues continue in large volume. Although total corporate issues in April may be somewhat less than in March, State and local government issues are likely to total larger than in previous months. Reports indicate that prospective issues continue to show a large aggregate. Some relaxation of demand pressures should be expected from the home mortgage market in view of the lower level of home building. Although there are a few scattered indications of such a development, in general the mortgage market continues to be characterized by tightness.

In bank credit, the principal developments have been (1) a somewhat smaller increase in loans during the first three weeks of March and a little more reduction in the subsequent three weeks compared with last year, with the net increase much larger than in other years, and (2) a net increase in bank holdings of Government securities, in contrast to the decrease that has usually occurred in the early months of the year. Thus it appears that while private loan demands are somewhat more moderate than last year, they are still large and in addition the Government is becoming a new source of borrowing demands on the banks.

Loan expansion during the tax period was only moderately less than the very high record of a year ago, and developments since have been mixed. Business loans have declined a little more than they did last year, and real estate loans have declined slightly further in contrast to an increase last year. Loans on securities increased in connection with the Treasury financing and have subsequently declined. The sharp increase in bank holdings of Government securities on March 28 has been subsequently reduced somewhat.

Private demand deposits appear to have shown some decline, after adjustment for seasonal variations. Time deposits, on the other hand, have continued to increase at a substantial pace. Turnover of demand deposits has continued at a high rate. U. S. Government deposits, after running at a relatively low level for several weeks, increased sharply in the last half of March, as a result of tax receipts and new financing. These balances are now being reduced. It remains to be seen to what extent the funds thus paid out are used to increase private deposits at banks or to reduce bank credit. Little net growth in private deposits is normally to be expected during the next three or four months, except for a temporary build-up prior to the June tax dates.

The principal changes in interest rates in recent weeks were the decline in Treasury bill yields that occurred during March and the subsequent rise in these yields, although they are still below the 3-1/4 per cent rate that was reached early in March. Yields on medium- and long-term Government securities have shown little change since mid-February at levels somewhat above those reached early in February, but below the December peaks. The relative stability in money rates has continued notwithstanding the increase in member bank borrowings to the largest weekly average since 1953.

In the past four weeks, bank reserves have been absorbed largely as result of the building up of Treasury balances--the additions to balances at the Reserve Banks reduced total reserves and the credits to tax and loan accounts increased member bank required reserves. Float has fluctuated, as is its wont, but not quite as much as was expected and on balance has exerted some drain on reserves.

System open market operations supplied a moderate amount of reserves--at first through repurchase contracts, which increased to a weekly average of over $200 million, and within the past week through outright purchases of about $130 million, while repurchases were reduced. These operations were much smaller than had been thought would be necessary at the last meeting of the Committee. The demand for reserve funds was somewhat larger than had been expected. The most important development of the period was that reserves wanted by banks were largely supplied through an increase in member bank borrowing. The surprising aspect was that this increase occurred with so little pressure on money rates. The practice followed in the past three weeks of waiting for the market pressures to manifest themselves before providing reserves proved to be well justified. Some of the possible reasons why these pressures were slow in developing were mentioned at the beginning of my remarks. The principal one was no doubt willing borrowing by banks to meet special temporary needs.

Prospects for the next four weeks, on the basis of more or less normal movements, indicate that net borrowed reserves may range from around $400 million to somewhat more than $600 million and then decline in the third week of May. Estimates of the Board's staff both for the next few weeks and for the quarter as a whole project a lower level of required reserves than do the New York Bank estimates, owing principally to a sharper assumed decrease in Treasury tax and loan accounts. If these accounts are maintained at the level assumed by the New York Bank, then more reserves will be needed.

Continuation of the practice of awaiting market pressures would seem appropriate for the near future, particularly as long as the bill rate remains well above the discount rate. Under those conditions banks will borrow to meet essential reserve needs. The System can guage its operations on the basis of the pressures that arise, i.e. on the behavior of the market, and the performance of the economy.

In response to a question from Chairman Martin as to when the next Treasury financing would be announced, Mr. Thomas stated that he understood an offering would be made around May 1 for refunding the Treasury 1-5/8 per cent notes maturing May 15, 1957 in the amount of approximately $4 billion. Mr. Thomas noted that all of the maturing securities were held outside the Federal Reserve System.

Chairman Martin next called upon Mr. Hayes for his comments on the economic situation and credit policy to be pursued by the Committee. Mr. Hayes' statement was as follows:

> The past three week period has been a most interesting one in the application of monetary policy. There was a clear consensus at the last meeting that, for one reason or another, monetary restraint had been somewhat less severe than the Committee had intended and, by the same token, the Account Management was instructed to increase the degree of restraint. The means to do so lay readily at hand, since payment for the new Treasury securities, which had been largely underwritten by the banks, had to be made on March 28, with a resulting sharp rise in reserve requirements, and it was the consensus that a major share of the required reserves should be provided through greater use of the discount window. This in fact has been done, and there is no question that the market is a great deal tighter than it was three weeks ago.
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> I would like to raise two questions, however: (1) Would a continuation of this substantially greater degree of tightness be appropriate to the present economic climate? (2) What are our responsibilities to the Treasury in connection with new financing? And, as a corollary of this, is it sound practice, in general, to permit a Treasury borrowing operation to bring about a degree of tightness which might not be considered appropriate in the absence of such borrowing?
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> As to the first point, I am impressed by the fact that most of the business indicators suggest a sideways movement at best. On a seasonally adjusted basis March produced more declines than increases in major measures of production, sales and employment. Perhaps the phrase "rolling readjustment" would be a poor characterization of what we are witnessing, since this phrase suggests a surging forward in some sectors of the economy while others are weakening. At present most series are moving sideways. The changes that are taking place seem to be in one direction--downward--although the declines observed are small and are from record-or near-record levels.
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> I am also impressed by the substantially smaller nationwide growth in business loans and the greater contraction in total bank credit in the first quarter of 1957 than in the early months of 1956. This is true whether we look at loan

experience in the past three or four weeks or at the net change in loans since the year-end. It is true not only of business loans, but of total loans as well, and of loans and investments taken together (prior to the banks' underwriting of the Treasury's new offerings on March 28). In general, it would seem that loan repayments after the tax period are taking place more rapidly than a year ago or that new borrowing since the tax period has become less strong. To me this suggests that credit restraint, as applied in the first three months of 1957, has been effective, and that the banking system has not taken undue advantage of such "inadvertent ease" as may have arisen in the early months of this year primarily because of a rather fundamental change of sentiment in the market place on the business outlook, and consequently on the longer prospect for interest rates. I am in full agreement with the thesis put forward by Mr. Young at the last meeting, that we would do well to continue a general policy of restraint until it is quite clear that a real downward turn has come, i.e., to encourage competitive factors to bring some offset to the inflationary price trend of the past eighteen months. But I think we would be asking too much of monetary policy if we should expect it to bring about, by itself, a complete reversal of price increases already in effect and reflecting past wage rises well in excess of productivity gains.

Frankly I am puzzled as to how we can adequately explain the wisdom of a substantial tightening of credit under present conditions with business so much less exuberant than it was six months ago. I see no serious objection to a temporary tightening comparable, if you will, to a brief tug on the reins just to see how taut they are. The temporary appearance of net borrowed reserves in the range of $700 million for the week ended April 3rd, probably did no damage, partly because of their geographical impact and the extent of "complacent borrowing" But as the pressure has become concentrated in New York in the last week or ten days, with aggregate borrowing at the highest level since 1953, I have felt that there is a real danger of our precipitating a selling wave on the part of member banks which could lead ultimately to our having to put substantially more reserves into the market than we would wish and substantially more than would be needed now to preserve an "even keel" and remove this overhanging threat.

The second major point I should like to cover, as I said, is the question of our responsibility to the Treasury at times of cash financing. I am not talking about a case where the Treasury seeks to borrow at rates out of line with market rates;

I am thinking about a situation such as the most recent one in which the Treasury is operating on an over-all budgetary surplus and in which the Treasury has priced its securities realistically in the light of the market. On numerous occasions the Committee has conceded that we have some responsibility. But as each occasion arises, there seems to be a good deal of confusion as to what our attitude should be. It can, of course, be argued that, by forcing the banks to borrow a major part of the reserves needed to perform their task of "underwriting", we assure adequate pressure on the banks to force a rapid disposal of Treasury securities to nonbank buyers and hence to prevent a greater than seasonal growth in privately held deposits as the Treasury spends the proceeds of the offering. However, given the present attitude of the System and of the banks toward continuous borrowing, there is a real risk that the Treasury securities may be forced on to the market more rapidly than would be required to offset the growth of privately held deposits. Certainly there is no guarantee that the process of repayment of borrowings by the banks and purchases of the new Treasury securities (or an equivalent amount of other Treasuries) by nonbank buyers, can be accomplished smoothly and without undue strains in the money market. There is reason to think that a steadily restrictive policy, such as we have had for the last two years, is adequate to prevent Treasury financing from having an inflationary effect on the money supply. When reserves are supplied initially through open market purchases to take care of the biggest part of the need growing out of Treasury financing, the steady pressure of a moderate restrictive policy on the banks would cause a gradual sale of governments to nonbank interests, thus extinguishing the privately held deposits created through expenditures of Treasury funds. As deposits were thus extinguished, sales from the System Account could be made to absorb the surplus reserves and maintain steady reserve pressure. The record of the past two years, during which the Treasury has been operating on a surplus and the growth in money supply has been nominal in spite of numerous large cash offerings by the Treasury, would indicate that this process does happen, by and large, and I can see no reason why it could not have been relied upon in the present instance, instead of forcing member bank borrowing to provide most of the needed reserves. As I have already suggested, it would seem wise to take the "rough edge" off the present restraint and to relieve a part of the present pressure by replacing some of the borrowings with open market purchases--particularly in view of the fact that a sizable refunding operation is to be announced shortly.

In terms of our responsibility to the Treasury, it seems to me that we should usually be ready to provide reserves for bank underwriting through open market purchases, bearing in mind that in most instances these reserves would be withdrawn later on as the securities were distributed. Perhaps the System's minimum responsibility to the Treasury is to apply the same standards in determining System response to Treasury financing needs that are applied to other borrowers. Seasonal needs are generally not viewed as inflationary and the System does, in fact, supply reserves through open market purchases to prevent these needs from generating additional credit pressures. For the System to fail to provide reserves in support of a temporary Treasury need, in the absence of a budget deficit, means that the System has allowed the Treasury's financial needs to impose additional restraint on the credit markets at a time when it would be difficult to justify such a course on the basis of economic and credit developments.

In conclusion, I would propose moving back to a degree of restraint somewhere between what we have now and the degree of restraint prevailing before the last meeting. That would mean working toward a lower level of net borrowed reserves than has prevailed during the past two weeks, but it is difficult to specify just how much lower, as that will depend upon the distribution of reserves and the incidence of pressures, as well as upon market expectations and attitudes. I can see no reason for a change in discount rates or a change in the directive.

I think we are indebted to Governor Balderston for the way in which he has pointed up the need for ever-closer contact between the Committee members and the Account Management. While I agree that net borrowed (or free) reserves constitute the best single statistical measure of credit restraint, I think that even it has many shortcomings and that its use must be subject to major reservations. We are operating in an area where human judgments and expectations are most important and these are not susceptible to precise formulation. We have made available to each member of the Committee a copy of a memorandum just prepared on this subject by the Account Management.

Mr. Erickson said that in the New England business picture plusses and minuses added up to no specific trend either up or down in the present high levels of production, employment, and consumption. Department store sales had been well up for the third and fourth weeks before Easter and ahead for the year. Automobile sales were not good. Registrations in January and February were 16 per cent below a year ago, but in the last week or two dealers seemed to have a little more optimism than earlier. Capital expenditures were running about the same as last year, Mr. Erickson said, and he commented on a recent survey of plant and equipment expansion plans of firms in Massachusetts that showed 1957 programs larger than those for either 1956 or 1955. Anticipated expenditures for the durable goods industries showed an increase of more than 19 per cent, while the nondurable goods industries showed a reduction of almost 19 per cent. Indexes of manufacturing output in February held even with January. Shoe production was up in February over January of this year. Construction was not as strong as a year ago but building permits in certain areas were higher than in February a year ago.

Mr. Erickson said that he would make no change in the discount rate or in the Committee's directive at this time. As far as open market operations were concerned, he was happy to have attained the degree of restraint that we had had during the past three weeks, but he would avoid too much restraint. He was glad that there had been purchases of bills during the past few days, and he shared with Mr. Hayes the feeling that the Committee should not permit the situation to get too tight.

Mr. Irons said that conditions in the Dallas District were not much different from those reported three weeks ago: they continued strong on the high level plateau spoken of at that time. He had an impression of greater confidence among businessmen in so far as their own operations were concerned. Retail trade was holding well, allowing for seasonal and weather influences. Easter trade expectations were strong. Petroleum output was at a record level, although allowables had been cut back and crude output would be reduced within the next three or four weeks. Construction had shown little change in recent months and was 6 to 7 per cent below a year ago, with weakness in residential building and strength in nonresidential. Automobile sales had improved within the last month, Mr. Irons said, and during the first quarter of this year sales were 6 to 7 per cent above the first quarter of last year in four of the larger cities of the district. The agricultural outlook was more favorable at this time than in some years. Demand for credit seemed to be increasing, although statistics of loans showed little change. Borrowing at the Federal Reserve was light.

While the economy still seemed to be moving on a high plateau, Mr. Irons said that in the Dallas District prospects of moving upward were greater than prospects of moving downward.

Mr. Irons reported impressions obtained at a meeting that he attended recently at which senior executives of 50 southwestern corporations were present. Specific questions were put to each individual, Mr. Irons said, and those who commented on capital expenditures estimated that 1957 would be 5 to 10 per cent above 1956. Those who responded to questions on sales volume expected increases of 4 to 9 per cent. There was general optimism among the group, Mr. Irons said, noting that insurance company executives and mortgage representatives reported they had adequate money for real estate loans although this money was not available for VA-guaranteed loans at the present rate. There was no problem, however, in obtaining funds at conventional mortgage rates.

As to credit policy, Mr. Irons said that he had been pleased with developments during the past three weeks. The Committee had achieved the hoped for degree of restraint without serious consequences. While the Committee should rely on the account's sense of the feel of the market, he hoped that it would continue over the next three weeks essentially the same policy with essentially the same results and degree of restraint as in the past three weeks. He would not like to see any relaxation or any attempt to anticipate developments.

Mr. Mangels said that contrary to one of the comments Mr. Irons had made, he had sensed a lessening of optimism in the Twelfth District recently. This varied in degree and was most pronounced in the Pacific Northwest where the lumber situation was a primary cause of lack of optimism. Indications of an easing in the tempo of the economy were to a large extent the result of the decline in construction, both residential and nonresidential. Nonagricultural employment declined more than seasonally in February, and the normal seasonal rise in employment was not realized in March. Department store sales picked up somewhat in March. Automobile sales were still somewhat spotty although not too bad in California. Agricultural conditions generally were favorable. Twelfth District steel production was at 98 per cent of capacity, somewhat higher than nationally.

Bank loans in the Twelfth District showed a slight increase in the past four weeks, Mr. Mangels said, although less than he would consider to be normal in proportion to the U. S. total. In commenting on individual classes of loans, Mr. Mangels pointed out steps taken by at least one of the banks to increase its mortgage portfolio, adding that if the trend of decreased mortgage loans persisted with repayments of existing loans at a high rate we might look forward to a much easier mortgage situation in months to come. Savings and time deposits of Twelfth District banks had increased $350 million since the first of this year, Mr. Mangels said. As to future demand for loans, differences of opinion prevailed, some banks expecting fairly brisk demand and others expecting no particular change. Mr. Mangels noted that borrowing by individuals for income tax payments was commented on by one of the banks and, while loans are small, in the aggregate the amount of such credit might be substantial. He noted that last Wednesday the Federal Reserve Bank of San Francisco was extending no loans although System discounts were at a high level.

As to policy, Mr. Mangels said that our economy now seemed to be in a rather delicate situation. He would not be inclined to modify the pressure upward nor particularly to modify it downward. He had in mind the $500 million level for net borrowed reserves, using that as an approximate guide to operations during the next three weeks. He felt that it would be ill-advised to change the discount rate at this time.

Mr. Deming said that in the Ninth District agricultural prospects had improved recently because of improved moisture conditions in much of the district. Nonagricultural employment was up during the first quarter of this year compared with last. The only weak side of the whole nonagricultural picture was to be found in housing, Mr. Deming said, with residential prospects weaker this year than last. Banks have had bigger deposit losses this year than last during the first quarter and borrowings from the Federal Reserve Bank have been considerably heavier this year.

In the current situation, with business sentiment generally improving and with indications of a sidewise movement in the economy, Mr. Deming felt it desirable for credit policy to stay about where it is. He thought that net borrowed reserves in the $400-500 million area would be satisfactory. He would make no change in the discount rate at this time.

Mr. Allen said that developments since the March 26 meeting had not changed his view of the business situation; rather, they appear to have confirmed the sidewise movement of the economy at a high level of activity.

The feeling in automobile circles is currently pessimistic, Mr. Allen said, as it was three weeks ago, but what has been considered a normal seasonal upturn in the second quarter (20 per cent) could, if it occurs this year, dispel the pessimism. Sales in the final ten days of March were considered promising. Reports on the first ten days of April just received have, however, again been disappointing.

Mr. Allen stated that net income per farm improved in 1956 in the Seventh District, as it did nationally. Production intentions indicate some further rise in net income in 1957. Hogs, cattle, dairy products, and soil bank payments were expected to account for the gain even though production expenses were still edging upward and announced support prices were the same as last year or lower.

Since the March 26 meeting, Mr. Allen noted that Chicago banks had experienced the customary throes of the Cook County April 1 tax date when they suffer a temporary but substantial loss of deposits. The largest Chicago bank suffered a temporary loss of over $400 million of deposits this year, approximately the same as in each of the two preceding years. Most of the deposit loss had been regained by this time. In addition to the Cook County tax situation, customers of Chicago banks did more income tax borrowing in March this year than last, contrary to the experience of the balance of the country. Despite these factors, borrowing at the Chicago Reserve Bank discount window during the period from March 1 to April 10 showed a slightly lower average this year than last.

Mr. Allen said that he thought that Mr. Irons was the only one who had spoken thus far with whom he would agree as to credit policy. He believed the Committee should maintain what Mr. Hayes had termed the "rough edge" of restraint. He was on the telephone wire with the Account Management during the past week and was willing to assume whatever responsibility that implied for the program followed. His only criticism of the program was that it had been a little too easy in the past few days, his feeling being that the System account had purchased more during this period than was necessary or desirable.

Mr. Leedy said that the Tenth District had had further moisture during the past three weeks. There were reports of severe livestock losses in the western part of the district, but over all the added moisture had been beneficial, and range and pasture conditions had improved materially as had prospects for growing crops.

As to open market policy, Mr. Leedy said that it seemed to him that the few weeks we had had with the System account remaining out of the market may have demonstrated that heretofore the Committee had set its sights a little too low so far as net borrowed reserves were concerned. Recently, we had approached more nearly the situation the

Committee envisaged earlier. Mr. Leedy said that he would prefer to let pressures develop before getting into the market or anticipating such pressures. The Committee had the Treasury's refinancing to consider, he noted, but there seemed to be no need to intervene in the market to make preparations for that operation. Mr. Leedy said that he would like to see the Committee continue until the next meeting the practice of staying out of the market as completely as possible. This would require careful watching. He would not want pressure to develop that would threaten a disorderly situation, but with that qualification the Account Management might continue the same kind of operation.

Mr. Leach said that the Fifth District continued on a high plateau of business activity with divergent forces at work among the major industries. Bituminous coal production had now passed last year's output and it was expected that this year's total would show a small increase over 1956. Shipbuilding and cigarette production continued to contribute to over-all strength. Contract awards for nonresidential construction during January and February point to a rising volume of work. There were some indications of improvement in new automobile sales and there was evidence that an increasing number of sales were being made on the basis of a 36-month maturity and one-fourth or less down payment. Production of cotton gray goods continued to be a major area of weakness in the Fifth District, with further reductions in output being made to prevent excessive mill inventories. Nylon hosiery output had been cut back 25 per cent under last year.

As to policy, Mr. Leach said that Mr. Young's fine statement at the March 26 meeting pointed up in precise terms a problem that had been bothering him for some time, and he hoped that there would be an opportunity to discuss the problem fully. Meanwhile he believed that the Committee's policy should be directed toward maintaining as much restraint as reasonably possible without precipitating a downturn in the economy. While it was difficult to put this objective in specific terms, Mr. Leach said that he believed it had been attained with net borrowed reserves around the $600-700 million level recently. He doubted that net borrowed reserves could be maintained at that level without causing too much restraint, however, because of their cumulative effects. He did not wish to ease the situation, but he felt that a smaller volume of net borrowed reserves would maintain the existing degree of restraint. The forecasts presented to the Committee this morning indicated that net borrowed reserves during the next three weeks would average around $500 million. If this turned out to be correct, Mr. Leach said that he thought the existing degree of restraint would be maintained without any action on the System's part. If pressures should develop in the market, he would hope they could be met through the use of repurchase agreements.

Mr. Leach went on to say that in the last analysis open market policy must be based on group judgment, formed after taking many indicators into account. Translating that policy into actions required consideration of a number of variables which measure the degree of ease or tightness in the credit markets. This, of course, accounted for the difficulty the Committee had experienced in conveying to the Manager of the System Open Market Account a concrete guide as to the degree of tightness desired by the Committee.

It was Mr. Leach's belief that if the Committee were to focus on any single indicator as a bench mark of Committee thinking, net borrowed reserves was preferable to the bill rate or the Federal funds rate. The reasons had been set forth clearly in Governor Balderston's memorandum of April 3, 1957. Mr. Leach said that he recognized fully the limitations of any single indicator, but he was inclined to think that it might be useful for the Committee at each meeting to agree upon a figure of net borrowed reserves as an indicator of Committee thinking. This, of course, would be done after the individual statements of views had been presented. Such a figure of net borrowed reserves would serve as a bench mark, but Mr. Leach emphasized that he did not have in mind that it should be a fixed goal. In fact, the only hesitation he had in making this suggestion was the possibility that such a figure might become a fixed target to be attained under any and all conditions. This, he felt, would be a serious mistake even though the goal were to be a three-week average.

Mr. Leach concluded his comments by stating that as an indicator of the Committee's thinking, he would prefer a single figure rather than a range of figures. His thought was that it would be worth while to try this procedure, with a full realization that any such bench mark figure was not to be a set goal and with an awareness that net borrowed reserve figures had different meanings at different times.

Mr. Mills expressed the belief that the economic situation still called for a firm policy of credit restraint. It was his observation that a delayed shifting of reserve pressures from the money market banks to the country banks had been taking place and was exerting a wholesome degree of restraint over what has been a continuous expansion in country bank credit. However, he believed that in keeping pressure on the country banks, care must be taken to avoid subjecting the larger metropolitan banks to reserve pressures which are not warranted by the situation referred to by Mr. Hayes of a lessening pressure of demand for bank loans in that area.

Referring to Mr. Thomas' comments, Mr. Mills felt that the causes for this year's seasonal rise in money rates and the level of Federal Reserve Bank discounts differed from last year in being more the product of a tactically devised System policy of credit restraint than the result of natural forces working themselves out in the market, although the effects of the credit expansion occasioned by the Treasury's recent borrowing of course had a resemblance to the effects of the large expansion in bank loans that occurred a year ago.

It was also Mr. Mills' belief that the recent rise in the volume of member bank discounts at the Federal Reserve Banks from around $700 million to around $1.2 billion to $1.5 billion may have introduced an undesired element of rigidity into the reserve picture in view of the potential difficulty of withdrawing the reserves supplied through the discount windows as borrowings tend to become continuous. He foresaw such a possibility if the banks had to rely increasingly on discounting for their main source of reserves and he also was fearful that remedial actions taken by the Federal Reserve Banks to discourage continuous borrowings induced at the System's initiative could prove to be disturbing to the confidence of the banking community. All told, Mr. Mills felt that there were definite limitations to the usefulness of a high volume of Federal Reserve Bank discounts as an instrument for restricting the expansion of bank credit. To recover what he considered to be an appropriate posture of System policy flexibility, Mr. Mills recommended that the System open market account should buy Treasury bills in some variable proportion to whatever reduction could be brought about in the volume of member bank discounts but without the System's relaxing from its objective of general credit restraint. In carrying out such a policy, he contemplated that the degree of pressure exerted should be such as to compel divestment by the banks of the securities acquired at the

Treasury's recent financing and in the short time before the Treasury returned to the market to refund the notes maturing on May 15.

Mr. Robertson said that against the background of comments made at this meeting, including those of Messrs. Young and Thomas, he would align himself squarely with Messrs. Irons, Allen, and Leedy. He was pleased with the actions taken by the System account in the past three weeks; these had shown what the System could do without undesirable repercussions. He would continue the same policy in the immediate future and would not anticipate pressures but would meet pressures as they arose. Mr. Robertson said he did not think the Committee should do anything in the nature of easing in connection with the forthcoming Treasury refunding operation. He felt it would be unfair to set a low-rate pattern for the refinancing operation and to move in the opposite direction later. He was hopeful that operations would be conducted during the next three weeks exactly as they had been during the past three weeks.

Mr. Shepardson indicated that he would express the same attitude Mr. Robertson had expressed. He too had been gratified at what he considered to have been progress in the Committee's operations during the period since the preceding meeting. He then referred to the comments by Mr. Young at the March 26 meeting, stating that there seemed to be some indication that competitive pressures that might have an effect on the price situation were taking hold. He hoped the Committee could maintain pressure to a point that might retrieve some of the price loss that had taken place over a period of months.

Mr. Thompson said that demand for credit in the Fourth District continued heavy, the increase in business loans during the first half of March exceeding that of a year earlier. Business loans had continued to expand since tax payment date, but at a slower rate than a year ago. This sustained demand for credit reinforced Mr. Thompson's belief that liquidation of inventories in the Cleveland area had not yet begun, although the slower rate of expansion in loans indicated that there was some decrease in rate of inventory accumulation. Mr. Thompson said that he anticipated a noticeable liquidation of inventories later in the current quarter and in the third quarter of this year. Reserve pressures this month had been heavy and borrowing at the Federal Reserve Bank had increased substantially.

Mr. Thompson went on to say that businessmen with whom he had been in contact appeared confident. A group of 25 business economists met in Cleveland recently and their consensus seemed to be that the Board's industrial production index would be two percentage points lower at the end of this year than at its beginning. The automobile situation did not seem to be too bad, and it was expected that output for the year would run about 6.3 million units. One of the bullish factors in production for this year was the anticipation of difficult labor negotiations next year which might cause the automobile manufacturers to build up large inventories of cars late in 1957. In Mr. Thompson's opinion, basic pressures on the price structure were still upward.

With respect to credit policy, Mr. Thompson said that the Cleveland Bank felt that the discount rate was too low now and had been too low for some time but that this was no time to increase it. With regard to adjustments in the open market, Mr. Thompson felt that there was more to be feared from the System's own built-in inflationary bias than from the possibility of being too tight during the Treasury financing period in a period of fairly stable business. Personally, he felt (as did Mr. Fulton) that the Committee should not ease the situation. The present degree of restraint might be adequate; it certainly should not be eased at this time.

Mr. Williams said that business activity in the Third District was being maintained at a steady level with no definite signs of moving either up or down.

He then reported on a survey of automobile sales, stating that during March sales in Philadelphia were a third below those a year ago, and during the first quarter of the year they were off about 25 per cent. Outside Philadelphia, sales in the Third District were 15 per cent below last year. Interviews with forty automobile dealers had indicated that they were generally disappointed because the usual March upsurge had failed to materialize this year. One of the factors cited was the lack of equity in cars to be traded in, reflecting the low down payments that had been made on cars in recent years. Another factor was buyer resistance to the higher prices of new automobiles. Thus far, Mr. Williams said, the higher prices on 1957 model automobiles had not been offset by discounts equivalent to those in 1956. There was some movement toward purchase of lower priced cars. Mr. Williams stated that about half the dealers interviewed were of the opinion that tighter credit conditions had not affected their sales; about 30 per cent felt that there had been an effect; while the other 20 per cent indicated that probably the credit situation had had some effect on sales. Several dealers were in favor of tight credit conditions in order to keep out risky deals. They also had commented that relations with manufacturers were better and that manufacturers were not pressing cars on them. Despite the poor sales of automobiles, Mr. Williams stated that there were some bright spots in the picture. Few dealers now have excessive stocks of new cars, and there is the possibility of a rise in sales in new cars during this spring.

On consumption generally, Mr. Williams noted that department store sales during the most recent four-week period were 9 per cent above a year ago. Factory employment continued steady and average hours of work had risen. Unemployment in the Lancaster area had been increasing and was 25 per cent above a year ago, this unemployment being centered in the electrical machinery industry. Construction activity continued to lag and contracts during the first two months of this year were 10 per cent below 1956. Residential contracts were off a third. Business loans had shown little change recently.

Mr. Williams said that he found himself in sympathy with the comments that Governor Mills had made concerning the administration of the discount window. As far as credit policy was concerned, nothing in the Philadelphia District or in the national picture would suggest a change at this time. Mr. Williams felt there should be no change in the discount rate, and the same degree of restraint should be maintained during the coming three weeks.

Mr. Bryan said that there had been a series of small changes in the Sixth District economy, some up and some down, that the economy seemed to be operating at a high level, and that he would hesitate to say that it was moving either up or down. One weak situation was the textile industry, and this was probably to be with us for a long time, since there was an overinvestment of capital in nearly every branch of the industry. Banks of the Sixth District had been in funds recently and had reduced borrowings from the Reserve Bank. Nationally, the picture seemed to Mr. Bryan also to be one of a series of small changes which it was difficult to evaluate as showing either a downturn or an upturn.

Mr. Bryan went on to say that he would hesitate to change policy on intuition with regard to what was going to happen at the national level. He referred to the record of policy actions of the Open Market Committee covering the year 1956, stating that it seemed to him that the Committee had made a couple of changes in policy during the year that did not prove to be well supported by the statistical changes in the economy when they were plotted for the whole year. The Committee thought it saw something but the picture turned out to be different.

Mr. Bryan said that he would like to maintain the present posture of restraint. He was in sympathy with those members of the group who had expressed the feeling that the Committee had done a good job in getting back to a posture of restraint that he believed was needed. How to measure the restraint that the Committee should have during the next three weeks was another problem. It was Mr. Bryan's inclination to "keep hands off" so long as the bill rate fluctuated between 3.10 per cent and 3.25 per cent. He would modify this judgment only if there should develop a panicky situation in the long-term capital market. He thought it much too early to ease substantially, and he based that judgment in part upon the thought that at the present time and for a considerable period of time the Committee was going to need an increased supply of savings in this country. It would be a mistake to do anything to reduce the rewards apparently necessary to produce those savings or to reduce the borrowing costs that will aid in the allocation of funds to their most productive uses.

Mr. Johns said that the Eighth District economy was not among the most ebullient of all the districts. However, the Eighth District situation should not argue for easing credit policy. Mr. Johns was unable to agree with Mr. Hayes that the cutting edge of policy was too rough. Its impact had not been apparent in the Eighth District, if measured by Federal Reserve borrowings which for some weeks had been at low levels. Banks were selling Federal funds. They also had indicated some lessening of demand for loans from borrowers or potential borrowers. Mr. Johns stated that he liked the present degree of restraint and would like to continue it. He would not change the discount rate but would attempt through open market operations to keep the same degree of pressure on reserve positions.

Mr. Szymczak said that he thought that what the Committee had done during the last three weeks had been excellent; however, in the next three weeks the Committee might tend toward somewhat lower net borrowed reserves and, if necessary, purchase some securities. This was because of the Treasury's forthcoming refunding operation in which securities totaling something over $4 billion were held outside the Federal Reserve. He did not have any specific figure in mind but would not be unhappy with negative free reserves around $400 million.

Chairman Martin said that there seemed to be agreement that there should be no change in the Committee's directive or in the discount rate. The degrees the Committee was dealing with were very fine, he said, but could become important. Personally, the Chairman said that he was satisfied with present policy, provided it did not become overtly sharper or overtly easier. This was easy to say, he noted, but almost impossible to administer, and the Committee should have great sympathy with the Management of the Account under this type of operation.

In illustrating his views, the Chairman called attention to the recent increase in net borrowed reserves. This had not seemed to take hold until last Friday, when it suddenly affected several issues in the market. He did not feel that the Committee should favor the Treasury, nor should it hamper the Treasury, but if the figure of net borrowed reserves continued to rise it would be necessary for the Committee to be extremely careful in order to avoid pushing on one side or the other. This was an especially difficult problem for the Account Management. The Committee should not mislead the market. The estimates of reserves during the next few weeks showed great variation, which added to the problem. The Chairman recalled that at the March 26 meeting the Committee decided to resolve errors on the tight side, and this had been done quite appropriately. Now the Committee was facing a Treasury financing. This did not mean that it should resolve errors on the side of ease, the Chairman said, but he would not like to see a billion dollars of net borrowed reserves and heavy discounting at the time of the Treasury announcement. The market could misconstrue such a situation.

Chairman Martin said that while he did not think the Committee's discussion today could be particularly helpful in dealing with operations at the time of the Treasury financing, he thought it clear from the comments this morning that the Committee wished to maintain a stable situation during the period of the next two or three weeks. This would have to be done against a day-to-day changing level of projections and a changing level of currents that are coming into the market. He then called upon Mr. Larkin for comment.

Mr. Larkin said that he thought the intentions of the Committee were quite clear--to stay where we are, or where we had been for the past three weeks. To achieve this position would be difficult, to say the least, although the Account would hope to do so. To say where we are was fraught with some danger, Mr. Larkin said, although thus far the Account Management had been able to avoid any disruption in market values. Mr. Larkin pointed out that if the present table of events was realized and if the next meeting of the Committee were to be held in three weeks, that meeting would be in the midst of a Treasury refunding operation. At that time the Account Management should be in a position to place a measure on the success or lack of success of the Treasury refunding. Mr. Larkin said he believed the Treasury expected to have the subscription books open for the refunding on May 6, 7, and 8. It was difficult to measure the cumulative forces in the market, he said. Day-to-day forces could be observed, but the emergence of cumulative forces was difficult to measure. Last Thursday and Friday there had emerged the cumulative effects of what had transpired over the preceding two weeks. The operation of the System account would give special attention to these cumulative forces during the course of the next three weeks.

In response to Chairman Martin's request for comments, Mr. Hayes said that he was slightly at variance with the consensus but he was perfectly happy to try to make the majority views work out.

Mr. Shepardson said that he would like to report a conversation he had had with a lumberman in the Pacific Northwest a few days ago, the gist of which was that market pressures were causing the operator to "face up" to the problem of dealing with excesses that had crept into the business in recent years. Mr. Shepardson said that this seemed to him to represent a start of the kind of thinking the Committee would like to achieve in industry.

Chairman Martin said that he concurred heartily in the desirability of adjustments of prices, but he thought all members of the Committee should keep in front of them constantly the problem the Treasury was facing and the relationship of the Committee's operations to that problem. The Committee would be making a very serious mistake if it minimized this problem and this relationship at any time, he said, noting the comment Mr. Larkin had made when he mentioned the cumulative forces which might work on the wrong side. Now that the Committee had reasserted a position in the market, the Chairman said, it must be aware of these cumulative forces that can do just as much harm on the "other" side as they did before on the side of ease. He reiterated a view that he had expressed in an earlier meeting that the country did not have a satisfactory Government securities market to work with today and that eventually something would have to be done to get a market with more adjustability than the present market. However, the Committee should be extremely careful on swings such as it had seen recently. It should never overlook the Treasury needs. Members of the Committee might or might not approve the way in which the Treasury was running its affairs, but the Committee should not attempt to operate the Treasury. There was a real obligation that the Committee must fulfill without in any way subordinating itself to the Treasury.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(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 uncertainties in the business outlook, the financial markets, and the international situation, 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.

It was agreed that the next meeting of the Committee would be held at 10:00 a.m. on Tuesday, May 7, 1957.

Chairman Martin mentioned the memorandum that Mr. Balderston had distributed under date of April 3, 1957 concerning the problem of guides that would indicate to the Trading Desk the program that the Committee desired to have followed. He stated that he had also received a letter from Mr. Bryan expressing his interest in the discussion. He suggested that discussion of this subject be deferred until the next meeting of the Committee.

Chairman Martin stated that the suggestion had been made that the Record of Policy Actions taken by the Federal Open Market Committee be prepared from meeting to meeting rather than on an annual basis, and at his request Mr. Riefler commented in somewhat greater detail as to the reasons for this decision.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary