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, August 20, 1957, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Allen
Mr. Balderston
Mr. Bryan
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Vardaman
Mr. Williams
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Fulton, Irons, 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
Messrs. Atkinson, Bopp, Marget, Mitchell, Roelse, Tow, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Link, Economist, Research Department, Federal Reserve Bank of New York

Messrs. Abbott and Wheeler, Vice Presidents of the Federal Reserve Banks of St. Louis and San Francisco, respectively; Mr. Balles, Assistant Vice President, Federal Reserve Bank of Cleveland; Mr. Parsons, Director of Research, Federal Reserve Bank of Minneapolis; and Messrs. Willis and Walker, Economic Advisers, Federal Reserve Banks of Boston and Dallas, respectively

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on July 9 and July 30, 1957, were approved.

Chairman Martin suggested that Mr. Link, Economist, Research Department, Federal Reserve Bank of New York, be invited into the meeting. There being no objection, Mr. Link entered the room.

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 July 30, 1957, through August 14, 1957, as well as a supplementary report covering commitments executed August 15 through August 19, 1957. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse reported that firm pressure on reserve positions combined with the effects of the special Treasury auction of $1-3/4 billion of April 1958 bills and the advances in the prime loan rate, acceptance rates and discount rates had combined to put the money market under severe pressure. A paradoxical situation had developed, moreover, in which the new April bills were now quoted at 4-1/4 per cent while the April certificates were trading at 3.93 - 3.88 per cent and the issues offered in the recent refunding were at par or higher.

Net borrowed reserves averaged $600 million over the two weeks ended August 7 and August 14, a level that seems to have been pretty

severe for the special bill auction; underwriting proved to be rather reluctant. At the beginning of the statement week ending August 21 net borrowed reserves declined but were expected to return to about $500 million by the end of the week. Projections indicate a rise in the following statement week, that ending August 28, to $750-$800 million. The Account Management is at present planning to purchase Treasury bills on Wednesday, August 21, for regular delivery, in order to alleviate pressures arising from the deposits created as banks make payment on that day for the special April bills.

Longer-term rates have not so far adjusted as much as have shorter rates. Partly this seems to be due to a rather moderate volume of new issues. Today, however, two large issues consisting of $100 million Atlantic Refining Company convertible debentures and $90 million Pacific Telephone and Telegraph debentures are being publicly offered. Beginning with these two issues the calendar becomes quite heavy. As a result, the upward movement in short rates may be expected to spread into longer maturities.

With respect to Treasury financing, Mr. Rouse stated that the Treasury expects now that it will require $3-1/2 billion additional cash financing by mid-September. The offering will probably take place on September 16 for payment about September 26 and will probably involve a coupon, thus giving the market some leadership. Reserves will be needed in the weeks ahead to avoid excessive pressures that might arise from the regular seasonal borrowing of business and from the expected Treasury flotations.

Mr. Vardaman raised a question concerning the prospective level of net borrowed reserves during the coming week and Mr. Rouse stated that the average was expected to be between $750 million and $800 million.

Mr. Mills asked whether a $600 million level of net borrowed reserves was correct for the present situation. He further asked if the market was conditioned to such a level and wanted to know what was the present goal for net borrowed reserves. Mr. Rouse replied that in his view net borrowed reserves were a symbol, not a target; it seemed to him that the view of the Committee at the last meeting had envisaged net borrowed reserves of $600-$700 million. He hoped that the Committee would view recent conditions in the money market, associated with a $600-700 million level of net borrowed reserves, as too tight. He was, however, still aiming at this symbolic figure, assuming that the position of the Committee was unchanged. However, he thought that a lower level of net borrowed reserves would still bring about the degree of restraint desired and recalled that in the second half of 1956 restraint had been maintained even though net borrowed reserve levels had declined, and were substantially below $500 million.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period July 30 through August 19, 1957, were approved, ratified, and confirmed.

Chairman Martin called upon Mr. Young for a statement on the economic situation, supplementing information presented in the staff

memorandum distributed under date of August 16, 1957. Mr. Young's statement was as follows:

In this country, over-all economic activity remains at high levels, with GNP in constant dollars still showing a modest upward tilt. Abroad, output expansion also continues at a moderate rate, and in many countries inflationary pressures are dominant. In western Europe, disequilibria in investment-savings relationships and in currency values have reached a critical stage, with credit market conditions tightening markedly further and limited devaluation of the French franc working to aggravate rather than alleviate tensions.

The important economic news domestically relates to a strengthening of consumer markets. Improvement in consumer demand since April and some liquidation of distributor stocks has been reflected in significant improvement of the output of consumer goods, especially durables. This has largely offset the influence of decreases in output in business equipment, ordnance, and crude petroleum, and stabilized the index of industrial production for June and July at 144, compared with 143 for April and May.

Construction activity generally remains at record levels. Private housing starts in July, while below a year ago, held close to the May-June level. Construction costs, after some months of stability, have shown a rising tendency since May. Recent adjustments in maximum permissible interest rates and discounts on FHA home mortgages would appear to place these investments on an effective competitive basis with alternative capital market instruments.

The labor market continues strong, with employment at record levels, unemployment low, and average hours of work and hourly earnings showing little change.

Wholesale prices have changed little since mid-July. For industrial products as well as farm products, price advances and declines have been offsetting. The mid-August cost-of-living figure is not yet available, but some further rise is indicated by advances of retail food prices, notably meats and vegetables. Prices in the used car market continue strong.

Crop production, according to most recent estimates, will be 3 per cent below the record of last year, a smaller decline than indicated by earlier estimates. Basic price supported crops are expected to be off 11 per cent, but

sharp increases are expected for feed crops other than corn and fruit. Current ratios of meat animal prices to feed prices are high and are encouraging to expansion of livestock raising.

The main thoughts I come back with from Europe can be summarized as follows. First, the problems we face here are common to all countries of western Europe, but they are more aggravated there. Second, there is a good deal of concern and apprehension about the situation in western Europe, and also a little bit of worry about economic developments in this country. Third, the basic problem in western Europe is that financial expansion continues apace while physical production has reached a point where it may be slowed down in the future by the availability of resources. That is, the rate may be slower than in the past.

Governor Vardaman referred to the apparent tendency toward more liberal terms for the purchase of automobiles and inquired whether it appeared whether the strengthening of consumer demand mentioned by Mr. Young might simply represent taking advantage of extended credit terms on cars and other consumer durable goods. Mr. Young replied that from the relationship of the increase of instalment credit to the volume of total sales, say in the month of June, it would appear there was no particular increase in the volume of credit sales as opposed to cash sales. He said that sales of automobiles on credit were holding at about two-thirds of total sales.

Governor Balderston inquired of Mr. Young whether, on his return from Europe, he sensed any increase in the number of "soft spots" in the domestic economy. Mr. Young responded in terms that he had not yet had an opportunity to make a real appraisal, but that he had been struck in going over available information by the resurgen

of strength in the consumer markets. When he left for Europe, he said, consumer markets seemed to be just "bouncing around," but now consumer demand appeared to have strengthened a great deal.

In the absence of Mr. Thomas, Chairman Martin called upon Mr. Miller for a statement on recent credit and financial developments, and Mr. Miller's statement was as follows:

> The summer doldrums which often characterize financial markets in August have been replaced this year by unusual activity and many important developments. Money and security markets, which experienced some relaxation in July, have again tightened. A basic development has been the frequent appearance of both private and public borrowers in the market for new funds: the Treasury auctioned a special April bill for $1.75 billion of new money; simultaneously it sought money through sale of CCC cotton; and both the State and local government and the corporate new issue calendars snowballed to record size. A flurry of administered rate increases appeared, led by an increase in the prime rate to 4-1/2 per cent. Commercial paper rates rose 1/8 per cent and bankers' acceptances rates, reflecting the financing of CCC cotton sales, rose 5/8 per cent in three separate jumps. By mid-August the discount rate had been increased from 3 to 3-1/2 per cent at nine Federal Reserve Banks. Only activity in the stock market followed the typical August pattern as trading slumped from previous weeks in a declining market which carried prices about 8 per cent below their July highs. Yesterday's sharp break carried the averages down to near the February lows.
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> The Treasury's greater-than-expected need for new money so far in the new fiscal year has been occasioned by heavier-than-anticipated spending, due mostly to major national security outlays despite strenuous efforts to cut back defense expenditures. In July defense outlays were at an annual rate $5 billion higher than a year ago and $1.5 billion higher than in June. Also, net redemptions of savings bonds are double last year's rate. So far in August, these trends making for a heavy cash drain are continuing, and last Thursday the Treasury's cash balance dropped to $1.4 billion.
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> The sale of special bills with payment due tomorrow should maintain the Treasury's balance at a comfortable level until

October although a low point probably near last week's low will be reached in mid-September just prior to receipt of quarterly income tax instalments. Around $4 billion of new cash borrowing for payment in early October probably will be required. A cash surplus estimated at around $5 billion next June will make it possible to offer a June tax anticipation issue to cover at least a part of these needs. Increases in regular weekly Treasury bill offerings could be used to meet any marginal October needs as well as additional cash needs at the end of calendar 1957. This kind of a borrowing program, however, indicates that the permanent debt ceiling of $275 billion would be exceeded in the fourth quarter, assuming a normal cash balance.

These actual and prospective undertakings by the Treasury along with the other aforementioned developments in the financial markets have subjected the Government securities market to a series of pressures which resulted in some sharp run-ups in yields of shorter Treasury issues. The average issuing rate in last week's auction at 3.50 per cent was an all-time high except for an auction during the bank holidays. In yesterday's auction, the average issuing rate dropped to 3.35 per cent. The April special bill, auctioned at an average rate of 4.17 per cent and a stopout of 4.25 per cent, was in sharp contrast with the 3.49 per cent average on last June's auction of the March tax bill. On the other hand, long and intermediate Treasury issues, led by the newly offered August refunding issues, have performed remarkably well over this period with some issues improving in price following the August refunding. Although yields have recently increased again, most issues are below their earlier highs.

Yields on corporate and State and local government securities, however, have moved to new highs. Rates on both outstanding and new issues have increased markedly in August. Yields on outstanding AAA-rated corporate bonds have reached a new high of 4.09 per cent and a newly-offered electric utility first mortgage bond was reoffered to yield 5 per cent--some 35 basis points above that for a comparable issue offered in mid-July. These developments reflect in part a continually expanding corporate new issue calendar. New corporate offerings this month are expected to total about $900 million--only a little below July and the largest for any August in the postwar period. Since July issues amounted to more than $1 billion, this indicates a record third quarter total. Prospects are for an even much heavier calendar after Labor Day.

Prospective new State and local government issues for August are also much above normal, and yields have shot upward some 15 basis points on outstanding issues. On a new offering, Los Angeles paid some 80 basis points more last week than on a similar offering in April.

Bank loans in leading cities continued to decline in August; in the four weeks ending August 7, business loans were down over $400 million. Last year in the comparable period, business loans increased slightly but in most other recent years such loans rose markedly. This decline continues to reflect the heavy repayment of business loans following record tax borrowing in June. It is interesting to note, however, that the volume of loans granted continues to rise and that the decline in total business loans reflects the trend that developed in the first half of the year of increased repayments relative to the growth of new loans. Thus, new lending in the last month increased but repayments--again reflecting the June bulge--were up even more.

Bank holdings of Government securities, which increased sharply in early July because of bank takings of the March tax anticipation bills, have declined substantially as banks have sold this issue. Thus total loans and investments at city banks have dropped $1.6 billion during the recent four-week period.

Demand deposits and currency increased by the usual seasonal amount in July and at the end of July the money supply was slightly less than one per cent above a year ago. Time deposit growth continues and at commercial banks the expansion has amounted to $3.8 billion so far this year. Turnover of demand deposits outside financial centers rose further in July.

Member bank reserve positions tightened sharply in the past two weeks in marked contrast to late July. Net borrowed reserves averaged $600 million during the past two weeks compared to $150 million in the last two weeks of July. In the past two statement weeks, reserves have been absorbed by an outflow of currency, a decline in float, increases in other Federal Reserve accounts, and a sizable drop in System Government security holdings reflecting for the most part the termination of repurchase agreements against issues involved in the August refunding.

Net borrowed reserves are expected to average around $400 million for the current statement week and then move sharply higher in the following three weeks and average in excess of

$900 million in the first two weeks of September. After some ease following the mid-September rise in float, the average is expected to climb to over $1 billion in the early weeks of October. Averages in October will be influenced by the amount and timing of Treasury cash financing. Looking ahead to the end of the year, net borrowed reserves in the last week of November are projected at $1.2 billion and in the last week of December at $1.8 billion.

These projections indicate that System action to provide seasonal reserve needs will be required in coming months. Probably both repurchase agreements and outright purchases will be called for. The terms under which the System should be willing to make these additional reserves available, however, will depend in part upon the additional reactions of the financial community to the recent round of tightening moves. Financial markets will need to be watched unusually closely because of the shifts in borrowing by business concerns from commercial banks and insurance companies into the capital markets. Money and security markets have taken the many recent financial developments in stride, but the many rate increases and the sharp snap-back in net borrowed reserve positions have not been without important impact. It should be remembered that the restrictive impact of the net borrowed reserve position has been increased as the raising of the discount rate at nine of the twelve Reserve Banks has decreased the incentive to borrow and has increased the effectiveness of a given volume of net borrowed reserves.

Mr. Treiber then made a statement as follows on the business and credit situation and credit policy:

The most important developments in the area of credit policy since the last meeting of the Federal Open Market Committee have been the increase from 4 per cent to 4-1/2 per cent in the prime rate, the increase from 3 per cent to 3-1/2 per cent in the discount rates of nine of the Federal Reserve Banks, and substantial increases in other money market rates.

Apparently the directors of the several Reserve Banks approached the idea of an increase in the discount rate with varying judgments and with varying degrees of enthusiasm for an increase.

On each of the last three Thursdays the directors of the Federal Reserve Bank of New York had an extended discussion

of the discount rate and the question of increasing it. They were unanimously of the view that economic conditions did not call for an increase; and each week they reestablished the 3 per cent rate. In advising the Board of Governors of such action on August 8, and in advising Chairman Martin informally on August 15, we reported that the directors felt strongly that there have been no significant changes in business and credit conditions that would justify a change in the discount rate at the New York Bank; they believed that the outlook was less buoyant. They were impressed with the way in which the System's continued policy of restraint has seemed to be achieving its objectives, and they did not believe there should be any action by the New York Bank which might be interpreted by the public as an indication that we are apprehensive of new inflationary developments in the business and credit situation.

With the increase in the discount rates of other Reserve Banks and the further increase in market rates in the last fortnight, our directors will, of course, have other factors than just the business situation and business prospects to consider at their meeting this Thursday. It is difficult to predict what action they will take.

As for the economic situation, business conditions are substantially unchanged since the last meeting of the Federal Open Market Committee. The sideways movement in physical production continues, with no convincing evidence to suggest a major breakout on either the upside or the downside in the near future. At the same time price indices are holding at peak levels or are advancing further. The policy of credit restraint should be continued.

The demand for bank credit is strong, as is the demand for capital funds. The strong demand is likely to continue during the remainder of the year, although the demand for bank credit is not expected to be as intense as last year.

The prices of stocks have declined with little interruption for the past month and have now lost nearly two-thirds of the February to July rise. Less optimistic appraisals of business prospects appear to be the major factor, but the renewed rise in interest rates and the uncertain international situation probably have been contributing influences in the recently accelerated decline.

In the foreign field, in many places there is a nervous uneasiness about future exchange parities. Measures taken, and likely to be taken, by some foreign countries may have the effect of reducing the demand for goods for export from the Unites States.

In the atmosphere of severe credit restraint which has existed for some time, short-term market rates of interest have been almost constantly under upward pressure. The action of the commercial bankers in increasing their prime loan rate, followed by the increase in Federal Reserve discount rates has touched off a major realignment of prices and yields in the money and securities markets. Open market operations should be conducted so as to avoid an intensification of pressures while this realignment is still in process.

The latest issue of $1-3/4 billion of 237-day Treasury bills maturing April 15, 1958, which are now selling at a yield of about 4-1/4 per cent are to be paid for tomorrow. During the remaining months of 1957, the Treasury will have to borrow again for cash, at least once and probably twice, and will have one refunding issue. In certain respects the Treasury is at the end of the line in seeking to raise money for cash. Because of the high demand of other borrowers, the Treasury's problems are most difficult. We cannot be unmindful of them.

The Treasury could not have sold its current issue without bank underwriting and, of course, the banks need additional reserves to do the underwriting. We may expect the banks to seek to sell most of the bills within a reasonable time. In the meantime the Federal Reserve Banks will have to take this factor into account in their administration of the discount window.

In the two statement weeks ended last Wednesday, member bank borrowings averaged about $1,100 million ($1,060 and $1,156 million), while net borrowed reserves averaged $600 million ($580 and $620 million). So far this week net borrowed reserves have been temporarily reduced by an increase in float and a small reduction in Treasury balances. Our projections indicate slightly less than $400 million this week. Our projections for the next few weeks indicate substantially higher net borrowed reserves.

We should continue to make reserves available to meet the seasonal needs of business and of the Treasury. Whether or not we approve of Government spending programs or of the Treasury's having to borrow so much for cash in the second half of the year, the Treasury must be financed. Especially in the light of the recent increases in the discount rates and the adjustment in market rates that is continuing to take place, it is particularly important that it be clear to the public that reserves will be available for necessary purposes in 1957.

> In view of the current adjustment in rates still going on, the cumulative effect of credit restraint on the markets, the difficult international situation, the need of the banks for additional reserves this week to support the new deposits growing out of the current Treasury financing and the continuing need of the banks during the remainder of the year for additional reserves to support the legitimate seasonal needs of business, we believe that the release of reserves through open market purchases should be made promptly as the need for them develops. While we don't want to make errors, if there are errors it would seem better that they be a little on the liberal side rather than run the risk of creating fears that seasonal needs and Treasury requirements will create an intense credit squeeze as the fall season progresses. It is important not to increase at this time the degree of restraint as reflected by the course of rates and the feel of the market; indeed, a modest relaxation of the intensity of the restraint of recent weeks may be in order. Recognizing the dangers inherent in concentrating on statistical measurements, it seems to us that net borrowed reserves of $.5 billion would be an appropriate symbol of the desired degree of tightness.

Mr. Erickson said that conditions in the First District continued to follow pretty much the national pattern. While nonagricultural employment rose seasonally by about 43,000 from May to June, the rise was not as great as it was last year. In fact, June was the first month to fall behind the year ago level since February of 1955. The weakness on a year-to-year basis comes from the continued lag on nondurable goods manufacturing (particularly textiles) and from the newly developing lag in some durable goods manufacturing. The average factory workweek lengthened seasonally from May to June and the average factory weekly earnings rose; the man-hour index rose from 92.5 per cent in May to 93 per cent in June. The district's manufacturing index also rose from May to June, the rise being pretty widespread between the various industries. For the first

six months total construction contracts lagged 10 per cent behind the first six months of last year, with a 16 per cent gain in non-residential building offset by declines in residential and heavy construction. New England performance in construction led the national average in April and May but was behind in June. New car sales continued to be disappointing, the six months' cumulative total being 8-1/2 per cent less than a year ago. New England continued to trail the national average. A sample of 14 banks disclosed a continuing trend towards a liberalization of credit terms on instalment purchases of new cars. The banks reported 40 per cent of their direct loans written for more than 30 months in June as compared with 20 per cent in June 1956; also in June 1.9 per cent were for more than 36 months which is the highest month since this series started in 1955. It would seem that New England terms continued to be relatively more liberal than the national average. While department store sales had been up for the year to date they have been down in recent weeks. There had been a newspaper strike for the last ten days, which of course would have its effect on department store sales. As reported at the last meeting, discount window activities were materially reduced in July as compared with the second quarter. Early in August there was more active use again of the window, mostly by the banks in larger cities, such as Providence, Worcester, Springfield, and New Haven, but in the last week borrowings had not been as heavy as they were in the

early part of the month. Two so-called problem cases had paid off their loans and had told the Reserve Bank they will be out of debt for some time.

As regards credit policy for the next period, Mr. Erickson said that he would recommend no change in the directive and believed that the same degree of restraint as had prevailed in the last few weeks should be continued, recognizing that we were approaching a period when we would have to put reserves into the market. He hesitated to pin-point any figure for net borrowed reserves, but if he had to, he would say from $500 to $600 million net borrowed reserves.

Mr. Irons said that conditions in the Eleventh District had not shown much change recently and that seasonal movements of no more than the usual extent were anticipated. In general, the picture was one of strength and all important indices had shown gains this year. Department store sales were running well and employment was high. New car sales in the major cities reflected an intensely competitive situation, but apparently sales were ahead of last year by about 10 per cent. Prices appeared to be holding up quite well, and bargains were not as real as might be gathered from advertisements. A similar situation prevailed in the used car market. The cutback in defense expenditures for aircraft had not hit the district appreciably; in Dallas and Fort Worth the cutbacks had been relatively small thus far. The petroleum situation was unchanged, with production in Texas still running on a

13-day basis. The agricultural situation appeared to be quite good and recent estimates indicated an increase in the cotton crop, making the yield very high. As to banking, the country banks generally continued liquid with free reserves, but the reserve city banks were well loaned up. Loans at banks in major cities were running about 55-65 per cent of deposits, with rather moderate negative reserve positions. Thus far there had not been any heavy increase in member bank borrowing from the Federal Reserve Bank. It had been thought that this might develop about the middle of the month, but the demand did not materialize. On the whole, the pressure on bank reserves did not appear to be excessive.

In reviewing the discount rate changes from a distance, it seemed to him that they had been made without shock to the economy and that the discount rate was now in better relationship to other market rates. There appeared to be less uncertainty and a better understanding of System policy with respect to direction and degree. He hoped that the present degree of restraint would be maintained, with net borrowed reserves in the area of $500-$600 million and borrowings above $1 billion on the average. If that situation prevailed, the bill rate might be expected to be near the 3-1/2 per cent discount rate. If errors had to be made, he hoped that they would not be made on the easy side and that a firm degree of restraint would be maintained. It might be necessary, of course, to put funds into the market for seasonal purposes and to assure that funds would be available.

Mr. Mangels said that the production and employment picture in the Twelfth District seemed to be maintaining itself at generally satisfactory levels, although there were some areas of cloudiness. In the State of Oregon, the employment situation continued to be rather poor and delinquencies in the repayment of loans were beginning to appear. One lender reported 1,800 delinquencies out of 10,000 accounts in August, and 60-day delinquencies appeared to be increasing somewhat. Oregon expected the next six months to be rather slow and difficult, with some further decline in lumber prices. In Washington, the Boeing aircraft plant anticipated releasing between 6,000 and 8,000 workers before the end of the year. Releases of aircraft workers in southern California also were continuing, and at the last directors' meeting one director reported having been told that the over-all release of aircraft workers would probably aggregate about 100,000. In California, manufacturing employment declined somewhat in July, due to declines in the automotive and aircraft industries and strikes in the machinist and building trades. The machinist strike, however, had now been settled. Except for the strike situation, nonfarm employment in California, Utah, and Washington had been maintained close to the June levels. In June, steel production at West Coast plants ran at about 97 per cent of capacity, compared with a rate of 85-1/2 per cent nationally, but in July production was lower than in May or June. Construction awards in June were up 8 per cent from May. In the first half of 1957, the value of

residential construction ran about 4 per cent under the first half of 1956, but nonresidential was up about 2 per cent and public works and utilities construction was up about 60 per cent. Department store sales maintained a fairly even keel, while new car registrations for the first six months of 1957 were about one per cent below 1956. In four States new car registrations were down, while in three States they showed an increase. Twelfth District bank loans declined $38 million for the three weeks ended August 7, demand deposits were up $19 million, and time deposits were down $3 million. Member bank borrowing from the Reserve Bank on August 15 aggregated only $6-1/2 million. As to Federal funds, banks in the district reverted to the position of net lenders in the last reporting period, with purchases totaling $49 million and sales $141 million. An analysis of the June 6 call reports showed that the ratio of total loans to total deposits was 54.1 per cent, compared with 52.1 per cent a year ago. The ratio of total loans less real estate loans to demand deposits was 58.8 per cent compared with 53.4 per cent, and the ratio of real estate loans to time deposits was 47.9 per cent compared with 50.2 per cent.

The increase in the discount rate, Mr. Mangels said, provoked no particular comment from the banks in the district, or from the press or the public. The action of the San Francisco directors was based primarily on the fact that the general rate structure had gone up rather than on economic conditions in the Twelfth District. It was

his view that the System should continue to maintain about the same degree of pressure on reserves, and he had in mind that a level of about $500 million of net borrowed reserves would be appropriate. However, he felt that the Manager of the System Open Market Account should be permitted some degree of discretion in the light of circumstances as they might develop from day to day. It was his opinion that the current directive from the Committee need not be changed.

Mr. Deming reported that the expected good year for agriculture in the Ninth District was now virtually confirmed, and that district farm income this year would be 4 or 5 per cent ahead of 1956. Other district indicators pointed to continuation of about the same trends that had been evident in recent weeks. He saw nothing in particular to comment on with respect to the national economic developments, he felt that the present course in credit policy was about right, and he saw no reason to change the direction of that policy. He recognized that it would be necessary to put reserves into the market to meet seasonal needs during much of the remainder of the year. It seemed to him that a broad target of $.5 billion net borrowed reserves for the next three weeks would produce about the degree of restraint that the System had been attempting to obtain.

Mr. Allen said that recent reports indicated that business activity was stronger in the May, June, July period than the major economic indicators revealed at the time. Gross national product,

the industrial production index, nonfarm employment, and retail trade had all been revised upward from the preliminary estimates, and a most significant development was the renewed uptrend in retail sales. After six months of little variation, the figure increased in May, again in June, and still further in July. Department store sales provided the only basis for comparison on a regional basis with national developments, and sales by stores in Midwest centers compared favorably with national figures. For both the four weeks ended August 10 and the thirty-two weeks ended August 10, sales in stores in the Seventh District increased more than the stores throughout the nation. As had been said, in July employment in nonfarm establishments throughout the country again set a high for the month, and unemployment was calculated to be only 3 million, or 100,000 below last year. Except for Michigan, the States in the Seventh District compared favorably with the nation on the numbers of insured unemployed. The construction picture, Mr. Allen said, offered no basis for pessimism. For the first half of 1957 the volume of construction put in place was 3 per cent more than last year, and recent figures on contract awards reported by F. W. Dodge indicated continued strength. In June, total awards were 10 per cent above 1956 compared with a gain of 5 per cent for the year to date. Increasingly, the construction boom was being carried by public works and public utilities.

Mr. Allen went on to say that over all the outlook for credit demand was still strong despite a substantial decline in business loans in July. The amount of money being raised and expected to be raised in the capital markets was huge. Although there was a substantial decline in business loans in July, such loans at Seventh District banks, in contrast to the national trend, increased $140 million since the end of May, 40 per cent over the increase of a year earlier. Loans by banks in the district to metals firms had continued downward, but loans to other businesses, particularly public utilities and retail trade, more than offset this decline. Business loans should now begin to show signs of seasonal demands, and the larger banks in the Seventh District had told the Reserve Bank that they expected the current heavy demand for loans to continue and, in fact, to increase in the months immediately ahead. The recent renewed pressures on money center banks appeared to have been heavier in New York than in Chicago, the basic reserve deficit of the four larger Chicago banks having increased only moderately from $26 million for the week of July 31 to $45 million for the week of August 14. Two of those banks were borrowing at the discount window, while a third bank, which had not been borrowing in recent weeks, had been buying and selling Federal funds on the same day, taking advantage of the differential between the 3 and 3-1/2 per cent discount rates. That bank was a net seller on the days when it operated on both sides of the market.

Mr. Allen reported that crop prospects in the Seventh District had improved in July and August, but that indicated production of the major cash crops, that is volume produced, remained below the exceptionally large 1956 production. Nevertheless, prices over all had improved, particularly in livestock and livestock products which represent by far the most important source of the district's farm income, and district farm income would, in the Reserve Bank's judgment, continue to exceed the year-ago level through the remainder of 1957 and possibly the early months of 1958. So far this year it was running between 5 per cent and 6 per cent ahead of last year. With respect to automobile production, he recalled having reported some weeks ago that the industry expected to turn out 500,000 cars in July, 500,000 in August, and 300,000 in September. The July goal was attained, and thus far in August production had been at a 500,000 monthly rate. Sales in the first ten days of August averaged 16,319 daily, which was disappointing, and it compared with a daily rate of 17,500 for the month of July. However, a ten-day period is not always significant. On August 10 the industry's inventory of finished cars was estimated at 798,000, which is high; however, a big inventory had been planned so that the dealers would not run out of cars in between seasons. Three makers of cars were now producing only 1958 models, namely Rambler, Lincoln, and of course the new Edsel, scheduled for public introduction on September 4.

Mr. Allen then said that it was possible at this time, or at almost any time for that matter, to find in an economy as large and

diverse as that of the United States mixed trends in business developments which produce a basis for somewhat different judgments on the business outlook and the monetary policy appropriate to the period ahead--different judgments, too, as to the timing for changes in monetary policy. To him, the evidence pointed to a real possibility of intensification in inflationary pressures, sparked by the upturn in consumer spending. But even if that possibility were no more than an outside chance, he would continue the System's present policy because it seemed to him that the measures needed to halt, let alone reverse, the trend in prices and the psychology of the business and financial community had yet to demonstrate their effectiveness. The situation, he said, was one which had intractable aspects and which would not yield, as one writer had expressed it, to "hopeful noises about 'restraint' and 'responsibility'." It was becoming increasingly apparent that the adjustments needed will come only by hard necessity. That was a principal reason why he had recommended that the Chicago Bank's Board of Directors vote for a higher discount rate and it was the reason why he felt that the Open Market Committee should at this time continue its policy of credit restraint. From what he had said, Mr. Allen commented, it must appear obvious that he was in agreement with Mr. Irons and not with Mr. Treiber, in that he would prefer not to err on the liberal side. However, he was in agreement with both of them in that, recognizing the difficulty of setting a figure, he would suggest that net borrowed reserves should be held if possible in the $500-$600 million range.

Mr. Leedy stated that most of the signs in the Tenth District indicated economic strength. Nonfarm employment was running slightly higher than a year ago in all of the States in the district except Oklahoma and Nebraska. The construction pattern was contrary to that reported for the New England States. The total value of construction awards topped last year's figure by 6 per cent, slightly better than the national average. Both nonresidential and residential construction were continuing at levels slightly above the national average, but public works and utility construction were lower than the national levels. Department store trade for July had been roughly 8 per cent higher than during the same period last year. For the year as a whole, however, sales were only about one per cent higher, and when the price increase was taken into account this would indicate that physical sales were slightly down. Business loans had risen in recent weeks contrary to the national picture and were now running significantly ahead of the volume a year ago. Demand deposits were up and a sharp increase in interbank deposits was noted. The picture in agriculture was similar to that reported in the Dallas, Minneapolis, and Chicago Districts, with soil conditions much improved. Cash farm income should be substantially higher, as payments from the soil bank and improved prices for livestock contrived to make the farm picture better than it had been running.

As to policy, for the immediate future, Mr. Leedy said that he subscribed to a continuation of the same degree of restraint, in so far

as it could be accomplished, that had been exerted during the period since the last meeting of the Open Market Committee. He went on to say that personally he would not want to attempt to set a benchmark for net borrowed reserves. If he understood correctly, Mr. Rouse had said that there had been greater restraint at times with lower levels of net borrowed reserves than had prevailed at other times with considerably higher levels. He would attempt to continue the degree of pressure that the Committee had attempted to obtain, and had pretty well accomplished, over the recent period, with no relaxation. While he agreed with Mr. Treiber that there should be no intensification of pressure, he would be opposed to any relaxation of pressure. These views indicated, of course, that he would favor no change in the Committee's directive.

Mr. Vardaman said it seemed to him that psychologically, so far as the public was concerned, and politically, so far as the Congress was concerned, commercial banks and the Federal Reserve System had made serious mistakes in raising at this time the prime commercial rate and the Reserve Banks' discount rates. In terms of economic effects, he felt that the results might be opposite from what was desired. As he had said at the last meeting of the Committee, he thought that the cumulative influence of the System's policy of restraint was becoming more and more effective, and it was his opinion that there should have been continued credit restraint in the same degree as in recent months without any rate changes on the part of the commercial banks or

Reserve Banks. These last rate increases, he said, may prove to be more frightening than otherwise, both to the purchasing and borrowing sides of the economy. He went on to say that he would like to adopt as his own remarks those made by Mr. Treiber, except that if the psychological effect of the rate changes should result in an actual precipitous rise in business operations it might become necessary for the System to lead the market by a definite snubbing action such as a major raise in the discount rate accompanied by appropriate open market operations, to achieve an actual brake on the inflationary tendencies.

He thought it was particularly unfortunate that the Reserve Banks had seen fit to confirm the action of the commercial banks on the prime rate with such alacrity by an increase in the discount rate. Although, as he had said at the last meeting, he recognized that the discount rate was out of line on the low side, he did not favor following the action on the prime rate so quickly for he felt that this tended to confirm the public fear that "the rise was going out of the roof," and that the Reserve System had lost control of the situation to the commercial banks.

While he had voted with the other members of the Board to approve the increases in the discount rate, he had done so with great reluctance and primarily for the purpose of presenting a united front by the Board. As stated in an explanatory memorandum which he had placed in the Board's minutes at the time, he felt that the rate increase could be justified only on the basis that member bank

borrowing had increased greatly during the previous week. He felt that even this was a slim reason because it was generally believed then that such borrowing would shortly return to previous recent averages.

Mr. Mills said that where the broad objective of System credit policy was to exert restraint on the expansion of credit and where in his opinion there was general public acceptance of the System's intentions and purposes, it seemed important to him that the symbols of System policy be as consistent as possible with those stated and recognized objectives. For that reason, he would be fearful if the level of negative free reserves, through design or circumstances, should drop substantially below the $500-$600 million level that was re-established two reserve weeks ago. His thinking, he said, followed very closely the ideas expressed by Mr. Irons as to developments in the economy and the appropriateness of System credit policy. If there should be a relaxation in policy at a very early date, that could create an unfortunate misconception on the part of analysts of System policy as to what the intentions of System policy were. For those reasons an argument could be made for being cautious about the injection of additional reserves at too early a date. After pointing out that it was now only two weeks until the Labor Day period, with its substantial outflow of currency, Mr. Mills said that at the same time the System

could probably anticipate a further momentum in the seasonal demand for bank credit. In the interest of consistency with the declared intentions of System credit policy, he felt that it could prove desirable to delay any substantial injection of new reserves, beyond those that would be necessary to support the Wednesday payment date for the last special Treasury bill issue, until the Labor Day period, when the action would be fully understood by the market, would be related to seasonal conditions, and would not be interpreted as a change in policy.

Mr. Robertson, who had just returned from vacation yesterday, commented that one of the advantages of a vacation is that it enables one to come back and take a fresh look at the picture. He said that he had been trying to do exactly that, and while he probably did not have all of the information that he should have, he was led to believe that the economy had been strong and that inflationary pressures continued to be very evident notwithstanding the fact that this was the summer season. He expressed himself as delighted by the discount rate action and said that if he had been present he would have joined in approving the increase in the rate to 3-1/2 per cent. If he had any complaint about the past, it would be that the restrictive action had been too little and too late, and he saw nothing in the picture to suggest reducing the current degree of restrictiveness. Now that this degree of restraint had been achieved and was having some effect, he felt that it would be wrong to do anything to alleviate it and

thereby give a false impression of future actions. He said he agreed almost completely with Messrs. Irons, Allen, Leedy, and Mills that this was not the time to reduce the degree of restrictiveness. While he thought that the Manager of the Account should have some degree of latitude to work in during this period, it was his view that the System should endeavor to maintain the kind of restraint that would reduce inflationary pressure and he would favor reaching that end without attempting to fix any specific goal in terms of a volume of net borrowed reserves. He felt that the System should carefully avoid creating any impression that it was trying to reduce the effectiveness of what it had been endeavoring to accomplish.

Mr. Fulton, who had also just returned from vacation, said that although a degree of concern was expressed in the Cleveland District about some of the industries that were now in the doldrums, there was a very high degree of optimism about prospects for the fourth quarter of the year. If sales of automobiles and other consumer activities should fail to manifest themselves strongly in the fourth quarter, however, the present psychology could change rapidly. Steel production in the first three weeks of August had increased in the Wheeling, Cleveland, and Lorain areas, indicating an upswing in demand from automotive and also appliance manufacturers, which had been very dull during July. In other areas of the district the increase had been nominal because those areas had been operating at a higher rate. Coal production in July was 16 per cent higher than a year ago, indicating that fuel was

being taken in anticipation, and capital expenditures were still holding at a very high level. There seemed to be no recent cancellations of any such expenditures and businessmen were going ahead with their plans. This afforded an indication that regardless of fears expressed about a downturn, those apprehensions had not yet "touched the pocketbook." There was anticipation of further wage increases and although some businessmen had talked in terms that they might have to absorb part of the higher costs, this apparently was not going to deter them from raising prices. As to employment, three areas in the district had been declared surplus labor areas for reasons peculiar to the respective communities, but on the other hand one city had come out of the surplus labor category and manufacturing had picked up in that area. Following six weeks of decline, business loans increased during the past week. It was reported that many of the national concerns having lines of credit with banks in the district were coming to the banks for long-term credit, seemingly to escape the discipline of the capital market. This was reported to be embarrassing to the bankers but the commitments had already been made. Member bank borrowing was very heavy in June and July--at more than twice the rate for the corresponding periods last year. In August the rate of borrowing diminished, although it increased again last week. The rate was somewhat under that of last year and he did not know just how to interpret the situation.

Mr. Fulton then noted that the Cleveland Bank had not yet raised its discount rate from 3 per cent and said that there would be discussion

of the matter at the directors' meeting this Thursday. It was his personal view that the Cleveland rate should have gone up along with the others and that the increase was fully warranted in the light of the action of the capital market, short-term rates, and the increase in the commercial bank prime rate. With regard to open market policy, he said that he would regret it very much if any relaxation should creep into the System's firm hold on the money market. While he felt that the Manager of the Account must be given some flexibility, it was his view that the degree of restraint that had been achieved was about right and he would not like to see it reduced, particularly if this were interpreted as a change in policy. He was of the opinion that a level of net borrowed reserves of from $500 to $600 million would be appropriate, with a shading toward $600 million preferable.

Mr. Robertson then supplemented his previous comments by saying that he thought a great deal of the inflationary pressure was fostered and given momentum by public psychology, and that there had grown up in the country a feeling that inflationary pressures were here to stay. He expressed the opinion that the recent Congressional hearings had done much to indicate that the System stood firmly against inflation and that the actions taken by the System were carrying out such a policy. This, he thought, represented one more reason why nothing should be done at this time to reduce the current degree of restraint, for the System should take advantage of the benefits that had been derived from the hearings in terms of public psychology.

Mr. Williams reported that there had been several interesting banking developments in the Third District recently. All of the large Philadelphia banks have raised the prime rate. Most of them also will raise the interest rate on savings deposits from 2 to 2-1/2 per cent; the mutual savings banks in Philadelphia are going to raise their rate from 2-3/4 to 3 per cent on October 1. Total loans of reporting banks had declined $34 million in the three weeks ending August 7, and repayments percentagewise were somewhat greater than for all weekly reporting banks. Nevertheless, Philadelphia banks were under considerable pressure for funds. Total deposits were down, and the drain had been met by marketing nearly $30 million of securities. Member bank borrowing dropped sharply in the latest statement week (August 14). After the discount rate increase there was an incentive to buy Federal funds in preference to borrowing from the Federal Reserve Bank and some banks stepped up their purchases substantially. Mr. Williams said there was little of significance to report in the way of business developments. Department store sales dropped below a year ago in early August but had now come back. Factory employment was holding quite stable at a rate slightly below a year ago.

With regard to open market policy, Mr. Williams was of the view that while reserves should be made available for seasonal needs as those needs might appear, errors on the liberal side should be avoided.

Mr. Bryan said that there were no recent developments of great significance to report from the Sixth District. Employment and payrolls

continued at record levels, consumer spending was up, and the volume of construction was higher than last year. The district was gaining funds; total bank credit was up by virtue of increases in loans and Government security holdings. However, there was a difference between the smaller country banks and the city banks. The city banks had recently not gone up.

The most interesting and dynamic development in the district is not new but is one that has been continuous over a period of years. It is the rapid shift of population within the district.

As to policy, Mr. Bryan expressed agreement with the statements that had been made that the System would not want to reverse its situation by liberalizing the supply of reserves. Unfortunately, however, he did not know quite what he meant in saying that he agreed with these statements. There was some point to Mr. Treiber's remarks--a very real point--that with the terrific capital demand, the probable seasonal demand for loans, and the Treasury's problems, the System could get into a situation where it might become a great deal more restrictive than was intended. This presented the problem of trying to give instruction to the desk, and at this point he was fearful of giving an instruction in terms of net borrowed reserves because, with the discount rate change, the degree of restraint at a level of $500-$600 million might be very different than a few weeks ago or at some time in the past. In the circumstances, he would be inclined to tell the desk to watch the behavior of rates in the market and, if it seemed

desirable to increase significantly the supply of reserves to the market, to do so in a manner that would hold them steady.

In response to a request by Mr. Vardaman for further comment on the shifts in population in the Atlanta District, Mr. Bryan said that in the district there are 448 counties, of which 207 lost population between 1950 and 1955. The movement had been from the rural agricultural counties into the areas where industrial plants are locating. It was his net impression that the district was being strengthened by these shifts, because if the people had remained on the farms they would not have been as economically productive as they are in their new locations. However, in villages in the areas that had been losing population the local merchants at times were very disheartened.

Mr. Johns said that he would forego the opportunity to talk about developments in the Eighth District, although with some reluctance because there were on his mind two recent reports--one a local survey and one a study by a Government agency in Washington--which took a less than optimistic view about the St. Louis area. In general, the area was characterized as being in a state of economic stagnation. From the long-run point of view, however, he felt that these studies might have a wholesome effect by directing attention to the criticisms to which the area was subjected.

Mr. Johns then stated that, as the Board of Governors was advised late yesterday, the directors of the St. Louis Reserve Bank

had established a discount rate of 3-1/2 per cent subject to review and determination by the Board of Governors, thus becoming the tenth Reserve Bank to establish that rate. He said that this action was taken by a 6-1 vote, with a considerable degree of expressed reluctance on the part of the directors who voted favorably. This reluctance was based on the view that no intensification of inflationary pressures was discernible at this time or in the recent past, and the need for a toughening of monetary restraint therefore was not apparent to the directors. Mr. Johns said that he did not find himself in disagreement with that view. In any event, however, a clear majority of the Reserve Banks had indicated a different view and desire with regard to monetary policy and the St. Louis Bank decided to conform.

With this action taken, Mr. Johns said that he found himself confronted with the question of what the change in the discount rate meant in terms of open market policy. He said he was unable to accept the view which had been expressed in some quarters that the rate increase signaled no change in policy. As he looked back over the record of policy actions contained in the annual reports of the Board of Governors, and particularly the explanation of the discount rate changes which had been made in recent years, he noted that it was always claimed that such changes, whether up or down, did signal a change in policy and had considerable significance of that kind. Looking to the future, he doubted the desirability of taking a step

in the direction of establishing a principle that discount rate changes do not signal a change in Federal Reserve policy; in the long run he believed the System would find it desirable in its own interest--which also meant the public interest--to continue to claim that the discount rate was a significant instrument of policy and that its use meant something more than merely conforming to market rates established by others. Holding that view, he found himself unable to agree that following an increase of 1/2 per cent in the discount rate there should be any relaxation of policy or pressure on bank reserves. He wished to make it clear, he said, that the view held at the St. Louis Bank with respect to the lack of need for intensification of restraint should not be mistaken for a view that inflationary pressures had diminished or subsided, or that there was less need for monetary restraint than there had been. Nobody in the St. Louis Bank, he said, would argue for relaxation. In the circumstances, he believed that the least that should be done with the open market instrument was to continue the degree of restraint that had prevailed in the recent past; in fact, it would not take much argument to convince him that there should be some intensification of that pressure in order to be consistent with the action taken in changing the discount rate. Turning to the Committee's directive to the Federal Reserve Bank of New York, he called attention to the language of clause (b) with regard to "recognizing uncertainties

in the business outlook, the financial markets, and the international situation" and recalled that he had dissented mildly when this language was first included because of a feeling that it should be understood that these uncertainties would be taken into account at all times along with other relevant matters. He assumed that when this language was written into the directive, the Committee intended to put special emphasis on the uncertainties and to say almost that this was a "teetering decision." Now, having signaled in his opinion a change in policy by increasing the discount rate, he wondered whether it was desirable to place such emphasis upon the uncertainties which the Committee saw in the picture several months ago.

Governor Balderston observed that Mr. Miller, in his report today, had suggested that the change in the discount rate might have an influence upon the degree of restraint represented by a given amount of net borrowed reserves, and that this same point had been made by Mr. Bryan and others. He also noted that for the five months ending in July the average of net borrowed reserves was about $430 million. The question that perplexed him, he said, was how to meet the desire expressed by so many at this meeting to maintain a policy of restraint that would be consistent with the discount rate action and yet take care of seasonal and Treasury needs this fall. He thought that perhaps Mr. Mills had given an answer by suggesting that the Labor Day period would provide an opportunity to supply some reserves in a fashion that

might be described as "imperceptible." Seasonal needs would, of course, have to be taken care of and the Treasury's problem seemed likely to grow worse, not only because of the high rate of redemptions but because of the heavy calendar of capital issues this fall. Therefore, as he had said, the problem was one of how to maintain a consistent policy for the sake of public understanding of the System's objectives and yet meet the fall requirements of business and the Treasury. He felt that perhaps this problem might be resolved by using a level of net borrowed reserves of from $500 to $600 million as a goal for the moment, and then using the Labor Day period to begin to inject the increased reserves that must be supplied.

In clarification of his earlier remarks, Mr. Treiber said that he did not mean to suggest a change in policy or to suggest open market operations that would appear to indicate a change in policy. He had wanted to emphasize the important difficulties in a period of readjustment, the importance of avoiding open market operations that might appear to indicate a further intensification of restraint, and the need for flexibility.

Chairman Martin expressed the view that the most difficult problem at present was a psychological one. In terms of the over-all struggle against inflation, which was by no means won, he felt that the System had gained during the past few weeks through the Congressional hearings. In this connection, he referred to quotations in the press from his testimony and said that there were of course some remarks

that he wished in retrospect he could have phrased a little differently. He did not think that anyone here today had any doubt about the difficulty or nature of the inflationary problem, but he believed that inflation could be stopped, that the real question was how best to proceed in the fight against inflation, and that the answer had not yet been obtained by any means.

As a preface to his next comments, Chairman Martin said that they should not be understood to reflect criticism of the Management of the System Open Market Account and that he just wanted to lay his thoughts on the table. He said that when there is a movement in net borrowed reserves from a level of $150 million to a level of $600 million, there are bound to be problems of interpretation and this creates a problem for the Treasury. In the last week the level of net borrowed reserves had been a little higher than he would have interpreted the intent at the last meeting of the Committee, although on the basis of the record of the meeting the management of the account was proper. It was his feeling that the situation may have been a little tighter just prior to the new Treasury special bill offering than the Committee had intended, but admittedly this was a matter of conjecture and judgment. Also, the situation seemed to him to have been a little easier several weeks ago than was intended. The same directive from the Committee had been in effect all the time, he pointed out, and whether there should be a change in the wording

was a different matter. He went on to say that the Manager of the Account has an almost impossible task in gauging the market. It was his view that the Manager had done surprisingly well, considering all of the conflicting cross currents in the economy, when one looked at the record for the last nine months.

With regard to the comments by Mr. Johns, he observed that the economic situation was a "bundle of inconsistencies," that this was the nature of the operation in which the System was engaged, and that one could never hope to have complete consistency. For the last nine months the bill rate had been substantially higher than the discount rate, primarily because of the plight of the Treasury. However, he thought that the Treasury had been acting well recently and that this fact ought to be recognized, and he said this against a background of having disagreed with almost every move that the Treasury had made over a period of several months. In thinking on the matter, he said, he had tried to place himself in the position of those responsible for debt management during the last 30 days.

With reference to the discount rate, Chairman Martin said that when one realized--as he did in the course of the recent Congressional hearings--that during the 11 years from 1937 to 1948 the discount rate was at or below one per cent, that there had been a pegged market, and that seven changes in the rate now had been made during the last two years, one could see the amount of thinking that had been done by

businessmen, bankers, and the public regarding the use of the rate. Critics at the hearings had raised many questions regarding the role of each Federal Reserve policy instrument at any given time and he had found it somewhat difficult to explain all of the System's actions, but it seemed clear that the System had been moving in the direction of a more flexible policy. He regarded the last discount rate change as primarily a technical move. The preceding hesitancy in moving the rate in line with the bill rate had put the System in a position where in his opinion it would have been just as difficult to explain why the discount rate did not go up after the change in the prime rate as to explain why the rate was increased. The commercial banks, he said, have to gauge their loan demand, and if they were willing to increase the prime rate the question for the System to decide was whether it was proper to have a spread of 1-1/2 per cent between the prime rate and the discount rate. One might contend that the System could police member bank borrowing by administration of the discount window, but the question then would be one of why the System should not have a very low discount rate, say a rate of one per cent. Unless rates were to operate effectively, he felt that the System would be defeating itself in its approach to the problem. It was his view that one must recognize these technical considerations at times, and that the present period was one where, in terms of broad approach to the problem of inflation, the Federal Reserve System had gained considerably. In technical operations, however, there was still a long way to go in

the matter of Treasury relationships, and he felt that this was the fundamental problem faced by the System in that area. The Committee, he noted, was now going to study that area and it would be desirable to work with the Treasury soon to see whether it would be possible to come up to financing operations without having the Treasury "behind the eight-ball" every time.

Chairman Martin then said that he did not perceive any basic disagreement this morning with respect to policy. Personally, he would be inclined to go along with Mr. Treiber, and be in the minority, to the extent that with the seasonal demand coming on he would tend toward a $500-$400 million level of net borrowed reserves rather than risk getting up to $600 million or higher. He doubted whether that degree of tightness was needed, and he thought that the phrase had been used roughly. While he might be wrong in his judgment, he believed that the move back from net borrowed reserves of $150 million to $600 million had bit harder than necessary. The discussion today made it clear in his opinion that there should be no change in the Committee's directive and no change in policy, and he subscribed to that point of view completely. On the technical side, however, he would favor a level closer to $400 million of net borrowed reserves in so far as any benchmark was worth anything. As to the timing of any conditioning of the market, he would not care particularly whether that was done now or closer to the Labor Day period and he felt that the timing must be weighed by the Manager of the Account. But he would like to see any such conditioning substantially accomplished

before the Treasury came to the market rather than to have the kind of swings that had taken place in the last 45 days.

Mr. Rouse said he also understood it to be the sense of this meeting that there should be no change in policy. However, there was a change in the sense that the Committee was endorsing some flexibility in the management of the account which he did not feel was there following the last meeting of the Committee. At that time, he did not feel that he had much room. The Committee had been aware of the Treasury financing and he thought that the operations in the account had been in accord with the sense of the meeting. But with the sense of leeway that he discerned at this meeting, with no change in policy, he felt that it would be workable. As to between now and Labor Day, looking at the calendar he noted that it would be necessary to act tomorrow to put some reserves in for Thursday and then again in the following statement week because the demand for currency for the long holiday week-end would come before Friday. This would carry right into Labor Day with practically no interval as far as reserve requirements were concerned, so there would be no serious difference of views there.

Chairman Martin then repeated that the consensus of this meeting seemed to favor no change in policy and no change in the directive, with the understanding that the Manager of the Account should be given latitude for flexibility. In making this statement he recognized the shades of difference in the views expressed by individual members of the Committee.

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 market, 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.

Reference then was made to a memorandum which Mr. Riefler had sent to the members of the Committee and the other Reserve Bank Presidents

under date of August 12, 1957, transmitting a list of questions relating to open market operations which had been submitted to Chairman Martin by Congressman Patman in connection with the former's recent testimony before the House Banking and Currency Committee concerning the proposed Financial Institutions Act.

In commenting on the matter at the request of the Chairman, Mr. Riefler referred to the amount of work that would be necessary to prepare the answers and pointed out that it would be necessary for the Federal Open Market Committee to authorize submission of the requested information. He also referred to two letters from Mr. Patman, both dated August 14, 1957, in which other questions were asked, including some having to do with open market matters. Copies of these letters were then distributed.

Chairman Martin said that all were aware of the problem that was being encountered at the present time and that his general approach was that the System had absolutely nothing to hide at any time. If anything was wrong, he felt that the sooner it was found out the better. He went on to say that there existed in both Houses of Congress a group of members who were going to be seeking information on the Federal Reserve System continually, and he thought that as much information should be furnished as could reasonably be supplied. To put it another way, he felt that the System had an obligation as a public body to supply the requested information and that the data should not be refused simply on the basis of the work that was involved. He

recognized that there might be a difference when it came to submitting information on current open market transactions but recalled that a response to a request by Senator Gore for current data already had been made.

In an ensuing discussion, question was raised about the response that should be made to certain questions asked by Mr. Patman involving information that would have to be obtained from dealers in Government securities. Chairman Martin expressed the view that, when this was the case, the information should be obtained by the Congress direct from the dealers or the dealer community. He did not feel that it would be proper to supply information which had been given to the System on a confidential basis.

Question also was raised as to whether the amount of time necessary to compile the responses should be pointed out in some manner in furnishing the information and Chairman Martin expressed the view that there would be no objection to bringing this out in some appropriate way. Governor Vardaman suggested that this could be pointed out in explaining what might seem to be an undue delay in compiling the information.

In connection with a question by Mr. Rouse concerning whether the information should be compiled on an overtime basis, Chairman Martin indicated that the System should not be "stepped on" at all, but that on the other hand the System should not be unduly dilatory in furnishing the data.

Governor Vardaman expressed the view that the very furnishing of the information sooner or later would be an asset to the System.

Governor Robertson said that in going over the questions it occurred to him that one could not determine, just by reading them, what information could properly be given and what could not be given. He suggested that it might be necessary to set up a committee to make those decisions in the first instance and then come back to the full Committee.

Chairman Martin then said that he had had in mind suggesting that the Committee give a blanket authorization for the furnishing of such noncurrent information as appeared feasible and proper, that it authorize Messrs. Riefler and Rouse to confer with respect to the matter, and that if they felt that it was not feasible or proper to furnish certain information they bring the matter back to the full Committee for discussion at a meeting of the Committee. He also suggested that this authorization apply to the questions raised in the August 14 letters as well as the original list of questions, and also to any subsequent inquiries of the same general nature.

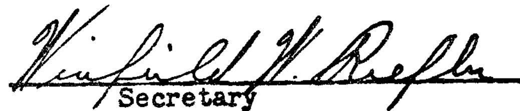
> Secretary's note: On Friday, August 23, the Secretary talked to all of the members of the Federal Open Market Committee who were present at the meeting on August 20 except Messrs. Mills and Williams, who were not available, about whether the names of parties with whom the Account conducted specific transactions fell within the confidential category. It was unanimously agreed that they did not, and that the names should be furnished.

Mr. Riefler said that, as he understood it, the line of distinction would be that when the information which was requested had come to the System on a confidential basis from an outside party, the information should be obtained by the Congress from such party.

Thereupon, the procedure suggested by Chairman Martin was approved unanimously and Messrs. Riefler and Rouse were authorized to proceed on the basis indicated.

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

Thereupon the meeting adjourned.


Secretary