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, January 28, 1958, at 10:00 a.m.

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

Messrs. Fulton, 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. Sherman, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas
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. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Messrs. Ellis, Hostetler, Daane, Rice, and Wheeler, Vice Presidents of the Federal Reserve Banks of Boston, Cleveland, Richmond, Dallas, and San Francisco, respectively; Mr. Litterer, Business Economist, Federal Reserve Bank of

Minneapolis; and Mr. Lapkin, Economist, Federal Reserve Bank of St. Louis

Mr. Abbott, Vice President, Federal Reserve Bank of St. Louis (present through economic presentation

Upon motion duly made and seconded, the minutes of the meeting of the Federal Open Market Committee held on January 7, 1958, 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 January 7 through January 22, 1958, and a supplemental report covering commitments executed January 23 through January 27, 1958. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse noted that the supplementary report distributed this morning neglected to mention that the System Account had rolled over its $136 million of January 30 Treasury bills. New Treasury bills were awarded in yesterday's auction at an average rate of 2.20 per cent, and Mr. Rouse said that the longest outstanding Treasury bills were quoted this morning at 2.17-2.12 per cent.

Noting that there had been some comments that open market operations had not supplied enough reserves to ease credit and that the System had done nothing significant except change the discount rate, Mr. Rouse said that the figures on bank holdings of U. S. Government securities certainly did not support this contention. Reporting member banks increased their holdings of Government securities by almost $1.2 billion between November 13, 1957 and January 15, 1958, including $600 million of Treasury bills. Such an increase in bank holdings of Governments could occur only when banks had the reserves to make such investments possible.

Mr. Rouse said that the tendency for prices of intermediate- and longer-term Government issues to back off a bit in recent sessions had helped quiet the speculative fever in the market and had provided a good base for the Treasury's financing. Also, the reduction in discount rates had had the effect of quieting speculation on System action.

Turning to the reserve projections, Mr. Rouse called attention to differences between the New York estimates, contained in the supplementary report, and the estimates prepared by the Board staff. He said that the New York estimates implicitly assumed the Treasury balance would be held at $500 million, although it was considered unlikely that the Treasury actually would be able to achieve this level. The Treasury balance probably would be lower than estimated during the next few weeks, and free reserves might be expected to average closer to the Board staff's estimates than to those shown in the supplementary report. Therefore, ample funds should be available in the money market during the Treasury financing, although a demand for repurchase agreements against "rights" might arise. If that should happen, Mr. Rouse said he assumed the Committee would agree that repurchase agreements should, if necessary, be made during the refunding. In view of the ease indicated by the projections, Mr. Rouse doubted that there would be much demand for repurchase agreements.

Mr. Leach asked if there were any special factors at work influencing Treasury bill rates, and Mr. Rouse replied that he was not aware of any. Demand for Treasury bills from commercial banks, nonbank corporations, and others had been strong. Some holders of "rights" with near-term needs for funds had been selling "rights" and shifting into Treasury bills, but there had not been enough of this type of buying to account for the present level of Treasury bill rates.

Mr. Hayes added the comment that one source of supply of Treasury bills had been selling by foreign central banks that were shifting funds into time deposits.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period January 7 through January 27, 1958, were approved, ratified, and confirmed.

Before this meeting there had been distributed a draft of letter to Congressman Wright Patman prepared in accordance with the discussion at the meeting on January 7 as a response to his request dated December 23, 1957 for preparation of punch cards and summary tabulations of data of System Account transactions during the period

March 1951 to December 1956. The draft read as follows:

> Your letter of December 23, 1957 requesting that we prepare punch cards from the data sent to you with my letter of November 12 was discussed at the meeting of the Open Market Committee held on January 7, 1958, and again at the meeting on January 28. The data sent to you earlier gave the details of each individual transaction for the System Open Market Account from March 1951 to the end of 1956. Your request also asked that after the punch cards had been prepared the data be summarized to give daily and monthly totals of transactions by classes and that we compute, for each day and each month, the average prices at which the transactions were effected.
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> The members of the Open Market Committee had had your request before them for several days prior to the first meeting at which it was discussed, together with an estimate of the cost and time that would be required for our tabulation facilities to prepare the material for which you ask. They are really concerned about this request, not only because of its cost and the time involved but also because it does not seem to promise to yield meaningful statistics. Frankly, our research people who have studied the request have not been able to determine any significant conclusions that could be derived from these tabulations. The Committee expressed the view that it would not be appropriate for us to undertake a task of this extent until there had been a technical review to determine whether the tabulations requested would in fact produce information of value. It also felt that a task of this magnitude should not be undertaken solely on the basis of a request from an individual member of the Congress, as distinguished from a request by the full Committee on Banking and Currency.
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> We are wondering whether it would be desirable for members of your staff and ours or, if you wish, members of the Banking and Currency Committee and the Open Market Committee to get together for a preliminary discussion of how we might be most helpful in preparing data that would yield significant results both for the Committee and for the Federal Reserve. I shall be happy to hear from you further as to your thoughts along this line.

The letter was approved unanimously with the understanding that a copy would be sent to Chairman Spence of the House Banking and Currency Committee.

Chairman Martin then referred to a letter from Congressman Abraham J. Multer dated January 17, 1958 in which he again requested that he be furnished with the daily reports of dealers' operations by days from November 11 through November 15, 1957. A copy of that letter and of a draft reply had been distributed before this meeting.

In response to Chairman Martin's request for comments, Mr. Hayes said that it had occurred to him that it might be desirable to add a sentence to the letter that would indicate to the Congressman that the Committee should not be expected to violate normal business ethics of the same general character as those applicable to any confidential relationship between a banker and his customer or a lawyer and his client. Mr. Hayes added that he had no strong feeling on this point and that he was mentioning it with the thought that those who had drafted the letter might give consideration to such an addition.

It was agreed that further consideration would be given to the inclusion of a sentence such as Mr. Hayes had suggested and that when the letter was in form satisfactory to the Chairman, it would be sent to Mr. Multer.

Secretary's note: The letter prepared for Chairman Martin's signature was sent to Mr. Multer in the following form under date of January 28, 1958, with a copy to Chairman Spence of the House Banking and Currency Committee:

Your letter of January 17, 1958, acknowledging mine of January 15 in which I furnished the names of dealers in

Government securities with whom the System Open Market Account transacts business, refers again to your November 22 request for daily reports of dealers' operations for November 11 through 15, 1957. You state that after further consideration you believe we should furnish you with the individual daily reports that most of the dealers have submitted voluntarily, in the strictest confidence.

I am sure you understand that the furnishing of these daily reports by dealers is really voluntary and is in no sense a condition to their doing business with the System Account. In my letter of December 17, I stated that it would not be within the discretion of either the Federal Open Market Committee or the Federal Reserve Bank of New York to disclose information contained in these reports of dealers. That letter also suggested that, if you wished to do so you could, of course, direct your request for information on dealers' operations to the individual dealers concerned, and their names were given in the letter sent to you on January 15.

The Open Market Committee continues in the view that the nature of the daily reports of individual dealer positions, as well as the confidential basis on which such reports are received by the Federal Reserve Bank, leaves no discretion as to our revealing their contents. I can only reiterate my earlier suggestion that you might go directly to the dealers with your request for information on their operations on the days you specify.

At this point, members of the Board's staff presented a review of the current economic situation illustrated by chart slides. Copies of the script of the presentation as well as of the charts were distributed following the meeting, and a copy has been placed in the Committee files.

After presenting a review and analysis of developments during the past few years and particularly during the year 1957, the review concluded with the following statement:

Declining activity in the economy during recent months may be traced primarily to an adjustment in the capital goods area. Installation of much new capacity eased the supply situation enough so that buyers for some time have not needed to protect themselves by accumulating inventories and recently have been able to reduce inventories. In some lines, with final demands as well as inventory demands off, current capacity is proving greater than is needed at this time and there is much discussion of widespread overcapacity as a result of a capital goods boom. Only time will tell how transient or long-lived this phase may be. It may be noted, however, that capacity is built to meet demand at seasonal and cyclical peaks with some margin to spare and that operation well below 100 per cent of capacity is usual in most lines of activity.

While readjustment in the capital goods area may take considerable time, readjustment of inventories often occurs fairly quickly. Both types of readjustment are to be found in the present situation. The timing of any shift from the recent downward movement depends partly on how important changes may be in other demands, including consumer demands, State and local government demands, defense demands, and foreign demands. In some fields, easing of credit restraints in effect during the period of high activity and rising prices will tend to maintain and possibly to strengthen demands. Various built-in stabilizers will cushion declines in income and tend to maintain consumption.

But business policies will need to be adjusted to changing demands in order to keep markets for their products and maintain output. It cannot be assumed that the necessary adjustments will be made quickly or will meet immediate response.

It needs to be remembered that economic decline has acquired a definite momentum and that further decline in production, employment, and activity is in prospect. It appears likely that the production index for January will be down 2 or 3 points from December and about 8 per cent from a year ago. Unemployment claims have continued to increase. Also the price structure is getting under supply pressure at various points, and such pressures may increase before they relax.

Demands for bank credit, while difficult to judge, seem to be showing a slackening drift, partly reflecting liquidation of dealers' positions in Government securities financed with bank credit in December, as well as a larger than seasonal decline in business loans. The free reserve position that has been attained by member banks with easing credit position has thus far been of moderate size and monetary expansion has not

> yet been resumed. Prospects are that in the absence of offsetting actions by the System, free reserves will expand further in coming weeks in part from a further seasonal decline in deposits and in part because the squeeze on Treasury cash balances will release reserves. Some of these may be absorbed by System operations as money markets become easier. But continuation of at least the present degree of reserve availability would seem appropriate until there are indications of monetary expansion.

At the conclusion of the review, Mr. Abbott and the members of the Board's staff who had entered the room to assist in the presentation withdrew.

Mr. Hayes next made the following statement on the economic situation and credit policy.

> The underlying movement of the economy seems more unfavorable now than at the time of our last meeting. Thus, while it is still true that there is a wide variety of possible ways in which the recession might develop, the most realistic evaluation of these possibilities suggests some further aggravation of the downward movement before contracyclical influences and policies have had time to take effect. In determining policy, we should probably give major attention to the unfavorable realities of the present rather than to possible resumption of an inflationary threat in the future.
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> The recent steep declines in production, employment and average hours worked, reflects primarily a turnabout in inventories from accumulation to liquidation--and the fact that the latest available inventory-sales ratios were still near their peak indicates that this recessionary influence may continue for some time. Private outlays on plant and equipment have just commenced a decline which is likely to carry much farther--although many of the effects of the prospective drop have already been felt in the way of reduced new orders. A number of reports of permanent plant shut-downs are suggestive of a real cyclical adjustment process rather than of a mere inventory adjustment. However, there is some evidence of weakening of consumer

confidence. This is a factor which could of course represent the key to the future intensity and duration of the recession. Residential construction seems less likely now than we had previously thought to give strong support in the coming months. For what it may be worth, it is interesting to note that industrial production is now at about the same level as at the bottom of the 1953-54 recession, if allowance is made for a long-term upward trend of perhaps 3 per cent per annum.

We are at the threshold of rising Federal expenditures and deficits--with a cash deficit of $4.5 billion or more in view for calendar 1958. The Treasury's revenue estimates in the Budget message appear to be much too optimistic. It is clear that Federal spending and tax policies will exert an increasingly strong influence on the course of the recession. But we can't count on this as a near-term remedy for the worsening business situation.

Bank credit has contracted more rapidly in the last four weeks than a year ago (when the shrinkage was very substantial). The New York banks generally speak of loan demand as well sustained, but this may be a local or temporary phenomenon, reflecting some involuntary inventory accumulation as well as corporate efforts to improve liquidity--and perhaps some recourse to bank borrowing in anticipation of a further decline in long-term rates.

In view of the likelihood of a Treasury cash offering coming on top of the large refunding scheduled for early February, we shall probably have to give close attention to the Treasury, in connection with our own policies, until about the end of February.

The general economic situation clearly points to a need for further easing of credit availability. I think the need is accentuated by the fact that economic conditions in several major foreign countries are showing less strength and are increasingly vulnerable to any major deterioration in business conditions in the United States. Furthermore it is desirable as a matter of public policy that the Federal Reserve System should appear to be bending every effort toward resisting cumulative recession. The recent discount rate reduction by nine of the Reserve Banks should be of some value in providing another signal to the public that we are moving in the direction of greater ease. I say this even though I had considerable qualms over the procedural aspects of the rate cut, in the sense that I would have preferred to see the Federal Open Market Committee have an opportunity for thorough discussion of the subject before action was finalized, in view of the near unanimity at our last meeting on the desirability of deferring discount rate action until a later date.

I believe we should now move forcefully in the area of open market operations to assure that the pressures on credit, money, and liquidity appropriate to the previous period of restraint are completely eliminated. Recently we have sought and achieved modest free reserves ranging from zero to around $200 million. This has been only minimally adequate. It has not been enough to remove the general feeling of tightness in the banks, particularly in the principal money centers. To the extent that we continue to look on net free reserves as a suitable target, I think we should set a range of perhaps $200 million to $400 million. We should always keep in mind, though, that this kind of measure involves a sort of circular reasoning, and that we might find ourselves successfully maintaining this target while total reserves and the total money supply were still shrinking. Therefore I would urge emphatically that, as suggested by Malcolm Bryan at the last meeting, we try to devise a new type of guide for open market policy under present conditions that will focus attention on the total reserve base and the money supply rather than on the amount of free reserves. The System's actions to date have not gone far enough to provide for a year-to-year increase in the money supply, and it is probably true that the illiquidity and pressure on money and credit consciously engendered by the System when policy was restrictive are still restraining elements in the economy. Our policy should be directed at supplying sufficient reserves in coming weeks and months to establish a clear upward trend in the reserve base and the money supply on the basis of year-ago comparisons. Net free reserve targets would be of secondary interest in the achievement of this primary objective.

If the Committee agrees on such a policy, steps should be taken in this direction promptly in the way of moderate outright bill purchases today and tomorrow, prior to the Treasury announcement. After the announcement, the policy could be implemented through liberal extension of repurchase agreements against "rights". Later, these repurchase agreements could be replaced at maturity with outright purchases if necessary to establish the growth pattern of bank reserves suggested above. Alternatively, an appropriate occasion for the release of reserves through a reduction in reserve requirements may be provided if the Treasury is enabled through an increase in the debt ceiling to do major cash financing.

I believe that no change in the directive is called for at this time.

Mr. Erickson said that conditions in the Boston District followed the national trend but in some categories the First District seemed to be worse off. Manufacturing employment continued to decline and insured unemployment, which had been increasing steadily since Thanksgiving, was 59 per cent greater at the week end of January 4 than a year earlier. Initial claims for unemployment benefits for the week of January 11 were 42 per cent ahead of last year. While December figures for construction contracts were not available some other indications indicated that they were up from a year ago. November shoe employment was down 11 per cent and the district's percentage of national output had gone from 33.8 to 31.8. The pre-Christmas pickup in department store sales was continuing and the week of January 18 was the sixth in a row to show a gain over the previous year. Sales in the four weeks ending January 18 were up 12 per cent. New automobile registrations in November were 5 per cent ahead of a year earlier but for the eleven months were 4 per cent behind. At the year-end, deposits of mutual savings banks were almost 5 per cent ahead of last year and reports indicated that they had been increasing since January 1.

Mr. Erickson noted that the Boston Bank had reduced its discount rate to 2-3/4 per cent yesterday. He had been giving some thought to the Committee's directive and suggested that clause (b) might be changed to read "to cushioning adjustments and mitigating recessionary tendencies in the economy, by maintaining ease in the money markets." The purpose of this change would be to have some reference to ease in the directive. As far as open market operations were concerned, Mr. Erickson said that he agreed with Mr. Hayes and would hope that free reserves would get up to $300 million before the Treasury financing.

Mr. Irons reported very little change in Eleventh District business activity which continued at a high level. There was some evidence of adjustments but they had not been marked. The agricultural situation was more promising than for some time because of favorable moisture conditions. The petroleum industry continued to have supply problems which were not entirely domestic but which involved to a considerable extent imports. Little change in the confidence factor was apparent during the past three weeks, Mr. Irons said, but businessmen, bankers, and others with whom he talked for the most part seemed to feel that there was a somewhat better tone than three to five months ago.

With respect to policy, Mr. Irons noted that the Dallas Bank was one of three that had not yet reduced its discount rate below 3 per cent. It was inevitable that this would be done, he said, although from discussion with some of the directors he thought it would be with some reluctance. Mr. Irons said that he disagreed with the position indicated by Mr. Hayes in that he thought a wholly adequate degree of availability of reserves had been achieved during the past three weeks. The Committee should not point aggressively toward further ease, but with the Treasury financing in the offing should maintain the status quo. There had been a great deal written and said to the effect that the System had not increased availability of reserves commensurate with the discount rate changes, but Mr. Irons felt that if rates meant anything they would not be where they are if the System had not done so.

On the money supply question, Mr. Irons said he was inclined to think that its failure to increase during 1957 resulted partly from a matter of definition. There had been a very large increase in time and savings deposits and part of this was a shift out of demand deposits. To the extent that occurred, it might be significant in explaining the failure of the statistics of the money supply to increase as much as might actually have been the case.

Mr. Irons said he hoped that the Committee would not move toward further ease at this time, that it would hold about where it is. This would be necessary in view of the Treasury financing in the offing. He would not favor any further definite moves, certainly not during the next two-week period. To the extent that free reserve figures might be cited, he would not wish to see them move up to the $300-$400 million range. He realized the System Account was on the firing line and that there must be some leeway given to the Management of the Account to try to operate in the light of the feel of the market, but personally he hoped the Account would hold the situation as it now prevailed.

Mr. Mangels said that the San Francisco Bank's analysis of the money supply situation led to the same conclusion indicated by Mr. Irons, namely, that the conversion of demand deposits into time deposits had been instrumental in holding down the statistics of expansion in the money supply during the past year.

Business activity in the Twelfth District continued somewhat on the down side, Mr. Mangels said, although the rate of decline had slowed. Spokane and Portland had been classed as substantial labor surplus areas and 12 other cities were classed as slight surplus labor areas. Preliminary employment figures for December showed no change from November and there had been no more than usual seasonal increase in unemployment. Automobile registrations were up slightly from a year ago and some dealers anticipated a fairly good spring pickup. Department store sales and construction showed slight declines. Steel production was down from November and 16 per cent below December a year ago, although the year 1957 showed a 5-1/2 per cent increase compared with 1956. The lumber situation in the Northwest was mixed and while there was a degree of optimism, there were also factors suggesting pessimism. Some 500 small mills had closed since July 1 and another 400 were expected to close, all of those being of the marginal type. Most larger lumber producers were showing a profit.

Bank loans declined in the past three weeks by the same amount as a year ago with declines in all categories excepting brokers' loans. Banks report that they are giving closer attention to loan portfolios but there was no evidence of collection difficulties on outstanding loans. There had been some talk of a reduction in the rate paid by banks on savings deposits because of the decline in profits. There had also been considerable speculation in the press and on the part of bankers regarding the level of reserve requirements, Mr. Mangels said, and he had been asked to express the hope that requirements would be reduced. Mr. Mangels went on to say that if any such action were taken it would be his hope that it might be tied to an expansion in the deferred availability schedule to three days rather than the present two-day maximum which he believed to be unrealistic. The consumer price indexes for San Francisco and Los Angeles moved to a record high in December and this was a factor that had been considered by the directors in not acting to reduce the discount rate a week ago.

Mr. Mangels said that he would go along with the views expressed by Mr. Irons and maintain the existing level of restraint. An overly aggressive attitude on the side of ease would not stimulate Federal spending and it was questionable how much it had stimulated plant and equipment expenditures or consumer spending. Lower interest rates probably would increase State and local government expenditures. On the other hand, more ease might create an impression of distress and panic. His view would be to maintain a firm hold on the present situation, proceed slowly, and if free reserves ran around $200 to $300 million that would be about right.

Chairman Martin said that the comments by Messrs. Irons and Mangels on the money supply were valuable and he suggested that Mr. Thomas highlight this topic.

Mr. Thomas said that the preliminary monthly figures on the money supply to be published soon would show a substantial decrease for the year 1957 that for fortuitous statistical reasons would not be representative of the actual change for the whole year. The reason was that the figures relate to the last Wednesday of the month, which in 1957 fell on December 25 and thus required the use of December 24 data, on which date deposits were considerably smaller than on December 31, for which figures will ultimately be published. For this reason the figures should not be used as a measure of the results of credit developments and monetary policy. He agreed with Mr. Irons and Mr. Mangels that allowance should also be made for the shift to time deposits.

Mr. Deming said that there had been little change in the Ninth District situation during the past three weeks. Conditions had continued to ease off a little on the industrial side reflecting as much as anything inventory liquidation. There had been a gradual falling off in employment and the total currently was fractionally under the year-ago level. Unemployment was up quite strongly. The Minnesota employment bureau now estimated the peak of unemployment would come in March.

Mr. Deming said there had been some comment recently with respect to a steady deterioration in the situation in western Montana. He had visited the section a week ago and said it was not expected to show further deterioration. The copper industry had been weak for a long time and he saw no new factor in that picture. Lumber people were a little more optimistic than earlier but not much more so. The lack of acceleration in the down trend of the Ninth District was accounted for by the strong agricultural situation.

The directors of the Minneapolis Bank in making no change in the discount rate at that Bank at their most recent meeting thought that it might be desirable to signal that the Ninth District picture did not seem as black as in the rest of the United States. Demand for credit continued quite strong. Minneapolis banks reduced the prime rate yesterday because of competitive reasons, not because they felt a decrease in credit demand. As to open market policy, Mr. Deming said he would be inclined to go along with the views expressed by Messrs. Irons and Mangels for the ensuing two weeks and to have the System Account hold the level of free reserves about where it is at present, namely, around $200 million.

Mr. Allen said that Seventh District economic activity apparently had not declined as much as in some other areas. Unemployed workers covered by compensation who were receiving benefits had risen to 6.8 per cent in the nation but the figure was below the national average in four of the five States of the Seventh District. In the fifth State, Michigan, the figure was 10.2 per cent, where unemployment in mid-January was estimated at 320,000 persons, the highest since 1949. Department store sales continued to be a bright spot and in the two weeks ending January 18 showed a 3 per cent gain over the comparable 1957 week. Automobile manufacturers were now anticipating sales of 5.1 to 5.3 million cars in 1958.

Mr. Allen went on to say that he had attempted to get a measure of the steel inventory situation in the automobile industry and was told that the industry had 475,000 tons of steel over and above normal inventory, enough to make 250,000 cars at 3,800 per car. This represented two weeks steel above normal requirements which he did not feel was a large amount. Nationally, there were 17 million tons of finished steel on hand compared with normal inventory of 16 million tons minimum and 24 million tons maximum. In other words, the present inventory was near the normal minimum. Current psychology might cause the figure to drop below the normal minimum to 12 or 13 million tons.

Referring to savings, Mr. Allen said that they were continuing but that the rate might be slowing because of falling income. Seasonally adjusted inflows declined from October to November in the three personal savings media, but they were still above September.

Chicago central reserve city banks had an average basic net surplus position in the period ending January 22, the first such situation in many months. This resulted from a decline in loans and from liquidation of Government securities, not from deposit gains. There had been almost no use of the discount window recently by large district banks and the number of country banks borrowing had also declined.

Mr. Allen then turned to monetary policy, stating that he doubted that between now and February 11 there would be a change in any discount rate. He then made a statement substantially as follows:

> It will not be news to anyone here when I say that the reduction to 2-3/4 per cent, in Chicago as well as elsewhere, was not what would have happened had I had the sole decision. I will repeat that price stability is still number one with me and I do not feel that the Committee's actions of the past several months have made the contribution which they might have made in that direction. Of course that is a minority opinion and I respect the judgment of the majority. Further, I recognize that monetary policy has a delayed reaction and that at least some believe that, although two years of restraint failed to halt price inflation in 1956 and 1957, major price adjustments are in the offing. I hope that they are right. But I would feel that we had a better chance of winning out against inflation if our easing policy were not proceeding so rapidly today. I was not here in 1953 but I know that some who were here have suggested that this Committee moved too fast and did not allow sufficient time for fundamental economic adjustments to take place. In my judgment we are at a critical point, and if we believe that monetary policy can be used to fight the wage-price spiral this is the time to use it. My idea of the way to use it is to slow up in our movement to an easier policy. I am fearful that we are not only validating recent price increases (to use Mr. Young's words of a year ago which

> many of us applauded), but that we may also be contributing to a climate which will bring further price increases in the not too distant future. I realize that the recession can and may develop to the point where every vehicle of easier monetary policy should be utilized. But in my judgment inflation is still the major problem at this time.

Mr. Allen then reported on a visit to Detroit yesterday, stating that the members of the Detroit Branch Board did not seem pessimistic. He also spent part of the afternoon with an official of a large automobile company and he was pessimistic. After giving figures of production and sales estimates and of dealer stocks, Mr. Allen said that the first quarter production estimate of 1,500,000 cars seemed doubtful. Also, used car prices were not holding up well; for the first time in many years price increases on new cars were not being reflected in used car prices. Further, dealers' margins are lower and are discouraging. In evaluating automotive production for 1958, Mr. Allen said that it should be remembered that (1) from here on production will be less than sales or at least will be lower after the labor contracts are settled, and (2) this year we will import more cars than we export. He reported that the industry wished to end 1958 with lower stocks in the hands of dealers than at the start of the year.

With reference to trucks, Mr. Allen said that the situation was worse than with automobiles. Truck production in the first quarter of 1958 will be 10 per cent below last year. The inventory situation is not as bad as in the case of automobiles, but the industry estimates that both sale and production of trucks this year will be lower than in any year since 1946.

Mr. Allen also referred to facility expenditures by the automobile industry, stating that about $840 million would be spent during 1958 representing completion of 1955 and 1956 programs. While this amount is well below 1957 and 1956 expenditures and somewhat below 1955, it exceeds 1954 and earlier years. Present estimates are that facility expenditures in 1959 will be below $500 million and in 1960 below $350 million.

Mr. Leedy said that Tenth District conditions were similar to those reported for the Ninth and Eleventh Districts--a little more favorable than for the country generally. The crop situation continued favorable to ideal. Unemployment was up less than nationally and appeared to be following the seasonal pattern, but at a level slightly in excess of last year. Department store sales continued up during January. Loan repayments since the year-end had been slightly greater than last year. There had been a sharp increase in deposits but, contrary to Mr. Rouse's report, banks did not appear to have employed their funds in buying Government securities but had kept them in the Federal funds market.

With respect to policy, Mr. Leedy said he continued to feel that the System program for the period immediately ahead should be to provide further ease in the money market. He had no criticism of the Management of the System Account but considered it unfortunate that in two of the three weeks since the preceding meeting there had been a small minus reserve position. The report presented this morning indicated free reserves would be around $230 million next week. Mr. Leedy said that, as Mr. Hayes indicated, the System Account should see to it that reserves were further supplied to the market. Published figures from now through the period of the Treasury financing should not show net free reserves less than the projection of around $225 million.

Mr. Leedy said he also shared Mr. Hayes' feeling as to procedural aspects of recent rate changes. He felt the change was proper and he was gratified that there had been opportunity for the Reserve Banks to consider their discount rates in advance of action by the Board of Governors on the Philadelphia Bank's rate. However, he thought the procedure followed indicated we were not acting as a System and that it would have been better if other Reserve Banks could have been a party to the action.

With respect to Mr. Mangel's suggestion on reserve requirements, Mr. Leedy said he assumed nothing of that sort would be seriously considered until after the Treasury financing was completed. If the System attempted to do too much too quickly the actions could contribute to deterioration of public psychology. One of the directors of the Kansas City Bank had indicated as much in commenting on the reduction in the discount rate so soon after the reduction in margin requirements.

As to Mr. Erickson's suggestion on the directive, Mr. Leedy thought that the present wording really implied the ease that Mr.

Erickson thought might be spelled out. As a general proposition he preferred not to specify in the directive the exact method of attaining an objective.

Summing up, Mr. Leedy said that he would do more than had been done in the recent past toward bringing ease and he certainly would not do less. With all the difficulties of attempting to estimate the level of reserves, he would make certain that the errors were on the side of ease rather than of creating any tightness.

Mr. Leach said that the Fifth District economy was operating at a lower level than he reported three weeks ago, but there had been no material change in the rate of decline. The long Christmas shutdown of cotton mills apparently did not suffice to adjust mill inventories to current demand and further curtailment of production might be necessary. Mills were being ground by the rising costs of good quality raw cotton and inability to raise mill prices. Furniture manufacturers' sales were expected to be off sharply during the first quarter of 1958 from the high first quarter of 1957. Furniture dealers reported some easing of terms to stimulate retail sales. Price cutting had been noted in the district's coal market, and premium prices for export coal had disappeared. Cigarette manufacturing and shipbuilding had continued strong, Mr. Leach said, noting that about 80 per cent of all cigarettes produced in this country were made in the Fifth District and that the industry was one of the district's most stable. Despite revival of the cancer scare, cigarette producers had had record sales last year, and the outlook for production and profits this year was quite satisfactory. Shipbuilding companies reported that some new orders had been canceled and repair business had declined, but business on hand currently is greater than was handled in 1957.

Agricultural income must be considered a factor of considerable weakness, Mr. Leach said. Fifth District tobacco farmers, who produce two-thirds of the tobacco raised in America, were in the worst position they had been in for many years. Cotton growers received one-third less for their 1957 crop than their 1956 crop. Fifteen to twenty per cent of the 1957 peanut crop was still stacked because of excessive moisture with damage increasing daily. Other crops also had been damaged because of weather. Livestock growers had held their own.

Mr. Leach said that most, if not all, of the larger banks in the Fifth District had reduced the prime rate. Many bankers report that loan demand is still strong and they expect not only to make rate reductions down the line with reluctance but also to attempt to reduce the number of customers entitled to the prime rate. Aside from strong loan demand, another important factor in the reluctance of banks to reduce rates is worry about a prospective profits squeeze. Bankers point out that rates of interest paid on time and savings deposits have increased in recent months as have salaries. Business loans declined during January at about the same rate as a year ago. Mortgage lenders indicate a noticeable increase in availability of mortgage funds and a softening of rates.

In view of economic and credit developments, Mr. Leach said that he thought the easing of reserve availability during the past three weeks was clearly appropriate. The reduction of the discount rate at Philadelphia was unexpected at the Richmond Bank and was an important factor in the decision of that Bank to reduce its rate. Recalling that at the January 7 meeting he had spoken in behalf of more reserve availability, Mr. Leach said he was glad that an average of $170 million of free reserves was achieved during the week ended last Wednesday and that the figure for this week would probably be around $200 million. He would prefer a somewhat higher average but thought the Committee should maintain an even keel because of the forthcoming Treasury financing. Doubts should be resolved on the side of ease.

For the information of the Board, Mr. Leach said that since the American Bankers Association put on a program for reducing reserve requirements, his Bank was receiving more and more requests for modification of the method of computing required reserves and particularly for lowering requirements.

Mr. Mills said he was especially interested in Mr. Hayes' bold and persuasive proposal for aggressively adding to the supply of reserves. However, he would differ from Mr. Hayes and others taking that position in that they apparently had not taken account of the fact that action as vigorous as that suggested would have a major impact and an unsettling effect on the interest rate structure that could undo the advantages sought for. All told, Mr. Mills said, his policy reasoning was closely in line with the views expressed by Mr. Irons and other presidents who had taken that same general position.

Mr. Mills suggested that System policy actions in the near future might profitably be guided by the composition of what could be called the supply of "floating reserves," that is, the supply of reserves provided through private initiative and represented by the combination of Federal funds and the reserves supplied by discounts at the Federal Reserve Banks. Previously, it might be said, the major part of the supply of "floating reserves" had originated from Federal Reserve Bank discounts with Federal funds providing the marginal part of the total supply. That situation has now been reversed and Federal funds are the major source of the supply of "floating reserves." Policy based on those changed circumstances would contemplate that variations in the volume of Federal Reserve Bank discounts as related to the volume of Federal funds would be the critical factor for the Management of the System Open Market Account to follow as a guide as to whether reserves should be supplied in greater or lesser quantity. If policy actions were presently adapted to such a proposition, it was Mr. Mills' guess that a supply of positive free reserves from $150 million to $200 million would be called for. However, he pointed out that due to the lag in obtaining policy results, it was still too early to know what the eventual market reaction had been to a supply of positive free reserves ranging around $100 million. It was also important, in his reasoning, that the supply of positive free reserves moving about within the System should be sufficient to act as a cushion against the disturbing effects of whatever regional shifting in bank deposits might occur because of changing economic conditions in the respective Federal Reserve districts.

If about the existing supply of reserves was allowed to carry through the present period of Treasury financing, Mr. Mills felt that it should be possible by the time the Committee next meets to get a clearer and more definitive picture of the effects of past policy actions from which a fresh start could be taken.

Mr. Robertson said that he was not as pessimistic as some of the comments of others indicated. His views had been expressed well by Messrs. Allen, Irons, Mangels, and Deming. In his opinion, the System had moved too fast in easing and the results had shown up in psychological attitudes. Mr. Robertson's fear was that the effect would be so great that before too long he would be joining with the majority of the Committee in really easing by reducing reserve requirements. He hoped this would not be true but was afraid of it. Mr. Robertson said that it seemed to him clearly wrong to ease further at this time. He would do what he thought was agreed upon at the preceding meeting, that is, hold an even keel through the Treasury financing, and he would not ease before that was completed. As to the Committee's directive, he would not make a change to indicate that the Committee was maintaining ease in the money market because such a change at this time would indicate that it had not been the case heretofore.

Mr. Shepardson said that, as several others had indicated, he felt strongly that we should maintain the position we are now in. He was very much concerned about the price situation. He did not think the Committee had explored fully the effects that monetary policy could have in bringing about corrections and adjustments in prices. His view was that the Committee had moved fully as far as was desirable, and perhaps too far, in adjusting to the Treasury financing, and this was a time to maintain an even keel. There should be no further indication of change in position either in the Committee's directive or in the level of free reserves.

Mr. Fulton said that he could not subscribe to some of the optimism as to the short-run nature of the decline. In the Cleveland District, it was felt that the downturn was more severe than had yet been recognized and that it would continue for some time. That district had had a greater deterioration than in some other districts because of its heavy industry complex. The steel industry was at 55 per cent of capacity, with the Cleveland area down to 43 per cent. Coal production was 16 per cent below a year ago. Carloadings were down. There were substantial inventories of steel in warehouses and in the automotive industry, and those firms were not ordering to the extent they were cutting up steel. Machine tool manufacturers had the lowest dollar amount of new orders in 1957 that had been recorded for many years and their backlogs were disappearing. The only bright spots in the Cleveland District, Mr. Fulton said, were the strong department store trade and the faily strong construction industry. Employment was not good, with 7 additional cities having been added to the substantial labor surplus category in December and January. Eighteen district cities were now in that group, and 7 others were classed as moderate labor surplus areas. Unemployment was very widespread because of the letdown in heavy industry. In the opinion of businessmen, there was no immediate outlook for an upturn in industries that might be using steel or ordering machine tools.

District banks had lost funds recently and were in at the discount window, Mr. Fulton said. He concurred with Mr. Hayes that reserve availability should be increased to the $200-$400 million area. He would prefer to see sufficient funds in the banking system to allow the Federal funds rate to go below the discount rate. There should be further easing, Mr. Fulton said, feeling that the Committee had been keeping a too firm hand.

Mr. Williams said that he would like to read into the record of the Open Market Committee meeting a draft of the minutes covering the action taken by the Board of Directors of the Federal Reserve Bank of Philadelphia at the time they voted to decrease the discount rate of that Bank on January 16, 1958. He then read the following:

Mr. Bopp read the Board's "National Summary of Business Conditions" and concluded that, by itself, it indicated that, except for consumer prices, the downward drift in the economy was continuing and might be accelerating. These economic developments would suggest a reduction in the discount rate were it not for the situation which confronts the Treasury in refunding forthcoming maturities. A breakdown of the maturities of Government bonds and their ownership was presented wherein the total was expressed as $16.75 billion, of which the Federal Reserve Banks hold $5.8 billion, commercial banks $5 billion, and others $6 billion. While Treasury action is conjectural, it was pointed out that it is desirable that the Federal Reserve have an adequate sense of consideration of the problems involved. It was stated that the banking system as a whole had net free reserves and that borrowings from the local Federal Reserve Bank had declined to $22 million.

These observations were supplemented by exchange of information among the Directors which confirmed the judgment that the economy was weakening. Growing unemployment and declining personal incomes also were considered. It was pointed out that the problem of excess capacity presented a structural problem which might persist beyond 1958. The view was expressed that the Third Federal Reserve District had been particularly hard hit, that unemployment was increasing, and that definitely there was no boom.

The background problem of inflation was reviewed and it was agreed that it would not seem to be a critical factor in a present reduction of the bank rate. The relationship between bank rate and other interest rates was discussed. It was pointed out that the dramatic decline in rates following the reduction of Reserve Bank rates in November occurred because that change came as a surprise to the market. At the present time, on the other hand, the market has been anticipating a reduction in bank rate and probably has already discounted it to a large degree.

Possible effects on the prime rate were discussed. There was considerable discussion as to the possible impact of the reduction on particular sectors of the economy. It was felt that it would stimulate state and local government financing, possibly housing, and particularly that it might ultimately lead to a considerable amount of refunding of outstanding issues.

During the course of the discussion, President Williams asked the officer members of the Discount Committee whether any felt that it would be inappropriate to reduce the rate. None did.

Considerable sentiment was expressed for the coordinated use of the several tools at the command of the System to retard what was characterized as a growing recession. Therefore, it was felt that the primary concern should be for making some reduction in the rate effective at an early date and that there was still time for the market to adjust before any Treasury announcement of terms on its new issues. In this connection, the timing of our local Board meetings was discussed. Consideration was given to the effect of postponement of action at this time on freedom and timing of action in the month of February.

Judgments were evenly divided on whether the decrease in the rate should be one-quarter of one per cent or one-half of one per cent. However, after extended discussion, members of the Board unanimously voted to recommend the smaller decrease.

As to business conditions in the Philadelphia District, Mr. Williams said that available data continued to indicate a decline in activity. Department store sales were running below a year ago. New automobile sales were slow, and unemployment was rising as factory employment continued to slide. There had been a sharp drop in earning assets and deposits at weekly reporting member banks since the close of 1957. Member bank borrowing was considerably below a year ago.

Mr. Williams went on to say that in his view the business picture both in the Philadelphia District and nationally pointed toward a somewhat easier monetary policy. The recent reduction in the discount rate by several of the Federal Reserve Banks was one step in this direction. Appropriate targets for open market policy in the next three weeks would seem to be free reserves of $100-$200 million, member bank borrowing of $350-$500 million, and a bill rate of around 2-1/2 per cent or less. Mr. Williams felt that no change was required in the Committee's directive at this time.

After commenting on the consideration given by the Atlanta Bank's Directors to the recent decrease in the discount rate of that Bank, Mr. Bryan said that there seemed to be a genuine difference of philosophy in the views that had been expressed at this meeting. In the Sixth District, it seemed clear that the downturn in economic activity was continuing. The movement was not of great magnitude but there was some evidence of acceleration.

As to the different views expressed this morning, Mr. Bryan would associate himself almost entirely with those of Mr. Hayes. The System had done much in the past three weeks in the way of increasing reserve availability, Mr. Bryan said, and after reviewing the basis for this statement, he added that he did not think the rate situation would be made disorderly by further supplies of reserves. Total reserves during the week of January 22 were 7/10ths of 1 per cent below those of a year ago. Thus, although we were confronted with a deteriorating economic situation, the banking system was now less able to support the economy than it was a year ago. This was in contrast with the policy followed last year when the System was running reserves substantially in excess of the previous year, at a time when the situation was showing minor difficulties in the economy but no deterioration. Demand deposits adjusted and currency were down about 1.4 per cent and even taking account of Mr. Irons' comment on the shift to time deposits, the increase would be around 1-1/2 per cent. On this point, Mr. Bryan said that he was confident not all of the time deposits should be included in computing the money supply although there might be a case for adding some of them in.

Taking all this into consideration, Mr. Bryan said he would conclude there was about a zero change in the money supply. In the face of the discouraging economic situation and considering the efforts of the economy to grow, he believed there must be a growth in reserves. Even though no precise figure on the growth of reserves necessary to permit a sustainable growth rate in the economy can be arrived at, Mr. Bryan indicated it might be useful for the Committee to bear in mind that we would need additional reserves of about $200 million to achieve a 1 per cent growth in reserves, as measured against a year ago; and if we wanted to talk in terms of a 2 per cent growth factor, the figure would be about $400 million. Mr. Bryan reiterated his earlier statement that he concurred in the policy views expressed by Mr. Hayes.

Mr. Johns said that a majority of the directors of the St. Louis Bank requested him at their latest meeting to say to the Committee that in their opinion the Federal Reserve System had not supplied reserves to the banking system as it should have done since the November reductions in discount rates. It was their opinion, and one director was most outspoken, that pressure should have been relieved to a greater extent through use of open market operations or a reduction in reserve requirements or both. One director expressed the thought that the System had been negligent in failing to do so, which Mr. Johns said he interpreted to mean the director disagreed with the Committee's policy. Mr. Johns made it clear that in the foregoing remarks he was performing a reporting function.

Mr. Johns went on to say that in going about the Eighth District during the past few weeks he frequently had been asked about the proposal to include vault cash in computing required reserves. It had been suggested that it would be most fortunate and appropriate to get Congressional authority for such action. Mr. Johns said that in making this statement he was again reporting comments of others but that he shared this view.

Turning to business conditions, Mr. Johns said he was not able to give an optimistic report as to the Eighth District economy. Views of businessmen and bankers had a pessimistic tinge. Reports from some areas caused him to wonder whether the Eighth District might be contributing more to the decline than he had thought. Within ten days of the January 7 meeting of the Committee, he began to question whether the decisions arrived at at that meeting had been correct or whether they needed to be changed. It made no difference whether there had been a misappraisal of the situation or whether the situation had changed, Mr. Johns said, but he came rapidly to the conclusion that further easing was called for and that it should not await the January 28 meeting. Therefore, when confidential advice of rate action at the Philadelphia Reserve Bank was received, the opportunity was promptly and unanimously employed by the directors of the St. Louis Bank to reduce the discount rate. Mr. Johns said that while he agreed with the expressions of regret that a change of this kind came up in the interim between meetings where the action taken differed substantially from an understanding reached at the preceding meeting, he would be most reluctant to feel that a changed situation should not be recognized and appropriate action taken.

With respect to policy for the next two weeks, Mr. Johns associated himself completely with the statement by Mr. Hayes. He was not convinced that the time had come to insert in the Committee's directive an express reference to ease because he thought what had to be done could be done within the present directive.

Mr. Szymczak said that during the next two weeks the System Account could not take action other than through making repurchase agreements available, but he would recommend that these be used freely between now and the close of the Treasury financing. He did not see how the Committee could move toward Mr. Hayes' recommendation for a $200-$400 million target for free reserves over the next two weeks.

Mr. Hayes commented that in making that suggestion he was thinking of moving within the next couple of days.

Mr. Szymczak said he agreed with the general idea of a $200-$500 million free reserve target, but he would leave the interpretation of the figure to the Chairman of the Open Market Committee. This was really the problem that came up when a change in the discount rate was being considered, he said, because of the consensus of views expressed around this table on January 7. In Mr. Szymczak's opinion, a change in policy of the Committee at the time the Philadelphia Bank rate was being considered would have been more effective than a change in the rate, since a reduction of 1/4 of 1 per cent did not have much effect. He would favor the $200-$500 million range but reiterated that he would leave the interpretation of the use of this range to the Chairman of the Committee so that he and the Vice Chairman and the Manager of the System Account could consult on just how far the account should go at any given time. He felt this to be a better procedure than to call a special meeting or to have a telephone meeting.

Mr. Szymczak said he also agreed with Mr. Bryan that reserves had to be supplied to the market. A change in reserve requirements was not anything that could even be considered and it would be necessary for the System Account to concentrate on open market operations. As soon as the Treasury financing was out of the way we might be faced with another reduction in the discount rate. Mr. Szymczak said he hoped the consensus of this Committee would agree with his suggestion that leeway on reserves on the positive side be left to the Chairman of the Committee in consultation with the Vice Chairman.

Mr. Balderston inquired of Mr. Hayes whether, if it were decided to act to put reserves into the market within the next few days, that would be known throughout the market in time for the market to adjust to the Treasury's financing announcement.

Mr. Hayes said that he thought it would, since it would be indicated by the weekly report as of the close tomorrow and would become public information before the books were opened.

Mr. Rouse said that there had been an acceleration in the date of the Treasury's program so that at the moment Treasury officials were trying to make a tentative decision with the thought of reaching a final decision on their offering tomorrow. Action taken by the System Account today or tomorrow would not be in time to affect that decision.

Mr. Balderston said that he had a strong desire to see the long-term bond the Treasury contemplated offering succeed. It seemed to him that the only appropriate procedure for the Open Market Committee was to maintain an even keel between now and its next meeting. He did not believe in erring on one side or the other--the Committee should maintain an even keel.

Chairman Martin said that there were honest differences of opinion in the views expressed. He made no apology for what had happened since the January 7 meeting. He had tried at that time to line up the program in accordance with the situation as it had developed. He thought there should be no complaints against the Philadelphia Bank for its action on the discount rate. That action was taken early in relation to the Treasury financing. Whether there could have been another Open Market meeting was a System problem, the Chairman said, pointing out that it was difficult to call meetings of a group as large as this on short notice.

Turning to operations, Chairman Martin said that unless the Committee wished to abandon the policy it had been pursuing for several years, it would have to face up to the fact that it should not be supplying additional reserves to the market during a period of a Treasury financing but should be trying to maintain an even keel. If it started tampering with that principle, it would find itself in difficulty.

Chairman Martin noted that the next meeting of the Committee would be held on February 11 and, while we might have additional information at that time, he thought it likely the Treasury would be going to the market shortly thereafter. Thus, although there was a difference of opinion today, unless the Committee wished to change the present operating procedures which had been used for a number of years it should accept the fact that the Treasury will make an announcement of its refunding tomorrow or the next day, that the books will be open on February 3, 4, and 5, and that payment will be made the following week. Under these circumstances, the Committee should not be in the market unduly during that period. The Chairman stated that he would like to have comments on this point because he believed it basic to the approach that had been taken by the Open Market Committee during the last few years, and he would like to know whether there was any disagreement with this view.

None of the members of the Committee commented on or indicated disagreement with the statement by the Chairman. He then said that if it was the consensus that this was the procedure to be followed, it would also seem to him wiser not to change the directive at this time. That was the thing that had gotten us into difficulty last November, he said, when the directive had been changed and we knew that it ultimately would be published and that a change in the wording would be interpreted as a change in the Committee's policy. Therefore, unless there was some drastic reason for doing so, Chairman Martin said it seemed to him that there should be no change in the directive at this meeting. However, in the light of the variety of views expressed around the table it would seem appropriate to discuss the wording of the directive at the meeting on February 11.

Mr. Hayes raised the question whether the Committee could not do a little to put additional reserves into the market today.

Chairman Martin said that this was the same discussion that we had had previously, and he called upon Mr. Rouse for his comments.

Mr. Rouse said that the Treasury's decision on the financing would have been made in the light of the current situation and he did not think that action today could influence that decision. As to repurchase agreements, Mr. Rouse said that he assumed it was generally understood that their use would add to free reserves. The figures that would be published as of tomorrow could be expected to show around $200 million of free reserves. If the Treasury's announcement was made on Thursday or Friday, the Management of the Account might well be asked for repurchase money. On the other hand, Federal funds today were selling at 2-1/4 per cent and if they turned out to be available at that rate in volume, the System might not be called on for repurchase agreements in any volume.

Chairman Martin said he would not anticipate that there should be any change in the normal procedure for making repurchase agreements available, consonant with the present directive and with the thought of keeping about the present level of reserves during the period of the Treasury financing. The period of this financing was now here.

Mr. Robertson said that his understanding was that repurchase agreements would be used only for the purpose of meeting needs that might arise and not for the purpose of making a figure of free reserves, and Messrs. Szymczak, Shepardson, and Allen each made comments to the effect that use of repurchase agreements should be in the usual manner but not for the purpose of making a particular reserve position.

In response to a question by Chairman Martin, Mr. Riefler commented that if this turned out to be a huge financing by the Treasury, it might well come about that the facilities for financing dealers would be deficient and would require making repurchase agreements available. If this should happen the Committee should recognize that free reserves might be larger than intended.

Chairman Martin said he thought it was understood by everybody that it was not contemplated that there would be any change in the normal approach to a Treasury financing and that operations would be in accordance with the procedures the Committee had been following for the past several years. He suggested that it also be understood that the System Account would do its best to maintain an even keel during the Treasury financing. He thought all were in agreement on those points, in which event it was clear that there should be no change in the directive today. He inquired whether anyone questioned that procedure.

Mr. Hayes said that he would like to report that the directors of the New York Bank wished him to express their feeling that the System had not done enough in the way of open market operations or otherwise. In making this comment, Mr. Hayes noted that he was simply reporting the directors' views.

Chairman Martin said that the Committee welcomed and should have at all times the benefit of the views of the directors throughout the System. However, the Committee also wished to protect these directors against a situation such as that which developed recently at the Bank of England. We should all realize that this could be a very real problem. We should never get into the record that the directors of a Reserve Bank were recommending a change in reserve requirements since many directors are also bankers. Chairman Martin said that this had come up on the Hill a number of times and that it raised a very real question. He was defending all of the Committee members and the Presidents against the charge of being dominated by the bankers. The Committee wished to have the views and judgments of each of the Reserve Bank Presidents, but these should be their own.

Mr. Hayes said that he agreed that we should not indicate to the directors in any way knowledge that the Committee members or the Presidents might have of the likelihood of any change in System policy. However, he said he had thought that the directors should be allowed to cover all phases of Federal Reserve policy in their discussion and in making suggestions.

Chairman Martin responded that each President should handle this problem in the way he saw fit. The Presidents should feel free to discuss every aspect of System policy in any way they wished. His point was that each of us should protect the directors from initiating recommendations where their motives could be questioned. Responsibility for determining reserve requirements was specifically placed in the hands of the Board of Governors, according to statements made to him by several Senators, because the Congress did not want that authority in the hands of the boards of directors of the Federal Reserve Banks. He reiterated the views he had expressed before that he thought these Open Market meetings should be just as free as possible and we should not hesitate to discuss any of the System problems whether they be margin requirements, or reserve requirements, or something else. At the same time all of us should remember that changes in the System might come about in the next three or four years and that director recommendations about reserve requirements might be the sort of thing that the Congress would criticize unless the Committee was careful to see that the perspective in which views were reported was correct. He did not intend by this to preclude any director from giving the Committee his views. He was simply trying to have the Committee members recognize that there was a problem in this area.

Chairman Martin then stated that if there were no further comments the directive would be renewed in its present form with the understanding that it would be discussed further at the meeting to be held on February 11 and that operations for the System Account in the meantime would be carried on along the lines of the foregoing discussion.

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 cushioning adjustments and mitigating recessionary tendencies in the economy, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

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

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

Chairman Martin stated that discussion of the New York Clearing House Report dated October 22, 1957, would be carried over until the next meeting of the Committee to be held on Tuesday, February 11, 1958.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary