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, May 27, 1958, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman 1/
Mr. Deming, Alternate for Mr. Mangels

Messrs. Erickson, Allen, and Johns, Alternate Members of the Federal Open Market Committee

Messrs. Bopp, Bryan, and Leedy, Presidents of the Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Hostetler, Marget, Walker, Wheeler, and Young, Associate Economists
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics, Board of Governors
Mr. Keir, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York

1/ Entered meeting at point indicated in minutes

Messrs. Roosa, Mitchell, and Tow, Vice Presidents of the Federal Reserve Banks of New York, Chicago, and Kansas City, respectively; Mr. Larkin, Assistant Vice President, Federal Reserve Bank of New York; Messrs. Willis, Anderson, and Atkinson, Economic Advisers, Federal Reserve Banks of Boston, Philadelphia, and Atlanta, respectively; and Mr. Lapkin, Economist, Federal Reserve Bank of St. Louis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on May 6, 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 May 6 through May 21, 1958, and a supplemental report covering commitments executed May 22 through May 26, 1958. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Larkin said he had nothing to add to the written reports except to emphasize that the money market had been consistently easy. Federal funds had been available at minimum rates and the Treasury bill rate had declined sharply, along with other short-term rates. The bill rate in yesterday's auction was 0.63 per cent, and the issue started out in trading this morning at that level. Dealers had been awarded substantial amounts of bills in yesterday's auction.

In response to a question, Mr. Larkin stated that the $91 million upward revision of the Board staff's estimate of required reserves at country banks on the basis of final data for the last half of April was, as the New York Bank's report had indicated, much larger than usual, the revision ordinarily being in the magnitude of $20 to $30 million.

In response to another question, Mr. Larkin said that there had been a continuing wave of speculation in the Government securities market since the change in credit policy last fall. With the approach of the forthcoming Treasury refunding operation, there had now been a wholesale speculative movement into Treasury rights maturing in June. Some estimates placed the magnitude of this speculation in the vicinity of one-half billion dollars, but yesterday, Mr. Larkin said, he heard a figure mentioned in the area of $1 billion. If the refunding went smoothly, this would not cause trouble. However, if the terms were not acceptable to the speculators and if they unloaded at one time when the subscription books were opened, there could be trouble in the market place. In essence, there was a substantial speculative interest in the maturing Treasury issues; if the estimate of $1 billion was correct, that meant $1 billion out of total maturing issues of $9-1/2 billion.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period May 6 through May 26, 1958, were approved, ratified, and confirmed.

Mr. Vardaman joined the meeting at this point.

In supplementation of the staff memorandum distributed under date of May 23, 1958, Mr. Young made the following statement on the economic situation:

A bottom to decline in economic activity appears to be in the making. At least, the composite of indications is fairly suggestive of this. To identify the main indices:

Decline in industrial production has apparently been checked in May. This reflects turn around in steel output and modest strengthening of auto output, about offsetting further declines in producers' equipment and nonferrous metal output. Other areas of output recently have been showing little change.

Thanks to rising transfer payments--unemployment compensation, old age benefits, and a recent special life insurance dividend to veterans, personal income has been leveling out. Reflecting improvement in personal income, retail markets have developed noteworthy strength. Nondurable goods buying has been particularly buoyant. In new car and used car markets, combined sales and price trends, if not pointing to betterment, certainly suggest cessation of weakening.

Construction awards in nonresidential areas, while still declining, show somewhat less decline than expected. A rise in commercial awards and public works in April served as a partial offset to declines in other nonresidential areas. On a revised seasonal adjustment basis, private housing starts show an evener level for the year to date than on the older seasonal adjustment basis and reports from builders confirm an improved tone to housing markets. With unsold inventories low, construction and mortgage money readily available on more liberal terms, and mortgage interest rates showing declining tendencies, home builders state that they are raising their sights (not too high to be sure) for the year.

New orders in durable goods industries have been declining at successively reduced rates and, abstracting the aircraft industry which enjoyed a sharp rise in new defense orders in March, the latest confidential information suggests a modest increase for April. Defense contracts generally have recently been showing marked rise, with secondary impacts on subcontractors.

Inventory liquidation has probably been continuing over all, but some key material markets --steel, copper, lumber, textiles, and fuels--suggest lessening, if not turnabout, in inventory liquidation. Another straw in the inventory wind is the recent rise in freight traffic figures covering manufactured shipments. Still another straw is that inventory liquidation halted in April at department stores, at least temporarily; the seasonally adjusted index in fact rose 2 points.

Initial and continued claims for unemployment compensation have shown a more favorable trend this month. Numbers of workers submitting claims are still large, but even modest declines in claims are indicative of change in the labor market climate.

March figures for exports were up from February while imports continued to hold up well at the moderately reduced level of January and February.

Agricultural income has risen this spring, and with crop, livestock, and farm price prospects relatively favorable for most areas, the agricultural income outlook is modestly bullish.

Capital market activity has been well sustained, indicative of resistance to further contraction in real capital formation as well as of a strengthening of liquidity positions by strategically important sectors of the economy. Banking developments have also been in the direction of a marked strengthening of business and individual liquidity positions.

As to prices, a degree of flexibility in the area of industrial commodities seems to be emerging gradually, especially at the wholesale level but to a degree also at retail. At wholesale, there is alleged to be a widening spread developing between the statistical level of semi-finished and finished goods prices and the actual transactions level.

The Federal budget is moving steadily into compensatory deficit position, and the prospect is for the deficit to rise more rapidly further in the months ahead.

Finally, investor and business sentiment can reasonably be read as manifesting on balance cautious optimism about the future economic outlook.

Each of these points needs specific qualification, indeed quite a bit of it, but the listing of them together presents a fairly impressive array of indication that recession may be bottoming out. But it is a long jump from the conclusion that recession may be bottoming out to the conclusion that recovery is shortly to begin. There are a number of factors in the situation that raise questions about imminent recovery:

Surplus of manpower and industrial capacity remains a general condition.

That wage rate advance and escalation is still a problem at the bargaining table of major unionized industry is confirmed by the recent aircraft plant settlement.

In consumer durable goods markets, instalment credit liquidation continues to be a major drag, proceeding in recent months at an annual rate of contraction not far short of its rate of expansion just a year ago.

Price adjustment so far accomplished is hardly to be judged very stimulative.

As recession is prolonged, financial strains are cumulative. For one thing, as income declines, individuals endeavor to maintain living standards; thus, absorption of financial surpluses of many consumers is gaining as a retarding factor in consumer markets. For another thing, second quarter earnings for many companies and key industries at prevailing levels of activity are not likely to bring cheer to many equity investors and, in the railroad area, to bondholders.

In Europe, French political crisis comes at a time of increasing indications of inventory liquidation, which could tip European economic scales downward. Adverse European developments, together with financial weakness on the part of various underdeveloped and raw material supplying countries, could spell new reaction in American foreign trade.

On balance, it seems best to view the period which the economy is now entering as one of test of recession bottom. On the basis of past cyclical patterns, the period could last several months. If the test proves out, there may be the gathering of financial and enterprise forces to give sufficient impetus to resource redirection that recovery is set in motion. This is not a good stage for prejudging this possibility. The more prudent course is wait for clearer evidence that recession has bottomed out and that a pattern of recovery forces has taken shape.

Mr. Thomas made the following statement concerning financial developments:

Someone has characterized the current economic situation as an "inflationary recession." It is truly a selective one, with the declines concentrated in a few sectors--durable goods and inventories--while other sectors are showing remarkable strength. The inflationary characteristics are:

continued rises in prices of many commodities, notably foods and services, together with maintenance of prices of many other processed goods, further increases in wages, rising stock prices, the enlarging Governmental deficits, and, most strikingly, the rapid rate of credit expansion. The last two of these represents deliberate measures adopted to combat recessionary tendencies. The increase in prices and wages may be attributed to structural causes largely outside the influence of credit and fiscal measures. The stock market strength probably reflects credit developments at least in part.

The expected Federal Government deficit is slow in developing. Expenditures have continued below prior estimates and, although commitments have been made for additional expenditures, it is difficult to predict when the larger cash outlays will eventuate. Receipts, however, are falling somewhat below earlier estimates. If expenditures pick up sharply in the next few weeks, the cash deficit for this fiscal year may be close to $2 billion.

The Treasury's cash balance has continued at a comfortable level--above earlier projections and above the level of last year. The generally higher level of Treasury deposits at banks as compared with last year has absorbed some of the funds made available by bank credit expansion, as well as some of the available bank reserves. Although the Treasury balance will decline sharply in the next three weeks, June tax receipts, together with the absence of a maturing issue of tax securities this year, will bring about a large increase in the Treasury balance in the latter part of June. This should be sufficient to carry the Treasury into August before new financing will be needed.

New security financing by corporations, and by State and local governments has continued in large volume. Corporate issues, totaling nearly $800 million in May, are running less than the large volumes in March and April, but approximate the total for May of last year. Indications are that new public issues and payments on private placements may total close to $1 billion in June. State and local issues have remained close to $800 million, exceeding those of previous years. The present calendar points to a decline in June.

Money markets and security markets have been influenced by the large volume of new security issues, and by public discussion of plans for the Treasury refunding, as well as by the growing liquidity of the economy. Short-term interest rates have declined to new low levels, close to those of mid-1954. Long-term rates declined somewhat in April, but rose slightly in early May. The large volume of new issues keeps this market under steady pressure. Uncertainty about Treasury financing has also been a factor in keeping long-term rates from declining. The spread between yields on 3-month bills and the Treasury bond with the highest yield, at about 2-1/2 per cent, is the widest differential since the early 1930's. It compares with a spread of less than 2 per cent in 1954.

Total loans and investments of all commercial banks increased by over $4 billion in April--a larger growth than had been previously estimated--bringing the total increase since the end of November to above $8 billion. Marked increases occurred during April in both loans and investments at country banks, and in holdings of investments at city banks. The latter showed little change in their total loans, as declines in business loans were offset by increases in loans on securities.

In the first three weeks of May, according to partial figures for May 21, total loans and investments at banks in leading cities declined, reflecting to some extent seasonal influences, but the decrease was less than in the same period last year. Loans declined somewhat more than a year ago, but investments increased somewhat this year in contrast to a considerable decline last May. Loans to brokers and dealers in securities have been substantially reduced in the past three weeks, and business loans have declined somewhat further, reflecting in part usual seasonal influences.

Demand deposits adjusted and currency outside banks showed a seasonally adjusted increase of $1 billion in April, following similar increases in March and February. The total of $135 billion at the end of April is the largest since last July, when there was a peak of $136 billion, and is at the same level as the figure reported for April last year. Time deposits, other than interbank, at commercial banks are about $7 billion larger than a year ago, and interbank deposits and U. S. Government deposits have also been at higher levels than a year ago.

In the first three weeks of May, demand deposits adjusted at city banks declined by about $1 billion--or about the same amount as in the corresponding period last year. There were small declines in U. S. Government and interbank deposits, but less than last year. Time deposits continued to increase.

In addition to the growth in the volume of deposits in recent months, the rate of turnover of demand deposits increased in April, contrary to the usual seasonal trend, and was about the same as in April 1957.

Although changes in bank credit during the past three or four weeks have resulted in a net decline of about the usual seasonal proportions in the volume of required reserves, there have been substantial drains on reserves from other factors. The continued gold outflow has amounted to about $400 million and an increase in currency in circulation to nearly $300 million. The latter increase was about $200 million larger than seasonal. System open market operations have supplied over $400 million of reserves and other factors have supplied some. Free reserves have held close to $500 million.

New York City and Chicago banks have maintained rather well balanced reserve positions and during the past week or so have frequently been net sellers of Federal funds rather than large net buyers as in April. Banks in these two cities accounted for much of the decline in total loans and investments at banks in leading cities during the first three weeks of May. These tendencies have been reflected in the easing of money market tensions.

Reserve needs will be rather large in June and the first half of July. In the next two weeks, the gold outflow and the holiday currency demand will absorb substantial amounts of reserves. In the latter half of June, required reserves may increase as a result of the sudden buildup of Treasury deposits and probable borrowing by taxpayers from banks. These projections are especially uncertain. It appears that in the absence of System action free reserves might generally average less than $300 million, except during the middle week of June when float is temporarily high. In the weeks ending July 2 and 9, there are likely to be heavy borrowing needs, producing net borrowed reserves of over $200 million.

Mr. Hayes presented the following statement of his views regarding the business outlook and credit policy:

There is still no clear evidence that the recession has run its course, even though there are signs that the adjustment process may be approaching its end in certain segments and the decline in the economy as a whole is losing momentum. Perhaps the most reassuring element in recent weeks is the virtual absence of any cumulative recessionary tendencies in the area of consumer spending. But there is little in the picture to suggest a rapid and vigorous recovery. No immediate stimulating force of major magnitude is evident, especially in view of the apparently increasing unlikelihood of a general tax reduction.

Inventory liquidation is still going on, and with widely used inventory-to-sales ratios at peak levels, the end of this adjustment is not in sight. The rate of liquidation, however, is probably lower than in the first quarter, so that gross national product in the current quarter may receive some upward impetus from this factor, although it may well be more than offset by declines in final demand for goods, including business expenditures on plant and equipment. Retail sales did fairly well in March and April, but fragmentary reports for May look less promising. Transfer payments of various types have been a major factor in maintaining aggregate personal income at a very satisfactory level. The considerable growth of personal savings since the beginning of the year augurs well for ultimate consumer spending, and long-run business confidence continues strong. On the other hand, there is an ever-present risk that the recession may have increasingly adverse effects abroad.

It seems likely that unemployment will remain a serious problem for a good many months. The immediate outlook is dominated by the prospective inflow of about two million high school graduates and students into the labor force--most of them seeking temporary employment only. But even after seasonal adjustment total unemployment may well increase.

Price behavior is still discouraging, though we may take some comfort from the apparent further spread of discounts below list prices, as competitive pressures become more effective in today's buyers' markets. Even the indexes are showing signs of leveling out. There does not, on the other hand, seem to be any immediate danger that our sustained policy of ease will itself produce an early resumption of general price increases. Incidentally, from a longer-range point of view, enactment of a national fair trade bill of the kind now being urged in the House could make more difficult our problem of combating inflationary tendencies.

Recent trends in bank earning assets have been similar to those of earlier months in the year, with business loans continuing to fall off much more sharply than a year ago, and with growing security investments offsetting this decline. On a seasonally adjusted basis, the money supply is now only a shade higher than at the end of October, but since January it has risen by more than $2 billion. The bulk of the increase in loans and investments since October has been matched by a sharp rise in time deposits and Government deposits. It is gratifying to see required reserves (adjusted for changes in required reserve ratios) running about $600 million ahead of last year in recent weeks, as against about $300 million in March and April. Another tangible reflection of our policy of ease may be seen in the banks' loan-deposit ratios. For New York banks the average ratio in early May was 59 per cent as against 66 per cent in early October, but it was still far above the 1953 peak of 54 per cent. For weekly reporting banks outside New York the average in early May was 51 per cent as compared with 55 per cent in early October, and 43 per cent at the peak in 1953.

For the next few weeks the Treasury's refunding problems will be requiring our careful attention, but no cash financing is likely to be called for until early August. Uncertainty as to the possible inclusion of a long-term issue in the refunding has been a somewhat upsetting influence in the capital markets, despite the considerable ease in the money market.

The business outlook clearly indicates that we should adhere to our present policy of monetary ease. If present projections prove to be correct, involving the large rise in currency circulation associated with the Memorial Day holiday, together with continuing gold outflows, substantial System action will be necessary to prevent the level of free reserves from dropping sharply to the neighborhood of $200 million early in June. I believe that we should aim to keep free reserves around the $500-$600 million range, but that we should resolve doubts on the side of ease and should have no hesitancy about seeing free reserves rise occasionally to $750 million or more if this seems desirable after due consideration of the "feel" of the money and capital markets and the behavior of key liquidity indicators.

In view of the very sharp decline that has already occurred in short-term interest rates, there would be a real advantage in providing the reserves needed in the next few weeks without depressing short-term rates, especially bill rates, to unreasonably low levels. It would also be advantageous to encourage a diversified flow of bank funds into various sectors of the credit market, especially in the light of the uncertain atmosphere of the capital markets. To my mind these are persuasive reasons for a cut in reserve requirements at the earliest possible date. A cut would be a helpful step toward the System's long-range objective of achieving a generally lower level of requirements, and by making added reserves available to a wider range of users than would be the case if these reserves were injected solely through open-market operations, it would increase the likelihood that at least some of the funds would be almost immediately devoted to longer-term uses. A reduction in time deposit reserve requirements might be especially effective in encouraging a flow of funds into longer-term markets, including the mortgage market. Further narrowing of the differentials between demand deposit requirements for central reserve city banks and other categories of banks would also seem appropriate. Just by way of example, I might point out that a 1/2 per cent cut in time deposit requirements would free about $250 million of reserves, and an additional $250 million would be released by a 1 per cent reduction in the central reserve city required ratio for demand deposits.

If the reserves needed in the immediate future are not provided through a reduction in percentage requirements, I believe it may be quite difficult to provide them through open market operations without resorting to the purchase of short-term securities other than Treasury bills, in view of the low market supply of bills. Presumably, therefore, it should be understood that the Manager might purchase other short-term securities if the market supply of bills is inadequate to satisfy reserve needs.

With respect to the forthcoming Treasury refunding, I feel that the inclusion of a really long-term issue in the offering would not be desirable in the present situation. But I think an offering in the maturity range of 10 - 12 years, which might presumably attract substantial bank subscriptions, would be quite appropriate and would achieve more in the way of improving the debt structure than would a long range offering which could not be very sizeable without risking serious adverse effects in the capital market.

There is, I believe, no need at this time to consider a further change in discount rates. Perhaps it is enough in present circumstances to have one of the three chief instruments of credit control hold the center of the stage at any one time, and it seems to me quite clear that this is an appropriate occasion for reserve requirements to play the leading role.

Mr. Erickson stated that in the First District signs of "bottoming out" were still elusive, although some indices hinted at a slower rate of decline and others hinted at some improvement. Declines still predominated in manufacturing and employment. The April to April figures on nonagricultural employment made a poorer showing than the March to March figures, and the declines were particularly severe in textiles, nonelectrical machinery, and primary metals. Nonmanufacturing employment continued to fare better than manufacturing. Insured unemployment attained a temporary peak in the week ending April 12 and now appeared to be declining both in total claims and as a percentage of a year ago. While the Dodge figures for construction in April were not yet available, engineering construction contracts tabulated by Engineering News Record were considerably lower in April than a year ago.

As he reported at the last meeting of the Committee, electric power output had for ten consecutive weeks shown an improvement over 1957 and made a better showing than the national figures. He could now add three more weeks, Mr. Erickson said; in fact, in only one week since January 25 had it been below a year ago. On the other hand, department store sales had taken a further decline and were now four per cent behind last year. In its April survey of mutual savings banks the Reserve Bank found that there was a greater increase in deposits, a decrease in withdrawals, and an increase in interest credits, so that in April the deposits showed an increase of $15 million as compared with a $2 million decrease in April of 1957. The twelve months' net gain was 5.6 per cent. Ordinary life insurance sales for the first four months of this year in New England were 15 per cent ahead of last year, indicating that there was still a disposition to save.

As to credit policy for the next three weeks, Mr. Erickson said that he would make no change in the directive or in the discount rate. He hoped that the same degree of ease that had prevailed during the past few weeks could be maintained. If this meant going over $600 million of free reserves, he would not be concerned. Looking at the projection of reserves for the next few months, he felt that Mr. Hayes had made a very persuasive case for a reduction in reserve requirements.

Mr. Irons said that as he saw it the national situation was encouraging. A bottoming-out period might be approaching and, if it were, he would rather expect things to continue in a trough for some time. He did not see any great signs of developments that would bring about a rapid and dynamic upsurge in the economy, but he recalled that this does not tend to occur in a business cycle movement except when war strikes. Rather, he felt that there would be a testing of the bottom and that gradually elements of strength would begin to appear. Significant factors in the national picture were, or were tending to, bottom out, it seemed to him, and there was no evidence that the recession was feeding upon itself. The financial condition was strong and liquid. It was factors such as this that pointed to encouragement.

Turning to the Eleventh District, Mr. Irons said that conditions were good, with the agricultural situation very favorable. In the first quarter of the year farm cash income was up 30 per cent, crops 40 per cent, and livestock 20 per cent. It had been many years since he had heard the people west of Fort Worth as optimistic about the agricultural situation as at the present time. There had been plenty of rain and good weather and, although agriculture is a hazardous vocation, at the moment the situation was very favorable in practically all areas of agriculture, including cotton, wheat, and livestock. The oil situation, Mr. Irons said, showed some improvement. Production was still holding at an 8-day allowable basis and possibly would hold there in July, but there was a growing feeling among the more responsible elements in the industry that, barring some unforeseen development, there would be an increase in allowables as the months went by and that at the end of this year the allowables would probably get up to eleven or twelve days. Department store sales in the district were currently about equal to a year ago, with strength in some of the durables. Employment was up seasonally and claims for unemployment insurance were tending downward. The banks were liquid, loans were increasing along with investments in the last three weeks, reserve positions were easy, and there was little borrowing from the Federal Reserve Bank. Business confidence was good and more was heard about the possibility of inflation than about the recession. A number of people had been talking to him about monetary policy from the standpoint of whether it was getting too easy and how easy the Federal Reserve was going to make credit. In summary, conditions in the Eleventh District were quite good. Although this was not the top of a boom, conditions in the district were not too far from that point.

As to policy, Mr. Irons expressed the view that concentration on maintaining free reserves in the range of $500-$600 million had led to an aggressive policy of ease, one which he thought was overly aggressive. It had contributed to driving down the bill rate and other short-term rates, to increasing bank liquidity, and to encouraging some speculation. In contrast to the view that the current degree of ease should be continued, he would hope that the Federal Reserve could edge off a bit on the degree of ease. He would like to deemphasize the amount of consideration given to free reserves and felt that a determination to keep free reserves within a certain pattern had been a contributing factor to the ease that had developed. Much had been made of a range of $500-$600 million, with the statement also made that it should not be a matter of concern if free reserves rose to $600 or $700 million. While he would not want to argue that point strongly and, in fact, did not put much faith in free reserves in any event, he did not feel that it should be a matter of concern if the level of free reserves dropped to $300 or $400 million as long as the money market was generally easy. The Committee, he suggested, should not be governed in its actions by trying to maintain a statistic which has a lot of tricks in it. Short-term rates, the Federal funds rate, the bill rate, and the movement of bank credit seemed to him more expressive at this time than the level of free reserves. He also thought it would be well not to place too much emphasis on tying reserve projections into decisions on free reserves, because moving on the basis of such projections might, if the projections did not work out, draw the System into excesses one way or the other. He saw no objection to operating in other parts of the short-term market than Treasury bills if that should seem the right thing to do.

Mr. Irons said that he would not favor changing the discount rate, reserve requirements, or the policy directive. As he had said at the last meeting, he would like to delete the word "further" from clause (b) of the directive, but he would not want to press that as a recommendation except on an occasion when there was some other suggestion for a change in the directive.

Mr. Deming said that the Ninth District economy continued to show mixed trends. It seemed that the disparity between the factors of strength and those of weakness was widening, which meant that the weak areas, mainly the mining sections, were growing in weakness. However, the effects did not seem to be spreading beyond those areas. It also meant that those areas were expected to remain weak throughout 1958, for such seasonal expansion as had taken place had been far short of the normal pattern. Mining employment in Minnesota in March was 13 per cent smaller than a year earlier, in April it was 19 per cent smaller than in April 1957, and in May the gap appeared to be widening further. Upper Peninsula unemployment in March reached the highest level since May 1949 and had grown since then. As of last Friday, eighteen banks were borrowing from the Federal Reserve Bank and the important point was that ten were in the mining areas of Minnesota, Wisconsin, and Michigan. Half of them had not borrowed at all in 1957.

Mr. Deming went on to say that manufacturing employment, almost all of which is in Minnesota, slipped further behind year-ago levels in April and May than it had been in February and March. In contrast, agriculture continued to be a very strong factor, with cash income running about 4 per cent ahead of last year and prospects good. Residential construction was quite strong, with the number of dwelling units authorized by permit in the first four months of this year around a fourth larger than in the same period last year. Mortgage money was available and a further decline in interest rates was expected in the near future. Prospects were extremely bright in the resort business, while lumber activity was moving back close to normal levels. Therefore, except for mining, conditions in the district were quite good. Banking developments continued to reflect deposit gains relative to a year earlier along with improved liquidity.

With regard to policy, Mr. Deming said that he would go along with those who suggested maintaining about the same degree of ease as in the past three weeks. He did not see any particular reason for a change in the discount rate but he agreed with Mr. Erickson that Mr. Hayes had made a good case for injecting, via a reduction in reserve requirements, at whatever time seemed feasible, such additional reserves as might be needed on a more or less permanent basis.

Mr. Allen reported that increased confidence that the second quarter was bringing at least a temporary leveling in general business activity had been expressed at the meeting of business economists held at the Federal Reserve Bank of Chicago on May 14. Among the points made by individuals present were that (1) oil product inventories had been brought into line, (2) Sears Roebuck sales had shown modest improvement since February, and (3) steel orders and production were moving up. Automobile production for the second quarter continued to be estimated at 1,000,000, or 35 per cent below the corresponding quarter of 1957, while production in the third quarter was estimated at 500,000 - 600,000. Parties in Detroit believed inventories, which were 809,000 on April 30, would be reduced by October 1 to 400,000 or less, and that approximately half of the October 1 inventory would be 1959 models. The manufacturers expressed determination to hold down fourth quarter schedules until sales demonstrated the need for additional production.

Mr. Allen said that on April 15 there were 465,000 unemployed in Michigan, or 15.9 per cent of the work force, and that the comparable figures in Detroit were 275,000, or 18 per cent. The Michigan Unemployment Security Commission, whose comparable records started with 1949, indicated that this was probably the largest unemployed total since 1938. They expected unemployment to increase in the coming months and reach a maximum in August of more than 500,000 in the State of Michigan and 330,000 in Detroit.

Business loans at major Seventh District banks continued to decline, Mr. Allen said, and the larger banks seemed to think there would be a further decline as borrowers took advantage of the opportunity to fund term loans in capital markets at more attractive rates. This did not appear to disturb the bankers, who pointed out that their present loan totals were high by any standards except those of one year ago. To give one comparison, the outstanding loans of the six largest Chicago banks were 31.3 per cent above the figure at a corresponding date four years ago, whereas total deposits had increased only 2.8 per cent.

Mr. Allen also said that he had recently spent some time in the industrialized parts of Michigan, that unemployment was running about 15 per cent in those areas, but that savings continued to increase, which indicated that people were just being more cautious. What struck him most was that manufacturers were using this period to get some of the foolishness out of their operations. In the matter of such adjustments they were really doing much better now than in 1953-54, and they would be in good shape when things turned up.

Mr. Allen stated that he would be inclined to keep free reserves in the $500-$600 million range. Mr. Irons had expressed certain things which he had had on his own mind and, like Mr. Irons, he would not be disturbed if free reserves went somewhat below the $500-$600 million level. He had been groping for something which would be a better benchmark than free reserves but he felt that the System should maintain a posture of ease and he had not found any better way to exhibit that posture than through free reserves.

Mr. Leedy said that the report at this meeting as to economic affairs was certainly the most optimistic one that the Committee had heard for some time. Personally, he felt more encouraged than for a number of months. Through its agriculture, he said, the Tenth District was doing quite well. Moisture conditions were said to be more favorable throughout the entire area for this time of year than for any similar period on record, and prospects for crops of all kinds continued to be good. Winter wheat in the district, which is particularly important, was now estimated to be well above the 1957 level from the standpoint of the size of the crop--around 23 per cent above the recent ten-year average. Cash receipts from farm marketings were 25 per cent higher in March than a year ago, compared with an increase of 12 per cent nationally, and first-quarter cash receipts averaged 21 per cent above the corresponding period of 1957, compared with an 8 per cent increase for the nation as a whole. Nonfarm employment had experienced deterioration but not to the extent that it had deteriorated nationally. In the Tenth District the reduction had been due primarily to a drop in the number of factory jobs, but there again the decline had been less than 5 per cent compared with the national figure of around 9 per cent. Nonmanufacturing sectors had experienced some small gains in employment but not enough to offset the losses in the manufacturing areas. Department store sales for the first four months of the year ran about the same as in the first four months of 1957, being down only about 1-1/2 per cent. For the first three weeks in May, sales had been about equal to those of the same period last year. As he previously reported to the Committee, business loans had been edging forward contrary to the national pattern. That trend had continued, whereas in the same period last year business loans were declining. Reporting member banks showed a striking development with regard to interbank balances, which totaled $958 million in mid-May, about $85 million higher than a year ago. A very sweeping increase occurred during the most recent two or three-week period, which reflected the large volume of farm cash receipts from marketings.

Mr. Leedy concurred in the view that the System should maintain about the same degree of ease as in the past three weeks. He was not too happy about using the free reserve position as a benchmark but in the absence of something better it seemed to him that it must continue to be used, at least for the time being. In view of the imminence of the Treasury refinancing, he would not want to deviate very much from the current level of free reserves and certainly would not want to see any lower level. As to the possibility of a reduction in reserve requirements, he felt that this problem had to take into account the Treasury refinancing. If, however, a reduction could be accomplished without jeopardizing the very sizeable job of financing, it was his feeling that this should be done. To maintain over the longer period ahead the degree of ease that the System had been aiming at, he felt that the reserve requirements route was by far the more desirable and practicable one. The fact that the short-term rate had gone as low as it had, and so quickly, seemed to him to require particular caution in order to be sure that the System's operations in the market did not accentuate that development. It was his feeling that a reduction in reserve requirements, if it could be made, might overshoot the mark a little bit and provide more reserves than the System would want to provide, which would require some mopping up of the excess by sales of bills in the market. Except as he had otherwise indicated, it was his feeling that nothing further needed to be done or should be done.

Mr. Leach stated that recent weeks had brought no evidence of further economic deterioration in the Fifth District except in West Virginia. Contrary to the trend in other States of the district and the United States as a whole, unemployment in West Virginia had increased as coal production continued to decline despite a leveling off in exports. The rate of bituminous coal production in the Fifth District was now 36 per cent below a year ago and the rate of insured unemployment in West Virginia had passed 14 per cent. The other States in the district were beginning to show a mixed picture rather than widespread declines. In the textile industry, there had been a better demand for print cloth and slight improvement in rayon and acetate gray goods, but sheetings and heavy industrial cotton fabrics continued in a depressed condition.

According to industry contacts, production of cigarettes was currently increasing. Building permits in 37 cities had risen substantially after seasonal correction and a pickup was reported by lumber mills. Two weeks of good weather had been of material assistance to farmers but planting still lagged somewhat.

Mr. Leach said he still believed that monetary policy had made its appropriate contribution toward promoting recovery and that efforts to obtain further ease would interfere with market processes without benefiting the economy. The reserves made available since October had supported substantial increases in the liquidity of commercial banks and of the economy generally. Banks were now well able to meet the credit demands made upon them, and additional reserves would largely go to the purchase of Treasury bills or lie idle as excess reserves of country banks. Short-term rates were now at extremely low levels; indeed, at current yields Treasury bills had lost their attraction to many investors. An official of a large member bank remarked to him recently that this was true not only of customer banks but also of the smaller corporations, both of which groups had begun to carry larger deposit balances.

In summary, believing that sufficient liquidity had been achieved and that it would serve no useful purpose to drive short-term rates below current levels, Mr. Leach would request the

Manager of the Account to maintain the present degree of ease, giving less emphasis to the free reserves benchmark and more emphasis to other indicators such as short-term interest rates. As he said at the last Committee meeting, if and when a need developed to supply additional reserves over a period of time, he felt that this should be done by reducing reserve requirements rather than by buying bills. But he would do that only to furnish reserves needed for ordinary purposes and not just to establish additional ease.

Mr. Vardaman said that unless there should be some international development of such gravity as to warrant a special meeting of the Committee, he would hope that present policy might be continued for the next few weeks. He would not favor any change in reserve requirements at this time. In substance, he would prefer to go along just about as at present.

Mr. Robertson stated that he was pleased to see the traces of optimism in some of the comments which had been made at this meeting. It seemed to him that the System had accomplished about all that it could with monetary policy, and that there was plenty of money and credit available to finance the recovery of the economy. In his opinion it could be harmful if the System did not maintain an even keel for the time being and rest on that position, and he felt that it would be a mistake if the System were to adopt the position that credit policy could force recovery. Therefore, he would maintain the present position. At the same time, he would not be the least concerned if free reserves dropped a little, because there were signs of an upward movement in the economy. He felt that the System should be careful during the next month not to jump in and bail out the speculators, and he would not be too concerned if they got hurt a little bit. In summary, he would attempt to maintain as even a position as possible for the next three-week period.

Mr. Shepardson said that he could not add anything of substance to the discussion, for his own views had well been expressed by Mr. Irons and others on around the table. He was particularly interested, Mr. Shepardson said, in Mr. Allen's comment about the adjustments going on in some businesses, for such adjustments were wholesome and the country must have them. These adjustments, he said, would continue to be made only if there was some inducement to make them. In his opinion, flooding the economy with funds might impede that kind of adjustment and would be the worst thing that could happen. In the present circumstances, he wished to align himself with Mr. Irons and the others who had expressed themselves as being opposed to further easing of credit and who had said that they would not be disturbed if the level of free reserves were to fall off a little at any time.

Mr. Fulton said that the Fourth District seemed to be the "low man on the totem pole" at the present time. Debits to commercial accounts so far this year were 7 per cent under last year, and the Chicago District, where debits were 4 per cent under last year, made the next poorest showing in that respect. This afforded evidence of the severity of the industrial decline in the Fourth District. Although steel production edged up very slightly this past month, in the opinion of the steel men there was nothing in the picture that would give a strong boost to the industry. Tin plates, galvanized sheets, and structural plates were the only items showing any firmness at this time. The machine tool industry had a slight upturn in orders in March but fell out of bed again last month, so that the backlogs were further diminished and were now at the lowest point since 1949. Unemployment was still high; there had been a little slackening in new claims in the Cincinnati area but in the Cleveland area claims were higher recently. Construction seemed to be turning upward for two months, but in the past month had again shown a decline. In all, things seemed to be scraping along the bottom, with the consensus among businessmen that there was no prospect of any perceptible upturn until the fourth quarter. In fact, there was considerable doubt as to how much upturn would develop then, and the probabilities were that things would go on into next year before anything substantial was seen on the better side. The automobile industry was not contemplating heavy production of year 1959 models, and intended to await public acceptance of those models before ordering from the steel companies.

Mr. Fulton said that he was in agreement with Mr. Irons and others who had expressed themselves about the effectiveness of monetary policy so far. It seemed to him that maintenance of a set structure of free reserves resulted, so to speak, in the System chasing its own tail, for the reserves tended to disappear as soon as they became available whenever there was some way to put them to work. As a consequence, the feeling in the market had gotten quite soft. Therefore, he felt that the System would do well to stand where it was and let the market firm somewhat. Monetary policy had not had too much effect on long-term rates, because of the volume of issues coming into the market, but it had affected the short-term end to a point where rates were very much lower than would seem desirable, even under a policy intended to produce a feeling of ease in the market. Rather than to pinpoint or maintain any set level of free reserves, Mr. Fulton said, the feel of the market would seem to represent a more appropriate guide. The System had made available an enormous sum of reserves which probably would complicate its work when conditions turned up, for they could give a considerable impetus to inflation at such a time.

Mr. Fulton concluded by saying that he would like to see an appropriate degree of ease in the market and that he would not be concerned too much if rates firmed a bit at the short-term end, including the Federal funds rate and the Treasury bill rate.

Mr. Bopp stated that less discouragement, possibly even some encouragement, could be derived from the latest data on business activity in the Third District. Unemployment in the Philadelphia area declined nearly 2 per cent in April, the first decrease in seven months, reflecting a seasonal rise in employment, primarily in construction and the service industries. Manufacturing employment in the area was unchanged, with a rise in nondurables offsetting a further drop in durables, and total factory employment in ten of the district's 14 labor market areas was also unchanged in April. An important contributing factor was settlement of the textile strike which resulted in substantial employment gains in Wilkes-Barre and Scranton. Factory employment in April, however, was still 7.7 per cent below a year ago. New unemployment claims in Pennsylvania had declined in recent weeks, the latest week representing a low thus far in 1958. New claims in the Philadelphia area had declined every week except one since mid-April and were now at the lowest level of the year, while continued claims had also been declining. In the opinion of the Philadelphia office, improvement in the employment situation had been a more important factor in the drop in continued claims than exhaustion of benefits.

Mr. Bopp went on to say that steel mill operations rose to 61 per cent of capacity in the latest week, after having been steady at about 56 per cent for several weeks. Freight carloadings in the Philadelphia area had also shown some improvement in the past few weeks but were still considerably below last year. The consumer price index for Philadelphia eased slightly in April--down two-tenths of a point--but was 2.7 per cent above a year ago. Department store sales, on the other hand, declined, the dollar volume in the past three weeks being 5 per cent below a year ago. Sales were down in all reporting cities except one, and for the year to date sales were 3 per cent below last year. Automobile sales continued to lag badly, new car registrations in eastern Pennsylvania in April being 22 per cent below a year ago, and registrations in Philadelphia in the first three weeks of May indicated a further decline instead of a pickup. Business loans of weekly reporting banks dropped nearly $50 million in the three weeks ending May 21, a substantial part of the decrease being accounted for by a public utility which used a part of the proceeds of a recent security offering to repay bank loans. Most of the remainder was accounted for by sales finance companies. District banks continued to use excess funds to purchase securities; holdings of Governments--Treasury bills and notes--rose $13 million, and other securities $24 million. Total investments were nearly $270 million above a year ago. Demand deposits, other than U. S. Government, dropped sharply, but time deposits were up nearly $50 million.

Reserve positions of district member banks continued easy, Mr. Bopp said. Reserve city banks had not borrowed from the Federal Reserve Bank in the past three weeks, and borrowings of other member banks had been quite small. Daily average purchases of Federal funds in the first two weeks of May were less than $2 million but rose to $16 million in the latest week, reflecting mainly the borrowing of one large Philadelphia bank.

As to policy for the near future, although banks and probably businesses had been restoring their liquidity more rapidly than in the two previous recessions, Mr. Bopp pointed out that they started from far lower levels and suggested that more needed to be done. This could be done, he said, by continuing the degree of ease that had prevailed recently. He would not change the directive or the discount rate and, since maintenance of relatively the same degree of ease would seem to call for injections of additional reserves over a considerable period, he would inject those reserves through reduction of reserve requirements, preferably against time deposits.

Mr. Bryan said that he could point out in the Sixth District the usual aggregate of good signs and bad signs. By taking certain figures on department store sales, agriculture, and steel employment, for example, he could make out a case that there were good signs, but by making an equally careful selection of other figures, he could make a case that there were bad signs. However, in dealing with the good signs he was compelled to add that he would have to utilize certain statistical tricks like shifting the base in order to make a strong case. In general, the district was not showing any further rapid deterioration, and some rather good things were happening. For example, the State of Florida and most of the coastal areas were making a good recovery.

With respect to the national picture, it seemed to him that a case could be made that there was an incipient bottoming-out of the recession. He was impressed by the fact that in this situation there had not developed the characteristic sign of deep and harassing depressions; namely, a frantic rush for liquidity. Having said all that, he had the feeling that there might be some tendency around the table this morning to deliver the recovery baby a little prematurely. Certainly, it was an incubator infant and would have to be dealt with skillfully if it was to develop into maturity and strength. To put it another way, he felt that the recovery was still quite hazardous and was at the mercy of forthcoming events.

As to policy, Mr. Bryan said he certainly did not believe that the System should allow any tightening to develop. When it came to particular policy instruments, it seemed to him that the System had to use the open market instrument in connection with the matters that were going to be troublesome in the near future. However, the problem of the discount rate puzzled him a great deal. He was tempted to say that there was no point in changing the rate at this time, yet it had been used in recent years to do a variety of things and it had performed the function of announcing policy to the public. Therefore, if the rate were allowed to remain too far out of line with the short-term market, he was puzzled about what the System would be saying to the people of the United States. Would it in fact be saying that the short-term rates were erratic and invalid? He was also puzzled as to what the System's position would be in a real recovery when it wished to signal a shift in policy and was confronted with the necessity of letting rates tighten substantially in the market before it signaled such a shift. Accordingly, while he had not come to any real conclusion about the discount rate, he believed that an argument could be made--perhaps a valid argument--for bringing it more into line with the present facts of the market place.

Mr. Bryan recalled that the question had been posed on a number of occasions as to whether monetary policy had done all that it could to further recovery. It seemed to him that monetary policy was now beginning to take effect and was beginning to be successful. He was delighted by a fact to which Mr. Hayes had referred; namely, that, adjusting for changes in the level of reserve requirements, against a year ago there was a substantial increase in required reserves both percentagewise and figurewise. Coming, however, to the question of the money supply, it could be seen that as compared with the end of April a year ago, when the System was fighting a boom rather than a recession, the money supply, defined as demand deposits adjusted and currency, was still fractionally down. (This figure has since been revised to equal the year ago level.) If adjustment were made for the change in velocity, the money supply would probably be down from the peak last summer. In all the circumstances, it seemed to him that the banking system had performed magnificently with regard to not panicking, making loans, and particularly expanding investments. However, despite the figures cited with regard to the increase in investments, in the light of the money supply there appeared to him to be a grave question whether those figures were great enough, even as great as they were. Personally, he would reduce reserve requirements, cutting them in the category of requirements against savings deposits, for he felt that there is a real difference in the way banks feel about committing savings deposit money as against demand deposit money. He believed that such a move would have a good and pervasive effect by putting in reserves that would give the banks confidence, and he believed that the reserves which were freed would go where the System wanted them to go in the economy at the present time.

Mr. Robertson inquired at this point whether the rate of turnover of deposits at country banks was not equal to the rate a year ago and whether the rate was not higher in New York. The reply given was that in banks in cities outside of the six or seven leading financial centers the rate of turnover increased in April and was fully as high as a year ago. In New York the rate of turnover was higher, and in the six or seven leading financial centers it was about as high as in April 1957. In the month of March the rate of turnover outside New York had been slightly lower than a year ago.

Mr. Johns said that some of his views were quite similar to those expressed by Mr. Bryan. It was pleasing to him, he said, to have the appraisal which he had made of the present state of the economy supported and validated by the presentation given by Mr. Young. He believed that there were signs that the recession might be bottoming out, but he liked the emphasis which had been placed upon the point that these signs must not be translated immediately into certainty of recovery. Recovery might not yet be on its way, and if it were it might not come for a while.

Mr. Johns said that in the Eighth District he found little to comment on which was different from the national picture. Of local interest was the fact that the steel rate in the district was better than the national rate; the average rate for the last four weeks was 77 per cent, and for the most recent week it was 78.4 per cent. In this connection, it should be noted that the mills in the area produce relatively little for the automobile industry and relatively more for construction purposes. As he had reported to the Committee before, the cotton crop had experienced the first of its three annual losses. Now, however, there had been some sunshine and so it was estimated that perhaps 90 per cent of the crop in the Delta had been planted. Although some of that had been planted in a wet seed bed, it did appear that the Delta would have a cotton crop. Business loans at banks in the district were still contracting, Mr. Johns said. In the three weeks which ended May 14, they declined about 23 per cent, whereas on a seasonal basis a decline of about 10 per cent might have been expected. However, at rural banks total loans in the last four months were up $20 million, and during this period those banks had reduced their investments. With reference to a statement made earlier by Mr. Larkin, a considerable speculative interest in the June Treasury issues was being financed by at least one of the large banks in the area.

Mr. Johns said that although he had reservations about some aspects of using free reserves as an indicator of monetary policy, he wished to align himself with the position taken by Mr. Hayes. He would consider $500 million of free reserves as about the absolute minimum and would prefer to broaden the target range somewhat on the upper side. He would not be sorry if there were some days or short periods when free reserves ran to $700, $800, or even $900 million, especially when that bulge was the result of float. In the coming weeks an opportunity to release additional reserves by a reduction in reserve requirements seemed likely, and he felt that such an opportunity should be used. He liked the emphasis which had been placed on the desirability of a reduction in reserve requirements against time deposits. As to the discount rate, he thought that a case could be made for a reduction in the rate, subject, of course, to determination of an appropriate time in relation to the forthcoming Treasury refunding operation. That would seem to mean postponing a change of the rate at least beyond the Treasury announcement and the time that the books were opened. When the books were closed, however, it might be appropriate very shortly thereafter to make a change. He would not argue for a change in the directive at this time, although he did not care particularly for the present wording.

Mr. Szymczak said that he thought the President's statement on taxes was very helpful because of the uncertainty which had prevailed and the fact that many had been wondering whether taxes, both corporate and excise, were going to be reduced at the end of June. It was helpful, he thought, for business to know where the President and the Administration stood.

Continuing, Mr. Szymczak said that he felt monetary policy can achieve only so much, and that other things have to happen in the economy before the full extent of utilization is derived from the policy followed. He also felt that there had been a tendency to overstress the level of free reserves, not only in the minds of persons within the System but in the minds of a great many people in the market who adjusted themselves accordingly. According to this thesis, if available reserves were used the System would just put in a little more, and if that policy were changed it might make for an abrupt change in the minds of people in the market.

Mr. Szymczak said that he felt there should be a further reduction of reserve requirements. He would favor reducing requirements against time deposits, and perhaps against demand deposits for central reserve and reserve city banks for the purpose of adjustment. However, he would sell bills to absorb some of the reserves made available, for this would help the bill rate and at the same time help to keep an even keel for the Treasury refunding. Whether this could be accomplished before the Treasury refunding was another question, and he would want to consider further whether a reduction should be made now or after the Treasury was out of the market. He would not favor changing the discount rate, and he felt that the interest rate structure should be watched carefully, so that the System could get into a position of varying free reserves rather than to keep them at a certain level and have everyone become accustomed to that level.

Chairman Martin said that in his own view monetary policy was performing just about as it should at the moment. He had considered the matter of reserve requirements very carefully during the last few days and had come to the conclusion they should not be changed at the present time. Neither would he reduce the discount rate nor make any abrupt change in either direction from the present level of free reserves. In the latter connection, he agreed heartily with Mr. Irons' comments about the "statistic." There was a lot of talk about the feel of the market, but there was frequently a tendency to give up the feel and go to the statistics.

It seemed to him, Chairman Martin said, that it was not possible to force monetary policy and that the System should not try to do so. Nor should the System rush in to help the Treasury, but rather maintain an even-keel policy such as prevailed now. Consideration should be given to whether the reserve projections were accurate enough to warrant taking any drastic action that might overdramatize the statistics. He himself was a little bit surprised by the projections, but admittedly he did not have too much confidence in them. In his own opinion, the reserves would not work out to be quite as low as indicated by the projections.

Chairman Martin went on to say that the job of the System is primarily to regulate the money supply, which is a difficult task.

If one looked at the production indices and then thought of the fact that the System had gotten the money supply gradually moving upward, that would seem to be just the way it should be. In substance, he said, he would argue very strongly for maintaining the status quo at this time, particularly through the period of the Treasury refinancing, which would be a difficult one. The refinancing had been discussed a great deal in terms of the possibility of a long-term bond, and this was a matter on which people had taken violent positions on one side or the other. In doing so, they had gotten the matter out of focus.

Therefore, Chairman Martin said, he sided with what he thought was the majority position in that he would not want to change the directive or the discount rate or reserve requirements at the moment. This, of course, had nothing to do with the situation which might develop at the time of the next Committee meeting. In terms of approach, this position contemplated that the Account Management was not going to be bound by the "statistic" but would try to take account of the feel of the market in order to maintain an even-keel operation. The posture of the System was one of ease and it should continue to be such. That, as he understood it, was the majority position. Everything he had heard around the table tended to confirm that view, and he himself concurred in it.

At the instance of Mr. Hayes, there ensued a discussion concerning the majority view with respect to reserve requirements during which some of the members of the Committee who had expressed themselves in favor of a reduction in reserve requirements clarified the fact that they had been speaking in terms of preferring to make additional reserves available through a reduction of reserve requirements at such time as it might become necessary to provide additional reserves on a more or less permanent basis. At the same time, Chairman Martin clarified the fact that his own position did not go beyond the period of the next three weeks. It was his judgment, Chairman Martin said, that to cut reserve requirements at the moment might produce a situation that would require offsetting sales out of the Account. This would be an impossible situation to present to the general market. Even if the reserve projections were accurate, he would question cutting reserve requirements on the eve of a Treasury financing due to the situation that such an action would produce in the market.

During the discussion Mr. Hayes stated that he had been speaking of a reduction in reserve requirements as a means of maintaining about the current degree of ease in substitution for open market purchases which otherwise would have to be made, and made soon, if the reserve projections were about right. In a further comment Mr. Hayes expressed the view that the action could be taken now without upsetting the market. He then turned to Mr. Larkin, who said that the next week or two would be a rather critical period, for the projections suggested a need for reserves at the same time as the Treasury refunding. He took it to be the sense of the meeting to place less emphasis on free reserves as a statistic and more on the feeling of ease in the market. Assuming that the reserve projections worked out, it was conceivable that in conducting open market operations about the same degree of ease could be maintained by buying a minimum amount of securities. However, that might mean a smaller aggregate of free reserves.

Chairman Martin said that, as he understood it, that would be consistent with the majority view, following which Mr. Larkin said that if this meant a modest rise in the bill rate he understood that such an increase would be acceptable to the Committee.

Chairman Martin then inquired whether anyone would like to dissent from continuing the present directive, the discount rate, or the general posture of credit ease, and no dissents were heard.

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 contributing further by monetary ease to resumption of stable growth of 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.

With reference to the question which had been raised at a recent meeting of the Committee concerning the use of a rate on repurchase agreements lower than the discount rate, Mr. Robertson stated that he had decided not to submit a memorandum on the subject because he did not see, at this time or in the foreseeable future, any reason for going below the discount rate. He noted that if such an occasion did develop the Manager of the Open Market Account had authority to use a rate lower than the discount rate, with the admonition that it should be used sparingly.

Mr. Larkin stated that he would like to think the Account Management had the authority to use a lower rate if circumstances were such as to warrant its use. Conceivably, there could be situations where the use of repurchase agreements would accomplish

System policy more effectively than outright purchase and sale transactions. The Account Management, he said, would use the existing authority sparingly and would make sure that the reasons were sufficient.

Mr. Robertson inquired whether this accommodation would be made available to bank dealers, to which Mr. Larkin replied in the negative, stating that the existing authority would have to be broadened.

Mr. Robertson said that in all the circumstances he would prefer to wait until the authority was used and then express his views, following which Mr. Hayes commented that as long as the matter was on the agenda the Management of the Account felt pretty much precluded from using the authority even though the Manager's judgment might indicate its use.

In response, Chairman Martin made a statement, in which Mr. Robertson concurred, that the authority stood now as it had stood before the question of the rate on repurchase agreements was placed on the agenda recently.

Consideration then was given to the question raised by Mr. Johns in a letter dated May 12, 1958, copies of which had been distributed to the members of the Committee, concerning the policy that should appropriately be followed in making available, on a continuous basis, to persons who had participated in the System

Open Market Account training program such information and documents concerning the work of the Federal Open Market Committee as would keep such persons current and preserve the benefits of the training program. In his letter Mr. Johns pointed out that the staff members in question were concerned primarily with technical and accounting aspects of System Account operations as distinguished from policy aspects, but that in the training program they appeared to have been exposed quite substantially to current policy considerations.

Chairman Martin began the discussion by saying that he favored developing all of the talent available within the System and extending the use of information to anyone who could really benefit from it. The only reservation that he had was with regard to the Committee minutes, and that was because of the scope of the minutes as presently written. It might be, he suggested, that the end could be achieved just as effectively by furnishing the parties in question reports of the New York Bank on open market operations and similar material rather than by widening too broadly the area of access to the minutes.

In comments which ensued, the suggestion was made that the purposes indicated by Mr. Johns might be achieved by granting access to noncurrent minutes or by providing access to drafts of entries for the policy record of the Federal Open Market Committee.

Mr. Hayes said that he recognized the importance of discreet use of the minutes, but that he would tend to emphasize the positive rather than the negative factors. He referred to the records made available to persons who attend the meetings of the Committee and pointed out that many of the people participating in the System Open Market Account training program occupy positions at their respective Banks equal in importance to those held by the persons attending the Committee meetings. He suggested that it would be greatly to the advantage of the System if those men who had shown an interest in keeping current following the training program were permitted to do so. He would not have any hesitancy, Mr. Hayes said, about a policy under which the President of each Reserve Bank in his discretion could decide whether a particular person was one who would benefit by having access to open market records on a continuous basis.

Mr. Johns then commented that there are two Open Market Account training programs, one at the policy level and the other at the technical and accounting level. In the St. Louis Bank, he said, the only people thus far sent to the policy level training program were those already having access to Committee minutes and other materials. The officers mentioned in his letter had participated in the technical and accounting training program, but it did appear that when they were in New York no attempt was made to keep them away from the policy level. That might be quite appropriate, and he had full confidence in the men in his Bank, but he thought that a Committee decision was desirable before increasing substantially the number of persons throughout the System who would be getting minutes and similar materials. It appeared to him that a man on the technical or accounting side could be kept reasonably current if he were given reports of open market operations.

Mr. Allen indicated that he hoped any permission given would be on a permissive rather than on a mandatory basis, to which Chairman Martin replied that he felt that any decision should be of a permissive nature and that there should not be any hard and fast rule on any matter of this sort. Personally, he would want to give everyone whatever tools were reasonably necessary. As a precaution, however, he felt that the Committee's files should contain a record of the persons given access to the Committee's records, as prescribed under current procedures.

There ensued comments by Mr. Larkin concerning the extent of exposure to policy matters given to participants in the Open Market training program at the technical and accounting level, from which it appeared that the exposure was of a minimum degree. Reaction to this minimum exposure and interest in policy matters depended somewhat on the individual concerned.

Mr. Hayes then inquired whether it would be agreeable, if the President of a Reserve Bank felt that an exception should be made because a man had distinct qualifications or potentialities for the future and it would be useful to further the individual's training, for the President to request specifically that the individual be added to the list of persons granted access to Open Market Committee records.

Chairman Martin commented that this would be in line with present procedure. In concluding remarks, Chairman Martin said it appeared on the basis of the discussion to be the consensus that the existing procedure should be retained and that any President wanting to increase the number of persons granted access to Open Market Committee records should follow the rule presently in effect. This contemplated, however, that the general problem of access to Open Market Committee records would continue to be discussed from time to time in order to determine what basis appeared most appropriate.

Chairman Martin reported that Professor Lester Chandler, in preparing his biography of former Governor Benjamin Strong which was now in manuscript form, had been given access to open market minutes prior to 1929. Dr. Chandler had called attention to the fact that he intended to include certain excerpts from those minutes in the biography and had raised the question whether there would be any objection. Chairman Martin said he had told Dr. Chandler that he saw no objection. However, he felt that the whole Committee should be advised.

The members of the Committee indicated that they concurred in the position taken by Chairman Martin.

Chairman Martin then called upon Mr. Hayes for a statement with respect to the proposal, previously discussed at the meeting of the Open Market Committee on April 15, 1958, to establish a standing money market committee composed of representatives from the New York Reserve Bank and the New York Clearing House Association banks to study, on a more or less continuous basis, technical problems of the money market. This would be in implementation of one of the minor suggestions contained in the report by the Clearing House Association on interrelationships of the money market and the Government securities market.

In this connection, and with further reference to certain comments made at the April 15 meeting, Chairman Martin stated that since that meeting he had checked the records of the Committee and had confirmed that the Federal Reserve Bank of New York had authority from the Committee to take steps to implement the suggestion in the Clearing House report.

Mr. Hayes then read the names of those who had been asked to serve on the technical committee and noted that this would afford representation not only from the Clearing House banks but also from other sectors of the New York financial community. He said that all of those invited to serve on the committee had accepted and that it was therefore proposed to organize the committee and move forward.

He was hopeful that the committee could make a useful contribution to the thinking on some of the problems of the money market.

In answer to a question by Mr. Robertson, Mr. Hayes said that the exact role to be played by the committee was still somewhat nebulous, but that it was thought that this should be the kind of group that could meet with Mr. Rouse perhaps twice a year and discuss any phases of the money and securities markets on which the New York Bank felt that the committee could supply helpful information, advice, or comment. Conceivably, the Committee might also undertake certain studies if it seemed desirable.

Mr. Robertson then inquired whether he was correct in thinking that the technical committee would have nothing to do with what the Open Market Committee's program was or might be, and Mr. Hayes stated that that was correct.

In further discussion, it was made clear that the technical committee was being established by the Federal Reserve Bank of New York and that Mr. Rouse would be representing the New York Bank in dealing with the committee.

Chairman Martin stated that Mr. Riefler had been authorized by the Board of Governors to go to London next month to testify before the Radcliffe Committee (the Committee on the Working of the Monetary System). He added that acceptance of the invitation to testify had been cleared with the State and Treasury Departments.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, June 17, 1958, at 10:00 a.m.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary