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 Monday, November 10, 1958, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mangels
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak

Messrs. Erickson, Allen, Johns, and Deming, 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. Sherman, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Walker, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Special Assistant to the Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Messrs. Roosa, Abbott, and Tow, Vice Presidents of the Federal Reserve Banks of New York, St. Louis, and Kansas City, respectively

Messrs. Balles, Baughman, and Einzig, Assistant Vice Presidents of the Federal Reserve Banks of Cleveland, Chicago, and San Francisco, respectively
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York
Messrs. Willis, Anderson, and Atkinson, Economic Advisers of the Federal Reserve Banks of Boston, Philadelphia, and Atlanta, respectively
Mr. Parsons, Director of Research, Federal Reserve Bank of Minneapolis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 21, 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 October 21 through November 3, 1958, and a supplemental report covering the period from November 3 through November 7, 1958. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse reported that the System Open Market Account had been fairly active in purchasing Treasury bills and writing repurchase agreements during the past three weeks; a net total of $492 million Treasury bills was purchased, and $57 million repurchase agreements were put on the books. Repurchase agreements were used rather extensively because of their usefulness in adapting to the large day-to-day swings in reserve figures. The Committee's objectives were achieved through these operations. Free reserves were expected to have averaged in the neighborhood of $75 to $80 million, and the money market atmosphere had been generally firm or even tight. A few days of easy money market conditions developed at the end of October, when a very large volume of funds flowed into the central reserve city banks from the country banks. This flow of funds presumably represented excess reserves that the country banks had accumulated earlier in their reserve averaging period, and they promptly flowed back to the country banks at the beginning of November.

The U. S. Government securities market had been quiet as it awaited the Treasury's financing announcement. Regular Treasury bills had traded in a range of 2-1/2 to 2-3/4 per cent. On Friday evening the Treasury announced that it planned to offer $3 billion of June 1959 tax-anticipation Treasury bills at auction on November 14, and it also announced that it would make known its plans for the December refunding on November 18. The press release also mentioned that the Treasury was planning to issue more Treasury bills, although it was not specific as to its plans. Mr. Rouse pointed out that the 13-week Treasury bill cycle would be rounded out at $1.8 billion per issue this week. The Treasury was a bit afraid to attempt the full $4 to $4.5 billion of cash financing in January in one operation, and it had, therefore, been thinking of raising about $2.1 billion of the total through Treasury bills, beginning within the next few weeks.

One method under consideration was a program that would gradually convert regular Treasury bills to a 17-week cycle over the next three or four months. Another approach would be to issue 98- or 120-day bills in a single lump amount while continuing to roll over the 13-week bill maturities. If the Treasury should convert to a 120-day bill cycle, the tentative plan was that each issue should amount to $1.5 billion.

Mr. Rouse said that current projections at New York estimated about $100 million of free reserves in the week ending November 19 after allowing for redemption of approximately $80 million of the November 13 Treasury bills. The Board staff's estimate of free reserves was somewhat higher but, in any event, it would be necessary for the Account Management to "play by ear" because of the uncertainties in the projections and in the market atmosphere.

At the conclusion of Mr. Rouse's report, the Chairman asked him if the American Bankers Association had said anything to the Treasury about a new Treasury bill cycle. Mr. Rouse replied that he wasn't sure that the ABA Committee had discussed this proposal.

> Secretary's note: Following the meeting Mr. Rouse checked the ABA Committee recommendations and sent word to Chairman Martin that the Committee reported that it had considered the "issuance of additional weekly bills" but believed "that it would be better to meet the problem (the Treasury's January cash needs) by making an attractive offering" of other securities.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period October 21 through November 7, 1958, were approved, ratified, and confirmed.

Mr. Rouse then referred to a letter that had been addressed to Chairman Martin by Congressman Wright Patman on October 1, 1958, in which Mr. Patman referred to tabulations of data sent to him covering System Open Market Account transactions during 1957 and earlier years and raised a number of questions concerning figures of "purchases or sales as agent for other banks, institutions, or Government agencies." Mr. Rouse noted that the letter from Mr. Patman revealed some apparent misunderstandings on Mr. Patman's part of the tabulations that had been sent to him earlier, particularly in distinguishing between transactions of the System Open Market Account and those executed by the Federal Reserve Bank of New York as agent for foreign accounts and for Treasury investment accounts. He then read a draft of reply that explained the difference between System Account and agency transactions and that called Mr. Patman's attention to the fact that some of the data he requested had already been supplied to him.

Mr. Riefler stated that, while Mr. Patman's letter evidently showed confusion as to the figures that had been furnished to him, it seemed clear that he had intended to ask for additional figures showing transactions in Government securities executed by the Federal

Reserve Banks during the year 1957 for foreign accounts, Treasury accounts, and member bank and other accounts. It was Mr. Riefler's view that the draft letter presented by Mr. Rouse should be revised to inform Mr. Patman that these data would be compiled and furnished to him as soon as the tabulations were completed.

There was a discussion of the extent to which it was desirable for the System to undertake large amounts of work in tabulating work at the request of Congressman Patman, at the conclusion of which there was agreement with Chairman Martin's suggestion that in this instance it would be desirable to proceed to compile the information that Mr. Patman intended to ask for in his letter. It was understood that a revised draft of reply would be prepared and distributed to the members of the Committee with a view to further discussion of the matter at the next meeting.

At Chairman Martin's request, and in supplementation of the staff memorandum distributed under date of November 7, 1958, Mr. Young made the following statement on the economic situation:

> As a group, major indicators of economic activity are still showing upsweep, but more diversity of month-to-month movement among individual indicators is appearing and the over-all pace of rise seems to have slowed some. For some months, the averages of prices at wholesale and retail have been about stable, reflecting offsetting movements of industrial material prices and prices of farm products and foods--the former up and the latter down.
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> The rise of industrial production in October is now estimated at one index point over September. This is a smaller rise than earlier projected and reflects mainly

three elements: hold-back of output through work stoppages in autos, glass, and farm machinery; cessation of advance in business equipment output; and decline in fuel output--i.e., petroleum and coal. October paper board output and freight car loading reached a new high, but electric power production about maintained its September level. With auto output rising sharply in November, some new advance occurring in equipment lines, and turnaround in fuel output, a November rise in the industrial production index of two points seems possible at this early stage.

Construction activity, as indexed by the value of work put in place, seasonally adjusted, rose 2-1/2 per cent in October to an all-time high of nearly $51.5 billion--3 per cent above last year's high level. Private residential, commercial, and public utility construction continued upward and public construction advanced further. Private industrial construction, after 13 months of unbroken decline, showed no change.

Nonfarm employment in October, counting strikers as employed, rose somewhat further and unemployment dropped 300,000 to a total of 3.8 million, giving an unemployment rate of about 7.1 per cent. Continued unemployment claims again declined in October and initial claims showed the usual seasonal movement. The average workweek in manufacturing receded one-third of an hour to 39.5 hours, in consequence of work stoppages in some durable goods industries and somewhat reduced output schedules in others. In recent months, employment in trades, services, and communications seems to be showing less upward strength than earlier in the recovery movement.

The flow of goods into the hands of consumers slowed significantly in September. In October, lagging sales at department stores and the lagging availability of new model cars for retail delivery suggest little or no rise from September for October retail sales.

After maintaining stability at a seasonally adjusted rate of $16.7 billion from May through August, U. S. exports fell sharply in September to a little under a $16 billion rate, or to about the level of February-April. Additional rise in imports in September and October suggests a further shrinkage of the export surplus. This development is the consequence of domestic recovery, stability to modest recession in Europe in activity, a leveling out of Canadian recovery, and continuing foreign exchange difficulties of nonindustrial countries.

Tapering off of business inventory liquidation has been a feature of domestic developments in recent months. For the manufacturing sector, it is now evident that this has reflected primarily a turnaround from liquidation to inventory accumulation, beginning in July, in the automobile industry. In distribution, inventory turnaround began in June in nonautomotive lines, but at automotive distributors liquidation continued through October. Altogether these figures suggest further room for upward stimulus to the economy from inventory trends.

The McGraw-Hill fall survey of business plans for capital expenditures, just released, shows only a small increase in such expenditures for 1959. But in the fall of 1954, a similar survey projected for 1955 a 5 per cent decline in expenditures. Manufacturing businesses project a decline in capital outlays for next year, while commercial, transportation, communications and mining businesses anticipate an increase. Manufacturing businesses, however, project a sizable increase--9 per cent--in their physical volume of sales for 1959. Manufacturing businesses also report a substantial proportion of existing capacity to be of an age less than modern. Over half of present manufacturing capacity, the McGraw-Hill indications are, was put in place prior to 1945 and over two-thirds before 1950.

The unevenness of recent movement of economic indicators is occasioning in various quarters searching reappraisal of the outlook, with some toning down of optimistic projections because of inability to foresee forces that will convert recovery into a period of expansionary boom. One such review, symptomatic of reaction to slackening and more unevenness in recovery pace, appeared in the New York Times of yesterday. At this relatively advanced phase of recovery development, skeptical outlook reappraisals are probably to be expected in increasing numbers. It is to be hoped that they will exert some salutary influence on the inflationary psychology of markets, particularly financial markets.

Mr. Thomas then made the following statement with regard to financial developments:

From the standpoint of the more immediate views of Federal Reserve policy, financial developments have continued to be generally satisfactory during recent weeks. A relatively even keel has been maintained with respect to the availability of reserves without appearing to result in undue restraint upon or excessive encouragement to bank credit expansion. The half a point rise in the discount rate to conform to the realities of the market caused no evident adjustment in the market. Yet in some broader respects the situation is ominous with potentials for unfavorable developments that will be difficult to contain.

Government securities markets have been generally firmer since the latter part of September. Long-term rates have been fairly stable, while short-term rates have declined. Additional Treasury cash issues have been well absorbed--mostly outside the banking system. Perhaps some of the firmness in the bond market has been due to the moderately smaller volume of new capital issues by corporations and State and local governments. Recent increases in the liquidity of business concerns have contributed to the absorption of short-term Government securities by nonbank investors and the firmness of short-term rates.

Bank credit growth in October, although not striking, was somewhat larger than in September. Business loans at city banks showed little net change in the month compared with a marked decline in October 1957 and a moderate increase in October 1956. There were, however, larger increases than usual in real estate loans, agricultural loans, and all other loans. City bank holdings of Government securities increased only slightly, notwithstanding a new Treasury short-term issue during the period.

Both demand deposits and currency showed greater than seasonal increases in October, largely reversing the seasonally adjusted declines of August and September. Time deposits at commercial banks declined for the second month. U. S. Government deposits showed a net decrease. Total demand deposits adjusted and currency are about 2-1/2 per cent larger than a year ago and time deposits are over 10 per cent larger.

Reserves have been supplied on balance during the past month through System open market purchases. These operations, aggregating over half a billion dollars, have provided for a continued outflow of gold, a seasonal increase in currency, and an increase in required reserves resulting from the greater than seasonal deposit growth. Member bank borrowings have generally remained below $500 million--mostly at reserve city banks.

Reserves needed to cover seasonal currency and deposit increases and an assumed further outflow of gold, after allowance for other market factors, should amount to approximately $1 billion during the next 7 weeks. Although there are some important uncertainties about the projected estimates for this week and next, owing in part to holiday complications, it appears that the present level of reserves is fully adequate until after next week. In fact, action to absorb some reserves during the current calendar week may be appropriate. Any amount absorbed, however, would need to be replaced in the following week or two when float declines and the effect of Treasury financing is felt.

Heavy purchases will be needed in the Thanksgiving week and then more in the last week of the year. In view of liquidity needs during December, demands for reserves will be heavy, with resulting pressures on the Government securities market. Unless these pressures become too severe, however, banks might be required to meet some of their temporary needs by borrowing.

In view of the ominous nature of many aspects of prospective economic developments, this Committee needs to face more significant policy decisions than supplying seasonal needs for bank reserves. It may not be adequate to follow a mechanical policy guide of maintaining free reserves at $100 million. The important question is what degree of restraint is appropriate.

The relatively satisfactory developments that have accompanied the maintenance of that level of reserves and borrowing during the past ten weeks cannot all be attributed to monetary policies. Pressures for further credit expansion were absent. There are indications, nevertheless, of a somewhat greater than seasonal monetary expansion, particularly during the past two or three weeks. By past standards, free reserves of $100 million, which means member bank borrowings of less than $500 million, are not particularly restrictive, if conditions are favorable for expansion.

What are the threatening aspects of the current situation that might call for more restrictive policies? The first, of course, is the budget deficit. Another is the continued outflow of gold, or rather the combination of factors responsible for that outflow. The rise in stock prices based on speculation and on the retreat from fixed-return investments is another. Finally, there is the complex of forces reflected in wages, profits, and prices, which determine whether appropriate adjustments are being made to maintain a balanced economy or whether the course will be one of inflation or of chronic underemployment of resources.

All of these aspects are interrelated and play upon each other. They cannot be adequately controlled by monetary policies, but they can create situations in which inappropriate monetary policies could add to maladjustments and thereby augment inflationary pressures or prevent adequate employment of resources.

Analysis of the outlook for the Federal deficit has previously been presented to the Committee and is familiar. New factors that have been brought into the picture are (1) the greater than previously estimated increase in corporate profits and (2) the possible effect of the election on expenditure programs. The higher corporate profits estimates may raise the Government's receipts for this fiscal year by somewhat more than half a billion dollars above the estimates of the Board's staff and as much as $1.5 billion above that of the midyear Budget Review. This may, however, be offset by increased expenditures.

Prospects for the longer term are not necessarily improved above previous estimates. For one thing, projections already allow for substantial increases in incomes and profits, and it is questionable whether, under the pressure of wage increases and competitive market forces, corporate profits could be any larger than those projected. Moreover, election results presage the threat of substantial increases in expenditures. Without higher taxes, a deficit is not likely to be avoided in fiscal year 1960, or possibly in subsequent years even with full employment.

A Federal deficit of the size indicated, along with economic activity at the volume projected, would be highly stimulating. It cannot be financed without inflationary consequences unless severe restraints are imposed on the private economy.

Outflow of gold, now being accompanied by some additional build-up of foreign dollar holdings, reflects basically increased productive capacity abroad and the movement of capital. To some extent it also reflects what may be called a flight from the dollar because of inflation fears, corresponding to the domestic flight from bonds to stocks. The improved competitive position of foreign producers relative to producers in the United States is an important factor, and is related to the persistent increase in wages in this country. Contrast between the vigorous and courageous action of the British in dealing with inflationary threats and loss of reserves and the apparent attitude in this country toward those problems does not contribute to confidence in the future of the dollar.

Action of the stock market since the election gives continuing evidence of the inflationary potential in that area. Rising stock prices are evidently being supported by a flow of funds from other forms of investment of savings, as well as by buying and selling among existing participants. While the use of credit has been limited, inducements for its use are strong and need to be resisted.

Problems in the area of wages, profits, and prices are subtle, indirect in their effects, and difficult to control through public policies. There seems to be little prospect of abatement in the persistent pressure for increased wages, notwithstanding the existence of unused resources. The fact that recent, sharp increases in productivity are being reflected in corporate profits and not in lowered prices adds support to demands for wage increases. The maintenance of prices, and in some cases, increases in prices, will further detract from the competitive position of American producers in foreign markets. They may also restrict the growth in buying by domestic consumers. Any retarding effect of these maladjustments may be used as a reason for further governmental actions of a stimulating nature, which would in turn help to forestall rather than promote the adjustments needed to maintain a balanced economy.

Under these circumstances, a restrictive monetary policy appears to be appropriate. It is unlikely that credit restraints will retard sound recovery and growth. Easy credit could unquestionably contribute to developments of an unstabilizing nature.

The Chairman then turned to Mr. Hayes, who presented the following statement of his views on the business outlook and credit policy:

Both business and credit developments in recent weeks--if we exclude the stock market--have been characterized by a high degree of moderation, in gratifying contrast with the rapid and hectic changes of the May-August period. The vigorous advance that marked the early stages of the recovery has been replaced by a slower and really much more satisfactory rate of expansion, and most evidence points to the continuation of this more gradual improvement over the next few months. Continued recovery will probably have to rely on more or less the same combination of factors that have been at work in recent months--reduced inventory liquidation, greater Government spending, and some gains in housing outlays and consumer spending in general. Plant and equipment expenditures do not seem likely to increase very significantly in the months ahead, judging from the latest McGraw-Hill survey and other recent surveys; nor do the lagging consumer spending figures of the last couple of months, together with the latest consumer surveys, point to any very pronounced upsurge in consumer buying. In fact, the cautious attitude of consumers in the face of expanded personal income has caused a sizeable and welcome increase in personal savings. The rate of recovery in prospect for the coming months, as we see it, points to a modest gain of perhaps 5 per cent for gross national product in 1959. Whether or not this gain is attained or exceeded, the recovery over the months just ahead will in all likelihood be insufficient to bring unemployment to levels comparable to those existing during previous periods of prosperity.

Despite some new upward pressure on finished goods prices, the key price indices, both wholesale and retail, continue to exhibit a large measure of stability. In view of the general supply situation, the probability that current productivity gains are quite substantial, and the expected continuation of price declines for farm products, at least the near-term outlook for price stability remains more encouraging than it has been in several years.

Recent statistics on bank credit, both loans and investments, are likewise reassuring in the sense that they do not point to any appreciable build-up of potential inflationary forces. Most notable, perhaps, has been the economy's demonstrated ability to finance the current Federal Government deficit with a minimum of bank credit and a maximum of nonbank buying. Thus the $200 million rise in reporting bank holdings of Governments in the last four weeks contrasts dramatically with a $4 billion increase in outstanding marketable Treasury issues over this period. Since mid-year the reporting banks have actually reduced their Government holdings. As for loans, demands have been somewhat stronger than last year, but well below those of 1956 and 1955. Loan demand has been especially slow in New York and Chicago. Our estimates of the money supply now point to a gain for the whole year of about 2%, a relatively modest figure, almost the same as the average annual gain during 1951-57. Bank and nonbank liquidity in general, while well above the levels of the 1957 boom, are still a long way below those of 1954.

On the whole the results achieved by recent credit policy are gratifying. The shift away from active ease has been accomplished smoothly--apart from the capital market disturbances of last summer for which factors other than credit policy must take a large share of the blame. An even tone has been established in the money market, the banks have sufficient funds to accommodate their business customers, and the Treasury has succeeded in placing a major portion of its new debt with nonbank investors. A firm monetary foundation has been prepared for the recovery, and System policy should now remain in the more or less neutral zone between ease and restraint that has prevailed in recent weeks. A wait-and-see role for monetary policy at this stage will allow the economy itself to determine the volume of credit in use, and we can be prepared to step in if overt signs appear that the business upturn is stalling, or that it is beginning to expand at an unsustainable rate or that excessive credit expansion is occurring. The proposed policy will also be consistent with our objective of preserving an even keel during the Treasury's cash and refunding operations of the next few weeks. In terms of free reserves, I would think that we could continue to have in mind a figure of roughly $100 million, subject to the usual caveats.

It was unfortunate that our directors in New York could not be persuaded, at their first meeting following the last meeting of this Committee, that their fears concerning the effects of a second and larger increase in the discount rate were unfounded. Events succeeded where eloquence failed, however, and I was glad to see our New York rate brought into line within two weeks of the initial action taken by other Federal Reserve Banks. As our delay was not lengthy, I trust we avoided any encouragement of a public impression that there was serious dissension within the System. Presumably no further consideration of the discount rate will be called for this year--and I believe the present directive is also quite satisfactory under present conditions.

Having had an opportunity in the past month to talk with a great many central bankers and other informed observers of the American scene, I think it appropriate to emphasize in this meeting a tendency of which I know this Committee is already aware, i.e., the tendency abroad to look somewhat askance at the dollar. It seems paradoxical that these fears are especially prevalent at a time when the prospect here is apparently for a low-pressure recovery with perhaps greater price stability than we have known for several years past--a point which I emphasized in conversations during my trip. The fears in question seem to be due mainly to the heavy gold outflow, the persistent boom in our stock market, and the fact of a large U. S. Government deficit--together with doubts as to the ability and willingness of this country to deal firmly with inflationary influences, especially in areas where monetary policy alone cannot be expected to bear the whole burden. While we certainly must base monetary policy on the realities of the economic and financial situation as we see them, rather than on foreign impressions of our problems, nevertheless we cannot afford to overlook the views of our friends abroad. I would hope that natural forces working toward reduction of the outward gold flow would gain momentum in the coming months, and this by itself may go a long way toward calming these fears, coupled with a continued demonstration of actual over-all price stability such as we are now enjoying and, I would hope, a trend toward a lower Government deficit. I would think it unwise to let the gold outflow itself affect our monetary policy directly, i.e., in the way of a tightening move directed specifically toward stemming the flow and unrelated to domestic economic developments. I would also think it dangerous for any statements or changes in practices to be made in this country at the Government level which would give the slightest encouragement to the idea either that the price of gold might be changed or that any obstacle whatever would be placed in the way of free conversion of dollar balances into gold by foreign central bank holders. At a time like the present we have a particularly heavy responsibility for conducting our monetary and fiscal affairs and our operation of the gold and dollar exchange standard in such a way as to encourage maximum confidence in this nation's currency and in the stability of that standard.

Mr. Erickson said that economic conditions in New England continued to follow pretty much the national pattern. The manufacturing index for September indicated further recovery, and nonagricultural employment showed an increase of 10,000 from August, although insured unemployment was still 27 per cent greater than last year. Shoe production, which had been lagging earlier this year, in September was up 12 per cent from a year ago so that for the first nine months it was within 1 per cent of production in 1957. Average hours of work also increased recently, and construction contracts continued to show gains particularly in public works and utilities. Department store sales were still exceeding corresponding weeks of last year as they had been since July 5. A sampling of mutual savings banks showed deposits 6-1/2 per cent higher at the end of September than a year earlier. Savings and loan share balances showed a rise of 10 per cent and time deposits in commercial banks also were up over 5 per cent, both compared with a year ago. A followup survey of plant and equipment expenditures last month indicated that such expenditures were larger than previously projected but less than last year. A decline of 14 per cent in 1959 from 1958 was forecast, the largest decrease being in durables. Mr. Erickson felt that for the next few weeks credit policy called for no change in the Committee directive, no change in discount rates, and the same degree of pressure through open market operations that had existed recently.

Mr. Irons said that Eleventh District conditions were showing moderate improvement, about as in the nation generally. Retail trade was mixed with most of the larger district centers showing gains. Retailers were expecting a good expansion during the next few weeks and a strong holiday trade, particularly in nondurables. The petroleum situation probably was improved. Construction had been quite strong including residential building. Unemployment figures showed some improvement. The banking situation was generally satisfactory with loan demand strong and loans rising, mostly real estate and business loans. Consumer credit was down. Banks had sold Governments, approximately offsetting the increased loans. Borrowings from the Reserve Bank had been relatively low. Agricultural conditions were generally good and cash receipts from farm marketings for the first eight months of this year were up sharply.

As to policy, Mr. Irons felt that the Desk had maintained a reasonably satisfactory degree of pressure on the market during the past three weeks. He saw no need for much change during the next three weeks. The Committee should avoid any tendency toward ease, and free reserves around the zero level would suit him. Commenting on the distribution of free reserves, Mr. Irons noted that when the total had been in the $100-150 million range recently, central reserve city and many reserve city banks were borrowing. It looked as though there was a pool of free reserves at the country banks, he said, and figures showing small free reserves or net borrowed reserves at reporting member banks as a whole could be misleading. He would prefer that the Account Manager give more consideration to the tone and feel of the market at the moment rather than to attempt to anticipate some projected free reserve figure that might be set as a standard. He hoped the Treasury bill rate and the Federal funds rate would continue close to the discount rate.

Mr. Mangels said that in the past the rate of recovery of business in the West Coast area had been a little better than in other parts of the country but more recently there were indications that recovery in the Twelfth District was slowing up. In some areas there had been no improvement from September to October. Employment was levelling off, partly as a result of the increase in the labor force, and the three Pacific Coast States now showed a 7-1/2 per cent unemployment rate, the highest since before the Korean War. Retail trade was lagging in relation to the rest of the United States. Automobile sales had been disappointing thus far. Construction seemed to be flattening out and there were indications of over-building of multiple unit dwellings. Demand for credit was reported to be substantially less than had been anticipated. Demand deposits had increased and there had been some borrowing at the Reserve Bank. Consensus at a recent business outlook conference at the San Francisco Bank was that a very moderate rate of recovery might be anticipated for 1959, with none of the group overly optimistic. Looking ahead, Mr. Mangels noted that plant and equipment expenditures were not likely to send the economy off on an inflationary binge in 1959 and that productive capacity at present was large in relation to markets at present prices.

Summing up, Mr. Mangels said that nothing pointed to a serious impending situation in the civilian economy, but pressures were coming from Government spending and Government deficits. Since credit policy could not be confined to restraint on the Governmental sector of the economy, the chief influence of System credit restraint would fall on the civilian economy, perhaps to the disadvantage of the country as a whole. His view would be that credit restraint should not discourage consumption too much while there was excess productive capacity and large unemployment. If the aim was to curb consumption, this best could be done by an increase in taxes, which, of course, would also reduce the amount of Government securities to be placed in the banks. In the light of these comments, Mr. Mangels felt that recent credit policy could be viewed as having helped to keep recovery on a healthy basis. The Committee should be careful not to put too much drag on future recovery by increasing restraint. A free reserve position of at least $100 million would be desirable, and no change was needed in the Committee's directive.

Mr. Deming said that the employment-unemployment picture in the Ninth District highlighted nonagricultural activity. Basing his comments on figures for insured unemployment only and noting that total unemployment was higher, he described the seasonal pattern as strong, reflecting in large part metal mining activity. The low for employment usually occurred in February and the high in September, the reverse being true for unemployment. With one exception, employment in each month since February 1955 had been higher than in the comparable month a year earlier until December 1957. Since then it had remained below the year earlier figure. In September of this year employment was about 2 per cent below last year or the comparable month in 1956. So far this year, unemployment had averaged double that of 1956 and about 75 per cent more than in 1954, 1955, and 1957. From February to September this year, the drop had been about the same in number as in previous years but less in percent. Most of the present unemployment in the Ninth District, Mr. Deming said, had occurred in metal mining, where employment was down a fourth, transportation which was associated with mining, and durable manufacturing.

District agriculture's cash income was 9 per cent ahead of last year. Construction was also strong. City banks reported mild demand for all types of credit, but country bank loan demand was a little weaker than last year. Investments at both classes of banks continued to grow. Retail trade in October failed to gain from September.

Mr. Deming said the district picture did not show an outstandingly strong surge to prerecession levels, but rather a moderate upward movement, as did the national picture. No strong inflationary push was apparent in the district or the nation, except in the financial markets where inflationary psychology seemed to reflect more long-run than short-run fear, plus some appreciation of stronger profit possibilities. Mr. Deming said his analysis indicated no present need for further restriction of credit. He was satisfied with the Committee directive, discount rates, and present open market policy for the immediate future. This was consistent with an even keel policy during the Treasury's financing, thus providing the happy circumstance of a policy conveniently serving both the monetary and fiscal needs.

Mr. Allen said that steady improvement in business conditions continued in the Seventh District. There was more hiring in the manufacturing industries, and farm income in the fourth quarter was expected to maintain the improvement over last year that was shown in the first three quarters. Retail sales had a good tone, except for Detroit. Illinois Bell Telephone installed 24 per cent more telephones in October than last year.

All automobile manufacturers except Studebaker-Packard had their labor contract dilemma behind them. Production in October was 259,000 units and schedules called for 500,000 plus in each of the months November and December. These were expected to be fulfilled regardless of retail sales because they were needed to fill the pipe lines. Actual demand for automobiles would not affect production schedules before January. Loans at larger Seventh District banks had not increased as expected, Mr. Allen said.

Some bankers report applications for term loans as distressingly constant or increasing but say they were mistaken in expecting short-term credit to expand so long as inventories continued to decline, even though the rate of decline had dropped. Very little use was being made of the discount window by Chicago banks but an increasing number of country banks were borrowing in the grain and cattle feeder areas. Total discounts at the Chicago Reserve Bank were running less than half those of a year ago.

Mr. Allen said he agreed that the long-term fundamentals called for a monetary policy of restraint. On the other hand, at the moment the argument was persuasive, particularly in view of the Treasury financing, that the System should not move very far in the direction of restraint. Recalling his remarks at the previous meeting, Mr. Allen said he would work toward the zero point on free reserves. This was about what had been done. Without being critical of what the Desk had done during this period, he commented on remarks by Seventh District banks that the System seemed to be doing just what it had done every time the Treasury came into the market, that is, the market had been made easier just prior to financing and it could be expected to be tightened up when that was completed. Mr. Allen said he still did not know a better guide in view of existing conditions than reserve figures, and his inclination would be to work down to the zero level of free reserves, erring on the side of restraint if that could be done.

The rate of recovery in the Tenth District seemed lower than for the country generally, Mr. Leedy said, but the district started from a better position. Although he had been away for several weeks, earlier suggestions of a need for more restraint seemed to him reasonable. For the immediate future, with Treasury requirements in the picture, there was little that the System could do. However, recovery had gone beyond what was generally anticipated a few months ago. Psychology was a factor to be dealt with aside from the pure economics of the situation. Perhaps the System had made a contribution to this by the mildness of its approach and by the fact that there happened to have been a lack of unity of views as to what policy should be adopted. At present, Mr. Leedy thought there was nothing dramatic to be done but to the extent any action could be taken he would prefer to trend downward in the reserve position.

Mr. Leach said that October reports indicated continued economic recovery in the Fifth District. There had been modest gains in production and sales in the cotton textile industry as a whole, with substantial gains for industrial fabrics as a consequence of increased requirements of automobile manufacturers. Textile inventories were still substantial but stocks held by hosiery mills had been sharply reduced by orders for the Christmas trade. The furniture manufacturing industry improved in September with production and new orders up from the preceding month, and further improvement was indicated through October. Department store sales increased moderately in October following a sharp drop in September. Gross returns from flue-cured tobacco marketings, which account for over a fourth of the district's total farm income, were 17 per cent higher through October 31 than in the corresponding period of last year.

Mr. Leach said that, although he was considerably concerned about existing inflationary psychology and developments in the stock market, he saw nothing in the current rate of expansion in production and consumption that would call for a change in open market policy. The current Treasury financing and imminent refunding made it obvious that the Committee should maintain an even keel at least until its next meeting. He would expect free reserves to continue in the neighborhood of recent averages and would hold the discount rate at 2-1/2 per cent. He saw no need for a change in the Committee's directive at this time.

Mr. Mills gave recognition to the Federal Reserve System's responsibility for controlling inflation, and especially its hand maiden of speculation in the financial markets which, he said, must always be a matter of paramount importance in developing System policy. But judging from comments that had been made this morning, he felt that almost morbid discussions of inflation emanating from financial circles in this country had tended to provoke distrust abroad about the economic stability of the United States and the position of the dollar in ways that served to aggravate the very difficulties that require correction. That being the case, the Committee might be well advised to set its objectives for monetary policy less in the name of attacking inflation and more by quietly addressing itself to the state of the domestic economy and the provision of appropriate credit availability. A System policy devised in that manner would, while exercising reasonable restraint over the expansion of commercial bank credit, automatically exert the kind of moderating influences over inflationary pressures that the Federal Reserve System seeks to apply, but without loudly proclaiming its concerns and parading them in front of the world. Mr. Mills said he was one of those who believed that the System should follow a policy of moderate credit restraint and particularly because of the fact that we were witnessing, almost year in and year out, a glacial progress in the total expansion of commercial bank credit. This was reminiscent of the 1920s when country bank liquidity was seriously depressed because loans reached a point where banks were no longer able conveniently to perform their credit functions and, in the necessity of restricting credit, became a factor in bringing about the 1920 recession and the subsequent deflationary influences that appeared later in that decade.

Mr. Mills said that it was his belief that the Committee should focus its attention on the total growth of credit and should not let its vision be obscured by the fact that there had not been a pronounced seasonal expansion of credit at city banks. He indicated that the growth of real estate mortgage and consumer credit, especially at country banks, is susceptible of eventually freezing bank credit operations in a way that does not hold true for the more volatile and rapidly turning types of commercial loans. Bearing this thought in mind, it seemed to him that the System's near time policy objective should trend toward zero free reserves where that could be done without conflicting with the Treasury's immediate financing requirements. In so doing, he would favor continuing a policy of flexibly open discount windows at the Federal Reserve Banks that, by permitting the commercial banks within reason to supply the reserves they required on their own initiative, would cushion any abrupt market effects that might arise out of keeping pressure on the supply of reserves.

Mr. Robertson said it seemed to him that the real problem today was the expectation of inflation. He did not think there was much the Committee could do about this before the next meeting because it had to maintain an even keel during the next week at least. That called for something between $100 million and zero free reserves. After that, anything that could be done ought to be done to permit the pressure to develop. For the present, he would maintain at least the degree of pressure that had been maintained recently. He could see no reason to change the Committee's directive at this time and, of course, no change could be made in discount rates now.

Mr. Shepardson said he was in agreement with most of the things said at the meeting thus far. The rate of recovery seemed fine. He would rather see a rate such as we had had than one that was more explosive. It seemed to him that it would be much easier to meet the situation ahead if the moderate rate of recovery continued, and this could best take place if the present degree of pressure was continued for the time being. Looking ahead, he felt there should be additional pressure as it could be applied. It would be better to be moving in that direction gradually rather than to have to make a precipitate move toward tightness at a later period. It would be desirable to trend toward zero free reserves during the next three weeks and, as soon as the Treasury financing was completed, a gradual trend toward greater tightness would seem desirable.

Mr. Fulton said that the recovery in the Fourth District was gradual. There were hopes for a steel rate of 85 per cent in the last quarter but that had not developed. The automobile industry had not been ordering steel as anticipated and had in fact been deferring deliveries. Increased production would, however, inevitably require increased steel deliveries. There was no inventory accumulation. Department store sales were holding up fairly well. Unemployment was declining gradually but one more area had been added to the substantial labor surplus category.

Mr. Fulton thought that the Committee should be trending toward a zero to $100 million free reserve range, and that the present degree of restraint should not be relaxed in any way. He would supply reserves through the discount window if the banks needed them. Demand for loans had not been up to expectations. He would make no change in the discount rate or in the Committee directive at this time.

Mr. Bopp said that the Third District continued to show recovery but it was slower than for the United States as a whole. Reserve city banks had a deficit of $40 to $50 million in reserves but had gotten most of the funds they needed through the Federal funds market and had used the Reserve Bank very little.

As to monetary policy, Mr. Bopp would maintain the degree of availability that had prevailed over the past three weeks. He would make no change in the discount rate or in the directive at this time.

Mr. Bryan said that most Sixth District indicators continued to show improvement, although the latest figures were not quite as favorable as they had been running. Of especial interest, Mr. Bryan reported an increase in borrowings from the Atlanta Reserve Bank, well scattered over the district. Apparently the Sixth District was losing reserves to the rest of the country, a development that he could not account for. There also had been a sharp increase in currency circulation in parts of the district. Mr. Bryan said that he was well satisfied with present System policy and saw no point in making any changes at the moment.

Mr. Johns aligned himself with the belief that appropriate policy should be gradually to restrict the availability of reserves. He was distrustful of an instruction to the Desk in terms of free reserves or the reserve level. The maintenance of a stated level of free reserves might well result in greater expansion of the money supply than would be desirable. He suggested that the need for reserves between now and the end of the year might be met by scheduling injections of reserves in a way to avoid having the System Account in and out of the market within relatively short periods of time. Mr. Johns said that he was in favor of increasing restraint, fully realizing the Treasury's needs, because he believed that some elevation of interest rates might in the long run assist the financing of the Treasury deficit outside the banking system.

Mr. Szymczak said that System Account operations during the past three weeks had been about right. The reduced rate of recovery and the uncertainty as to the extent to which the recovery would continue, along with the needs of the Treasury, made it necessary for the System to maintain conditions in the market about as they were at present. He would, therefore, make no change in Committee policy at this time.

Mr. Balderston stated that he agreed with the views expressed by Mr. Szymczak.

Chairman Martin said that this was a very easy meeting for him to come back to. It seemed to him that none of those who had spoken desired a change in the Committee's directive or in discount rates. On the level of reserves, he thought that nobody believed that the Committee could set an exact target. He would place himself with the group that believed restraint was called for, aside from the even keel needed during the next few weeks. He hoped that all of those present would fully digest what Mr. Thomas had put forward as "ominous notes" in his remarks this morning. The Committee should watch developments and, as it comes to conclusions, it should, of course, take action. However, it was not possible to do anything at this time other than to maintain an even keel because of the Treasury financing. The Chairman then inquired as to whether anyone wished to suggest a change with respect to the Committee's directive.

Mr. Hayes said that while he would not suggest a change in the directive, he would like to make sure that the consensus of the Committee was to stay about where we are.

Chairman Martin stated that this was what he understood to be the consensus.

Mr. Mills said that it was his impression that unless a conflict with the Treasury's financing should arise, the Committee intended to move the degree of restraint down from the present plateau of $100 millions of free reserves and toward zero. As Mr. Johns had indicated, there was an inherent problem of unwittingly expanding the credit base if the supply of reserves was replenished constantly in order to maintain some predetermined level. The System had learned that lesson to its great sorrow in the spring months when maintaining a $500-million level of positive free reserves became almost a fetish and led to a debacle as soon as a reversal in policy was adopted.

Chairman Martin stated that this was a point the Committee should constantly be discussing. He thought the majority feeling was that no fixed level of free reserves could be set. At this time, his views were clearly with those who believed that the Committee should be trending toward the zero level consistent with maintaining an even keel during the Treasury financing. He thought that anything that did not result in an even keel in this period would conflict with the Treasury's financing problem and that for the present the Committee was circumscribed from taking any other course.

Mr. Shepardson noted that at the meeting three weeks ago it was thought the level of free reserves should range up to around

$125 million. Actually, the level had gotten below that figure. It was his thought, and he believed this was the view of several other Committee members also, that if the situation permitted free reserves to decline below a $100-125 million target, that would be desirable. As he saw it, the Committee would not now desire to go back up to the $100-125 million target.

Chairman Martin said he thought it had been the general position that the level of free reserves was a guide position but that the Committee must give the Manager of the System Account discretion with respect to that guide. Shifts over a period of two or three days could cause sharp swings in free reserve figures, the Chairman said, and it was particularly difficult for the Manager to determine what the feel and tone of the market was in those periods.

Mr. Shepardson said he agreed with this statement but that if the Committee was going to have such a guide, it should be set a little toward the side that the Committee hoped to move to.

Mr. Hayes suggested that in view of the Treasury's position it was necessary during the period immediately ahead to keep the "feel" of the market about what it had been during the past three weeks.

Mr. Szymczak commented that this was necessary, especially in view of the Treasury's financing needs which would involve new money as well as a large refunding.

Mr. Robertson said he thought we were all talking about an even keel and about what constituted an even keel. What the Committee was striving for at this time was to maintain an even position, but he thought that if it found that it could slide down the level of free reserves that would be desirable rather than to let them go up to the $150 million level.

Mr. Hayes agreed except that if the maintenance of an even keel necessitated going to $150 million, the figures should be permitted to go there.

Mr. Robertson concurred with this but said he hoped it would not be necessary to go in that direction. He realized this was a matter of judgment and he did not think there would be any antipathy if the free reserve figure happened to move up as Mr. Hayes suggested, although he hoped that free reserves could be moving down while the Committee was maintaining an even keel during the next few weeks.

Mr. Thomas pointed out that the figures of free reserves for the current week already indicated a level around $200 million and that it would be exceedingly difficult to get that down to $100 million for the current week.

Chairman Martin said he did not think anyone could define this level precisely. He also thought the guide position that had been discussed was as good as anything the Committee had. Each member of the Committee would tend to weight his assessment of these figures with his own predilections and with what he judged to be the tone and feel of the market. In his own case, he had frequently differed with the Manager of the System Account but he realized that if he were in the Manager's position and calling the tune he might be calling it exactly as the Manager did.

Mr. Shepardson agreed with this statement, adding, however, that the man under the gun felt a lot more heat than anyone else. This was why he had said before, and he wanted to repeat it again, that the Committee should be cognizant of the position of the Manager and that it therefore should "set the windage" so as to allow for the extra heat that was felt up on the front.

Mr. Rouse then commented on the figures of free reserves over the past week end which had reached $272 million reflecting a large error in the projections. From the standpoint of the tone of the market, however, this did not concern him when he saw the breakdown which showed that New York banks had a deficit of $277 million in their reserve position and that Chicago banks had only a moderate amount of free reserves.

Chairman Martin suggested that the Committee approve a renewal of the directive to the Federal Reserve Bank of New York without change in the wording, and with the understanding that this discussion would serve as a background for the Manager of the System Account in carrying out the directive during the next three weeks.

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 fostering conditions in the money market conducive to balanced economic recovery, 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 he 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.

Chairman Martin then said that Mr. Hayes and he had been abroad attending the annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development. This was the thirteenth such meeting that he had attended. Outwardly, everything was calm at the meetings but the feeling that he had gotten in individual conversations was one of general pessimism with respect to the matter of inflation. There was more distrust than he had heard before of the competence of anyone--he was not talking only about the United States--to handle the problem of inflation effectively. This feeling of despair as to our ability to handle this problem appeared in almost every quarter, and there was also a feeling that the ultimate during the 1960s would be a repetition, in one way or another, of what happened in 1929. This feeling went along with the wholehearted and unanimous approval given to the increase in resources of the Bank and Fund. There was also some indication, Chairman Martin said, that we might be accepting the philosophy that we could "spend ourselves out of almost any difficulty." While this might be a pessimistic view of the discussions, Chairman Martin said that the attitude he had described appeared sooner or later in almost every discussion he had during the course of the meetings.

Continuing, the Chairman said that relatively few persons with whom he had discussed monetary policy had talked entirely frankly about Federal Reserve policy, but one man in whom he had confidence did express his frank judgment that the Federal Reserve was "saved by the bell" by the action it took in August of this year. As far as this individual was concerned, the Federal Reserve was just about to back out as an important force until it raised the discount rates in August. Chairman Martin said he cited this comment only because it came from a very competent observer who had touched on one of the things all of those around the table had realized was a problem, that is, that the System was very quick to adjust when the economy was moving down but that it was not as quick to act when the situation changed and things started to look up. The commentator to whom he referred had stated frankly that this was exactly the same thing that had happened in his own country.

Chairman Martin then referred to a letter that he had received this morning from Under Secretary of the Treasury Baird dated November 7, 1958, concerning a specific plan to be used by the Treasury for exchange offerings in the refunding of the December maturities. The plan contemplated that the Treasury would work toward a pattern in which it would have only four regular issues of one-year certificates outstanding, maturing in February, May, August, and November. The exchanges proposed, to be offered to the public as well as the Reserve Banks, would permit the Banks to rearrange their holdings so that their portfolios would contain securities in approximately equal amounts of the various maturities. Under Secretary Baird had asked advice as to the willingness of the Federal Open Market Committee to go along with the suggestion which he believed would be a step toward a more orderly pattern of the Treasury's large short-term debt maturities. There was then distributed a copy of Under

Secretary Baird's letter of November 7, 1958.

Question was raised as to how the problem contained in Mr. Baird's letter of November 7 related to the proposal contained in his letter of October 24, 1958, which had been the subject of a memorandum distributed by Mr. Riefler under date of October 29, 1958, concerning a proposal for modification of refinancing procedures.

Mr. Riefler stated that the November 7 letter was an entirely separate matter from the October 24 letter, to which a reply had been prepared on the basis of responses made to his memorandum of October 29, 1958. The October 24 proposal had been one which the Treasury believed would eliminate attrition. It would involve an offering of new securities approximately equal to the amount of the maturing securities and would give preferential allotments in full to all subscribers tendering the maturing securities in payment of their subscriptions. Since the provisions of the offering would not distinguish in any way between the treatment given to securities held by the Federal Reserve Banks and the securities held by other investors, the draft reply transmitted to Committee members with his memorandum of October 29 had taken the position that the acquisition of securities by the Federal Reserve Banks pursuant to such refunding would not be subject to the $5 billion limit stated in section 14(b) of the Federal Reserve Act and that, subject to usual questions regarding monetary and credit policy and the terms eventually set for the refunding security, the Reserve Banks would be prepared to consider refunding some or all of their maturing securities under such a proposal. None of the Committee members or of the Reserve Bank Presidents not presently on the Committee had differed with this conclusion and, pursuant to the October 29 letter,* it was expected that Chairman Martin would send a reply to the Treasury today in the form of the draft distributed on October 29 except for minor editorial changes.

Mr. Riefler went on to say that the November 7 letter from the Treasury appeared to be concerned only with bringing about a more even distribution of certificate maturities during each year, that the Treasury felt that an important step would be taken if Federal Reserve holdings of certificates, as well as public holdings, could be somewhat more evenly distributed over the four maturities, and that the Treasury would appreciate advice as soon as possible as to the willingness of the Federal Open Market Committee to go along with this suggestion.

There followed a discussion of this proposal during which it appeared to be the view of all of the members of the Committee that there would be no objection to the proposal for redistribution of Federal Reserve holdings of Treasury certificates. Chairman Martin suggested that Messrs. Riefler, Thomas, and Rouse be

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* Refers to Mr. Riefler's memorandum of October 29, 1958.

requested to prepare a draft reply to be transmitted to the Committee members and other Reserve Bank Presidents with a request that if they had suggestions for change they send them to Mr. Riefler by Wednesday afternoon, November 12, in order to permit the Chairman to send a reply to the Treasury before the end of that day. This suggestion was approved unanimously.

Secretary's note: Pursuant to the foregoing discussion, Chairman Martin sent to Under Secretary of the Treasury Baird under date of November 10, 1958, the following letter:

"This refers to your letter of October 24, 1958, in which you state that the Treasury has been exploring the idea of refunding some of its maturing securities in a manner whereby attrition would be eliminated.

"For that purpose you have been considering a plan under which the Treasury would offer an amount of new securities approximately equal to the amount of the maturing securities, and would give preferential allotments in full to all subscribers tendering the maturing securities in payment of their subscriptions. This would apply to any holdings of the Federal Reserve Banks in the same manner as to any other holdings. Subscriptions for payment in cash would be allotted on an equal percentage basis. Total allotments would approximate the amount of the maturing issue. You enclosed a tentative draft of an offering circular illustrating how the proposal would work.

"The Federal Open Market Committee has concluded that acquisitions by the Reserve Banks pursuant to such a refunding would not be subject to the $5 billion limit stated in section 14(b) of the Federal Reserve Act, and that, subject, of course, to usual questions regarding monetary and credit policy and the terms eventually set for the refunding security, the Reserve Banks would be prepared to consider refunding some or all of their maturing securities under such a proposal."

Secretary's note: In accordance with the foregoing understanding the Secretary also transmitted to the Committee members a draft of reply to the letter of November 7, 1958, from the Under Secretary of the Treasury and, having received no suggestions for change other than of an editorial nature, the letter was sent by Chairman Martin to the Under Secretary under date of November 12, 1958, in the following form:

"Your letter of November 7, 1958 outlines a plan for exchange offerings of forthcoming maturities of Treasury Certificates of Indebtedness. Under the plan, the Treasury would work toward a pattern in which it would have only four regular issues of one-year certificates outstanding, maturing on or about February 15, May 15, August 15, and November 15. The exchanges proposed, to be offered to the public including the Federal Reserve Banks, if the Federal Open Market Committee so chose, to rearrange their holdings so that their portfolios would contain securities in approximately equal amounts of the various maturities.

"You will appreciate that it would not be appropriate for the Federal Open Market Committee, in view of its responsibilities, including the provisions of section 14(b) of the Federal Reserve Act, to make a definite commitment with the Treasury with respect to its future actions on a matter affecting the composition of its portfolio of open market securities. However, the Federal Open Market Committee has considered the advantages to the Treasury which might ensue from this proposed redistribution of its holdings and is disposed to give most sympathetic consideration to seeking such a redistribution if an appropriate opportunity is presented."

Chairman Martin then brought up the question of dates for meetings of the Committee to be held during the remainder of this year and early in 1959, at the conclusion of which it was agreed that meetings would be scheduled for December 2, 1958, December 16, 1958, and January 6, 1959.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary