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, October 13, 1959, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Allen
Mr. Balderston
Mr. Deming
Mr. Erickson
Mr. King
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Bopp, Fulton, and Leedy, Alternate Members of the Federal Open Market Committee

Messrs. Leach, Irons, and Mangels, Presidents of the Federal Reserve Banks of Richmond, Dallas, and San Francisco, respectively

Mr. Riefler, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas
Messrs. Jones, Marget, Mitchell, Parsons, Roosa, and Young, Associate Economists

Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors

Messrs. Ellis, Hostetler, Daane, Tow, and Rice, Vice Presidents of the Federal Reserve Banks of Boston, Cleveland, Richmond, Kansas City, and Dallas, respectively
Messrs. Larkin and Einzig, Assistant Vice Presidents of the Federal Reserve Banks of New York and San Francisco, respectively

Mr. Anderson, Economic Adviser, Federal Reserve
Bank of Philadelphia
Mr. Holmes, Manager, Securities Department,
Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 22, 1959, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period September 22 through October 7, 1959, and a supplementary report covering the period October 8 and 9, 1959. Copies of both reports have been placed in the files of the Committee.

Mr. Larkin commented that open market operations had been on a very limited scale during the period since the last meeting of the Committee. The System absorbed reserves early in the period mainly through run-off of Treasury bills that had been arranged prior to the last meeting. Later in the period, the System supplied reserves through a moderate amount of repurchase agreements. Over the period as a whole, an increase of $76 million in repurchase agreements slightly more than offset the decline of $71 million in outright holdings of Treasury bills. On Friday, October 9, a tender was submitted to run off $60 million of the maturing October 15 bills held in the System Account so that the float-induced increase in reserve availability projected for the next statement week might not be as great as the projections had been suggesting. However, even after allowing for this run-off of bills, the reserve bulge in the next statement week might be substantial.

The Government securities market, Mr. Larkin said, had been dominated in the interval since the last meeting by the overwhelming response to the new 5 per cent notes. The response in part reflected, and in turn reinforced, the improved market atmosphere that had been developing throughout the period. A great deal could be said about this Treasury financing operation, but it might be sufficient to note that total subscriptions amounted to $11 billion, of which $940 million were paid in full. In attempting to guess how much would come from small investors, the market had estimated figures starting at $300 million and then, as the enthusiasm developed, raised the estimates to $500 million and then to $750 million. The actual response exceeded these estimates. The rest of the market put on a splendid performance during the period, except perhaps for the three-month bills. Prices were generally firm before the Treasury's announcement of its cash issue, then dipped temporarily, and recovered immediately thereafter. There was only moderate trading in the market during the period, and prices of the longer-dated issues rose with virtually no trading at all.

The 5 per cent notes traded on a when-issued basis as high as 101 and as low as 100-5/8. The market reaction to the announcement of the allotments on the Treasury offering on Friday, October 9, was relatively mild. The price of the new 5's dropped 1/4 of a point initially and some selling did develop, but demand also appeared and the 5's recovered 1/8 of a point in two-way trading, closing at

100-26/32 bid. Other issues were little affected by the announcement of the results of the cash offering.

In Friday's bill auction, the rate on the 91-day Treasury bill moved up sharply to an average of 4.26 per cent, a new high level. This reflected mainly a lack of substantial progress by dealers in moving the heavy awards of bills they had received in the previous Monday auction and a relatively light volume of corporate demand for the three-month issue. Corporations at the present time seemed to be extending the maturity of their holdings and showed preference for the six-month and longer bills. The average rate on the six-month bills, established in Friday's auction at 4.66 per cent, showed little change from the previous auction. As a result, there was a narrowing of the spread between the 91-day and the 182-day issues.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period September 22 through October 9, 1959, were approved, ratified, and confirmed.

Supplementing the staff memorandum distributed under date of October 9, 1959, Mr. Young made the following statement with respect to economic developments:

The over-all poise of the U. S. economy has been increasingly obscured by the cumulative impact of the steel strike. Indeed, recent major shifts in economic indicator statistics have largely reflected direct and indirect effects of that strike.

At the same time, however, there have been other important economic developments since late spring that need to be taken into account in appraising the total situation. These developments, in fact, may hold more

portent for the future than those most immediately associated with the steel strike. The more important of them merit brief citation:

(a) More diversity has emerged in the month-to-month movement of various industry and sector data than was shown earlier in this cyclical upswing;

(b) Construction activity has tapered off some as construction finance has tightened, and mortgage finance tightening has now come to an almost critical pass;

(c) Monetary factors--money supply and velocity--have shown a flattened trend;

(d) Wholesale commodity price averages have held fairly steady, with component movements about offsetting;

(e) Market expectations of new commodity price advances and of profit windfalls therefrom have progressively dampened;

(f) Investment in bonds vs. equities has made rather impressive strides towards regaining status.

It cannot be said yet that the danger of inflationary boom has definitely been overcome, but there is a possibility, at least, that this has happened. More positive judgment must await (a) the steel settlement, (b) assessment of its industrial pricing effects, (c) a test of whether poststrike inventory scramble and build-up will occur, (d) valuation of poststrike profit potentials by the stock market, and (e) indications of foreign reappraisal of our domestic outlook. In other words, a chain reaction inflationary break-through could still occur on the basis of explosive poststrike developments. On the other hand, there would seem to be less of a "likelihood" about such a break-through than prospects a few weeks earlier might have suggested.

As to specific facts about the current situation:

(1) It now appears that the steel (and copper) strikes reduced third quarter GNP by $5 to $6 billion, annual rate, or about 1 per cent. This would bring GNP for the third quarter down to something under a $480 billion rate.

(2) Secondary effects of the steel strike have thus far been limited because of the large inventory holdings accumulated in anticipation of it. For the entire economy, inventory accumulation evidently shifted from a $10 billion annual rate in the second quarter to a zero accumulation or slight decumulation in the third quarter.

(3) Industrial production, which declined from 155 in June to 149 in August, fell back in September another point to 148, with nondurables, durables, and minerals output all declining a little. Secondary steel strike effects will hit industrial output hard in October, even if there is a return to work next week. Steel products will not become available soon enough to prevent a spread of output curtailments through metal fabricating industries.

(4) Abstracting the 700,000 workers put out of work by the steel strike, the labor market has continued to manifest a fair degree of strength. Unemployment, however, failed to show its usual seasonal decline in September so that the unemployment rate rose from 5.5 to 5.6 per cent. Nonfarm employment over all about held even. Major labor market areas not directly affected by the steel strike made employment gains, and this removed 19 markets from the substantial surplus category. There were 35 major market areas still classified in this category in September compared with 89 so classified in September 1958 and 24 in September 1957.

(5) With strikes in primary metals curtailing industrial output, new orders and sales at durable goods manufacturers, which had declined some in July, fell sharply (10 per cent roughly) in August. The further decline more than offset strength in nondurable goods lines, so that total manufacturing sales were down 5 per cent. The fall-off in durable goods orders would suggest that fourth quarter expansion in business plant and equipment expenditures may not attain the earlier projected volume.

(6) Total retail sales, which were at a record level in July, fell 1 per cent in August and 2 per cent in September. Reduced sales were fairly general, but were more marked for durable goods stores than others.

(7) Consumer instalment credit expansion in August maintained its $6 billion annual rate attained in July. For September, however, retail sales indications point to some slackening of growth. Expansion of home mortgage indebtedness, which proceeded the first half year at a record pace, may also have slowed some since. Secondary markets for insured and guaranteed mortgages have been under mounting pressure, with discounts continuing to widen. Conventional mortgage rates have risen further, with West Coast quotations recently as high as 7.2 per cent.

(8) In August, U. S. exports fell back some from the swollen July volume, but they were still close to the high June rate, and some 8 per cent above the late winter-midspring level. August imports remained a little below the high late spring level, so that improvement in the trade balance, reported earlier for June and July, was extended for another month.

(9) While some basic materials prices have strengthened recently, average prices of industrial commodities generally have continued to change little at levels reached in May. Farm prices have also been little changed in recent weeks. Thus, the average of all wholesale prices has been steady.

(10) The general state of business activity in Europe continues to be very strong, with advances in industrial

output widespread and substantial. In Canada, industrial production leveled out from late Spring through July, but most recent indications are of resumed advance in Canadian economic activity.

Memoranda on the outlook for Treasury cash requirements and on the outlook for member bank reserve positions, prepared by the Board's staff, had been distributed under date of October 9, 1959. With further regard to the current financial situation, Mr. Thomas made the following statement:

Leveling of economic activity noted in recent weeks and the passing of mid-September cash needs have been reflected in a marked lessening of pressures in financial markets. To what extent these developments may be attributed to the effects of the steel strike and to what extent restraints on credit expansion and rising interest rates have been an influence is a matter for conjecture. In any event, the need for stringent restraint has lessened--at least for the present. Early settlement of the steel strike would most likely rapidly change the situation. The underlying forces of expansion have by no means run their course and there are still risks of speculative commitments and of cost and price increases that will sooner or later lead to instability.

The most spectacular and significant recent development has been the change in the tone of the Government securities market. Following marked weakness and a pervasive feeling of fear as to the future that reached an apex around the middle of September and brought interest rates to new high levels for 30 years, buying has appeared in the market and interest rates have turned down or stabilized. To a substantial degree the severe tightening was due to pressures resulting from attempts of holders of Treasury securities to obtain cash to meet usual large liquidity needs around mid-September. When this period had passed, pressures relaxed, as might have been expected. Retirement of September tax bills reduced the supply of short-term securities in the market.

An important factor in the change, however, was the Treasury financing offering. By offering a long note at an attractive rate, the Treasury drew savings into the market in large amounts and also made possible a reduction in

demands on the short-term market. As a consequence both sectors of the market responded favorably.

It is significant that the September-October developments corresponded in many respects to those of June-July. Both included large quartely cash demands for taxes and other payments that exerted temporary pressure in the bill market. These pressures were later reversed as the funds flowed back to the market. Both included large Treasury cash financing operations, which the market feared in prospect but which were effected with unexpected smoothness when the Treasury offered new high and attractive rates on its offerings.

One possible difference between the two periods was that in July large financing needs for the Treasury still lay ahead, whereas after the October operation the future task will be much lighter. The mid-year Budget Review, indicating the prospect for a balanced budget in this fiscal year, provides the basis for concluding that cash financing needs for the next eight months will be relatively light and will be more than offset by other debt retirement in the period. Three cash issues of $2 billion each, in addition to refunding operations, may suffice. To provide securities to retire the excess of tax receipts in June, half or more of the new issues, in addition to the one now being offered, will need to mature in that month. An additional offering will be needed to complete the cycle of bills maturing quarterly. Further extension of public debt maturities, which presents a formidable task, may need to be effected through refunding issues rather than through new cash offerings. That task deserves some study.

These cash borrowing needs could prove to be larger than estimated. Expenditures might be larger than have been allowed for in the budget estimates; prolonged strikes might reduce incomes and profits and lower tax receipts; or heavy net redemptions of savings bonds could bring an added drain on the cash. Any bias in the estimates is probably toward attainment of a surplus; it is less likely that the surplus will be greater than that there will be a deficit.

Capital market financing by corporations and by State and local governments was relatively light in September. Yields on high-grade issues rose during September to new high levels. Moderate increases in offerings of new securities are expected in October, and some rather large issues are scheduled for offering later this year. Reports also indicate that a sizable volume of private placements and of term loans at banks is being arranged. Common stock prices declined in September, trading activity has been lighter, and stock market credit has declined. This may be attributed to some extent to the higher interest rates and a growing tendency by investors to shift to bonds.

Residential mortgages are being written in very large volume. There are indications, however, of a leveling off and perhaps reduction in new commitments for future acquisition of mortgages. Interest rates on mortgages continue to rise. Consumer credit is expected to continue to expand at a rapid pace and may result in heavy demands on the capital market, particularly if finance companies find difficulty in obtaining loans at banks.

Bank loans have continued to expand at a substantial, though not unprecedented, pace. Seasonal borrowers have shown rather substantial increases. Public utilities have also borrowed heavily at banks. Loans to processors of metals and metal products have shown a decline, which might be attributed to the steel strike, but decreases frequently occur at this time of the year--perhaps reflecting in part auto-model changeovers. Bank loans to finance companies declined in September after increasing in July and August. Consumer loans at banks, however, have increased rather steadily, as have real estate loans.

Bank loan expansion at city banks since mid-year has been largely offset by reductions in bank holdings of securities, which continued at a substantial pace in September. Country banks, however, showed only a small decrease in their holdings of Government securities in September and a net increase for the third quarter as a whole, in addition to a substantial loan expansion.

As a net result of the loan expansion and the decrease in holdings of securities, total loans and investments of all commercial banks showed little change in September and a moderate increase since June. A large part of the growth has been accompanied by an increase in United States Government deposits at banks. Time deposits have increased only moderately. The money supply--demand deposits and currency--which increased more than seasonally in July, showed seasonally-adjusted declines in August and September. On balance, there has been little growth in the money supply--seasonally adjusted--since March. On a daily average basis, the total is about 2 per cent larger than a year ago and 4 or 5 per cent larger than in the third quarter of 1957.

In the first half of October, Treasury deposits have been sharply reduced, but they will be increased again in the next week as payments are made on the new financing, and then drawn down until the latter part of November. The effects of these cash shifts on private deposits remain to be seen. In view of public participation in the new note issue, there should be a heavier than usual initial drain on private deposits, with less bank credit creation. The subsequent course of events

will depend on the strength of other demands for credit, the pressure on banks to continue to liquidate Government securities to meet these needs and hold down their own borrowings, and the public's desire to add further to their holdings.

Reserves have been supplied in recent months to meet seasonal and other temporary demands for bank credit and money. Except for temporary variations, member bank borrowings at the Reserve Banks have averaged around $1 billion, with net borrowed reserves close to $500 million. Banks have met loan demands by selling securities, which have been absorbed by nonbank buyers. Thus it may be said that the restrictive policy has been effective in checking expansion in the money supply, although the public's liquid asset holdings have increased through the purchase of Government securities--both from the banks and from new issues.

At the same time, turnover of demand deposits has shown little change since last spring. This would appear to indicate that the increase in the public's liquid asset holdings, principally short-term Government securities, has not been accompanied by a further acceleration in the use of existing cash balances. Question may be raised whether the prolonged postwar trend toward increasing monetary velocity is reaching its zenith. The rate is approaching, but still has not reached, the high level that prevailed in the late 1920's--the latest period comparable with the present.

To meet customary seasonal needs for currency and required reserves, without increasing existing restraints, little or no further addition to bank reserves will be needed until the end of October. In the course of November about $500 million or more of additional reserves will be needed and another $400 million should be supplied in the first half of December. In January the reverse flow will amount to over $1 billion.

In view of the current slackening in the expansion of economic activity and in view of the apparent flow of savings into Government securities, question may be raised as to whether as much restraint is needed as has been applied. Some resumption in the growth of bank credit and the money supply may well be appropriate. There is a risk, however, in supplying additional reserves that the increased credit will go into consumer loans and into financing more speculative or longer-term commitments than banks should be engaged in under current or prospective conditions. The danger would become particularly great in case of a spurt of inventory buying or other activities that might follow a cessation of the steel strike. The situation is one that bears careful watching in order to be alert to any need for more restraint if for the present some moderation is considered appropriate. The most likely prospect for 1960 is a boom, based on unsustainable elements, that if not restrained will lead to a recession in 1961.

Mr. Marget commented substantially as follows with respect to the United States balance of payments:

It seems to be an unfortunate characteristic of some topics of discussion that once they make the newspaper headlines, confusion becomes worse confounded. That was true, certainly, of the matter of international gold movements, when our gold outflow was at its peak last year. Now that our balance-of-payments situation has made the headlines, as a result of Secretary Anderson's speech at the Annual Meeting of the International Monetary Fund two weeks ago, the same kind of thing seems to be happening.

On the one hand, there has been talk--in the New York Times the Sunday before last, and, a few days later, in Walter Lippmann's column--of how the deficit in the balance of payments has not only been "persistent", but has been "growing."

On the other hand, the Times itself, just a week earlier, had published an article in which it cited some unnamed "officials" of the U. S. Government as believing that if the rate of recent improvement in our exports keeps up, "it is reasonable to expect next year's exports to come close to or reach $20 billion. At that level... the payments deficit would be reduced sharply or eliminated." And the London Economist said virtually the same thing at about the same time:

> "While Mr. Anderson's sense of concern, if not alarm, is obviously genuine, it should be pointed out that a number of other experts inside and outside the government do not share it. It is entirely possible to estimate conservatively that American commercial exports next year will reach the $20 billion level; at this point the payments deficit would probably be so small as to be negligible."

Who is right? As usual when one finds such categorically contradictory views on what should be matters of fact, neither has a sound basis of fact.

The extremely pessimistic view, to begin with, which talks of our balance-of-payments deficit as still "growing," has been out of date since June of this year, when our imports stopped increasing and our exports began to show a marked improvement.

The extremely optimistic view, on the other hand, which looks forward to a $20 billion level for commercial exports for next year, at which point "the payments deficit would probably be so small as to be negligible," is based upon

hopes, which may or may not come to be realized; it certainly does not represent anything that deserves to be called a "conservative estimate." What has happened to our balance of payments since June of this year does, indeed, justify a revision of those projections which assumed that the second half of this year would show a continued deterioration. This is true, for example, of the projection produced under the auspices of the National Foreign Trade Council, which forecast a balance-of-payments deficit for this year of $4.5 billion, as against a deficit of $3.4 billion last year.

But our figures for gold and dollar movements in July to September of this year (though they are still incomplete) would suggest that the over-all balance-of-payments deficit for that period was still in the neighborhood of $4 billion seasonally adjusted annual rate. That is still a long way from the average deficit of $1.5 billion that we ran from 1950 to 1957. The change in direction in our balance-of-payments deficit that seems to have occurred in June is certainly to be welcomed, but there is no reason why it should lead us to suppose that our problems with respect to our balance of payments have ceased to exist.

Mr. Treiber presented the following statement of his views with respect to the business outlook and credit policy:

The steel strike is the most important factor in the current economic situation. It is now having an important impact on steel using industries. Increasing shut-downs and resultant unemployment are in prospect if steel production is not resumed promptly.

As the effects of the steel strike have spread, it has become increasingly difficult to assess the underlying strength of the economy. While there have been declines in a number of statistical indicators, one may properly conclude, we believe, that there has not been a significant weakening in the basic strength of the economy.

If the steel companies and the unions do not resolve their deadlock soon, the atmosphere of continuing uncertainty could seriously damage the underlying strength of business and consumer demand. Should a settlement be reached soon, a renewed upsurge in over-all activity seems likely. And, of course, if the terms of settlement are inflationary, the ramifications will certainly be widespread.

While September witnessed a further increase in bank credit, the rate of expansion was not as rapid as in the

preceding months. A sharp decline in security loans was accompanied by a less brisk growth of business loans.

The banks have continued to liquidate U. S. Government securities at a substantial rate, thus reducing total loans and investments.

Consumer credit continued to expand in August, although at a somewhat slower rate than the record upsurge of July. Consumer credit bears watching. General credit controls have limited effect on the expansion of consumer credit. If consumer credit continues to expand rapidly, the possibility of direct controls will need consideration.

There has been increased public interest in intermediate- and long-term Government securities, and a resultant decline in the yield on those issues. On the other hand, public interest in short-term issues has lessened. The yield on three-month Treasury bills awarded in the auction last Friday reached an all-time high.

The Treasury is halfway through its current $4 billion cash financing. One financing operation is hardly finished before there is another. By the end of this month the Treasury will launch a refunding operation, and next month it will probably announce plans to raise perhaps $2 billion in cash.

The money market has continued tight. In the fourth quarter of the year seasonal factors will put further pressure on bank reserves.

The present business uncertainties counsel a Federal Reserve policy of marking time over the next three weeks. The general strength of the economy, the relatively well-sustained demand for bank credit, and the still likely prospect that settlement of the steel strike will be followed by a period of rapid recovery and expansion, all suggest that a firm rein be kept on credit availability. At the same time, circumstances do not call for any action to increase the degree of credit restraint, whether through open market operations, changes in the discount rate, or changes in the directive.

Especially in the light of the high short-term interest rates, it would seem unnecessary to seek to offset the temporary bulge in reserves that may arise in the next statement week from the mid-October large increase in float. If there is a settlement of the steel dispute within the next three weeks, the Management of the System Account will have to be particularly alert to possible repercussions in the financial markets.

Mr. Bopp commented substantially as follows with regard to Third District economic developments and monetary policy:

The "fabulous 5's" certainly have cast doubt on the oft-repeated statements that the rate of interest isn't of much significance to savers or that there is something inherently wrong with Government bonds. In the Third District five per cent apparently pulled savings "out of the ground," from under the mattress, and from every type of savings institution. To use a phrase from the Radcliffe Report, the five per cent coupon seems to have been a "change of gear." We had 6,287 subscribers whose fully paid subscriptions totaled $50 million. The total number of subscribers was 6,957, for an aggregate of $412 million.

In the Third District, the secondary effects of the strike have not snowballed as much in the last few weeks as earlier anticipated. Indirect unemployment has increased only moderately in the past three weeks--about 7,500. Most of these newly idled were in metals and metal products manufacturing. A few localities have been hard hit. In Johnstown, Pennsylvania--a chronically depressed area--about one-fourth of its prestrike employment has been idled by the strike; in the Allentown-Bethlehem-Easton area about 10 per cent have been idled. In some of the harder hit areas, the effects of the strike are spreading to other economic sectors such as retail sales and electric power consumption. In the Philadelphia Metropolitan Area, however, there is little evidence as yet that the adverse effects of the strike are spreading. Factories closely dependent on steel estimate they have sufficient inventories to last well into or even beyond October.

The unemployment situation in the district continues to show moderate improvement. In September two major labor market areas--Philadelphia and York--were raised from Classification D (6 per cent to 8.9 per cent unemployed) to C (3 per cent to 5.9 per cent). One minor area was removed from the substantial surplus list. However, five major and 11 minor areas remain in the substantial surplus classification. New unemployment claims in Pennsylvania, although up somewhat in the last few weeks, are well below a year ago and are running at about the 1957 level.

Weekly changes in department store sales have been erratic in the past few weeks. Sales for the past four weeks were 3 per cent below, and for the year-to-date 5 per cent above, last year.

Automobile sales declined seasonally in August and preliminary data for Philadelphia indicate the same trend in September; however, sales were well above a year ago.

Construction contract awards in August were 13 per cent below a year ago, all major categories showing declines, but the total for the year-to-date was 7 per cent above last year.

There was little change in total loans of district reporting banks in the three weeks ending October 7. Increases in security loans and loans to consumers were largely offset by reductions in loans to business firms and nonbank financial institutions. Banks continued to liquidate securities, and total investments of reporting banks were nearly $350 million below a year ago. All categories of deposits decreased but the total decline was less than in the same period last year.

The basic reserve position of the large Philadelphia banks has been somewhat easier during the past three statement weeks; the daily average deficiency has ranged around $50 million as compared to $70 to $85 million in the first part of September. These banks met their deficiencies by selling securities, borrowing from the Reserve Bank, and purchasing Federal funds. Their daily average borrowing from the Reserve Bank during the past three weeks ranged from $26 million to $38 million. Borrowing from the Reserve Bank by country banks rose from a daily average of $4 million to $11 million in the latest week.

As to monetary policy, I find it difficult to make a recommendation even for three weeks. This difficulty arises from what appears to me to be an incipient divergence between basic forces and anticipations--or psychology.

Basically, it seems to me that economic developments and current Treasury financing call for no change in the next three weeks.

On the other hand, a rapid change to pessimism concerning prospects for the fourth quarter, including diminished consumer and other demands for credit, could result in a rapid advance in the prices of Government bonds and speculation in the November rights that might cause us difficulty.

My uncertainty arises from the volatile nature of anticipations. One reason for the present level of interest rates is the anticipation of further inflation. The System has been trying to curb that anticipation for a long time. Should it be curbed, a lower level of rates would be appropriate.

If, however, a decline in rates, in turn, is interpreted as meaning that the System will ease credit markedly at the first sign of adverse developments, we may end up by reinforcing the judgment that in the long run inflation is the more likely prospect.

Thus, changing anticipations may lead to wide and frequent movements in bond prices, unwarranted by basic developments and thus harmful in their effects.

My tentative conclusion is that the Manager of the Account should have considerable leeway in terms of reserve positions

and interest rates but should endeavor to maintain the present degree of restraint in terms of the total feel of the market. I would not favor a change in the directive or in the discount rate.

Mr. Fulton characterized the prolonged steel strike as representing a serious situation, adding that many users of steel were understood to be getting into desperate straits. Plants had been swapping inventories and substituting types and gauges of steel, but these possibilities were now becoming exhausted. There had been many layoffs of workers, and the layoffs would become cumulative if the strike should continue for even another week.

After reviewing reports concerning the tenor of representations before the Presidential board of inquiry, Mr. Fulton said it was believed that the steel workers would go to work if the provisions of the Taft-Hartley law were invoked, although there was the possibility that they would engage in slowdown or delaying tactics. If the men returned to the mills, it seemed possible that production might rise to around 50 per cent of capacity within about a week, barring slowdown tactics, but after that the improvement of production might be slower because of damage to the furnaces and other factors. In any event, the pipelines were so empty in certain types of steel that regardless of the rate of production it would be some time before manufacturers could obtain satisfactory supplies. Also, there apparently would be problems with regard to the shipment of ore. In the Cleveland harbor, there were now 10 or 12 ore boats waiting to be unloaded, but it is customary for the crews to take other jobs during the winter and some crew members

reportedly already had taken other employment. Therefore, although there were rather large stockpiles of ore, the prospects for hauling them down were rather dim, aggravated by the limited capacity for transportation of ore by rail. While neither management nor labor favored the invoking of the Taft-Hartley Act, management was at least willing to have it invoked. If the strike should resume after the 80 days provided by the Act, Congress would be back in session, and it seemed possible that legislation unwelcome to both labor and management might be enacted.

Mr. Fulton went on to say that the glass container industry was now crippled by strike, which closed off an alternative for industries marketing their products in containers. Rather surprisingly, even in the hardest hit steel communities, the rate of delinquencies in loan repayments thus far was not excessive. Fourth District employment declined about 5 per cent in July and August, a period of the year when employment normally rises about 1 per cent. Department store sales had slipped somewhat, particularly in steel towns, but for the year to date were still 6 per cent above last year. Reflecting sustained demand for loans, banks had been selling investments to accommodate borrowers but borrowing from the Reserve Bank had not been excessive.

Mr. Fulton expressed the view that the Desk had been doing a good job with open market operations and said he was not concerned that a little ease may have crept into the picture from time to time. He felt that the Manager of the Account should be given a wide degree

of latitude and that the general feel of the market, as it had existed recently, should be continued. He would not favor a change in either the discount rate or the directive at this time.

Mr. King referred to an observation by Mr. Thomas to the effect that the current leveling-off trend in several areas of the economy could represent either the results of the steel strike or a natural leveling-off process that would have taken place regardless of the strike. It was his guess that the situation reflected to some extent the latter process. The analysis of monetary policy presented by Mr. Bopp reflected his own thinking, and he subscribed to that analysis entirely.

It was Mr. King's feeling that the steel strike was likely to play havoc with the economy before it was settled. The strike involved matters of principle that were being argued vigorously on both sides and it seemed possible, therefore, that negotiations could drag out for a long time. Also, as Mr. Fulton pointed out, if the Taft-Hartley Act were invoked, it would take some little time before the mills could get back to substantial production, and the lack of enthusiasm on the part of the workers was bound to be felt even though no instructions were given for slowdown.

In spite of this serious situation, Mr. King expressed the hope, as to monetary policy, that the present degree of restraint could be maintained. He would prefer not to err on the side of ease. Although he would favor supplying such reserves as necessary to meet seasonal

needs, he would not care to give the impression of any change in policy, especially on the side of ease.

Mr. Shepardson expressed the opinion, in view of the existing uncertainties, that this was a period in which it would be appropriate to mark time and not to make any change in policy. He questioned somewhat any suggestion that the Desk not try to offset the rather marked drop in negative free reserves projected for next week, because a failure to offset might be regarded as an indication of easing that was not intended. By this he did not mean to say that restraint should be increased, but he wondered if the projected decrease in net borrowed reserves was not a wider swing than would be justified.

Mr. Robertson expressed agreement with Mr. Shepardson's view that this was a time to sit still and watch, because the situation could turn in either direction. As Mr. Bopp suggested, a depressant psychological attitude could develop rapidly but, on the other hand, there could be an upward surge. It might even be possible that between this date and the next scheduled meeting of the Open Market Committee there would have to be a special meeting of the Committee. In the interim, however, he felt that the current degree of restrictiveness should be maintained. He agreed with Mr. Shepardson that the Desk should attempt to offset, at least to some extent, the projected decrease in net borrowed reserves in order to avoid misleading the public. In other words, he would do whatever was necessary to

indicate that the System was maintaining its existing position.

Mr. Mills commented that when the discussion turned to maintaining the existing degree of restraint or temporarily standing still, he was disturbed by the thought that the rigid maintenance of a high level of net borrowed reserves tended to produce a relentless contraction of banking resources, the effects of which were only now beginning to be felt in full force. In his thinking, everything in the economic discussion suggested the kind of moderating of System policy that he had advocated on earlier occasions. Mr. Mills then read the following statement:

> The Federal Reserve System's most pressing problem is to discover the means of extricating the economy from the delayed effects of a contractive monetary policy that is identified by a high level of negative free reserves and which has only now come into full view in the sharp reduction that is taking place in the money supply and in the dead center position that has been reached by commercial bank loans and investments. Whereas a more moderate policy of credit restraint has, in my opinion, long been in order, even a slight shift in policy under present conditions threatens the possibility of promoting an upward movement in the prices of U. S. Government securities that would be out of line with any easing of reserve pressure. Public response to the Treasury's current offering of five per cent notes and a sympathetic strengthening in prices over the entire list of U. S. Government securities testifies not only to the investment attractiveness of this issue, but also to what might be the explosive market effects if the Federal Reserve System should supply reserves too freely.
>
> Any solution of the problem that would not provoke an artificial distortion in the structure of interest rates demands a cautious approach in shaping the supply of reserves and expanding the availability of credit. Fundamentally, the present situation that is symbolized

in the response to the Treasury's five per cent note involves a public reorientation in the choice of investment outlets in favor of the Treasury and at the expense of previous investment positions. Whether this kind of process can go on without starving some deserving field of investment remains to be seen.

What is happening gives dramatic effect to what I understand is the theory of evolving a monetary policy that has as its objective equating the supply of and demand for investment funds through an interest rate that will attract all available idle funds into the investment market. In the light of present experience, however, the mechanical result of implementing such a policy is to limit the money supply to a level that, as represented by the total volume of commercial bank loans and investments, will compel the banks to desist from any new creation of bank credit and to confine their activities to substituting existing loans for investments or vice versa. In effect, this process seemingly contemplates that new capital formation shall depend exclusively on savings without any intermediary assist from commercial bank created credit, and espouses Irving Fisher's proposal for "100% money." Although it is obvious that the ineluctable results of the monetary policy that the Federal Reserve System has been following are not intended, the dangers to economic growth and stability implicit in such a policy cannot be overlooked. Newly created commercial bank credit under proper central bank control is an essential solvent to economic progress, and it is because of that truism that current System policy should be judiciously moderated so as to prevent the reserve pressures that have been built up from barring the commercial banking system from its normal and accepted functions.

Mr. Leach reported that although the Fifth District economy remained strong in most major lines of activity, the continuing steel strike was having increasing effects. The textile industry continued in a strong position, while in the furniture industry production and shipments were both establishing new records for recent years. Cigarette production continued to expand, assuring that 1959 output would be 3 per cent or

more above the previous record. Reflecting the widening effects of the continuing steel strike, man-hours worked in manufacturing industries, especially primary and fabricated metals, had been declining at a quickening rate, coal production remained at reduced levels, and retail trade was showing further weakness. For the district as a whole, cash receipts of farmers in 1959 seemed likely to show little change from last year. A recent survey of selected bankers indicated that farm costs and the need for capital improvements had continued to increase, resulting in a growing demand for credit and weakening in the cash reserve position of farmers in some areas. The heavy pressures on district member banks had eased somewhat since the last meeting of the Committee, as indicated by a slackening loan demand, a slowdown in the reduction of investments, a much lower level of borrowings from the Reserve Bank, and net sales of Federal funds by banks active in this market.

In view of the increasingly adverse effects of the steel strike on the economy and uncertainty as to the time and nature of settlement, Mr. Leach felt that it would be a mistake to increase the intensity of restraint at this time. On the other hand, he did not believe the current economic situation called for a change of policy in the direction of ease. Aside from the economic situation, Treasury financing considerations suggested that there be no tightening or easing for the time being. He would therefore favor no change in the directive, no change in the discount rate, and no appreciable change in the degree

of pressure being maintained. He would continue to resolve doubts on the side of ease and make reserves readily available to take care of seasonal needs.

Mr. Leedy reported signs of leveling off in some sectors of the Tenth District economy. Construction contracts awarded in August were 11 per cent below the year-ago level, marking the third consecutive month in which such awards were below the corresponding month of 1958. An important factor in the two most recent months had been the lower level of residential construction awards. Since June, the cumulative total of such awards had fallen from 33 per cent above last year to a margin of only 19 per cent above. It was residential construction that had kept total district awards ahead of 1958; other types of construction were down more than 7 per cent for the 8-month period. Insured unemployment in States of the district for the first part of September was little changed from the previous month. Department store sales also showed a leveling off, and in the past four weeks averaged only slightly better than a year ago. On a cumulative basis, department store sales were about 7 per cent above last year. Total loans of reporting member banks were virtually unchanged during the past few weeks with commercial and industrial loans declining slightly; investments were down slightly from three weeks ago, and demand deposits in September also declined. While there were increases in both business and Government deposits, decreases in interbank deposits more than offset those gains.

Turning to policy, Mr. Leedy expressed concurrence in the thought that during the period immediately ahead the System should engage in watchful waiting, with emphasis on the word watchful. The longer the steel strike continued, the greater seemed the possibility that public psychology and sentiment might change rather rapidly, and the cumulative effects of the strike must be taken into account. Nevertheless, he subscribed to the view that the System should not undertake any easing of reserve positions as matters stood at the moment. On the other hand, he would favor responding to seasonal needs readily, and he certainly would undertake to see that no further tightening occurred. If the target was to be missed, he would be inclined to undershoot it slightly.

Mr. Allen presented the following comments on economic and financial developments in the Seventh District:

> Aside from the accumulating effects of the steel strike, there appears to be little evidence that the underlying strength of business in the Seventh District has waned in recent weeks. Aggregate employment and trade are holding near pre-strike levels, and credit demands for business, real estate, and consumption purposes remain vigorous. Wholesale and retail merchants are preparing for a high level of fall and holiday business. The only important exception to this picture appears to be in the field of residential construction where lenders have sharply curtailed new commitments. But overall, there seems to be general agreement that an upsurge in general business activity will develop upon conclusion of the strike.
>
> The immediate effects of the strike thus far have not been important. The number of persons receiving unemployment compensation in our major cities is only slightly higher

than it was when the strike began. Aside from Gary, only 4,500 Chicago area workers have been laid off because of steel shortages through the first of October--a small number in a city which has about one million manufacturing workers. In Detroit automobile assemblies have not been far from pre-strike programs. General Motors says it can maintain scheduled assembly until October 31; Ford and Chrysler until November 15.

But the cumulative effects are another matter. Before the strike passenger car assembly in the fourth quarter was estimated at 1,900,000 cars. As of October 1 it was believed that steel shortages to come meant that 400,000 cars must be deducted from the 1,900,000 figure, and that for each October week of the strike the anticipated quarterly total must be reduced by another 125,000, or by 500,000 plus if the steel strike continues through October.

Thus it seems certain that, even if steel operations begin very soon, automobile assembly plants will operate at reduced schedules or will have shut-down periods during the balance of the year.

At a recent meeting of this Committee I reported that one of our important steel companies had told us that, following the end of the strike, they would reach 60 per cent of capacity by the end of one week and would be close to capacity production by the end of two weeks. We inquired of the same company a few days ago and they gave us the following revised estimates which are on a weekly production average--a slightly different basis. They assume that the first crews will go to work on October 15.

First week--average 32 per cent of capacity
Second week--average 74 per cent of capacity
Third week--average 88 per cent of capacity
Balance of 1959--average 95 per cent of capacity

Putting those figures together, they say they would average 86 per cent of capacity from October 15 to December 31, and they think that other companies could do about the same, with some allowance for those producing a greater percentage of cold rolled steel.

Loan demand in the Seventh District remains fairly strong. Total loan growth during the third quarter at our weekly reporting banks totaled 6 per cent against 3 per cent for all reporters in the country, with part of the difference reflecting the fact that security dealers have obtained a larger portion of their financing in recent weeks from banks in our area where reserve pressures had not been as severe as in New York.

> Loan concentration appears greatest at our largest banks, which banks have been borrowing more at the discount window and through the Federal funds market, whereas the volume of country bank borrowing has dropped markedly, as has the number of borrowers.

Continuing, Mr. Allen said that, while flexible monetary policy called for detecting any change in economic conditions as quickly as possible, he agreed with the views expressed to the effect that the System should mark time for the next three weeks and that the Account Management should attempt to maintain about the current degree of restraint. If possible, the Desk should avoid a very low figure of net borrowed reserves in the next statement week, but he was not greatly concerned on that point. He recalled another week recently when the net borrowed reserve figure was lower than usual and the market apparently understood that the situation was attributable to a temporary increase in float.

At this point Mr. Treiber commented, in amplification of his previous statement on the anticipated temporary bulge in reserves, that he felt the Desk should try to maintain the current feel of the market. For that purpose some offsetting might be necessary, but it did not appear that any vigorous action would be required.

Mr. Deming said that he was not happy about economic developments in the Ninth District. The steel strike and the month-long copper strike had hurt activity in primary metals significantly and the secondary effects had been growing steadily. While secondary

unemployment was still relatively small, it was increasing week by week. Coupled with a decline in cash farm income in August to a level 17 per cent below a year ago, the situation added up to a noticeable slowing down in the pace of economic activity. One bright spot was that there had finally been some moisture in the form of rains and snow so that the district was going into the winter with somewhat better soil moisture conditions. Fifty-nine ore boats were now tied up in the Duluth-Superior harbor, and ore could begin moving in a couple of days if the strike was settled. With the best of luck, however, the ore shipping season was not likely to extend beyond mid-December. Under the most favorable conditions, as much ore could be moved in 1959 as was moved in 1958, but 1958 was about 40 per cent below the good years of the postwar period. In September, for the first time in several years, bank clearings in the Twin Cities declined from a year earlier, which might or might not be a development of significance.

Mr. Deming said that if he were to suggest a policy prescription based solely on Ninth District developments, he would suggest some easing, not because he thought it could accomplish much in the way of immediate expansion of activity in the face of declining farm income and effects of the steel and copper strikes, but because it would seem to be generally appropriate. While the national picture was brighter than the Ninth District picture, it hardly warranted any increase in restraint and, on balance, might argue for a very mild backing away

from the present level of restraint. To accomplish this, he would be inclined to meet seasonal demands for reserves with little or no reluctance but not go beyond that. As he saw it, this represented no significant difference from the views expressed by Mr. Bopp and others who advocated a policy of watchful waiting, with no appreciable departure from the present degree of restraint.

Mr. Mangels said that such changes as had appeared in the Twelfth District economy were of a minor nature. Employment, personal income, new car sales, and department store sales were still somewhat higher than a year ago, but the rate of unemployment was increasing. In August, unemployment stood at 4.8 per cent, an increase of .3 per cent over July, and it seemed likely that the September figures would show a further increase. Construction awards declined 7 per cent from July to August, the principal reduction (25 per cent) being in nonresidential construction. This had exerted an effect upon the lumber industry, and there had been some further easing of lumber prices. In the three-week period ended September 30, bank loans increased $148 million, with the largest increase in business loans. During the same period, real estate loans increased $27 million but there was no change in such loans in the week ended September 30. Two large San Francisco banks had raised their rates on conventional mortgage loans to 6-1/2 per cent and one bank had now established a pattern on FHA loans of 20 per cent down and a 20-year maturity, as contrasted with the previous pattern of 15 per cent down and a 25-year maturity. Consumer credit expansion was somewhat less in

August than in July and there were reports of increasing delinquencies. Member bank borrowings at the Reserve Bank were quite nominal, with no loans outstanding on some days. Net sales of Federal funds by district banks showed a marked decline, indicating a possible tightening of the liquidity position of banks, and they sold $173 million of securities.

Mr. Mangels was inclined to agree with those who felt there should be no increase in restraint at this time. He would not be too unhappy if there should be some change in the total amount of net borrowed reserves for he thought it would be healthy to have some moderation for a temporary period. The persistency of a given figure of net borrowed reserves had perhaps exerted a somewhat greater tightening effect than the Committee wished to exert. During the forthcoming period, the banks would feel the effect of withdrawals from savings accounts that had been made to purchase the 5 per cent Treasury notes, and a $2 billion offering of tax anticipation bills was to be made tomorrow. All things considered, he would recommend no increase in restraint and his personal preference would be to go somewhat on the side of ease, with no change in basic policy.

Mr. Irons reported that Eleventh District conditions continued to be about as they had been for the part 4 to 6 weeks. As he had mentioned at recent meetings, the district was operating at a high level but with a tendency toward some tapering off from the earlier rate of increase. In various areas, such as trade and agriculture, the levels of activity were very high and the outlook favorable, while

the problems of the steel strike had not yet exerted a marked effect and unemployment figures continued below the national average. There did not seem to be much change in attitudes and no traces of pessimism appeared to be creeping into the picture. On the financial side, loans continued to move up slightly and the reserve positions of banks were firm. Borrowing from the Reserve Bank was running about as it had been in the recent past, and district banks were net borrowers of Federal funds.

Mr. Irons stated that he would endeavor to maintain as nearly as possible the policy of the past three weeks. There appeared to be a mixture of uncertainties and other problems resulting from the steel strike and from the gradual effectiveness of a restrictive monetary policy, as reflected in the trend of the money supply. While he felt that the Manager of the Account should observe the color, feel, and tone of the market closely, he would not be greatly disturbed if, during the ensuing period, there should be a little less restraint in the picture, and he felt that the Desk should tend to make any errors on the side of less restraint. It should be possible to recapture restraint, if necessary, rather quickly and easily in view of the strong seasonal demands now building up.

Mr. Erickson reported that business activity in the First District was holding up fairly well, with the steel strike not having too much effect. The New England manufacturing production index for August was down 1 per cent from June, which compares with a drop of

4 per cent in the national production index. The September survey of New England purchasing agents revealed that 49 per cent of the respondents expected an upward movement in production, compared with 51 per cent in the August survey. In August, construction contracts were 22 per cent under August of last year, which was an unusually good month. For the first 8 months of the year they were up 5 per cent compared with the corresponding period last year. The fall follow-up survey of New England manufacturers showed that they expected to spend for plant and equipment 13 per cent more than they had expected to spend last spring, which would mean an increase of 15 per cent over expenditures in 1958. The expenditures, however, were primarily for equipment rather than plant. Nonagricultural employment was up in August from July, but the increase was not as great as the increase from June to July, while insured unemployment for the 9-week period ending September 11 was down 24 per cent. As to labor market areas, two showed an improvement in classification. During the past three weeks, there had not been as heavy use of the discount window, either in terms of the number of discounts or dollar volume, but in the first nine months of 1959 borrowings totaled $1-1/4 billion more than in 1958 and $147 million less than in 1957.

As to policy, Mr. Erickson felt that the System should mark time, with no change in the directive or the discount rate. In open market operations, he would leave latitude to the Account Management,

hoping that the situation might be handled as well as during the past few weeks, with any errors on the side of less restraint rather than more. He would not be disturbed if net borrowed reserve figures were somewhat lower than the Committee had been looking for recently.

Mr. Szymczak expressed the view that the time had not come for a change in policy. However, in view of the uncertainties mentioned at this meeting, he felt that the time might have arrived for the System to get into position if a change should be indicated. Somewhat lower net borrowed reserves therefore would not be disturbing to him. For the next three weeks, he would suggest easing somewhat the pressure on reserves, not to the extent of changing policy but allowing reserve positions to determine their own level.

Mr. Balderston commented that since the visability was low at the moment he would continue the present degree of restraint. However, he wished to call attention to certain cautions. First, Mr. Treiber had referred to the rapid buildup of consumer credit, and this was a matter that seemed to him to demand the attention of the System during the months ahead because of the possibility of a repetition of 1955, with some accentuation due to the newly developed revolving credit plans of stores and the check credit plans of banks. Second, there was the admonition of Mr. Bopp that the System not get pulled off base, as he (Mr. Balderston) felt that it was by the Suez crisis, by permitting the shifting of public psychology to

blind it to the real economic situation. As an analyst observed in a recent issue of Barron's, the sophisticated public would be watching with great care to see whether or not the Federal Reserve was shifting policy. Also, there was the adverse balance of payments situation, which he supposed would result in an additional outflow of gold, and the fact that foreign bankers would be alert to the posture of the Federal Reserve during the steel strike and afterward. In all the circumstances, if the System did not stand firm and got pulled off base by what he regarded as a temporary change in public psychology, he believed that this would be regretted later. In particular, if the steel strike should come to an end, he had the feeling that the System should be prepared for a sharp upswing in business. That, of course, was the major uncertainty of the moment.

Chairman Martin commented that an interesting feature of the discussion today was the relatively small amount of attention paid to the Government securities market aside from remarks concerning the success of the 5 per cent notes. Actually, there was still a very real Treasury financing problem, one certainly not solved by a single 5 per cent issue. It should be remembered that the Open Market Committee had a general policy of marking time during periods of Treasury financing, and in one sense there would be a Treasury financing tomorrow with the sale of $2 billion of tax anticipation bills. Furthermore, he understood it to be the Treasury's intention to announce the terms of the November refunding on or about October 29.

In short, he did not feel that the Government financing position was in any way clear as yet.

Chairman Martin went on to say that as of the date of the last meeting the Committee favored, generally speaking, very moderately less pressure and no additional restraint. The consensus this morning appeared to favor watchful waiting and marking time. Actually, what the Committee was talking about was a very small degree of pressure or lack of pressure on the part of the Desk measured in terms of the color, feel, and tone of the market.

The Chairman then referred to a memorandum distributed to the Committee over his signature on October 9, 1959, which stated that in order to help tighten up the facts of votes on policy decisions in open market meetings, he proposed to take the following formal steps at each meeting after the go-around. First, the Chair, as at present, would guide the discussion to a statement of the consensus. Second, the Chair would call for a record vote on the policy indicated by the consensus. Third, the Chair would call for a vote on the directive to be issued to the Agent Bank formally instructing that Bank to execute transactions for the Open Market Account in accordance with the wording of the directive. While the substance of the suggested procedure did not differ from what had been understood to be the significance of the vote on the directive over the years, it was intended to make a more complete record and resolve any question whatever as to whether the Committee actually voted on the policy decisions as well as on the directive.

In pursuance of the procedure suggested in the memorandum, Chairman Martin said that he proposed to call for a vote on the policy indicated by the consensus of watchful waiting and marking time, and that anyone who so desired could record a vote in disagreement. The Chairman made it clear that this procedure was being undertaken this morning on an experimental basis and that he would consider it desirable to review the procedure at a later date.

Mr. Mills said that his position would be different from the consensus, although to a minimum degree, for he felt there should be some relaxation of pressure. The current troubles, he said, derived from past actions and could not be corrected easily or quickly. Instead, there must be a gradual shift, commencing at the present time. In response to a further inquiry as to the difference between his position and the policy indicated by the consensus, as stated by the Chairman, Mr. Mills said that, as he understood it, his position would be somewhat to the left, or perhaps it should be referred to as the right, of the consensus.

At this point the Chairman suggested going back to determine clearly the consensus. As he had stated it previously, the consensus favored watchful waiting and marking time over the period of the next three weeks. He then stated that in the absence of objection that would be regarded as the consensus or majority position.

No expressions of disagreement with the statement of the consensus were heard.

Chairman Martin then suggested that the Committee proceed to a vote on the policy indicated by the consensus, and he inquired of Mr. Mills whether the latter desired to vote in the negative.

Mr. Mills responded that his vote would be in the negative, if there was to be a vote, with his vote explained by the comments that he had just made.

Chairman Martin then raised the question whether, in the Committee's opinion, it would be desirable procedure to take a formal vote on the policy indicated by the consensus, adding that there had not been a great deal of time to study the memorandum of October 9, that he had thought of the procedure as one to be followed on an experimental basis, and that if there was any feeling that this was the wrong way to proceed, time should be taken to think the matter through.

Mr. Deming said that, as he understood the position of Mr. Mills, it would call for more of a change in policy than would his own position. He (Mr. Deming) would like to see a very mild backing away from the present degree of restraint. However, in the next two- or three-week period, nothing could be done anyway, so watchful waiting did not bother him. In essence, his was a very fine shade of difference. He would not be as strong as Mr. Robertson and not quite as much "to the left or right" as Mr. Mills, but rather somewhere in between. In the circumstances, he was not sure that he should go on

record in disagreement with the policy indicated by the consensus. As he saw it, however, the difference was not sharp enough to do so.

Mr. Allen observed that everyone had agreed that the Chairman's expression of the consensus was correct. He suggested that perhaps it would be sufficient to stop there, because the shades of opinion expressed by members of the Committee would be shown in the minutes of the meeting.

On this point, Mr. Riefler commented that the law calls for a statement of votes in the policy record. It had heretofore been assumed that a vote on the directive was a vote on policy, and that anyone feeling strongly enough would vote in the negative. However, this had been challenged, it having been suggested that there was not any real vote on the policy indicated by the consensus. The procedure proposed in the October 9 memorandum would provide an opportunity for any Committee member who wanted to record a negative vote so to express himself, while anyone willing to go along with the consensus would vote in the affirmative.

Mr. Robertson commented that in the past the policy had varied within the limits of the directive, which is stated in broad terms, and consequently the suggestion that there be a vote on the consensus seemed to him a good rule to follow. In this way there could be compliance with the statutory directive calling for an indication in the policy record of where individual Committee members stood. This did not mean that a slight deviation in views would require a member to record a negative

vote, for no two people were likely to agree completely. But a negative vote could be recorded whenever a member's views differed importantly enough for the member to record himself in opposition to the policy as stated in the consensus

Mr. Balderston said that he thought Mr. Robertson had touched upon a vital point. He noted that the views of the individual Committee members tended for the most part to come into the room with them, except to the extent that they reflected views expressed by persons who had spoken earlier during the meeting. For example, at today's meeting the views of Messrs. Treiber and Bopp were presented at the outset of the discussion and had already been prepared, whereas the views expressed by the Chairman came at the end of the meeting after he had heard the other members of the Committee. Mr. Balderston said he had always felt that the consensus should express the policy wishes of the Committee as a whole, but that there were occasions when a member might wish, even after hearing the other members, to express himself as favoring a change in direction of policy contrary to the consensus. Over the years, he had wondered whether the Chair ought not to put the policy to a vote. The practical difficulty was that of stating the issue in such a way as to call for affirmative and negative votes, for there tended to be a spectrum of views rather than sharp issues. However, if a member felt that his views were fundamentally at variance with the consensus, he could record that fact.

Mr. Szymczak commented that Mr. Mills' position had been different from that of the majority of the Committee for some time. At present Mr. Mills' views on policy for the forthcoming period were quite similar to his own, but Mr. Mills had arrived at that point from a different background.

Mr. Mills responded that this was essentially correct. However, if there was to be a vote on the policy stated in the consensus, he felt that his vote would have to be contrary to the consensus in order to give a foundation to his earlier thinking.

Mr. Irons commented at this point that, although not at present a member of the Open Market Committee, he favored the idea of a record vote on the policy indicated by the consensus and did not think that the problem should be too difficult. In his opinion it would be desirable for the elected members, as a matter of record, to vote at each meeting with respect to both the policy stated in the consensus and the directive.

In response to an inquiry by the Chairman, Mr. Mills again stated that he thought his position was distinctive enough to cause him to vote against the policy stated in the consensus, with the understanding that the minutes would reflect his qualifications.

The Chairman then inquired whether any other member of the Committee desired to vote against the policy indicated by the consensus or against the continuation of the existing directive to the New York Bank, and there was no such indication. In this connection, Mr. Mills

commented that, having voted against the policy indicated by the consensus, he would vote for the continuation of the existing directive.

Thereupon, upon motion duly made and seconded, the policy indicated by the consensus, as stated earlier by the Chairman, was approved, Mr. Mills voting "no" for the reasons he had stated.

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

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities, 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.

In reply to an inquiry by the Chairman, Mr. Larkin stated that he had no question to raise on the basis of the discussion at this meeting or the actions taken by the Committee. In view, however, of the difficult circumstances at the present time and the various shadings of opinion expressed around the table today, he concurred in Mr. Robertson's observation that there might be reason for another meeting of the Open Market Committee before the date of the next scheduled meeting. In the event of the development of unusual circumstances resulting from the steel strike, for example, the Management of the Account might want to come back to the Committee for new instructions.

Chairman Martin then referred to the maximum rates of interest payable on time and savings deposits under the Board's Regulation Q, Payment of Interest on Deposits. He said that the matter had been before the Board for some time and that it would be helpful if the Board might have the reactions of the Reserve Banks for its guidance in further consideration of the problem.

There follows a summary of the comments made in response to Chairman Martin's request.

> Mr. Treiber--The New York Bank still deemed it important that there be an increase in the maximum rates on time deposits, particularly from the standpoint of time deposits owned by foreign banks, including especially foreign central banks, which look upon the time deposit as a money market instrument providing an alternative use of funds. If one looked at the time deposit as a money market instrument, the rates payable on such deposits could probably fluctuate considerably, and there would appear to be merit in a higher

ceiling for time deposits than savings deposits. He would be mildly against an increase in the maximum rate of interest payable on savings deposits.

Mr. Erickson--The problem of foreign-owned time deposits is not of significance to banks in the First District, and he had heard nothing in recent months from the commercial banks of the District about a possible increase in the maximum rates on time and savings deposits. If, however, the maxima were to be adjusted, he felt that the adjustment should apply for savings accounts as well as time deposits. As to the necessity for an increase, he would like to be sold on the idea a little more than he was at the present time. In this connection, relatively few banks in the First District were now paying the maximum rate of 3 per cent on savings deposits.

Mr. Irons--A month of two ago he had some inquiries about an increase in the maximum rate. At that time it was his opinion that it would be preferable not to increase the maximum rates on time deposits or savings deposits, since that might cause some difficulty and problems for the System. He would not favor raising maximum rates on time certificates and leaving the rate unchanged on savings deposits, for he felt that this also would cause problems. In substance, his thought would be to mark time and make no change at the moment.

Mr. Mangels--This was now a hot subject on the West Coast. The banks in that area do not have too much in the way of foreign time deposits but their structure is quite heavily weighted with savings accounts. For example, Bank of America National Trust and Savings Association has a larger dollar amount of time (including savings) deposits than it has of demand deposits. A number of comments had been made to the Reserve Bank concerning the question of the maximum rates, and it appeared that bankers would oppose any increase by a margin of at least three to one. The situation in Southern California was perhaps more acute than elsewhere because savings and loan associations had increased their rate to 4 per cent and were now talking of 4-1/2 per cent. As a result the commercial banks had lost a considerable amount of savings deposits. There was now afoot within the California Bankers Association a movement to determine whether the Association should ask for an increase in the maximum rate on savings deposits, but he doubted whether this would come to pass. With reference to time deposits, it seemed to him that it would be unfortunate to show a preference for deposits of foreign banks and that the reaction would be

bad. Perhaps this problem could be resolved to some extent by extending the maturity schedule for time certificates and permitting a higher rate on longer maturities that would be applicable to all such certificates. While the public would be anxious to have an increase in the savings deposit rate, savings deposits were still increasing, which indicated that perhaps depositors were not too concerned about the rate differential. On the other hand, there were some heavy withdrawals from savings accounts to purchase the 5 per cent notes recently offered by the Treasury. An increase of only 1/2 per cent would not be adequate to provide maximum competition with savings and loan associations. In his opinion, no change should be made at this time in the maximum rates on either savings deposits or time deposits.

Mr. Deming--The bankers did not want the ceiling rate on savings deposits increased but they were getting more competition from savings and loan associations. The bankers tended to find themselves in an inconsistent position, with higher rates on loans and not on savings deposits. They would really like to have legislation enacted keeping savings and loan associations and savings banks from increasing their rates. He suspected there was no way of making a case that would be understandable around the country for paying more interest on foreign time deposits than on other time deposits, but he felt that there ought to be some latitude. Mr. Mangels' suggestion perhaps would not meet the problem of foreign-owned deposits, for what was wanted was the ability to pay higher rates on maturities within the existing schedule.

Mr. Allen--In his judgment the maximum rates should not be changed in any respect. He was not sufficiently familiar with the arguments of the New York banks about foreign time deposits to be certain on that point. However, based on his experience some years ago, he was not persuaded of the validity of the case.

Mr. Leedy--The maximum rates should be increased on both time and savings deposits. There had been a marked change in the level of interest rates generally since the present ceiling was fixed and recognition should be given to that fact. The commercial banks, by and large, would not like it. While some of them were suffering from competition from savings and loan associations, he felt that most of the banks would prefer to avoid interbank competition for savings accounts. This did not appear to him to be a valid argument, and he felt that banks now paying the ceiling rate should have the advantage of an

additional area of discretion with respect to their own rates. Basically, there was probably a difference between savings and time deposits, and in the light of the situation with respect to foreign accounts, he would consider it proper to make a distinction. In the Tenth District, a large number of banks were believed now to be paying the ceiling rate on savings deposits.

Mr. Leach--Comments from bankers that had come to his attention were opposed to an increase in the maximum rate. Many banks in the District were not paying as high as 3 per cent. He would not be in favor of any increase in the maximum rate at this particular time. If an increase were granted only with respect to time deposits, there seemed likely to be an adverse public reaction.

Mr. Fulton--To his knowledge only one bank in the Fourth District had expressed any desire for a change in the maximum rate. If the banks could obtain legislation to keep savings and loan associations from increasing their rates, they would be satisfied to stay where they were. Quite a number of District banks were now paying the maximum rate on savings deposits, and the consensus would be to stay at that rate. If there were any change in the maximum rates, the change should be across the board rather than for specific types of deposits.

Mr. Bopp--A large majority of the banks in the Third District would be opposed to any increase in the ceiling. In Pennsylvania, the State Banking Department has authority with regard to the maximum rate payable on savings deposits and no member bank may pay higher rates than allowed by the State authorities. The increase to 3 per cent was made only after long discussion, and it did not appear likely that the State would increase the maximum rate further. Outside of Philadelphia and perhaps one or two other centers, very few banks were now paying the maximum rate.

Chairman Martin concluded the discussion by stating that the comments of the respective Presidents had been helpful to the Board.

With a memorandum from Mr. Riefler dated October 5, 1959, there had been transmitted to the members of the Open Market Committee a

memorandum prepared by a staff study group under date of September 28, 1959, setting forth an inventory of areas for possible administrative action growing out of the recent Treasury-Federal Reserve study of the Government securities market. The items listed did not represent study group recommendations. Instead, they represented a study group identification of matters that ought to receive policy level attention and decision.

Chairman Martin commented that in company with Messrs. Hayes, Riefler, Larkin, and Young, he had discussed the areas for possible administrative action, as reflected by the memorandum, with Treasury representatives last week. He then turned to Mr. Young for comment on the respective items.

Mr. Young first discussed the possibility of a joint letter from the Secretary of the Treasury and the Chairman of the Board of Governors to the President of the New York Stock Exchange formally transmitting the final study of "An Organized Exchange or a Dealer Market," together with the joint statement of the Secretary of the Treasury and the Chairman of the Board of Governors reporting the findings of the Government securities market study to the Joint Economic Committee. The letter would call particularly to the attention of Exchange officials the comments in the joint statement on the auction market problem and would suggest that the Exchange might wish to pursue further its own studies of the subject and of the facilities for Government securities transactions that it might appropriately and economically provide.

Mr. Young then explained the reasons why it seemed appropriate to send such a letter to the Stock Exchange and there ensued a discussion based on that explanation. Mr. Treiber said that he interpreted Mr. Young's remarks as meaning that the letter would include a statement that the Federal Reserve could not go along with the conditions which the Exchange had proposed for promoting an auction market; Mr. Young agreed. It was agreed unanimously by the Committee that there would be no objection to such a procedure.

Mr. Young then turned to a series of suggestions, as set forth in the staff memorandum, with a view to obtaining more adequate information about the Government securities market. The first suggestion contemplated early initiation by the Treasury of a revised ownership survey program with the object of a more adequate coverage, a meaningful breakdown of the present "other holder" category, and prompter availability of data. The second suggestion contemplated the formulation and initiation of a new program of statistics collection from all Government securities dealers at the request of the Secretary of the Treasury, the Board of Governors, and the Federal Open Market Committee. Respondents would be advised that the statistics collection would be followed, after a testing period, by such public release on an aggregate basis as might be deemed appropriate by the Treasury and the Federal Reserve System jointly.

Mr. Young also mentioned at this point two other suggestions along the same general lines. The first contemplated a request to

nonreporting dealers for historical volume, position, and credit figures for the entire postwar period, the reporting pattern to be consistent with that used by dealers already supplying such information to the New York Reserve Bank Trading Desk on a confidential basis. The expense of compiling this historical information would be assumed by the System if nonreporting dealers objected to the burden imposed upon them on the grounds of cost. The second suggestion contemplated a request to all dealers by the Secretary of the Treasury, the Board of Governors, and the Federal Open Market Committee for dealer permission to make historical data in aggregate form covering the postwar period available for public information. These items were suggested by the recent interest of the Joint Economic Committee in obtaining such historical data, Mr. Young said, noting that appropriate historical series on the Government securities market should be made available for public information at the System's initiative, thus obviating the embarrassment of future requests of the kind made by the Joint Economic Committee.

With respect to the suggestions relating to historical data, Mr. Young pointed out that in connection with the recent problem of obtaining such data for the use of the Joint Economic Committee one nonreporting dealer, Aubrey G. Lanston & Co., was not inclined to cooperate because of the cost to the firm of putting the back data in required form and because of the general inconvenience and staff

time that would be necessary because the records were now in storage.

After reference to the apparent desirability of having historical data of this kind available for various purposes, including the use of students, Mr. Young pointed out that the Joint Economic Committee, through its staff, was pressing for an agreement that the System, in setting up the proposed program of statistics, would carry the information back through the postwar period so that market patterns before the Treasury-Federal Reserve accord could be studied along with those after the accord in terms of volume and dealer positions. The question, he said, was whether the Open Market Committee would like to instruct the staff to go forward with this program for gathering records. There was also the question whether the Committee saw any strong objection to absorption by the System of the cost to Aubrey G. Lanston & Co. of obtaining back figures for inclusion in the statistical series. Because of the basis on which this firm had declined to submit the back figures, he noted, it could hardly refuse if its cost was reimbursed.

Chairman Martin commented that it should be mentioned that the Treasury was not happy about the proposal for reimbursement. He added that he sympathized with that point of view in principle, but that there were unusual considerations in this particular situation.

Mr. Treiber noted that Mr. Hayes indicated last Friday the view that he would not be inclined to pay such costs, and the Chairman verified this statement, adding that Mr. Hayes went along with the Treasury.

Question was raised as to the estimated expense involved, to which Mr. Young replied that he did not know, that it might be quite a job to reconstruct the records, and that the cost possibly might be in the neighborhood of as much as $25,000.

Mr. Young then confirmed Chairman Martin's understanding that no commitment had been made to the Lanston firm, although inquiry had been made as to whether the firm would be willing to take a look at the records in storage to ascertain the state of the records and the availability of tally sheets as well as tickets.

Mr. Fulton commented that questions relating to System expenditures had been raised from time to time and that any absorption of cost on behalf of the Lanston firm was likely to become known, to which Chairman Martin replied by saying that the request for the data under discussion had grown out of a special Congressional investigation of a situation in the Government securities market that all hoped would not occur again. Therefore, it seemed desirable that the matter be brought to a conclusion. While nothing of great value might be gained, nevertheless the situation represented an intricate problem. Also, he felt that the Open Market Committee members must know as

much as possible about the Government securities market in order adequately to discharge their responsibilities.

With further reference to Mr. Fulton's comments, Mr. Balderston made the observation that the Government securities market is affected by the public interest and that the System, including particularly the Open Market Committee, has a special responsibility toward that market and the public interest in it. It could be argued that the System had been derelict over the years in not accumulating data of the kind now sought. If so, it could be argued that, not having required the Lanston firm to provide such figures heretofore, the System should not now force the firm to bear the cost of a rather extensive piece of research.

Mr. Leach commented that the System rarely asks parties to go back and provide figures costing a substantial sum. Therefore, the request made of Lanston & Co. was not comparable to the ordinary System request.

The discussion then turned back to the September 28 memorandum, and Mr. Young referred to the suggestion that recommendations be prepared for standard accounting practices for Government security dealers, or that a manual be prepared, designed to facilitate daily reporting, at minimum cost to dealer respondents, of needed current statistics and periodic reporting of dealers' financial and earnings positions on a standard basis. This task, it was suggested, might

be accomplished by representatives of the American Institute of Accountants, chosen for their expertness in security market accounting, and senior accountants from Federal bank examination staffs. The expense of the undertaking might be borne by the Federal Reserve and the manual made available to dealers as a Federal Reserve service in the public interest. It was assumed that preparation of the accounting standards or manual would be carried forward with the close cooperation of the dealers.

After Mr. Young outlined the problem involved and the possible means of meeting it, Mr. Robertson said he would agree with the suggestion on the assumption that the dealers would not be excluded from the preparation of the standards or manual. Mr. King suggested that it would seem desirable, as a first step, to write to the dealers and advise them of the problem so as not to risk losing their cooperation and support for the project. Chairman Martin and Mr. Young agreed with the validity of this suggestion.

Mr. Young then referred to the suggestion in the September 28 memorandum that the Open Market Committee consider the question of appropriate assignment of responsibility for Government securities market statistics collection and analysis, for example, to the Open Market Trading Desk, to the Research Department of the New York Reserve Bank, or to the Research Division of the Board of Governors. The thought was expressed in the memorandum that this might require

the creation of a small specialized staff free from other statistical and analytical assignments.

Mr. Young noted that Mr. Lanston had cited as one reason why he was unwilling to supply information on his trading volume and position to the Desk the possibility that such information might be used by the Desk to trade against him. Mr. Young stated that he did not know whether other dealers had any feeling on this point, that the question was raised in the memorandum without recommendation, and that the matter was mentioned merely for the Committee's consideration.

Mr. Deming inquired whether this contemplated the possibility that information collected by the System from the dealers might be kept from the Desk, and Mr. Riefler responded that there was an indication that the Lanston firm would furnish current data if they were collected by the Research Department and only aggregate figures were released outside that department.

Mr. Treiber commented that it would seem logical that the statistics be collected by the New York Reserve Bank, which is in the market, and on a basis whereby any appropriate group in the System could analyze the statistics and draw conclusions therefrom. They had been helpful in the operation of the Trading Desk in the past, and it was hard for him to conceive of denying the statistics to the Desk. In his opinion the Desk could be relied upon to exhibit the same sense of responsibility as any other unit within the System.

Mr. Larkin said that the data had been helpful in the administration of the System Open Market Account and in the day-to-day operations of the Desk over the years. He had never heard of the conflict of interest alleged by Aubrey G. Lanston & Co. being alleged by other dealers.

In a reply to a question as to whether aggregate figures would be helpful to the Desk, Mr. Larkin said that ordinarily, in meeting day to day operational problems, the Desk relied primarily on the aggregate figures, but that in connection with repurchase agreements, the Desk would like to know as much as it now knew about individual firms, particularly their exposure.

Mr. Riefler stated that of course the Desk would need the statement of an individual dealer when it extended credit to him on a repurchase agreement, but it would not necessarily need information as to the individual issues held.

Chairman Martin expressed the view that the real question involved was a matter of principle. The question was whether the Desk should be in the position of granting largesse against general positions in the market, that is, whether the Desk should be in a position where it would do something for one dealer by virtue of the position that it knew the dealer had in the market. Mr. Larkin stated that since the Desk's transactions were on the basis of best price, it was difficult to see how there could be a charge of conflict

of interest. Chairman Martin went on to say that the Desk must be in as defensible a position as possible against charges by parties outside the System, and in that direction no stone should be left unturned. It was not fair to the Management of the Account to be in a position where charges could be made against it.

Mr. Robertson suggested the possibility of putting the statistical collection responsibility on a System basis in order to determine what disadvantage would flow from such an arrangement.

Chairman Martin commented favorably regarding this suggestion. He then suggested that the Committee not take a final position at this time but that the staff be authorized to experiment with plans along the lines suggested and bring the matter back to the Open Market Committee for further discussion at a later date.

Mr. Young then discussed a related matter mentioned in the September 28 memorandum which concerned provision for spot investor surveys to supplement intelligence from regular statistical information, along with the determination of staff assignment therefor. Such surveys could be employed to explore unusual market situations, to test the possible emergence of major changes in market behavior when other data cast out signals of doubt, and to ascertain investor preferences with regard to forthcoming offerings. Mr. Young said that there was a question whether this assignment should be in the Federal Reserve or the Treasury, that this might be something on

which the Committee would not want to express a view today, and that, if desired, the matter could be brought up later.

In this connection, Chairman Martin commented that the whole program was something on which the Committee must be working continuously and that he solicited the Committee's continuing interest in the development of the program. The problem involved a difficult and time-consuming process and there were many questions in the area of developing adequate data. It was his suggestion that each Committee member send any thoughts to Mr. Young and keep in constant touch with the problem because it was one with which the Committee would have to work for a long time to come. He did not think the Committee could take a vote on each issue but he believed it important for the System to move forward in this field, particularly since questions in this area would undoubtedly arise during the next session of Congress.

Mr. Shepardson said it was his understanding that the term "on an experimental basis" meant that Mr. Young and his associates would go forward on an experimental basis and that indications of Committee assent with the program for collection of statistics constituted authorization for him to proceed on that basis.

There was no indication of disagreement with the understanding as stated by Mr. Shepardson, and Mr. Young added that the experimental steps would be in cooperation with the Desk.

Mr. Larkin suggested that there would have to be some exploration of this program with the dealers to call to their attention any change in the manner of receiving and processing the figures in question, which currently are supplied to the Federal Reserve Bank of New York strictly on a voluntary and confidential basis.

Mr. Young next turned to the section of the September 28 memorandum relating to margin requirements on Government securities. The first suggestion was for the preparation and negotiation of a joint bank supervisory statement relating to minimum margins and other credit standards which banks ought to adhere to in extending credits to others than Government security dealers or banks on Government security collateral, including repurchase arrangements, reverse repurchases, and forward delivery contracts. Supervisory authorities joining in such a statement should include the Board of Governors, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Association of Supervisors of State Banks.

If such a statement were developed, Mr. Young said, it would seem desirable, as indicated in the staff memorandum, to find some way of publicizing it to corporation presidents and treasurers, for example, through distribution by the Securities and Exchange Commission to all listed corporations. It would also be desirable to

send a letter to the New York Stock Exchange requesting review by the Exchange of its flat 5 per cent margin rule on Government securities, especially the consistency of this rule with margins that might be recommended in the joint supervisory statement, and the Treasury should explore the feasibility of administrative margins on subscriptions to refunding bond offerings as well as those presently applied on new cash offerings.

Mr. Young suggested that some member of the Open Market Committee might be designated to explore in detail the possible scope of such a joint supervisory statement and the problems in getting it negotiated.

Mr. Robertson said he was in sympathy with the idea, but that he would emphasize the use of the word "negotiate." The plan was not without its difficulties, and the supervisory authorities might be somewhat reluctant to announce standards they could not enforce.

Mr. Young agreed that this would amount to moral suasion. Adherence could not be enforced but the statement might do some good.

Chairman Martin stated that he would prefer to leave this item this morning and asked whether the Committee would be agreeable to the Chair appointing some member of the Committee for the purpose referred to by Mr. Young.

No objection to this procedure was heard.

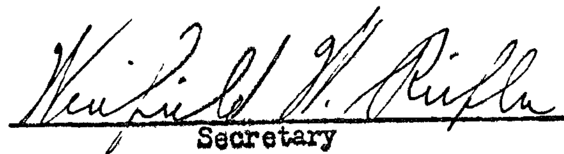
Mr. Young then mentioned the suggestion in the September 28 memorandum relating to consideration and possible establishment by

the Open Market Committee of financial statement standards to be required of dealers obtaining repurchase accommodation from the New York Reserve Bank. Standards, the memorandum suggested, should provide for full disclosure of contingent liabilities on repurchase account. The memorandum pointed out that margin standards applicable to bank repurchase arrangements with others than dealers and banks would be covered by the joint supervisory statement referred to earlier.

Chairman Martin suggested that the discussion terminate at this point, since this item and the suggestion in the memorandum for exploration of an organization of Government security dealers would require some time. He expressed the view that the discussion today had covered sufficient ground for the staff to move forward.

There was agreement with the Chairman's suggestion that the remaining items in the staff memorandum be held over for discussion at another meeting.

It was agreed that the next meeting of the Federal Open Market Committee would be held at 10:00 a.m. on Wednesday, November 4, 1959.



Secretary