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 Wednesday, July 6, 1960, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bryan
Mr. Fulton
Mr. King
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Leach, Alternate for Mr. Bopp

Messrs. Allen, Irons, and Mangels, Alternate Members of the Federal Open Market Committee

Mr. Johns, President of the Federal Reserve Bank of St. Louis

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hexter, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Eastburn, Marget, and Tow, Associate Economists
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Koch, 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

1/ Entered at point indicated in minutes.

Mr. Hilkert, First Vice President, Federal Reserve Bank of Philadelphia
Mr. Hickman, Senior Vice President, Federal Reserve Bank of Cleveland
Messrs. Mitchell, Daane, and Einzig, Vice Presidents of the Federal Reserve Banks of Chicago, Minneapolis, and San Francisco, respectively
Mr. Willis, Economic Adviser, Federal Reserve Bank of Boston
Messrs. Gaines and Black, Assistant Vice Presidents of the Federal Reserve Banks of New York and Richmond, respectively
Mr. Holmes, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Meigs, Senior Economist, Federal Reserve Bank of St. Louis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 14, 1960, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period June 14 through June 29, 1960, and a supplementary report covering the period June 30 through July 5, 1960. Copies of both reports have been placed in the files of the Committee.

With further reference to developments since the Committee meeting on June 14, 1960, Mr. Rouse made the following comments:

Since the meeting of the Federal Open Market Committee on June 14, open market operations have been mixed, as the Management first tried to offset the easing effects of the mid-month float expansion and then sharply reversed direction to provide funds to ease a tightening money market. The tightening initially resulted from the concentration of reserve pressures on the New York City banks following the June 15 tax date when there were sizable flows of funds to and from New York, and especially a quick shift of the burden of financing Government security dealers to the New York banks as corporation repurchase agreements expired on the tax date. Later in the period, funds were needed to meet the reserve drains associated with the July 4th holiday. The net effect of these reserve gyrations and offsetting System actions was to maintain a generally easy tone in the money market.

In the earlier phase, the Desk was able to withdraw funds readily without resort to the market through sales of Treasury bills to foreign accounts and bill redemptions; but the later efforts to supply funds through purchases of bills were more difficult and aggravated the trend toward lower bill rates.

With this meeting scheduled today and the Treasury auction tomorrow, it was a most unpleasant surprise to have the weekend statistics greet us yesterday morning. Instead of free reserves of over $100 million for the week, we faced negative free reserves of $75 million and an enormous accumulated reserve deficit in New York and a moderate one in Chicago and only two days left in the statement week in which to repair the damage. Treasury balance, required reserves, and float were the principal offenders. Fortunately the securities markets were strong enough to stand it and in the end we were able to make some amends, but this morning's first estimate indicates only small free reserves, if any, for the statement week on average.

The Treasury's offering of $3.5 billion of tax bills for auction today may eventually relieve some of the downward push on bill rates. The prospects are for a successful auction with substantial bidding by commercial banks interested in the Tax and Loan credit, with rates mentioned in a wide range of 2.55 per cent to 2.80 per cent.

In another move which will affect the bill rate structure, the Treasury in last week's bill auction changed the relationship of three- and six-month bills, increasing the proportion of six-month bills in the total. As a result, the spread between the three- and six-month bill rates in Friday's auction widened to about 50 basis points.

An interesting new event in the Government securities market is the offering tomorrow of $19.8 million of District of Columbia Stadium Bonds, due in 1979, callable in 1970 and after, which are fully guaranteed as to interest and principal by the United States Government. Originally these bonds were estimated at about $6 million and were to have been fully exempt from Federal income tax, and several syndicates of municipal dealers were therefore organized for underwriting purposes. The underlying statute was subsequently changed to make the bonds fully taxable, but the same municipal syndicates are apparently preparing to bid.

> Some of these syndicates include Government securities dealers. Had it been set up originally as it turned out, some of the Government securities dealers would have submitted individual bids. Yields around 4.40 per cent to 4.45 per cent are mentioned. We believe the bonds will be traded in the secondary market as distinct from other Treasury issues, in the same way as Merchant Marine bonds which are not widely traded or quoted by Government securities dealers because of their relatively small size.

Mr. Leach referred to a statement on page 2 of the report of open market operations for the period June 14 through June 29, 1960, which indicated that by the end of the period under review strong investor demand, augmented by System purchases, had brought rates on the 91-day and 182-day bills to 2.14 and 2.58 per cent, respectively. He also noted from page 6 of the report that on June 24, with foreign accounts buying heavily, it was decided that a go-around would have an undue impact on rates and hence System Account purchases were limited to bills offered by dealers on their own initiative during the day. He noted further that Mr. Rouse, in his oral comments this morning, had stated that efforts in the latter part of this period to supply funds through purchases of bills were rather difficult and aggravated the trend toward lower bill rates. This seemed to indicate, Mr. Leach said, that the buying of bills had an unusually strong effect on rates, more so than it had had in the past. He inquired of Mr. Rouse whether it would seem advisable at some times to buy other short-term securities.

Mr. Rouse replied that without question System Account purchases in the size required had aggravated the downward push on bill rates, although the Desk had tried to conduct its operations so that they would have as small an effect on such rates as possible. He went on to point out that the commercial banks held only about $2.5 billion of such securities at the present time, approximately the same amount as held in the Account portfolio. Therefore, banks were now adjusting their reserve positions through the use of other short-term securities to a considerable extent. In such circumstances, he felt that it would be helpful to deal in short-term securities other than bills on certain occasions.

Vice Chairman Hayes said that Mr. Leach's question was an appropriate one and that if the members of the Committee should see fit to bring it up during the discussion of policy, it would seem quite reasonable to do so.

> Thereupon, upon motion duly made and seconded and by unanimous vote, the open market transactions during the period June 14 through July 5, 1960, were approved, ratified, and confirmed.

Mr. Koch presented the following statement with regard to economic developments:

> Since the chart show presented at the last meeting of this Committee focused on the course of economic developments over a somewhat longer period, I shall concentrate my remarks today on more recent developments and what they suggest about the current state of the economy. In brief, recent facts confirm our earlier judgment that economic activity is continuing at a high, probably a record level, although currently showing little upward momentum. I think I detect a little firmer tone in the staff economic memorandum prepared for this meeting.
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> Thus, our industrial production index in June will probably show little change from the May level of 110 per cent, which was 1 per cent above April. In addition, the leading indicators of cyclical change, which were weak early in the year, have strengthened

somewhat since March. In this connection, however, it should be stressed that recent changes in these indicators have been small, and they have been shifting erratically from month to month. Finally, the gross national product in the second quarter apparently showed a slightly larger advance over the first quarter than had been expected.

This modest raising of our sights on the second quarter gross national product is due mainly to a somewhat greater seasonally adjusted annual rate of inventory accumulation than had been anticipated. Earlier we had been thinking that the rate of accumulation might be about $3 billion in the second quarter, as contrasted with the nearly $11 billion in the first quarter. Now it looks as if the second quarter rate might have been in the neighborhood of $5 billion.

Also on the favorable side, retail sales of automobiles and consumer goods in general rose in June, following declines in May. New orders received by durable goods producers increased slightly in May, owing mainly to a fairly large gain for aircraft. Average hours of work also firmed somewhat.

An important recent development observable in the labor field is that the increase in industrial wages has slowed down markedly to a pace significantly slower than in earlier periods of high level activity. This tendency toward smaller wage increases is illustrated by the recent settlement for operating employees in the railroad industry. This settlement involved a wage increase of 4 per cent over a two-year period and a discontinuance of the esclator clause.

In the price field, wholesale prices declined slightly in May and early June, as lower prices of industrial items and some farm products more than offset higher prices for processed foods. Consumer prices, on the other hand, increased slightly further in May following a somewhat larger rise in April. In May, they were 1.9 per cent higher than a year ago. The recent rise in consumer prices has reflected the continuing upward trend in prices for services and a somewhat more than seasonal increase in food prices.

It is of interest to note that increasing tensions in the international situation as a result of the collapse of the summit talks and anti-U. S. feelings being expressed in several foreign countries have thus far apparently not had any appreciable effect on price and inventory developments. This conclusion is supported not only by statistics but also by recent views expressed by purchasing agents.

Turning to the less favorable side of the economic picture, in June initial claims for unemployment compensation, a leading labor market indicator, rose slightly on a seasonally adjusted basis. The level of unemployment, around 5 per cent, continues high for the current phase of the business cycle. Steel mill operations have declined further, falling from 71 per cent of capacity in May to an average of 60 per cent in June and to 53 per cent last week.

The seasonally adjusted rate of total construction outlays declined in June and was 7 per cent below the all-time high reached in May last year. Although private housing starts held steady in May, additional reports have appeared of surplus housing in scattered areas. Defaults on home loans and foreclosures on nonfarm real estate have also been rising but, it should be noted, both still represent a small proportion of new mortgage lending or debt outstanding.

Finally, the latest National Industrial Conference Board--Newsweek quarterly survey of appropriations for plant and equipment spending by major manufacturing companies has been interpreted as indicating that although outlays will continue strong throughout this year, some softening may develop early next year.

Thus, although economic activity continues fairly high, uncertainty about its future course is widespread. Some observers talk of the imminence of cyclical contraction; others of what Mr. Fulton so graphically characterized as "deteriorating stagnation" a meeting or so ago. On the other hand, still other observers take heart in at least certain aspects of the reduced current rate of increase in economic activity. They feel that the generally orderly adjustment from the unsustainably high rate of inventory accumulation early in the year and the avoidance of speculative imbalances and excesses generally associated with the culmination of a boom have strengthened the chances for a more sustained period of prosperity.

During the course of Mr. Koch's remarks Chairman Martin entered the meeting and assumed the Chair.

In response to a question by Mr. Balderston, Mr. Koch said that the volume of inventory accumulation was still relatively moderate in comparison with sales, and that the increase had been somewhat less than during the comparable period of the previous business cycle. Recent increases had been concentrated in finished goods inventories, but the inventory situation was in better shape than in the similar phase of other postwar cycles.

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

The past four weeks have been a period of large and varied seasonal pressures on money and credit markets. These were due at first to usual June tax, dividend, and other settlements and then to holiday currency demands. Treasury financing operations and rather large shifts of foreign funds added to the complications.

Viewing the period as a whole in perspective, bank reserve positions were kept relatively easy by large-scale Federal Reserve operations and money rates remained low. Yet pressures were felt in the market. Around the middle of the month when temporary liquidity demands were at their maximum, Treasury bill rates increased somewhat. Dealers took on a very large volume of Government securities, mostly bills, and increased their borrowings. Banks had to supply much of these credit needs and at the same time meet loan demands of businesses and finance companies customarily heavy at that time. Required reserves increased substantially. Reserves were supplied temporarily by a sharp increase in float.

System operations--mostly runoff of maturing bills--actually absorbed reserves in that week. Member bank borrowings increased, although on balance the banks continued to show net free reserves. Most of the excess, however, was at country banks, while city banks, where the credit demands centered, had to increase their borrowings at the Reserve Banks. Federal funds were less readily available than they had been.

In the last two weeks of June, loans and investments at city banks were reduced. In the latest week banks sharply reduced their borrowings--both from the Federal Reserve and from others. This easing was aided by a resumption of Federal Reserve purchases, which have continued on a large scale this week. Treasury bill rates again turned down.

The month of June was characterized by a sharp drop in interest rates to the lowest levels since early 1959. Except for the summer of 1958, Treasury bill rates are lower than at any time since early 1956. Yields on medium- and long-term issues also declined in June but not as much as short-term rates, and they generally continue above any levels reached before 1959.

This decline in interest rates reflects the easing reserve position of banks and the reduction in Federal Reserve discount rates that occurred in June, as well as the more fundamental forces that had been in process earlier. These include principally the changed position of the Federal budget from large deficit to small surplus, moderation of private credit demands, the lessened fear of inflation, and the shift of the public's liquid asset holdings from cash to securities.

Credit demands in June were moderately large. New capital issues both by corporations and by State and local governments--totaling $1 billion or more each--were larger than in any other month of 1959 and 1960. The aggregate for the first half of the year, however, was less than in the two previous years. Offerings by finance companies, however, have been much larger this year than in those years. Borrowings at banks by finance companies, though somewhat less than last year, appear to have exceeded those of most other recent years, both in June and for the year to date. Loans to other businesses by city banks, although moderately large in June, were not as great as in most other recent years. The same may be said of total loans at city banks. These banks showed a further small decrease in their holdings of U. S. Government securities during June. Total loans and investments increased more than in June of 1959, 1956, and 1955, though much less than in 1957 and 1958.

It appears that both demand and time deposits increased somewhat more than seasonally during June. It is unlikely, however, that the rise was sufficient to offset the sharp drop in the money supply during May. Treasury balances at banks continued at a high level and are expected to be maintained in the weeks ahead generally above the levels of last year. The Treasury's borrowing needs in the next half year will be much smaller, with less frequent financing operations, than in the same period of 1959 and 1958.

System operations in the past few days should be more than sufficient to cover any normal seasonal reserve needs for the next three months, except for temporary variations. The question to be considered is how much additional stimulus should be provided. It is doubtful whether banks will be called upon, will be willing, or should be encouraged to expand loans by much more than customary seasonal amounts in the months ahead. In view of the current level of business inventories and the liquidity position of businesses, loan demands may not be particularly heavy. Loans have already increased at a fairly good rate and bank loan-deposit ratios are such as to serve as some restraint on banks in seeking new loans. Encouragement for greater loan expansion might lead to speculative or unsustainable commitments, although in the present economic climate this does not seem likely to be a serious threat.

Supplying banks with additional reserves in excess of usual seasonal needs or likely loan demands would enable them to reduce borrowings or increase their holdings of Government securities--or at least cease their liquidation of such holdings. Since the Treasury will be a seasonal net borrower in the months ahead and bank deposits should expand seasonally, some increase in total bank credit is to be expected.

One question is whether the public generally will want to discontinue or reduce its recent proclivities for economizing on cash and increasing holdings of securities. Unless this trend changes, additions to bank reserves and attempts by banks to expand their holdings of securities may result in further declines in short-term interest rates. Unless credit demands strengthen, it may be difficult to effect a greater than seasonal expansion in the money supply without some further reduction in interest rates.

Mr. Marget made the following statement with regard to the United States balance of payments:

In the six weeks that have elapsed since I last reported to this Committee on developments in our trade position, we have received the full trade figures for April and the preliminary figures for May. These figures--to borrow the adjective used in one of the newspaper comments on them--are "heartening."

First, there is our export performance: the critical area, certainly, for all of us who wish to see a solution of our balance-of-payments on expansionist, rather than contractionist, lines. On a seasonally adjusted basis, exports in April and May averaged an annual rate of more than $19 billion. This rate was about 4 per cent above the average for the first quarter of this year and 23 per cent above the low of a year earlier; indeed, it was the highest rate since the middle of 1957, a year in which we ran an over-all surplus in our balance of payments. Moreover, although we still lack details on exports for May, the breakdown for April showed that the rise in exports was spread widely over major commodity groups. Thus, although the largest increase over the past year has been in agricultural products, mainly reflecting higher cotton shipments, the falling off in cotton exports since early this year has been more than made up by the increased foreign demand for U. S. nonagricultural products. In April, for example, the largest increases were in the very area in which most concern had been expressed about our ability to maintain a competitive position--in machinery and equipment (particularly transport equipment) and in metals (particularly steel). Indeed, the exports of machinery and equipment were well above even the peak rates recorded in the peak-export year 1957.

Secondly, our import performance has been such as to contradict the expectations of those who have suggested that any gain in our exports was likely to be offset, or more than offset, by a corresponding increase in our imports, so that we were not in fact likely to achieve the sizable surplus in our current accounts which we need in order to keep our over-all balance of payments in equilibrium if we are to continue to maintain a large program of foreign aid and foreign investment. Actually, our imports, while they have been fluctuating erratically from month to month since last December, have, if anything, fallen somewhat since that time. In April and May, for example, they averaged $15 billion at an annual rate: about the same as in the first quarter of this year, but 3 per cent below the average for the fourth quarter of last year. And again the distribution of imports has been such as to encourage the hope that some success is attending our efforts to face up to the new competitive situation in the world which some of us feel is the basic reason for the existence of our balance-of-payments problem altogether. Certainly cyclical factors, and special factors such as last year's steel strike, as well as longer-term "competitive" factors lie behind the heavy concentration of the decline, in our imports, of steel and other metals, with steel imports down about one-third below last year's fourth-quarter average. But it is surely evidence of an improvement in our competitive position that the imports of new automobiles should also be significantly down from the fourth quarter, and that in May they should have been as much as one-fourth below the level of a year earlier.

With exports slowly, but steadily, increasing, and with imports showing, if anything, a slight decline, the result can only have been an increase in our trade balance; and in fact the figures for April and May do show an improvement in that trade balance by more than $1/2 billion at an annual rate. But there has not been a comparable improvement in the figure which we take as a measure of movements in our over-all balance of payments: namely, the figure for the international movement of gold and dollars. On the contrary, it would appear--though the data for May are still incomplete--that, despite the increase in our export surplus of $1/2 billion, annual rate, in our trade account, we were still running an over-all balance-of-payments deficit close to the first-quarter seasonally adjusted annual rate of $2.8 billion.

The explanation, quite obviously, lies in capital movements--including, of course, such movements as have been induced by the widening of the spread between the interest rates prevailing in the respective monetary centers. But the rest of the evidence, surely, is such as to indicate that, if matters continue to go as they have been going, this is something that we can take easily in stride. Gold movements, for example, while they amounted in the second quarter of this year, at $85 million, to somewhat more than they were in the first quarter, were $300 million less than the purchases of foreign countries in the second quarter of 1959; and these, in turn, were considerably lower than they had been in 1958, the year of massive gold-outflow ($2.3 billion) which first awakened the country to the existence of its balance-of-payments problem. What will be decisive, in fact, for the future will be the extent to which we can continue to provide evidence of adjustment in the most intractable part of our balance-of-payments problem: namely, the trade part. It was in the trade sector that our balance of payments showed its greatest deterioration; it is in the trade sector that we find the most encouraging evidence of movement in the direction of adjustment. It has been the improvement in the trade sector that has offset the otherwise "unfavorable" movements in the capital sector; it will be to further improvement in the trade sector that observers, including the foreign holders of dollar balances, will look for evidence that the policies being followed in the United States, including its monetary policy, are consistent with that attainment of balance in our international accounts to which we stand committed.

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

It seems to me that we are on the right track with respect to monetary policy and that for the time being patience and steady nerves are called for above all else.

There is nothing in the business situation to suggest that the recent discount rate action was premature or that it is likely to need to be reversed in the near future. On the other hand, while recent business statistics are only mildly encouraging, they do point to the likelihood of some modest expansion in the second half of the year.

Consumer spending is the most hopeful source of this second-half improvement, and in this connection it is encouraging that the disappointing May performance of retail sales now seems attributable mainly to the late date of Easter rether than to a weakening of demand.

In the construction area, easier availability of mortgage funds suggests that an upturn in residential construction may be in the making--although this stimulus may be less effective than it has been in similar situations since World War II because the demand for and supply of housing are now clearly in closer balance than in many years. With the prospect of continued strength in private nonresidential construction and an improved outlook for the highway building program, total construction should be an element of strength in the second half.

Nonfarm wholesale prices experienced an unusually sharp drop in May, and the wholesale price index as a whole may show a decline for June. The recent small rise in consumer prices appears of relatively minor significance, attributable as it is very largely to seasonal food price changes.

As for bank credit developments, the growth of business loans slackened somewhat in June after a performance in the earlier months of the year roughly comparable with the experience of earlier expansion years. However, while the tax period failed to bring forth any particularly sharp rise in business loans, there was a very marked gain in both security loans and loans to finance companies. The inference is that corporations have been turning less to their banks for tax funds than to the disposition of short-term government securities, including those held under repurchase agreements, and finance company paper. Total loans at weekly reporting banks showed a strong increase in the first three weeks of June, and with security holdings changing very little, total bank credit scored a sizable gain. During the same period required reserves have risen by about $350 million, or substantially more than in any recent year of business expansion.

New municipal financing has been exceptionally heavy in the past three weeks. While this has caused some indigestion in underwriting circles, there has been no basic weakening of bond prices. The corporate new issue market has been relatively quiet. Stock prices are somewhat higher than three weeks ago.

The outstanding economic characteristics of the period ahead are likely to be ample productive capacity, an unemployment ratio of around 5 per cent, and better balance between the supply of and the demand for investment funds. Resumption of inflationary pressures in the current period of expansion has become a steadily less likely prospect. On the other hand, we cannot overlook the sharp divergence of business conditions here and in Europe, and the difficult question as to what extent European monetary policy measures and financial developments may require review and adjustment of our own domestic credit policy.

All in all, it would seem appropriate to continue the relatively easy policy we have been following for the past month or so. As brought out in Mr. Gaines' memorandum already distributed to the members of the Committee, recent data suggest that we are now getting the growth in the reserve base that we have wanted, and it appears likely that the money supply also turned upward in June. This is all to the good. However, I feel strongly that at a time like the present, when the evidence does not clearly support the need for easier money and lower interest rates, the possibility that there may be adverse effects on the balance of payments from lower domestic short-term interest rates should be given some weight. In addition to movements of funds to Germany for other reasons, some short-term funds are moving out of the United States in response to present rate differentials--and while these movements have not resulted thus far in an appreciable outflow of gold, we must keep in mind possible effects both here and abroad if such a flow were to develop on a substantial scale.

I am concerned over the prospect that the sizable open market operations needed to supply reserves through the remainder of the year are likely to drive bill rates even lower than they now are if operations continue to be restricted to bills.

Perhaps the next few months represent a period when the Manager might appropriately be given greater leeway in the selection of securities than the Committee has usually accorded him. It seems to me that if he were permitted to operate freely throughout the short-term area, instead of confining his attention to bills, he could acquire those maturities which happened to be available and might minimize the impact on short-term rates of any actions aimed at the reserve base. I might add that since commercial banks have been relying to a considerable extent on short-term securities other than bills for their money market adjustments, there is a very logical basis for our broadening the scope of our operations in this direction. It would help us to adjust our operations in order to deal with the paradox of a relatively tight commercial banking system side by side with relative ease in the nonbank sector.

I think the discount rate and the directive should be left unchanged.

Mr. Irons said that conditions in the Eleventh District were not too much different from three weeks ago, although perhaps the shading was toward a little more strength. The situation was relatively favorable, taking into consideration the drag of the petroleum situation and some cutting back in defense expenditures at aircraft plants. Department store sales improved in June and retail sales generally were a little better, although cumulatively they were running somewhat below the figures of 1959. New car registrations were 3 or 4 per cent above a year ago. Production of crude oil was still running about 8 per cent below a year ago, and this was having an effect on drilling, which was off 15 or 20 per cent, but refining was up. Employment was above last year, and unemployment was around 4.5 per cent in Texas. Construction was a little above a year ago. Upon adding up all of these factors, one came out somewhere within 2 to 3 per cent of the record high levels. The agricultural outlook had improved lately. While the rainfall was excessively heavy in some parts of the District, on the whole the situation was quite favorable.

Mr. Irons said that in the past three weeks District banks had a fairly substantial increase in deposits and a fairly sizable increase in loans. He thought there was some tendency on the part of bankers to feel that their positions were easing a bit. Federal funds were not being purchased in as large amounts as had been the case. Borrowing from the Reserve

Bank, relatively high on some days, on average was fluctuating around $25 to $28 million. A number of smaller banks in the agricultural sections were borrowing for seasonal purposes and probably would be borrowing for another couple of months.

Mr. Irons went on to say that, on the basis of his contacts, the attitude of businessmen seemed neither highly optimistic nor highly pessimistic. They were looking for a little more improvement in the last half of the year, but not much difference. On the other hand, they were not anticipating any sharp decline, even in the oil industry. On the whole, the District showed relatively favorable conditions at this time. There would be the summer doldrums, as always, but that could not be avoided and should not be a cause for panic.

Mr. Irons said that in view of current uncertainties and the state of business activity, he would maintain about the same degree of ease that had been the Committee's objective. He would favor a moderate amount of free reserves, somewhere around $50 million. While he would lean toward providing reserves to meet seasonal requirements, he would not force ease on the market aggressively through open market operations. He would avoid tightening and, as he had said, provide for seasonal requirements, but avoid pushing up the amount of free reserves.

In the process of maintaining a given amount of free reserves, Mr. Irons noted, there was the possibility of providing additional ease continually; if the free reserves made available were used, the provision of more to maintain a given amount of free reserves might mean a continuous easing. This he would avoid. He would take no overt action, no definite action that would point one way or the other, and instead would try to continue to fluctuate around a neutral position. He would not favor changing the discount rate or the directive.

Mr. Mangels said that latest available figures showed Twelfth District employment down .2 per cent, while unemployment, which had been running a little less than 5 per cent, increased to 5.5 per cent. Employment had declined in the lumber and aircraft industries as well as in food processing plants in California and the Northwest. Also, there had been a cutback in Government employment of about 10,000 persons upon the completion of the census-taking. Construction in May was up 5 per cent from April, but was down 17 per cent from a year ago; total construction contracts for the year to date were 6 per cent below the 1959 period. Steel production was at 66 per cent of capacity for the month of June but was down to 63 per cent in the latest week. The industry seemed to think that in the next month or two there might perhaps be some upswing in production, because final use was in excess of shipments from the mills. The lumber industry was still in the doldrums, with production below new orders and shipments being made from inventories. Prices had stabilized, but at a low level, in some cases virtually at the break-even point. In agriculture, there had been too much rain and cold weather in Washington, Oregon, Idaho, and Utah, while in Nevada there was a shortage of irrigation water and some reservoirs were already depleted. Dry weather in California was holding down yields of wheat and barley, although in the irrigated areas there was still a sufficient water supply. In California the farm labor situation was still uncertain, with the unions continuing their efforts to organize the farm workers. This might have a detrimental effect on the peach and tomato canning crops. Department store sales for the four weeks ended June 27 were about 5 per cent below a year ago, while auto sales in California for the first two weeks in June were below May, which in turn was 15 per cent below April.

Mr. Mangels said that loans of District banks increased somewhat in the four weeks ended June 22, although real estate loans were down $41 million. Demand deposits increased slightly, and time deposits were up nominally. There was an $85 million increase in savings deposits, but bankers in California were much concerned about what might happen in the first ten or fifteen days of July following the crediting of interest at the end of June. With savings and loan associations advertising 4-1/2 per cent and 4-3/4 per cent dividends on share accounts, the banks were anticipating quite a substantial drop in savings deposits. Borrowing from the Reserve Bank was nominal, mostly borrowing by country banks. City banks were quite active in the Federal funds market, with transactions in rather large amounts.

Mr. Mangels said that the observation in the Twelfth District was one of a pattern of increasing weakness in economic activity, although there were no clear signs of a general turndown. At the recent business outlook conference, it was the consensus of the 18 participants that there probably would be little change from the present level of business activity in the near future. They did not expect that present areas of weakness would be expanded, but they saw nothing in the picture that would increase the over-all pace of business activity in the Twelfth District area. Banks were still being selective in reviewing applications for credit and felt that their positions were tight. They were concerned about loan-deposit ratios.

Mr. Mangels felt it would be helpful if the System were to supply reserves in excess of seasonal needs. In doing so, he would go along with the suggestion of Mr. Hayes that the Desk try to stay away somewhat from Treasury bills because of the present low bill rates. Mr. Mangels also suggested that the Board might give further consideration to the release of additional vault cash. He would like to see net free reserves somewhere above $100 million, perhaps as high as $200 million. He saw no occasion to change the discount rate or the directive.

Mr. Allen said that developments of the past three weeks had not been helpful to him in trying to make out the underlying business trend. All things considered, particularly the low rate of activity in steel, the economy seemed to be doing pretty well on the whole, but with summer here it appeared that it might be necessary to wait for several weeks to determine whether business was moving decidedly one way or the other.

Retail trade in the Seventh District area was on the whole satisfactory but spotty, Mr. Allen said. Cash receipts from farm marketings in the first five months were about 2 per cent below the same period of 1959. However, hog prices had increased recently to the highest level in a year and a half, and a further rise was expected by the end of the summer because the spring pig crop was 16 per cent below that of last year. Mortgage lending terms in the Chicago area had shown no signs of easing, and that appeared to have been the case nationally. However, an analysis of the supply and demand for long-term funds suggested that rate cuts might be in prospect. Savings had been running about as large as last year, but the demand for long-term money was substantially lower. Nevertheless, spokesmen for the savings and loan associations were insisting that mortgage rates would hold firm, just as commercial bankers were denying that there was any likelihood of an early reduction in the prime rate.

Mr. Allen went on to say that automobile sales for the last ten days of June were estimated at around 26,000 per day, which would be very good, but a little below the same period of 1959, and would mark the first time this year that daily sales had fallen below year-ago levels. Production for the first six months was approximately 3,800,000 and sales about 3,200,000, accounting for the high inventory of more than 1,000,000 cars on June 30. Production was currently being reduced, and August was expected to be the low month. Estimates were that 1,140,000 cars would be made in the third quarter and 1,600,000 in the fourth. Adding those figures to the first half, the year's production would be 6,540,000, or 17 per cent more than the 5,594,000 total for 1959. It seemed important to note, however, that the forecasts called for less auto production in each of the remaining quarters than was achieved in either the first or the second quarter of the year.

In the field of monetary policy, Mr. Allen said he concluded that it would be advisable to mark time for the present. For one thing, the trend of business activity was not clear. Furthermore, Treasury financing was in process. He would not favor changing the discount rate or the directive.

Mr. Leedy said that conditions in the Tenth District on balance tended to be favorable. The winter wheat harvest was nearing completion and it now appeared that production this year would be even higher than was estimated by the Department of Agriculture as of the first of June. During the first four months of this year cash receipts of farmers were lower than last year. However, with the improvement in the wheat situation, better pasture and range conditions, and a volume of cattle marketings sufficiently large to offset the lower level of prices, it appeared that during the second half of this year cash receipts would be larger than during the last half of 1959.

Mr. Leedy went on to say that the District employment situation was better than at this time last year, notwithstanding a strike against construction contractors in the Kansas City area that had resulted in about 17,000 unemployed. Except for Kansas, each State in the District showed a higher level of employment than last year. Department store sales during the latest reporting period were about 5 per cent above the corresponding period of last year, although the cumulative figure for the year to date was about 2 per cent under last year.

District banks had experienced an increase in demand and time deposits, Mr. Leedy said. There had also been an increase in business loans recently, although the rate of growth in those loans this year was somewhat lower than last year.

Mr. Leedy said that in view of the Treasury financing he assumed that an even-keel policy would be followed in the period immediately ahead. He assumed there would be some need for supplying additional reserves incident to the financing, but beyond that, and beyond supplying what might be needed in the way of seasonal requirements, it seemed to him that the System should not be pushing funds into the market. The bill rate, and the way it had been trending, was something that should be watched carefully, and the fact that the Federal funds rate during the recent period got to such a low level was another factor that should be taken into account. In brief, it seemed to him that the Committee had about accomplished what it desired to bring about at this time. In the period immediately ahead, it was his view that the Committee need not attempt to supply additional funds other than those required to see that the Treasury financing was accomplished and seasonal needs were met.

Mr. Leach reported that there had been ups and downs in recent business developments in various industries and areas of the Fifth District but no indications of any fundamental departure from the high levels that had prevailed since April. Indicative of aggregate strength in May was the slight rise in manufacturing man-hours, seasonally adjusted, to the highest total in 12 months and the maintenance of non-agricultural employment, also seasonally adjusted, at the record level reached in the preceding month. The prosperous cotton textile industry had lately gained strength in one of its weaker areas--industrial fabrics. On the other hand, the furniture industry, which did a record business during the first five months of the year, had suffered a definite slowdown marked by shrinking retail sales and a slow pace in factory orders. The widespread lumber industry faced slow summer prospects after a spring which lacked the usual seasonal liveliness. Cigarette consumption continued its upward trend, and contract awards for new construction were holding up well. Projects in process for expanding and modernizing business and public facilities were contributing significantly to employment and income in the District.

Positions of the larger District banks seemed to have eased somewhat since the June 14 Committee meeting, Mr. Leach said. The rate of investment liquidation had slowed a little, borrowings at the discount window had dropped, and money market banks had been net sellers of Federal funds. The less rapid decline in country bank borrowings from the Reserve Bank suggested, however, that the slight easing at reserve city banks had not yet spread to country banks.

With respect to policy, Mr. Leach said the easing actions that had been taken seemed to be having desirable effects, and he thought it would be advisable to mark time for the next three weeks. It was hardly possible that the System could add to reserve availability without affecting interest rates, and he saw nothing to be gained through forcing short-term rates even lower. Moreover, the Treasury financings that had been announced called for an "even keel" during the major part of the period. He would not recommend a change in the directive or in the discount rate. The question he asked Mr. Rouse at the conclusion of the latter's report this morning indicated that he had been thinking about the advisability of buying short-term securities other than bills. The reasons for such a change had been given by Mr. Hayes. Mr. Leach knew of no convincing reason why the Committee should not modify its practice in the light of changed conditions.

Mr. Mills said that in weighing the reports presented to the Committee at this meeting he had tried to strike a balance sheet of the plus (favorable) and minus (unfavorable) factors that were working through the economy. In doing so, he added a postscript to the balance sheet to give effect to the personal attitudes of those who believed that the economy was moving sideways through an intermediate business cycle and those--if there were those like himself--who believed the economy was commencing to move downward from the peak of a major business cycle. In striking that balance sheet, he found the most generally accepted position would be that the economy was idling in neutral, without any forward thrust, which raised a question as to what the function of monetary and credit policy should be in such a situation. Personally, he believed that the System should stay about where it was, supplying reserves to a degree that would allow a comfortable working of the commercial banking mechanism by way of a modest volume of free reserves. While it would be desirable to accomplish that purpose without unduly disturbing the interest rate structure on the downside, he could find in his thinking no reason to liberalize the authority of the Desk to operate in other than bills. In the immediate offing there would be a substantial addition to the supply of bills in the market, and the Board of Governors had available to it the means for influencing directly the supply of reserves if it saw occasion to do so.

As to policy in the immediate future, Mr. Mills said that looking at the projections of the movement of reserves and being conscious that, as Mr. Rouse had put it, they could and had in the recent past gone awry, he felt that the reserves necessary to support the commercial banks in their acquisition of the tax bills being auctioned today might well be left at their disposal. A mechanism was afforded for providing reserves for a definite purpose that could be permitted to remain in the banking structure, in support of the money supply, without having to take further overt moves to sustain the supply of reserves. He saw no occasion to change the discount rate or the directive.

Mr. Robertson said he saw nothing in the economic picture to warrant any change in present policy which, in his opinion, was as nearly on the right mark as one could get it. He agreed with the suggestion of Mr. Irons that the Committee should not permit its policy to result in forcing reserves into the picture, but he saw nothing in the next three weeks that would bring about such a situation. Consequently, he would adhere to present policy. He would not change the directive, nor would he take any overt actions.

Mr. Shepardson said that, since he was just back from a trip to Europe, his view of the domestic situation was confined largely to the staff reports. He felt, however, that the System was in a fortunate position at the moment in the light of the general state of the economy and the level of activity, current and prospective. System policy had been effective, and he saw no reason to change at the moment. He agreed with the suggestion that the System limit its supplying of reserves to those needed to meet seasonal requirements. Also, particularly in the light of recent contacts overseas, he would agree wholeheartedly with the idea of avoiding action that would push short-term market rates down further, for he saw no particular purpose to be served by that at this time. He would recommend no change in present policy or in the directive.

Mr. King said he agreed with those who foresaw little or no improvement in general economic activity during the last half of the year. The business community was preoccupied with the coming elections and the direction in which the country might go as a result, and in his opinion the economy was likely to stay during this period in the kind of stagnation to which Mr. Fulton had referred at a recent meeting. The economy was not quite stagnant, but it had been in the doldrums pretty much throughout the year.

Mr. King also said that he did not think any purpose would be served by pushing short-term rates lower. The comments about supplying additional reserves puzzled him somewhat; he did not think the question was so much one of supplying reserves as whether, if ease should develop, it would be mopped up through open market operations. Personally, he would favor free reserves from $100 million up to $300 million, and allowing the free reserve figure to fluctuate to a considerable extent. If there was any mopping up, he felt that it should be modest. As he saw it, the question for the next three weeks was principally whether the System should sell securities. He would cast his own vote on the side of disposing of relatively little from the Account protfolio and permitting free reserves in the $100 to $300 million category, for he felt that this would contribute most to not upsetting the precarious balance of the economy.

Mr. Fulton reported a widespread feeling of uneasiness in the Fourth District, even among those businesses operating at fairly high rates. The fact that the steel industry was operating at depression levels at present had an effect on other industries and also an effect on the employment and unemployment situation. This week, in view of the holiday, the mills elected in many instances to close and give paid vacations to their workers. The order books in both the steel industry and the machine tool industry were reported to be disappointing, and shipments were larger than new orders. A principal question was how long the auto industry could manufacture cars out of inventories that were supposed to be limited a little while back. If the auto industry did not order metal this month, any improvement was going to be delayed substantially because the mills must pour steel this month to make delivery in August. Tin plate was still going well, but the canning companies were requiring the mills to carry inventories. One heartening factor was that some cold-rolled strip and some sheet steel was being exported to Europe; some English and German auto manufacturers were buying limited quantities. Appliances were in more than adequate supply and some plants had closed down to work off inventories of consumer goods. The employment situation was not good, particularly in the steel centers. The mills reported many workers on a four-day week, and consideration was being given to cutbacks in supervision, which was almost a last resort action.

Mr. Fulton said that retail sales were being maintained in fairly good shape. New car sales were quite brisk in June and department store sales were above last year by about 3 per cent. Building activity had declined somewhat from the high level reached in May.

Mr. Fulton went on to say that borrowings from the Reserve Bank, which had been running considerably below last year, at only about 2 or 3 per cent of the System total, had increased recently. He noted that total borrowings from the System were being maintained at around $400 million, which in his opinion was a little high for a period in which the Federal Reserve was trying to inject some ease into the reserve situation. Loan demand was reported to be strong at most District banks. The demand was heavy for capital improvement loans and there was a fair-sized volume of term loans for which the banks had committed themselves previously. There was a fair demand for mortgage loans. The statement was heard that the rate situation was not the real deterrent to the sale of houses; rather, that there was a situation of overbuilding in some areas and that people wanted less costly houses.

Mr. Fulton expressed the view that the need for reserves that he felt existed should be met by the System, and he added that he would be inclined to favor releasing some additional vault cash to be counted as reserves. It seemed to him that the Desk had been striving to be quite precise in maintaining a free reserve figure of around $50 million. He would be favorable to a greater fluctuation in that figure, feeling that $50 million should be regarded as a minimum rather than a maximum and that free reserves should be allowed to go as high as $150 million, with fluctuations between that point and $50 million. A result of the preciseness in trying to maintain a figure of $50 million also had been pressure on bill yields on various days when the Desk felt it necessary to supply reserves. To repeat, he believed that $400 million of borrowings, which had been quite consistent, was too high, and he would furnish reserves in somewhat greater volume, feeling that the current hesitancy needed an indication that the System would supply all the reserves that were legitimately required. He would not favor changing the discount rate or the directive.

Mr. Hilkert commented substantially as follows:

> Business in the Third District has shown little improvement. Employment is not encouraging; there has been a noticeable slackening of department store sales; production of durable goods is off; and carloadings have declined.
>
> Hours worked in manufacturing plants in May showed widespread drops in comparison to the equivalent period of 1959. The May figures are better than those for April, but this is partly because manufacturing employment decreased. Unemployment claims, both new and continued, have leveled off at rather high totals since early in 1960.
>
> Production statistics are not encouraging. The steel rate is down to 61 per cent of capacity. Electric power consumption increased slightly in May. The increase was entirely in plants producing nondurable goods. Durable goods producers in May consumed less power than in April, and 6 per cent less than in May 1959. Pennsylvania Railroad's freight carloadings (Philadelphia region) have been under last year's figures for many weeks.
>
> Construction contract awards, after rising sharply in April, dropped again in May, so that for five months in 1960 awards in our District are under 1959 totals by slightly more than is true for the nation.
>
> Department store sales declined more than seasonally in May, and remained low through the first half of June. There have been increases in the last two weeks, however.
>
> In contrast to the somewhat sluggish business situation, our banks are still fairly tight. Loan demand is strong and banks have been borrowing fairly heavily. Reserve city banks have been in the Federal funds market; country banks have been more frequent visitors at our discount window.

Despite the somewhat pessimistic appearance of current business and some continuing tightness in the banking picture, we would be inclined not to make further moves toward ease at the present time. This is apart from the fact that a Treasury financing operation is now in process. Actions already taken seem sufficient to carry us through the current and prospective period of uncertainty. After the summer lull, we should be in better position to see the effects of recent actions and to appraise the need for further steps.

We would be inclined toward no change in the directive, the present degree of ease, or the discount rate.

Mr. Bryan presented a statement on Sixth District developments and on monetary policy substantially as follows:

Sixth District business activity in May and early June seems to have held at a high level. Non-farm employment has increased slightly to a new record, and unemployment has declined further. Construction activity is up a bit; and department store sales, which have been at a record in early June, suggest continued strength in retail sales. Either weakness in business loan demand--which does not seem to be the case--or continuing tightness in the banking situation is indicated by the fact that the District's business loans have recently been less than usual for this time of year; and total loans and investments have resumed a declining trend.

As we see the national picture, there is still no sign of exuberant boom or of general downturn. But it is necessary to note that unemployment remains uncomfortably large, with steel, airplane, oil, appliance, furniture, and other industries undergoing difficult adjustments. Meanwhile, business spending prospects seem a little less rosy. The problem of policy, as we see it, lies in determining what to do when the business situation is not so robust as to give rise to inflationary consequences if there were further monetary ease, nor so anemic as to threaten prompt collapse if no further ease is forthcoming. The situation is the more complicated by recent foreign monetary moves in particular and the posture of our balance of payments problem in general.

As matters stand, my own inclination is to make little change in my policy views as of the last meeting. That is, I believe we should work for a slow, steady increase in the reserves available to the banking system. I believe this is necessary because of the economic situation and because of the lagged effects of monetary policy. But I also believe that we should, at least for the present, strive to effect the reserve increases so slowly, gently, and steadily that we give no indication of panic, produce, if possible, no speculative movement in investment asset values, and do not drive short rates to the ridiculous and obviously unsustainable low levels that have characterized other easing cycles of monetary policy.

Now, in line with my previously expressed opinion that such qualitative language is of little use to the Desk, I will try to put an opinion in more interpretable, quantitative terms. The total reserve figure for June, on a daily average basis was $18,289 million. That figure represented a modest increase in total reserves and non-borrowed reserves, and permitted approximately the same modest increase in required reserves. The policy has been in the right direction, I feel sure, and in an entirely defensible amount.

For July, then, I would suggest that we head for a reserve target consisting of the June daily average figure, plus a seasonal of $110 million, plus, in view of the unemployment and non-boom characteristics of the economy, an additional $50 million. That would bring me out with a target for July of $18,449 million on a daily average basis.

Of course, it will have been noticed that I have advocated for the present a policy of modest, steady increments in total reserves and, at the same time, have exhibited concern lest we drive short bill rates down to an unsustainable low--a low that might be alarming abroad and, perhaps, equally unfortunate at home. In this situation, I believe we should have recourse to a policy of bills "usually" but by no means to bills "only." For it will also have been noticed that in setting my reserve target of 160 million additional reserves for July, I have carefully differentiated between two components: a 110 million seasonal and $50 million of what I have been calling, for want of a better name, a growth factor--perhaps better called a provision of reserve base for the secular expansion of the economy.

Such a reserve base for the secular expansion of the economy is, as I see the matter, a fraction of total reserves having a far, far greater aspect of permanence than reserves supplied for seasonal or other temporary purposes. Accordingly, I would urge that we go, for such component of our purchases, well beyond the 91-day bill if that should be necessary to avoid rate-cutting competition with other purchasers of that instrument.

Mr. Johns said he and his associates in St. Louis believed that the current rate of economic activity, although high and perhaps not showing notable signs of softness or weakness, nevertheless was below an attainable and sustainable rate consistent with price stability. In arriving at this conclusion, due weight was given to many factors and indicators of economic activity. Some indication of a potential for a higher rate of activity was found in the relatively high rate of unemployment, the slow rate of growth in the labor force, and gains in output per worker since the last recession. Also, capacity in mining, manufacturing, and transportation appeared to be more than ample. In spite of this, however, a policy had been followed by the Federal Reserve for several months, until recently, that permitted deposits and total bank credit to contract. This was a policy that would be appropriate for checking an expansionary movement which threatened to be unsustainable. Since that did not appear to be the case, it seemed to follow that open market operations should carry out, as and when they could, the mandate contained in the policy directive to supply reserves needed for moderate bank credit expansion.

Mr. Johns commented that he was arguing for moderate bank credit expansion, not for drastic measures. If his remarks at previous meetings had been construed as favoring drastic actions, he wished to make clear that they were not so intended. He had thought that he was speaking within the framework of the directive calling for moderate bank credit expansion.

Mr. Johns went on to say that he would not attempt to place any numbers on this objective. He was gratified at the appearance of a turn-around in the reserve position and, perhaps hopefully, in the money supply.

He merely would like to make sure that this continued, and perhaps at a slightly accelerated rate. At a meeting some time ago, and in another context, he had spoken of his desire for some exploration of the possibility that the System might supply what in that context were referred to as growth reserves by at times going outside the bill market. Having held that view, he was now well disposed toward the suggestion that when the System wanted to supply reserves, and when aggressive attempts to buy bills would force the yields down further than might be considered desirable, the possibility be explored of buying securities other than bills.

Mr. Johns added that he had been concerned about the suggestion that the Federal Reserve could not take steps to increase total bank credit because of possible depressive effects on interest rates and consequent capital movements having adverse effects on the balance-of-payments situation, and especially our gold position. It was of concern to him to hear it implied that the gold position is so precarious that the System can not afford to pursue an appropriate internal monetary policy. Therefore, he was comforted when, if he understood correctly, Mr. Marget said in effect that such gold movements could be taken in stride. Mr. Johns said it was his opinion they should be taken in stride and observed that such gold movements are not relatively significant as compared to developments in our foreign trade position, to which healthy growth in the economy is so important.

Mr. Szymczak commented on the degree of preparation and forethought evident in the presentations at this and other recent meetings of the Open Market Committee. He went on to say that he would not recommend any change in policy at this time, but that there were two matters worthy of consideration. The first involved the possibility of Account operations in short-term securities other than bills, if and when there should be times when that might seem desirable. This was a matter that in his view might well be left to the judgment of the Manager of the Account and the Chairman of the Committee. Second, he felt that the time had come for the Board of Governors to consider further the question of releasing additional vault cash to be counted as reserves, along with other actions having to do with the legislation on reserve requirements that was enacted last year.

Mr. Balderston said that he shared the views of Mr. Szymczak regarding the fresh ideas being brought before the meetings of the Open Market Committee and that he had been impressed with the memorandum from Mr. Gaines to Mr. Hayes dated June 30, 1960, relating to total reserves and nonborrowed reserves. This memorandum, which had been distributed prior to the meeting, helped in understanding the views that Mr. Bryan had been presenting to the Committee.

Mr. Balderston said that he would not recommend any change in policy for the next three weeks. With respect to the suggestion that the Desk operate on some occasions in short-term securities other than bills, he would be the last one to say that the Open Market Committee should be wedded to a doctrinaire policy of bills only. As a practical matter, however, the System already owned about half of the outstanding certificates, and there were relatively few bills in the portfolio. Also, he was impressed by the fact that during the past year or so the Account portfolio had grown less liquid; it seemed that when the System purchased longer securities, as the occasion required, it had difficulty in disposing of them.

Mr. Balderston went on to say that the question he wished to raise concerning the suggestion made at this meeting had to do with the composition of the Federal debt, which, he thought, was a responsibility of the Treasury rather than the Federal Reserve System. He would like to see the Treasury increase the supply of bills available in the market, feeling that this would be a timely thing to do, as bills were scarce and the Treasury was raising money. If the Treasury had made every feasible effort to lengthen the debt, he thought that it would be quite appropriate to increase the supply of bills and that this might appropriately be suggested to the Treasury. However, for the System to monkey around with rates through its own actions seemed not only to assume a burden that properly belonged to the Treasury but also a rather futile action, because the Treasury, in its actions since the first of the year, had greatly reduced the supply of bills. What the System did in its operations was small in comparison, and he had some concern about the use of open market operations toward that end. Having said this, he wished to recall his concern in the spring of 1958 when the bill rates fell through the floor, and he still looked at the charts with unhappiness. He merely wanted to be sure, in considering the suggestion made today, that the responsibilities of the Treasury and the System were not confused.

Chairman Martin said he had little to add to the discussion, except to suggest that this was a bad time of the year to be taking soundings on the economy generally. One should be careful in July and August, particularly with all of the varying views that were going to be heard around the country, not to make hasty judgments as to what was going to happen. On the whole, he saw more to be encouraged about in early July than he had expected six weeks ago. There was an underpinning to the economy that should not be overlooked.

Chairman Martin said he had had no idea that the matter of bills only, bills usually, or short-term securities, preferably bills, would come up at this meeting. After relating an incident to illustrate his point, the Chairman suggested that the Committee would not want to get into a position of debating the matter of "bills only" indefinitely. It was proper to raise the question, of course, and he sympathized with Mr. Balderston's point about the problem of the Treasury in regard to the supply of bills. However, he felt the Committee should recognize that even in most extreme moments it should not get into the position that it was only bills about which we were talking. If one were to go to securities of 18 months or two years or something of that sort, and if there were clearly no other securities to be acquired except by really pushing the bill rate down, this was something that ought to be taken into consideration. At least, that was his own feeling. The Committee would be subject to the charge of being doctrinaire if, under extreme conditions such as occurred recently, it pushed the bill rate down to, say, .5 per cent in order to acquire bills. This was just an observation.

The Chairman then said that he had sympathy with the presentation of Mr. Bryan this morning. The System ought to try to build the reserve position steadily, not in the sense of creating easy money but in the sense of supplying reserves for growth of the economy. How to do this was a difficult question, the answer to which was illusive. However, he believed the System was making progress in that direction. In a period like this, he suggested, it would seem that errors--although this was not to suggest that they be made deliberately--could be more on the side of ease than under other circumstances.

Chairman Martin then said that, within the general framework in which the Committee had been operating for almost three months, all that seemed to be called for at present was to mark time. This appeared to be the consensus; that is, to mark time, within the framework and spirit in which the Committee was operating today. What the Committee might want to do six weeks from now was another question.

Referring to the comments by Mr. Szymczak concerning implementation of the reserve requirement legislation, the Chairman noted that these questions were before the Board constantly. The Board had discussed them actively in recent weeks and would continue to discuss them. He went on to say that everyone ought to be trying to see how the System could handle the growth factor in the economy from the standpoint of reserves. This should be done in as orderly and intelligent a way as possible.

The Chairman then suggested that, unless there was a disposition to debate the question of degree, the present directive be reaffirmed and there be agreement to maintain until the next meeting about the same general state of operations that had been maintained.

In further discussion it was noted that the directive called for providing reserves needed for moderate bank credit expansion, and the Chairman commented that the question of how to achieve that objective was difficult. However, he thought that the Committee was slowly getting it.

There were several indications of agreement with this comment, and the Chairman added that, like Mr. Johns, he would not want to lose the ground that had been gained. However, the Treasury was in the market and it would be necessary to be rather careful about stirring up the market in either direction.

The Chairman then said that, if there was no disposition to the contrary, the present directive would be approved. He inquired whether Mr. Rouse had any comment, and the latter replied in the negative.

Mr. Hayes said he had no question on the consensus or the directive. However, it was not entirely clear to him what the Committee felt the leeway of the Account Manager was in the matter of dealing in short-term securities other than bills if a situation existed where operating solely in bills would have an undesirably strong effect. He asked whether the Committee felt that the Manager had this leeway or whether it was felt the Manager should come to the Committee for specific instructions.

Chairman Martin said he had always thought this leeway existed. The Manager could, of course, confer with members of the Committee if he had doubts, but the Committee might be criticized for having a doctrinaire position if it did not mean "short-term securities, preferably bills."

Mr. Allen recalled that on one occasion the portfolio of bills got so low that the Desk sold securities other than bills, and Mr. Robertson recalled that there had been some discussion of the matter at the meeting of the Committee before this occurred. Mr. Shepardson said he would have the same understanding as had been expressed by the Chairman, and Mr. Bryan said this would be his understanding of the matter also.

Mr. Mills said it should be understood that this indicated a departure from what had been a general practice, and that presumably such operations should not be undertaken without consultation. Otherwise, the judgment of the Desk would be pitted against what might be conflicting views among the members of the Committee at the particular time. If he were the Manager, he would be loath to go off on a new venture, particularly under present conditions, on his own authority and initiative.

Mr. Hayes said the Manager clearly had been loath to do so in the past, and Mr. Mills replied in terms that he hoped the Manager would continue to feel that way. Mr. Robertson indicated this was also his feeling.

Reference was made to the possibility of discussion of any such situation during the morning telephone call, and Mr. Mills observed that the morning call involved only a tripartite discussion, which in his opinion did not seem broad enough. Mr. Hayes commented that all Committee members and other Presidents receive a wire on the morning call within a short time thereafter, and they would therefore have an opportunity to express their views concerning any operations beyond the bill area that may be contemplated.

Mr. King commented that according to the reserve projections he would not envisage the need for a lot of operations in the next few weeks, and Mr. Hayes said that his question had not been raised with particular reference to the next three weeks but rather with reference to the anticipated need for reserves during the balance of the year.

Mr. Hayes then made the comment that he did not feel one could say that the level of rates was solely the interest of the Treasury and not the System. The rates are inevitably affected by what the System does, and in his view they are a joint responsibility of the Treasury and the System.

Mr. Hayes also said that if there was no objection he would have distributed to the Committee members and other Presidents copies of a memorandum prepared at the Federal Reserve Bank of New York under date of

July 5, 1960, with regard to the possibility of open market operations in other short-term securities in addition to bills. The memorandum, he pointed out, would amplify the comments he had made in his statement this morning.

Chairman Martin indicated there would be no objection to the distribution of the memorandum.

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

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion, 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-terms 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 certificated held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million.

There had been distributed to the Committee copies of a memorandum from Mr. Rouse dated July 1, 1960, transmitting a memorandum of the same date from Mr. Larkin, Assistant Vice President of the Federal Reserve Bank of New York, concerning System Open Market Account transactions in one-year Treasury bills maturing July 15, 1960, under the authorization given by the Committee on April 12, 1960, and renewed at subsequent meetings, to acquire up to $150 million of such bills either by outright purchase or by swapping other bills. Mr. Larkin's memorandum showed that $36.8 million of these bills had been acquired since the meeting on June 14, making a total of $134.7 million acquired under the Committee authorization and total System Account holdings of $148.1 million.

In commenting on the matter, Mr. Rouse suggested that if the Committee should decide to give similar authority at a later date with respect to other issues of one-year bills, the authorization be clearly confined to bills that might be acquired by way of "swap" transactions. The authorization, in the form adopted with respect to the July 15 bills, seemed to limit also the acquisition of such bills by outright purchase, thus deterring the Desk, on the basis of such an interpretation, from acquisition of certain one-year bills that were offered yesterday at a time when it desired to supply additional reserves to the market. He added that there appeared to have been no repercussions in the market as the result of transactions conducted pursuant to the authorization first given on April 12, 1960.

In response to a question as to whether he intended to request authority for the acquisition of other issues of one-year bills, by swap transactions, similar to that given with respect to the one-year bills of July 15, 1960, Mr. Rouse replied in terms of stating reasons why he would prefer to study developments and wait until the next meeting of the Committee before determining whether to recommend that such authority be given. He indicated that at present it seemed possible that there would be no occasion to ask such authority for the acquisition of one-year bills maturing October 17, 1960.

There followed discussion in which reference was made to current System Account holdings of one-year bills, other than the July 15 bills, and to the possibility that the Account might be able to acquire such quantities of those bills as it desired without going into swap transactions. In this connection, Mr. Rouse stated his understanding that no special authority from the Committee was needed for the outright purchase of one-year bills, and there was no indication of disagreement with this statement.

With respect to the language of the authorization to acquire July 15 bills first given on April 12, 1960, which provided for the acquisition of up to $150 million of such bills either by outright purchase or by swapping other bills, Mr. Robertson made the comment that, as Mr. Rouse had suggested, consideration should be given to phrasing any future authorization with respect to other issues of one-year bills in such manner that it would be clear that the Desk was not limited in acquiring such bills by outright purchase, as opposed to swap transactions.

> At the suggestion of the Chairman, it was then agreed unanimously to terminate, effective immediately, the authorization originally given on April 12, 1960, for the acquisition of one-year bills of July 15, 1960.

Reference was made to a memorandum from Mr. Young, which had been distributed under date of July 1, 1960, suggesting that in view of the initiation of the uniform statistical reporting program in the Market Statistics Department of the Federal Reserve Bank of New York in May, it now seemed appropriate to give further thought to steps that might be taken looking toward the development of standard accounting practices for Government securities dealers. As background, the memorandum pointed out that with the memorandum of October 5, 1959, from the Secretary of the Committee regarding the Treasury-Federal Reserve study of the Government securities market there was distributed an inventory of areas for possible administrative action which suggested certain steps for obtaining more adequate information about the market, including: "Undertake preparation of recommendations for, or manual of, standard accounting practices for Government security dealers, designed to facilitate daily reporting, at minimum cost to dealer respondents, of needed current statistics and periodic reporting of dealer's financial and earnings position on standard basis . . ." Also, the report of the Steering Group dated January 5, 1960, regarding the setting up of a reporting system for obtaining information about the Government securities market included a statement that one element of an adequate informational program included the development of composite financial statements for Government securities dealers for such public information use as experience showed to be appropriate. The report further contained a recommendation that among the reports to be submitted by dealers there be a statement of financial condition having standardized content and form, such reports to be submitted quarterly, but one each year to be certified by an independent firm of accountants in the case of nonbank dealers. Copies of such financial statement reports of nonbank dealers would be available to the Trading Desk of the New York Bank for the purpose of appraising credit worthiness and financial standing.

In the course of commenting on the memorandum, Mr. Young noted that nonbank dealers currently submit reports to the Desk once or more a year, but not on a standard form, and anyone who might be interested in studying the market was handicapped by a lack of information in composite form. This matter had been the subject of lengthy discussion with the Treasury in connection with the study of the Government securities market, and the Treasury representatives were inclined to feel that this was an important item. However, although the recommendations referred to in the memorandum were made, the principal concern at the time was with getting the statistical reporting program started and no action was taken on them.

Chairman Martin noted that the matter of devising standardized accounting practices and reports involved difficult problems. He suggested, however, that the Committee might wish to ask the Steering Group to explore the matter. This group, which would include Messrs. Young and Larkin and someone designated by the Treasury to replace Mr. Mayo, who had resigned from the Treasury staff, would be asked to bring back a recommendation for the consideration of the Committee.

The Chairman then turned to Mr. Rouse, and the latter said he would like to reiterate his comments on the subject earlier in the year. As far as data were concerned, the Desk was getting audited reports at least on an annual basis from each nonbank dealer. From the credit standpoint, therefore, there was no problem. The Desk knew the condition of the dealers, and in all the years there had been no problem with which the Desk could not deal. In the circumstances, he did not know for what reason additional information might be needed by the Desk.

Mr. Rouse then described some of the difficulties that would be involved in developing standardized reports for the use of all Government securities dealers. He also pointed out that the System had no mandate from the Congress on this matter. Conceivably, this was a type of information that the Treasury might like to have for use in responding to certain questions that might be raised by Congressional sources, but there was a question in his mind regarding the propriety of undertaking a program such as had been suggested.

Mr. Hayes said he had a good deal of sympathy with the views that Mr. Rouse had expressed. He could understand that the Treasury and the Federal Reserve might be in a stronger position to refute loose statements if composite figures for Government securities dealers were available, but he was impressed by the difficulties that Mr. Rouse had mentioned in developing standardized practices that would encompass the many diverse activities of the dealer group, and also he was disturbed about the interference in an area of free enterprise that would be involved in developing a system of standardized practices. If dealing in Government securities was as profitable as some were suggesting, he felt that it would be obvious that there would be more than seventeen Government securities dealers. In view of the burden of reporting that the System had placed on Government securities dealers recently, he felt that it would be unwise to make additional reporting requests at this time, particularly in an area where dealer reaction would be apt to be far less sympathetic. These factors, of course, would not preclude the Committee from asking the Steering Group to look into the problem.

Chairman Martin commented that the Steering Group had done a good job in putting the statistical program together and that this was a loose end. If there was no objection, he proposed that the Committee request the group, which would include a person designated by the Treasury to replace Mr. Mayo, to explore the matter further, with the understanding that a memorandum would be brought back to the Committee for consideration.

There being no objection, it was agreed to proceed in the manner suggested by the Chairman.

As an addendum to the foregoing discussion, Mr. Young noted that the Douglas Subcommittee last year sent rather elaborate forms to the Government securities dealers and obtained certain data covering a period of ten years. The Subcommittee now had obtained two university men for the summer and had assigned them to analyze the data. It was understood that they were to submit a report based on their analysis later this summer.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, July 26, 1960, at 10:00 a.m.

Chairman Martin noted that according to the usual three-week schedule, succeeding meetings of the Committee would be held on August 16 and September 6, 1960. He suggested, however, that the meeting which would normally be held on September 6 be held instead on September 13, 1960, subject to review at the July 26 and August 16 meetings in the light of developments that might indicate the desirability of any change.

There was agreement with this suggestion, and it was understood that a meeting of the Conference of Presidents of the Federal Reserve Banks would be tentatively scheduled for Monday, September 12, with a meeting of the Board and the Presidents following the Open Market Committee meeting on Tuesday, September 13.

The meeting then adjourned.

Ralph A. Young

Secretary