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 25, 1960, at 10:00 a.m.

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

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

Messrs. Erickson, Johns, and Deming, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Eastburn, Marget, Noyes, Roosa, 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. Knipe, Consultant to the Chairman, Board of Governors
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Mr. Patterson, First Vice President, Federal Reserve Bank of Atlanta
Mr. Hickman, Senior Vice President, Federal Reserve Bank of Cleveland
Messrs. Ratchford, Baughman, Jones, Fossum, and Einzig, Vice Presidents of the Federal Reserve Banks of Richmond, Chicago, St. Louis, Minneapolis, and San Francisco, respectively
Mr. Coldwell, Director of Research, Federal Reserve Bank of Dallas
Mr. Holmes, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Financial Economist, Federal Reserve Bank of Boston

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 4, 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 October 4 through October 19, 1960, and a supplementary report covering the period October 20 through October 24, 1960. Copies of both reports have been placed in the files of the Committee.

In supplementation of the written reports, Mr. Rouse commented as follows:

Since the last meeting of the Committee, open market operations have been generally successful in fostering a reasonable degree of ease in the money market without upsetting the securities market for the Treasury's financing operations or creating unduly low short-term rates. These policy objectives are not entirely compatible and of course the results have not been perfect.

In the middle of the period reserve availability increased to very high levels as float rose well beyond normal mid-month proportions. While the System Account acted to mop up almost $475 million of reserves from October 14 through October 19, the money market became extremely easy as the excesses lodged and accumulated in the New York banks, which found it impossible to dispose of all of their surpluses. The reduction of System Account holdings was accomplished largely through redemptions of bills and sales of the shortest maturities of bills so that there was a minimum of interference with the current Treasury financing, which might have suffered from more drastic action. A good demand for bills following the successful completion of the Treasury's two special bill auctions arose in part from the extremely easy reserve situation which in turn produced strong bank buying of the shortest maturities at sharply lower rates. Thus, the effects of the temporary and "sloppy" reserve situation were not inconsistent with the System's objectives so far as the money market and the Treasury were concerned. Bank loans and investments as well as total and nonborrowed reserves have continued to increase.

Now, however, we must face the problem of how to deal with the prospective decrease in reserve availability which is certain to result from the decline in float and from the additional reserve requirement arising out of the Treasury's cash borrowing without putting more downward pressure on bill rates. Repurchase agreements will of course be useful and purchases of longer-term bills can probably be made in some size, but at some point soon the size of the prospective operations, coupled with continued bank and nonbank demand, will cause further marked decline in bill rates. To minimize this, the Management would expect to augment bill purchases by purchasing moderate amounts of other short-term issues to the extent the circumstances warrant. Before this is done initially, the intention to do so will be commented on in the morning conference call. Conceivably, the tightening of the money market, if it is permitted to develop, will help keep bill rates up, but the question may come down to whether we, in supplying enough reserves to keep the money market reasonably easy, can do so without depressing rates, especially if substantial nonbank and foreign central bank demand for bills continues.

The capital market has behaved about as might have been expected in the face of the calendar of new financing and the large supply already in dealer hands. Long-term rates have continued somewhat sticky due to the technical situation in the corporate and municipal markets which reflects buyers' caution in a situation of major uncertainties. In the past few days the atmosphere has improved somewhat and dealers have made some progress in clearing up unsold issues at higher rates in order to be in a better position to cope with the American Telephone & Telegraph debenture issue being sold today. This offering seems to represent a crucial point in the long-term market; if it is attractively priced it should go well, and the long-term market could then clear itself reasonably promptly.

The Treasury's October financing operations were reasonably successful. The secondary market for the new issues has been good, apparently because banks which took sizable amounts of bill issues have been able to hold on to their awards longer than they normally do.

The next Treasury operation will be the refunding of the November 15 maturities amounting to about $10.8 billion, of which the System owns $5 billion in 4-3/4 per cent certificates. The Treasury has announced that this will be a normal exchange operation, which seems wise in view of the market uncertainties. The main question to be resolved is how far the Treasury should go in trying to extend maturities through offering an option to exchange into an intermediate issue. Current market views are that a moderate amount of intermediate bonds could be sold in addition to an anchor issue in the one-year range. With respect to the System's holdings of $5 billion of certificates, the Treasury's plans for an optional offering are sometimes clear by this time, but on this occasion the thinking about the issues to be offered has not yet jelled. After the terms are known, the Manager of the Account will make a recommendation on the exchange of the System's holdings and will ask the Secretary to poll the Committee.

In reply to a question by Mr. Balderston regarding the prospect for disposing of securities in the Open Market Account other than bills, Mr. Rouse said he thought it might be possible to sell blocks of such securities in certain periods on a negotiated basis. Also, if the Treasury should employ the cash refunding technique further, that would give the Account an opportunity from time to time to run off some of its large holdings as they matured. In addition, the Account could sometimes break up its large holdings through exchange operations, although this meant that the Account would have to take some longer securities at least temporarily. In September, the Account had no substantial bids for notes or certificates. The largest bid was around $2 or $3 million, and the Management concluded that in view of the situation in that sector of the market the Account should not avail itself of those bids.

Mr. Hayes suggested that there might be more bids for securities other than bills if the market got accustomed to the idea that the System was willing to sell in that area, and Mr. Rouse agreed.

Mr. Leach asked Mr. Rouse to what he would attribute, in the present circumstances, the continuing foreign demand for United States Treasury bills, to which the latter replied that there had been quite a large outflow of funds to certain Western European countries whose central banks were content to keep part of their funds invested in dollar securities. As private sources converted their dollar holdings, central banks were buying dollars and selling local currencies, and the central banks then wanted to invest their dollars in varying percentages in relation to their holdings of gold. As long as the flow of capital out of the United States continued, a demand for bills might be expected unless there was complete loss of confidence in the dollar, which seemed unlikely.

> Thereupon, upon motion duly made and seconded, the open market transactions during the period October 4 through October 25, 1960, were approved, ratified, and confirmed.

A staff memorandum on recent economic and financial developments in the United States and abroad had been distributed under date of October 21, 1960. With further reference to economic developments, Mr. Noyes made the following statement:

> At the time of the last meeting we had only a few early estimates of the economy's performance in September. Now we know that the downward drift continued and that, if anything, the pace of the decline quickened a little. This is also confirmed by estimates for the third quarter as a whole.

Gross national product was only down by a fraction of one per cent, but it must be remembered that the level is well below even the more conservative projections at the beginning of the period.

Estimating the preliminary figure for the September index of industrial production presented some unusual difficulties because the sharp decline in manhours may have been attributable in part to the overlap between the week in which the data were collected and the Pennsylvania Railroad strike. However, other information, as it has become available, tends to confirm that the over-all decline from July to September was in the neighborhood of the 3 per cent suggested by the preliminary index.

In view of the critical position of consumer acceptance and purchases of autos and new housing, which I shall discuss further in a moment, special attention has been directed toward auto sales and housing starts. Some of you may have more information than we have here on the industry's estimates of consumer response to the 1961 model autos and the success achieved to date in liquidating the relatively large inventory of 1960 models that was carried over into the new model year. Figures for the end of September and the first ten days of October do not provide a clear indication one way or the other, since comparisons with earlier periods are affected by the earlier change-over this year. After making some rough allowance for this, and for pressure to move 1960 models at substantial discounts, the sales performance so far appears satisfactory but not spectacular.

Housing starts for September were definitely disappointing. At a seasonally adjusted annual rate of 1,077,000 units on the new series, they were down 17 per cent from August and one-third from last year's high. There have been considerable efforts to determine whether this large decline can be attributed to some aberration in the statistics, but no basis for discounting the significance of the data has emerged so far, except that the new series has generally tended to be somewhat more volatile than its predecessor. Thus we find starts at an all-time low for the new series and, after making allowance for the changes in the series, at a point not much above the depressed 1957 level.

The further downward adjustment of materials prices also deserves special mention. Copper, steel scrap, and other scrap metals have all declined in recent weeks. The index of sensitive materials prices has dropped over 5 per cent since the beginning of the year, and is now back close to the 1953-54 average. It is also noteworthy that the industrial commodity component of the wholesale price index registered a further slight decline in September, wiping out the increase that occurred in the last half of 1959.

Department store sales improved in late September and early October, but the most recent data have been running a little below strong year-ago figures. The month as a whole will probably show some improvement over September, however, if present rates are maintained.

I would like to turn now, briefly, to a few comments on some underlying factors which seem to me to merit your consideration.

Studies in the 1930's led some observers to conclude that individuals' expenditures--even for such postponable items as durable goods and housing--were determined by the current level of personal income, and that it was, therefore, highly unlikely that changes in consumer expenditures would ever be an autonomous force in either recession or revival.

So far as housing was concerned, there was considerable reason to question this thesis, even at the time, but it was widely accepted that durable goods expenditures were closely tied to current income, and that the initiating force in cyclical change was almost certain to come from the business sector. A few critics of this point of view felt that the growing availability of consumer instalment credit to finance durable goods purchases might break the close link that had existed in the past between aggregate consumer income and expenditures.

At the end of the World War II, the large accumulation of liquid assets in the hands of consumers and the reduced volume of consumer indebtedness--both mortgate and instalment--raised further question as to the validity of projecting into the future the rigid relationships between consumer income and expenditure that had apparently prevailed in the past. In fact, it was primarily this sort of concern that led the System to undertake the Survey of Consumer Finances, to lend its support to the efforts of Professor Copeland to measure moneyflows, and to carry through with the development of the present flow of funds accounts.

While the big backlog of demand for housing and durables and the strong financial position of consumers have been important elements throughout the postwar period, we seem to have just encountered the first instance in which an autonomous decline in consumers' expenditures for "capital goods" may have played a critical role in business fluctuations. On two previous postwar occasions, consumer expenditures for durables and housing have declined in periods when incomes were well maintained. The first was during the Korean War and the impact was offset by a rapidly rising volume of defense expenditures. The second, in 1956, was offset by burgeoning expenditures for plant and equipment by private business. Recent quarter-to-quarter movements are clouded by the anticipations and repercussions of the steel strike, but the broad movements over the past few years are interesting, and I think revealing. Expenditures for durable goods and residential construction went up sharply in the 1958 recovery, increasing from $53 billion in the second quarter of 1958 to $60 billion by the fourth quarter. By the second quarter of 1959 these expenditures hit an all-time record of $68 billion--up $10 billion from the prerecession high in the third quarter of 1957. This peak in the spring of 1959 in expenditures for durables and new housing brought them to 18 per cent of disposable personal income. By the third quarter of 1960--15 months later--the dollar volume of expenditures for these purposes declined to $63.5 billion, and the percentage of disposable income to about 15 per cent.

This time neither business capital spending nor Government purchases of goods and services was moving up aggressively to fill the gap. The impact of lessened demand for durables and residential construction has not been offset, but is reflected in a reduced gross national product.

In saying that the recent decline in purchases of durables and housing is autonomous of changes in income, I do not mean to suggest that it was either arbitrary or capricious. There is no doubt that the congestion in the capital market in the last half of 1959 restricted the flow of funds for real estate lending, especially under the Government-aided programs with prescribed maximum rates, and that this situation is not yet fully relieved. Vacancies have increased and the strength of the underlying demand for more relatively high-priced new housing has come into question. Perhaps, as Mr. Levitt suggested recently in an interview here in Washington, the market has been "value starved." Certainly the stimulus of lower downpayments and longer maturities has not been available to the same extent as in previous periods.

Somewhat similar observations might be made with regard to durables. Consumers undertook substantial instalment debt in 1959, and repayment obligations are at a high level in relation to income. The judgment of manufacturers in their styling and pricing has been subject to serious question. There areeven doubts as to whether types and varieties of new products have been developed which will stimulate the same consumer response as the ones at or near the point of market saturation.

In these circumstances, prognostications as to the future course of economic events can be little more than expressions of fear or hope, More than at any other time in the postwar period the outcome appears to depend on the future decisions of millions of individual consumers to purchase or not to purchase houses, automobiles, air conditioners, washers, dryers, boats, and the like. Any surge in business spending or voluntary resumption of inventory accumulation must await signs of revived consumer interest in end products. Whether this is "just around the

> corner" or some distance in the future can only be guessed from the current trend of retail sales, surveys of consumer intentions and, as always, a winnowing of hundreds of word-of-mouth reports.

Staff memoranda on the outlook for member bank reserve positions and on the Treasury cash outlook had been distributed under date of October 21, 1960. With further regard to financial developments, Mr. Thomas presented the following statement:

> Bank credit developments in the past four weeks indicate that the record-breaking expansion that occurred in the preceding four weeks was due to temporary factors and did not represent a basic change in the economic climate. A subsequent decline in loans and investments at city banks offset a large portion of the preceding increase, and left a net change for the eight weeks that was probably close to the customary seasonal pattern. The credit expansion was evidently needed to provide for the large build-up in U. S. Government deposits. The subsequent contraction in Treasury balances has had as a counterpart some decline in bank loans and investments and some increase in private deposits. The decrease in loans and investments was practically all at New York City banks and most of the increase in private deposits, which was largely seasonal, was at banks outside New York City.
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> For over ten weeks now, Federal Reserve policy has been directed toward "encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment." Actions directed toward the attainment of this objective have been overt and substantial. Have they been sufficient? Has the fear of reducing interest rates and encouraging accelerated gold outflow made System operations more restrained than might have safely or appropriately been adopted on the basis of domestic considerations alone?
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> The review of economic developments indicates that economic activity and employment have not grown, but rather show signs of declining. There is even little evidence of monetary expansion, the medium through which that desired growth was to be fostered. Instead of declining, interest rates have actually risen during the period since the adoption of the new directive, and credit markets generally have had a feeling of tightness, not ease.
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> System actions to achieve its objectives have included: (1) the release to reserves of over $500 million of vault cash held by member banks; (2) reduction in reserve requirements at

central reserve city banks in the amount of $125 million; and (3) substantial open market operations designed to relieve member banks of the need to borrow reserves and to keep them provided with excess reserves so as to encourage credit expansion. These operations entailed, first, a decline of over $500 million in the System portfolio as reserves were supplied through the other means, then an increase that exceeded $800 million, followed by another reduction of over $600 million largely to offset a substantial increase in float. The net result has been a reduction of over $300 million in the portfolio since early August.

These various System actions, together with an increase of about $500 million in float, have supplied a net amount of about $900 million in reserves since early August. These have provided for a gold outflow of over $500 million, a reduction of about $200 million in member bank borrowing to a minimal figure, and a $200 million increase in required reserves to cover a deposit expansion at member banks.

After adjustment for the usual seasonal growth, the money supply expansion in the period has been at an annual rate of about 2 per cent or less, seasonally adjusted. On the basis of the new series of semi-monthly daily average figures, this increase occurred largely in September. Preliminary estimates for the first half of October indicate some decline on a seasonally adjusted basis. The money supply is less than $1 billion above the low level reached in June and over $3 billion, or 2 per cent, below the peak reached in July 1959.

Since last spring, moreover, there has been little change in the turnover of demand deposits at banks outside New York City. At this level, velocity has continued to be about 6 per cent larger than a year ago, when economic activity was held back by the steel strike.

What the System's actions accomplished has been to provide reserves to offset the large gold outflow and to take care of exceptionally heavy temporary credit demands incident to tax and other payments in September. These demands were unexpectedly large, and it was helpful that the System's policy of ease made it possible to meet them without excessively harmful strains on the money markets. The objective, however, was to accomplish more than simply to hold ground against diversionary difficulties; some advance was desired. It is possible that overcoming these extraneous obstacles provided a feeling of accomplishment and concealed the failure to achieve the real aims.

One collateral objective often stated has been not to induce too great a decline in short-term interest rates. This has turned out not to be a problem. In fact, interest rates rose above the low levels reached early in August. Reasons for this were elaborated at the previous meeting of this Committee. They included the heavy demands on credit markets from tax borrowing at banks, a substantial volume of new capital issues, and a build-up in inventories by dealers in securities; the concentration of excess reserves at country banks; the flow of available funds into Treasury deposits instead of into private hands; and the effect of the gold outflow in drawing funds from the money centers.

City banks were called upon to supply the bulk of credit demands, but at the same time showed little gain in deposits. Although they reduced borrowings at the Reserve Banks, they purchased Federal funds from others. Recently there have been some indications of an increase in interbank deposits at city banks, perhaps reflecting an increase in funds available to country banks, but such a movement is at least partly seasonal.

Recently short-term rates have tended to decline again to near the low levels of August. Medium and long-term rates, however, continue sticky. In part this reflects the large volume of new capital issues by corporations and by State and local governments, and perhaps also the effect of the extension of debt maturities through Treasury advance refunding operations. The likelihood that the Treasury will continue to use every opportunity to tap the long-term market in its future financing may also be a factor in causing long-term investors to be reluctant about bidding up the prices of bonds. Some governmental bodies have withdrawn offerings in the hope of obtaining lower rates later. After completion of the American Telephone & Telegraph flotation being offered today, the calendar of new issues both by corporations and by State and local governments is much smaller than it has been. This may relieve some pressures on capital markets.

The suggestion has been made that the System, by purchasing longer-term securities, could aid in bringing about a desirable downward adjustment in long-term interest rates and stimulate borrowing in that area, and at the same time avoid reducing short-term rates and encouraging the flow of funds abroad. Any such operation would more than likely defeat the purposes for which it was intended.

By far the main impact of System operations on interest rates is exerted through the indirect multiple expansion process, rather than through their immediate effect upon the particular types of issues purchased. The eventual recipients of the funds determine how they are used. What is desired is for investors to place their funds in longer-term issues, not simply for the Federal Reserve to buy them.

One reason why investors hesitate to do so is that the existing margin between short-term and long-term rates is not wide enough to induce them to undergo the risk of a possible reversal in the trend of interest rates. To narrow that margin by arbitrary intervention would add to their reluctance. In particular, there would be even less confidence in the existing level of bond prices and yields if it were recognized that they were being artificially influenced by Federal Reserve operations that would at some stage be reversed.

It is doubtful that monetary expansion can be encouraged and economic activity stimulated if System operations are conducted with a view to avoiding a decline in short-term rates, or by artificial action designed to bring about a decrease in long-term rates. It is normal and necessary in a period of slack credit demands that a wide spread between short-term and long-term rates develop as a result of the play of market forces.

During the immediate period ahead, the System faces a task of considerable magnitude in meeting the very large seasonal variations in reserve needs. In the next two statement weeks the needs for reserves will aggregate nearly $900 million. In the subsequent two weeks there may be a reverse movement of close to $500 million, followed by another two-week drain of over $900 million. Except for a relatively small variation due to the large mid-December float increase, this level of reserve needs will continue until the beginning of January. In that month close to $900 million of reserves will have to be absorbed.

These needs are of such large magnitude as to permit the use of massive doses of reserves through methods other than current open market operations. Open market sales, and perhaps at times also some purchases, will be needed at times to smooth out the effect of the use of the more massive instruments. In view of the uncertain state of the economy and the large liquidity demands customary in the period ahead, there should be no worry about having large amounts of free reserves, particularly for brief periods.

Mr. Hayes commented that he was glad that Mr. Thomas had touched upon the spread between short-term and long-term rates. He did not agree with the thesis Mr. Thomas had presented, but the problem was a real one and he hoped everyone would give the matter serious consideration.

Mr. Marget made the following statement regarding recent developments in the London gold market:

From the amount of headline space given this last week to the spectacular developments in the London gold market, it is clear that those developments are regarded by the financial journalists as something which is, or should be, of very great concern to the monetary authorities of the United States. The general reaction seems to have been one of initial shock, with some passing away of the initial shock effects as the London gold market calmed down a bit. But there has unfortunately also been a widespread lack of understanding as to just why one should have been shocked by these developments, and apparently just as little understanding of the issues involved in a weighing of the alternative courses of action to be taken in the face of developments of this kind.

If one is to judge by the newspaper accounts, and the kind of inquiries directed to us by the writers of those accounts, the shock derived from the apparent conviction that the emergence of a premium in the free gold market above the official price at which the U. S. Government is prepared to buy and sell gold freely to foreign monetary authorities "for the settlement of international balances or for other legitimate monetary purposes" may fairly be regarded not only as <u>ipso facto</u> proof of a large-scale flight from the dollar but also as an inevitable prelude to a raising of the official dollar price of gold (that is, a devaluation of the dollar). On this, one can only wonder whether the shock would not have been less, and the conviction apparently underlying that shock might not have been shaken, if the journalists had taken the pains to point out that this is not the first time in the post-war period that gold has sold in the free market at a substantial premium above the official U. S. dollar price; and that in the previous periods this kind of situation neither reflected a large-scale flight from the dollar nor was followed by a devaluation of the dollar. Specifically: in the free gold market in Switzerland (Zurich), for the greater part of the calendar years 1948 and 1949, the price of gold ranged between $40 and $50 an ounce; and in the free gold market in Paris, during the same period, the price ranged between $45 and $55 an ounce. There is no evidence whatever of a "flight from the dollar" during this period. On the contrary, the "flight," to the extent there was one, was just as much into dollars as into gold; and it is hardly necessary to labor the point that, among the currencies that were devalued in 1949, the U. S. dollar was not included.

The second element of shock that seized commentators on the developments of the past week seems to have derived from astonishment, not to say indignation, that the U. S. monetary authorities, confronted by a situation which, in the eyes of these commentators, necessarily suggested an impending devaluation of the dollar, did not rush in to sell gold in London, if necessary in massive quantities, in order to wipe out the premium above the official U. S. price, and thereby discourage all speculation on the dollar's future. Here again, one can only wonder whether the shock and indignation at this "passivity" of the U. S. authorities would have been so great if memories had carried back to the earlier period to which I have referred. For there was at that time no such selling action by the U. S. authorities, on even a modest--to say nothing of a massive--scale; the price in the free gold market remained quite high, as I have reported, for an extended period; it fell sharply toward the end of 1949; it rose again, in both Paris and Zurich, in 1950 and 1951, to a level between $40 and $45, and then declined fairly steadily until, in 1954, the premium virtually disappeared altogether. And all this, I emphasize again, without any selling, massive or otherwise, in the free gold market by the monetary authorities of the United States.

I need not take the time here to emphasize further what the critics of our "passivity" in the face of the developments in the London gold market seem to have carefully refrained from even mentioning; namely, that if there are risks to the U. S. dollar in the existence of a free market premium over the official U.S. price of gold, there are also very great risks, of a material as well as a "psychological" kind, in the taking of a commitment to supply a speculative market--currently, perhaps, very narrow, but potentially of much broader dimensions--with whatever amounts of gold may be necessary to keep a premium from emerging. It is much more to the point to look more closely at the probable consequences of a continued policy of non-intervention, on the assumption--which may or may not be realized in fact--that a significant premium over the official U. S. price will continue to prevail in the free gold markets, and even to increase in amount, with the price of gold reaching the $50-$55 range we saw in the late forties, and possibly even higher levels.

It should be quite clear that the consequences of this kind of development have virtually nothing in common with the consequences that would face a country which--like Canada, say--has a flexible exchange rate, if that flexible rate were suddenly to depreciate in terms of foreign currencies and the monetary authorities were unwilling to intervene in order to prevent or moderate such a depreciation. In that case, all export and import prices would be immediately affected, and the effects on the economic structure of the country's foreign trade, and therefore on its whole economy, might be very great indeed. In the case of a premium on gold in free gold markets above the U. S. official price, on the other hand, there is literally no effect whatever on our commodity price structure, and therefore none whatever on our foreign trade.

The only consequences that are involved here are possible consequences in the field of capital movements. It is possible, that is to say, that the existence of a high, and even rising, premium on gold in the free gold markets might encourage speculators to move their dollars abroad into the countries in which these gold markets are located. Just how long such a movement, if it started, would continue, of course no one can say. Speculative bubbles do burst, and when they do the consequences could be much more chastening than any losses incurred as the result of selling by a monetary authority on a scale of which no one was certain, except that it was almost certainly not unlimited in amount or duration. But there is no doubt that, while it lasted, this speculative outflow of capital would be added to that outflow of capital which already bulks so large in our balance-of-payments position; and to that extent it would add to our current worries.

It is of some importance to agree, however, as to the nature of the worries that would be thus created. The central point here is that, under existing international monetary arrangements, these U. S. dollars flowing abroad become claims on our gold stock to the extent that they end up--as they may be expected to end up--in the hands of foreign monetary authorities. The question then becomes: on what kind of scale may we expect that these foreign monetary authorities will convert into gold the "capital-flight" dollars accruing to them under the conditions we have assumed?

It is, I think, not unreasonable to assume that the monetary authorities of the world--unlike the speculators who are assumed to have started the capital outflow in the first place--have a clear enough understanding of what will happen to the international monetary mechanism, in whose stability they, too, have a very great stake, if they were to set in motion without adequate cause massive withdrawals of gold from the country that is acting as the world's principal banker. But is equally reasonable to assume that these same monetary authorities will not hesitate to effect such withdrawals if they think that they do have adequate cause. And that "adequate cause" would be found in a conviction that the government and the people of the United States were unwilling or unable to adopt those policies and actions, within and outside of government, which must be pursued if the balance of payments of the United States is to be brought into reasonable equilibrium and kept there.

I tried, at the last meeting of this Committee, to indicate the nature and dimensions of the balance-of-payments problem of the United States as it now confronts us. Its seriousness need not be exaggerated; but neither can it be minimized. It is unhappily true that we still have a long way to go before we can say we have solved it. It is to this that our attention must continue to be directed, not to the spectacular developments in a highly speculative market, for which the most that can be said, perhaps, is that these developments may have served to awaken to an appreciation of the seriousness of our balance-of-payments problem some of those who would still say that the people who have been stressing the importance of that problem since 1958 have simply been seeing ghosts.

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

I can think of few occasions in the last three or four years when it was more difficult to decide just what are the most appropriate specific techniques of monetary policy for current circumstances, domestic and international. We have recognized right along, ever since our balance of payments became seriously adverse in 1958, that although domestic considerations must be our main concern, we could not ignore the international implications of our actions. It so happened that during much of that time our policies were well suited to both domestic and international conditions--but this has no longer been true during much of 1960, and last week's gold episode should serve as dramatic evidence that we are dealing with a complex and sensitive problem with respect to our international financial position. Undoubtedly one of the causes of the gold speculation has been fear that this country might resort to unduly loose monetary and fiscal policies in an effort to combat recessionary tendencies.

Turning to the domestic scene, we find that while business is still on a high plateau, this plateau has begun to sag, largely because of inventory adjustments. The economy has lost momentum in recent weeks. Among the specific discouraging elements in the picture are the September slump in housing starts and mortgage applications, the leveling of capital spending, lower retail sales, and declines in manufacturing employment, average hours worked, and labor income. However, caution, rather than outright pessimism, is the predominant mood of business and consumers, and there is no evidence yet of any strong retrenchment in production or any disorderly program of inventory reduction. Recent statistical data show relatively small changes and fewer than usual contradictory currents. Yet there are wide differences of interpretation in terms of the future course of business. From our own policy viewpoint, it seems to me unnecessary to choose now from among these divergent forecasts. It seems sufficient to recognize that business is sufficiently soft, unused resources sufficiently large, and prices sufficiently stable to warrant our seeing to it that ample credit is available, at reasonable rates, for all legitimate needs.

The record of actual bank credit expansion has been encouraging in recent months. Largely because of heavy bank purchases of Government securities, the growth of total loans and investments was far above average both in September and in the third quarter. A sharp increase in Government deposits and time deposits has prevented this rise in bank credit from being reflected in a comparable rise in the money supply. But there is a good chance that it will lead to an enlarged money supply in the fourth quarter. Meanwhile, total nonbank holdings of liquid assets are showing good gains, as is the liquidity of the banks themselves; and we have provided the banks with record levels of total reserves and nonborrowed reserves.

There is less cause for satisfaction when we look at the level of interest rates and the shape of the yield curve. It might be argued that long-term rates are still at too high a level to be appropriate for the current state of business, particularly with residential construction declining and business spending on plant and equipment leveling out. But of considerably greater importance, at least for the present, is the fact that the sharp decline in bill rates earlier this year--and resumed in the last few days--has doubtless been a significant factor in the serious deterioration in the balance-of-payments deficit in the third quarter.

It seems to me that the balance-of-payments deficit, with all of the complications which may accompany it in the way of gold sales and loss of confidence in the dollar, confronts all Americans with an extremely serious if not almost intractable problem. This seems doubly true when we reflect that there are some signs of leveling in the European boom, which may mean less support from Europe for our exports during the coming year. All of this argues strongly for our avoiding further overt measures of monetary ease, such as a discount rate cut, unless they are clearly called for by the state of the domestic economy--and I do not think they are at present. It also argues for our trying actively to avoid driving short-term interest rates to lower levels than those now prevailing. The imminence of the Treasury's refunding program and of the national election also suggest the wisdom of our avoiding any overt or dramatic move.

The period immediately ahead raises some problems for open market operations, inasmuch as reserve projections indicate a need for substantial injection of reserves, whereas bill rates have already been moving down rather sharply and the volume of 90-day bills in the hands of dealers is relatively small. While I would hope we could continue about the same general policy of ease we have been following, I believe we should place major emphasis in the next four weeks on the aim of avoiding lower bill rates or even of encouraging somewhat higher rates. This objective should, I think, take priority over both the feel of the market and the maintenance of any given level of free reserves. (Fortunately we have succeeded in getting the market to pay a little less attention to swings in free reserve statistics than formerly.) With this major objective in mind, it might be well to broaden our open market purchases to include short-term securities other than bills, even though the available supply of such securities is probably not very great. A further release of vault cash or a narrowing of the central reserve city differential in reserve requirements might also be a way of avoiding the impact effect of System purchases on the bill market and would probably be construed by the public as one more step in an orderly long-term program rather than as an overt move of general credit ease.

Beyond this, I think we should remain especially alert to developments in the long-term capital markets. It may be that the present heavy atmosphere will clear up once the current American Telephone and Telegraph financing is out of the way, particularly if the Treasury refunding is kept out of the long-term area. But if congestion still remains, this may prove to be one of those comparatively rare occasions when the Committee should give serious study to the possibility of limited operations in the longer end of the market to clear the air and encourage a lower rate level. I am not advocating a decision today on such action; but I do think it would be well for every member of the Committee to reflect in the next few weeks on our oft-repeated assurance to the public that we are always prepared to consider exceptional cases when such action might be warranted. The present conflict between domestic and international aims is perplexing enough to suggest that no stone be left unturned in our efforts to resolve it.

As for the directive, I would like to see it include some indication that we recognize an unusually difficult problem with respect to reconciling domestic and international objectives. Perhaps some clause such as the following could be added to clause (b): "while taking into consideration current international developments."

Mr. Johns said that in looking at the business situation he found little to offer encouragement. The search for favorable elements was becoming increasingly difficult, and some of the factors cited as favorable in certain resumes did not stand up too well on detailed analysis. From the point of view of the domestic situation, therefore, the language of clause (b) of the present directive seemed appropriate. In fact, this directive and the directive that immediately preceded it appeared more appropriate now than when they were originally adopted. Accordingly, he felt that reserves should be made readily available to the banking system, thus making it possible for the banks to bring about monetary expansion and encouraging them to do so. It was difficult to see how this could be done to any considerable degree without some lowering of interest rates. He said he was not convinced that monetary policy is ineffective as an antirecessionary measure and that he felt its use would be desirable in the present circumstances, thinking in terms of contributing both to economic recovery as a domestic objective and also to mitigation of the balance of payments and gold problems by limiting the depth and duration of the recession.

Mr. Johns indicated that he was inclined to agree with Mr. Thomas concerning the probable effects of attempting to provide reserves by purchasing securities outside the short-term area. He was not sanguine that it would be possible to purchase longer maturities in any significant quantity without considerable effect on the bill rate. However, he would like to experiment, and this appeared to be a situation in which experimentation might be justified. The arguments with respect to the so-called "bills only" policy had been going on for a long time and it might be desirable to collect some empirical evidence. It was clear from the projections that substantial quantities of reserves would have to be supplied for seasonal purposes, to say nothing of cyclical needs. He would like to see seasonal needs supplied liberally and additional reserves made available to encourage monetary expansion, as provided in the directive.

Mr. Johns said that he would be reluctant to insert in the directive any reference to the balance of payments or to the international problem, not because he did not think that a problem existed but because he thought it would be advisable to avoid advertising the Committee's concern.

In response to a question, Mr. Johns indicated that if it were decided to conduct transactions in securities other than bills, his thought would be to experiment along the maturity curve.

Mr. Patterson reported that such Sixth District information as had become available since the previous Committee meeting showed about the same picture as national data. The latest statistics could be used to support either the contention that the country had been in a recession for several months or that the present situation was merely a pause, with a recession pending. In no way did the news point to an impending upswing.

Mr. Patterson went on to say that the rate of insured unemployment in the District did not show the usual seasonal improvement during September, which suggested that a decline probably occurred in nonfarm employment. Only one State (Alabama) had thus far reported actual employment figures for September, but these showed a further slight drop after seasonal adjustment. Construction employment was below a year ago in all District States except Alabama and Tennessee, where the number of construction workers was about the same. In September the number of workers employed on farms in the District was substantially higher than in August, but the total was 5 per cent below the year-ago level. A recent report showed relatively little change in the labor situation in the District's 16 major labor markets, the only recent change being the addition of the Birmingham area to those classified as having a substantial labor surplus. The low operating rate of the steel industry was, of course, the principal reason, and the closing last Saturday of two more open-hearth furnaces would idle several hundred workers. Chattanooga and Baton Rouge also were listed as areas with a substantial labor surplus. A member of the Reserve Bank's research staff who visited six of the largest textile mills in Georgia found that activity had slackened somewhat recently and, with the order position having weakened in comparison with earlier in the year, further curtailment seemed likely. Generally speaking, however, none of the operators seemed pessimistic; they looked for some pickup in activity in the next few months.

The rough measure of housing starts available from seasonally adjusted residential building permit data indicated that the rate of decline in District housing activity had closely paralleled that of the nation, and August data on outstanding mortgage commitments of savings and loan associations in Alabama, Georgia, and Florida offered little hope for a revival in home building activity in the months immediately ahead. In the Tampa-St. Petersburg area, which had a large inventory of unsold homes earlier this year, mortgage commitments were at a very low level, and such commitments were down sharply from year-ago levels in Orlando and Miami. In the Miami area the number and volume of mortgage foreclosures, while still relatively low, had been sharply higher in 1960 than in 1959.

Retail sales, bank debits, bank loans and investments, and deposits provided about the same picture as nationally, Mr. Patterson said. Fortunately, farm activity was at a high level in most parts of the District as the fall harvest season reached its peak. The large cotton crop in Alabama, combined with the large tobacco crop in Georgia and Tennessee, the peanut crop in Alabama and Georgia, and the rice and sugar cane crops in Louisiana were pushing farm output to a record high. Lower prices were removing much of the enthusiasm generated by the abundant crops, but income for the year should be close to last year's level when the receipts were counted.

Mr. Bopp said that the staff portrayal of national developments was indicative of developments in the Third District. The economy of the District showed no evidence to support anything other than a pessimistic view. Data on employment, production, and construction, and the latest survey of capital expenditure plans all pointed in that direction. As to the financial situation, the reserve positions of banks had shown some tightness at times, and city banks had been borrowing Federal funds.

Mr. Bopp then commented that at the meeting of the Philadelphia directors last Thursday the directors felt that the deterioration of the business picture warranted additional moves toward ease. They would have voted for a change in the discount rate if he had so recommended, but for several reasons he did not recommend a change. A discount rate reduction would create additional pressure on short-term rates, which would be undesirable in the light of international developments. Also, the ease in the money market had not thus far spilled over to the capital market, which remained sluggish, and the Treasury financing suggested maintenance of an even keel in the absence of compelling circumstances. Nevertheless, if conditions remain unchanged, he could not assure that the directors would not vote to reduce the discount rate at their next meeting.

Mr. Bopp commented that this was a difficult period in which to express judgments, or to form them. However, domestic developments seemed clearly to call for greater ease. Because of the balance-of-payments problem, which argued against lower money market rates, and the sluggishness in the capital market, the circumstances suggested that an exception to the policy of maintaining an even keel before, during, and after a Treasury financing and also to the policy of refraining from entering the long-term market might be warranted. A considerable amount of reserves would have to be provided in the period ahead, and the purchase of longer-term securities would coincide with the program of meeting reserve needs. On the question of maturities, he tended to concur with the view expressed by Mr. Johns. Operations should be such as to indicate that this was clearly an exception to the Committee's operating policies, although perhaps not in maturities too close to those of any new securities that the Treasury might offer. The problem of timing was important, but after examining the arguments pro and con it was his conclusion that the weight was on the side of going ahead. Also, since an exception to the normal operating policies would be involved, he felt that a statement probably should be made in order to avoid misunderstandings, although he recognized that the preparation of such a statement might present difficulties.

Mr. Fulton said there was little cheerful news from the Fourth District, where economic activity had continued to decline for some time. Although construction, other than residential, was being maintained surprisingly well, this factor did not provide the fillip for which the District was hoping. Auto sales were up quite a bit in the past three weeks, which was a hopeful sign, but it was not known how long the level of sales could be maintained. Department store sales had been maintained rather well except for some weakening in the past week, but insured unemployment had risen contraseasonally and now stood at the highest level of the year, a level higher than in the 1953-54 period.

Mr. Fulton said that he was told that steel orders for November were lower than for October, and that no pickup was in the offing. Some furnaces were being taken out of production. Takings of the automotive industry were running about 70 per cent of expectations for sheet and strip, and about 80 per cent of expectations for bars. Because of the large overhang of 1960 models, the auto manufacturers probably would drastically reduce output, and what would happen at that time was a matter of much concern to the mills. There appeared to be some slackening of the boom in Europe, and foreign steel was being pressed on the United States market. Of 49 District economists who expressed an opinion recently, six thought that economic activity was on a plateau while 43 thought that the country was in recession.

Mr. Fulton said he was not satisfied with the degree of decline in free reserves recently. Float fluctuations had been counteracted by the Desk, which in his opinion was not wholly necessary, and this had reduced free reserves to a point lower than he would like to see them. In his view reserves should be supplied freely, but the constant reduction in bill yields inhibited any massive action through purchases in that area. A reduction of reserve requirements, or at least action on vault cash, might relieve the situation more effectively than by going into operations in the short-term market, since a more permanent and broader foundation would be provided for the banks than by injecting funds through the market in New York. In summary, he would like to see free reserves increased through action that would not have a direct impact on the rapidly declining bill rate. He would not favor reducing the discount rate at this time or making any change in the directive.

With reference to the earlier comment by Mr. Patterson that Baton Rouge had been declared an area of substantial labor surplus, Mr. King noted that this area was not affected by the previous recession.

Mr. King then indicated that Mr. Bopp had expressed his (Mr. King's) views effectively. As to the discount rate, he expressed doubt that a reduction would stimulate activity to any extent, for essentially it was a matter of people having to decide whether they wanted to go ahead with their plans. Then, too, a change in the discount rate would exert additional pressure on the bill rate. As to Account operations, he agreed substantially with the position stated by Mr. Bopp and previously by Mr. Johns. He would not be inclined to change the directive at the present time.

Mr. Shepardson commented that thus far everyone seemed to be in agreement that this was a difficult situation. Looking at the domestic problem, the international problem, the Treasury financing, and the situation as a whole, he was inclined to feel that this was a time to try to hold quite steady. The System should maintain a condition of ease, and should provide necessary reserves, but he questioned the wisdom of flooding the market with reserves at this time. He doubted whether this was the moment to make a change in either the directive or the discount rate.

Mr. Robertson referred to a portion of the draft of policy record entry for the Committee meeting on October 4, 1960, which stated that it had been the consensus that open market operations should continue to be conducted along the lines of supplying needed reserves readily, avoiding seasonal strain on bank reserve positions, and resolving doubts on the side of ease, with the feel and tone of the market to be emphasized more than statistical guidelines. It seemed to him that such a course was appropriate, that this was not a time to be tinkering with the instruments customarily utilized by the Federal Reserve, and that instead this was a time to adhere to the principles in which the System believed. Accordingly, he would not agree with the comments that had been made about going into longer-term securities. He was not inclined to favor the suggested amendment to clause (b) of the directive and would prefer to continue the directive in its present form. He would not be concerned about bill rates to the exclusion of pursuing anti-recessionary measures by making reserves readily available and encouraging growth of the money supply. In summary, he would continue to operate along the lines suggested by the consensus at the previous Committee meeting, rather than be swayed from that position by international events or by prospective declines in the bill rate. He would not favor changing the discount rate at this time.

Mr. Mills said he joined Mr. Robertson in supporting a policy of the kind indicated by the statement that the latter had quoted from the draft of policy record entry for the October 4 meeting. Fundamentally, he continued, the Federal Reserve System's objective is to exert its influence through monetary policy to see that there is an availability of credit sufficient to nourish the economy's existing needs. In his opinion the System's policy actions had moved satisfactorily toward that objective, and the supply of reserves made available to the commercial banking System was adequate to support an expansion of credit. The fact that the expansion of credit had taken the form of an increase in bank investments in United States Government securities more than an expansion of commercial, industrial, and other types of loans was the crux of the situation, as it would seem to be a reflection of the recessionary economic influences that had been noted so frequently in the discussion today. Since he assumed and believed that the supply of reserves and the policy of the System had been adequate to support a seasonal expansion of credit and to encourage a greater than seasonal expansion of credit, the fact that there had not been exactly the type of seasonal expansion of industrial and commercial credit that had been expected led to the presumption that there was a lack of demand on the part of the commercial and business community to employ the credit resources that the commercial banking system could and would put at their disposal. If the banks cannot find the ordinary outlets for their credit resources, the result is primarily that those resources are employed in the Government securities market, thus exerting a definite and increasing downward impact on short-term interest rates. The other avenue in which the commercial banks might, under more ordinary circumstances, expand their credit would be through their investment portfolios, very possibly by increased acquisition of corporate securities and by further increases in their holdings of municipal securities. However, under a situation where the liquidity position of the banks continued to be strained and loan-deposit ratios were high, it was unlikely that there would be an expansion of investment portfolios, especially in a recessionary economic climate. This brought him to the point that a superfluidity in the supply of reserves could not do more than force down short-term interest rates at a time when, if wishful thinking could bring it about, one would much prefer to see a more solid short-term rate.

Events were moving so fast that it was difficult to set any specific objective, Mr. Mills said. His feeling was that the Desk should operate in the light of the credit factors that had been mentioned, to the end of seeing that the supply of reserves available to the banking system was comfortable but not superfluous, and that such a policy should be continued until the outlook was more clear.

Mr. Leach reported that business activity in the Fifth District continued at a level moderately below the peak reached earlier this year, with signs of further weakening. Employment remained quite high except for small declines in manufacturing, but man-hours worked had decreased because of the reduced workweek in some industries, particularly textiles. Insured unemployment dropped 1.5 per cent during September and the rate was less than in the United States as a whole in every state except West Virginia. Activity in the textile industry was fairly stable at the reduced level of production prevailing since early September. Unless there was an increase in orders, however, further curtailment of production might be necessary in view of the determination of producers to hold down inventories and maintain a reasonable backlog of orders. The industry was plowing back earnings to modernize machinery further in an aggressive cost reduction program. Commercial and industrial construction continued at a high level, largely because of commitments made several months ago, but contract awards in the past four weeks were 17 per cent below the previous four weeks and 13 per cent below the corresponding period last year. Bituminous coal production in September was only one per cent above the level prevailing in the midst of the steel strike last year, but there were some signs that the industry was holding its market better than formerly. The tobacco crop was one of the best on record and prices were up about 4 per cent. District farmers had sold over one billion pounds of tobacco for more than $600 million--an increase of about 22 per cent in gross revenues over the similar period of 1959. There had been small erratic fluctuations in retail trade, but generally sales had been running at a level only slightly below that of last year.

The positions of Fifth District banks continued to ease, Mr. Leach said. Despite a larger than usual seasonal upswing in both business and total loans in recent months, banks had expanded their investments more than seasonally, cut their borrowings at the discount window, and successively increased their net sales of Federal funds.

With respect to policy, Mr. Leach believed that for the next four weeks the Committee should take no further steps to ease credit and that it should guard against developments which might force bill rates down further. Bill rates under 2 per cent, coupled with very large amounts of free reserves, might well arouse fears here and abroad of an unduly easy money policy without materially benefiting the domestic economy. Excessive ease is not beneficial because it drives down money rates and stores up trouble for the future. He might not be as pessimistic as some, but he felt that the Committee had eased enough and that the present position was about right. Because of the bill rate, particularly, he would not like to see further easing. The forthcoming Treasury financing called for an even keel policy, but even if there were no Treasury financing he would recommend continuation of present policy, with precautions against excessively easy credit. In supplying needed reserves, he would purchase other short-term securities as well as bills if bill purchases seemed to be running bill rates down unduly, but he would wait a while before giving serious consideration to the purchase of longer maturities. He would not favor changing the discount rate at this time.

Mr. Leedy commented that if the System was going to get the job done that it was supposed to do, it must exert some effect on long-term rates. What the System had done thus far had not accomplished too much in that direction. It seemed to him that the System did not yet know clearly to what extent the differential between foreign rates, short-term, and domestic rates, short-term, was contributing to the outflow of gold. With central banks, as had been pointed out, building up their holdings of United States Treasury bills, that factor did not seem to be of overriding importance. While there were various conjectures as to what was underlying the adverse flow of gold, until the System was in a position to appraise more accurately the extent to which the rate differential was a major factor he did not believe that the policy of supplying needed reserves through the bill route should be too greatly affected by that consideration. Needless to say, the System should be sensitive to the problem of the short-term rate and should attempt to do what it could to keep bill rates from drifting lower, but on the basis of the projections some very substantial reserves should be made available to the banking system and it seemed appropriate for the System to provide them. When more light had been shed on the subject than at present, the Open Market Committee should give consideration to operating in securities other than bills, but, as he saw it, for the moment that subject did not have to be decided. For the next few weeks, it seemed to him that the Committee should undertake to do what it had been doing in recent weeks, namely, to supply needed reserves while keeping an eye on the bill rate. In this period he would not make any change in the directive or do anything beyond meeting reserve requirements. While he would be watchful and attempt to do whatever was possible on the bill rate, he would not let the bill rate be the controlling factor.

Mr. Allen reported that at a meeting of area economists held at the Chicago Reserve Bank on October 19, half of those present did not consider the present trend a recession "worthy of the name." Their sentiment was supported by the comment that a continuing heavy demand for funds was keeping interest rates up, by the statement of the Sears Roebuck economist that good sales results were being obtained when merchandising was pushed vigorously, and by a manufacturer of capital goods who described the current situation as a sideways movement with strength in some lines balancing weakness in others. Of those who felt otherwise, that is, who were far from complacent about the situation, a representative of the steel industry characterized the picture as "bleak." He was not only unhappy about the present but pessimistic, based on order bookings, about the months ahead.

Thus the views continued to be diverse, Mr. Allen said, without a clear majority on either side. Department store sales in the District showed up well one week and poorly the next. Automobile sales were making a good showing at the moment; the daily sales rate in the first ten days of October was 7 per cent above the same period last year and the strong market was thought to have continued through the second ten days of the month. However, much of the pickup came from "crash" sales of 1960 model cars and earlier introduction of 1961 models, and most estimates for the full month of October placed sales in the 500,000 to 525,000 area, 4 per cent over October 1959. October production was estimated at more than 600,000 units. Based on the production and sales estimates, inventories on October 31 would be about 950,000 cars, of which 1960 models should be less than 200,000. An inventory of 950,000 would be an all-time high for that date, the closest to it being 607,000 on October 31, 1959.

Although loans at Seventh District banks increased in the three weeks ended October 12 by $95 million, against $56 million in the same period last year, whereas loans at all weekly reporting banks in the country dropped more than $800 million, the large free reserve position which was permitted to develop had had its effect on District banks. Daily average borrowing at the discount window dropped to $10 million in the week ended October 19, and almost none of the borrowing was by city banks, which were able to fill their needs easily and cheaply in the Federal funds market.

Mr. Allen said that he would not favor any further move in the direction of ease at this time. He would not change the directive or the discount rate. Mr. Marget's concluding comment at the meeting three weeks ago, to the effect that the range of flexibility of monetary policy was limited by the balance of payments situation, was a sentiment with which he (Mr. Allen) agreed. Moreover, apart from the balance of payments and considering the domestic economy on its own, so far as that was possible, he felt that monetary policy had been directed in early and substantial fashion to doing what was in its power to do and that further action at this time would be needless and excessive. Even if the pessimists as to the business situation should turn out to be correct, monetary policy had in his judgment made its play and in sufficient degree. On the other hand, if the Committee's judgment differed from his, and the Committee wished to provide additional reserves, his suggestion would be that the Board consider a further step toward equalizing the reserve requirements of central reserve city and reserve city banks by lowering the current requirement for central reserve city banks, since they seemed to be under the greater pressure at this time.

With regard to the suggestion that the Account deal in securities other than bills, Mr. Allen felt, like Mr. Robertson, that the present situation was not one which was appropriate for experimentation. He was in complete agreement with the statement made by Mr. Thomas on this score.

Mr. Deming reported that good agricultural conditions in the Ninth District had led to income figures running ahead of a year ago. Relative to the United States as a whole, however, he was not sure that the District was quite as well off as two years ago. In a recent survey of expectations, the attitudes expressed by people in various sections of the District corresponded closely with agricultural developments.

Turning to policy, Mr. Deming noted that comments had been made to the effect that the System should avoid overt action at this time. He had said this himself on previous occasions. It seemed to him, however, that anyone viewing the pattern of actions taken by the System over the past couple of months would have to conclude that the actions had been overt, even dramatic. Thus, while he agreed that no overt action should be taken on the discount rate, this merely meant that he did not want to reduce the discount rate at this time. He would not object if overt action were taken with respect to reserve requirements.

Mr. Deming said he had thought earlier that the System should be able to supply seasonal reserves without putting further appreciable pressure on short-term rates. What he had thought on this point, however, did not seem to be borne out by what was happening. Since he believed that the System should supply seasonal reserve needs, and be mildly generous in its appraisal of such needs, he would make this the first order of business and downgrade the priority on preservation of short-term rates. It might be that the supplying of reserves, at least in part, could be accomplished by reserve requirement reductions and that there would then be a better chance of preserving short-term rate levels. As he saw it, this would work best if the reserves that were freed went into longer-term securities; in turn this prospect might be enhanced if reserves were given to the country banks through the freeing of additional vault cash. He saw no objection to reducing further the differential between reserve requirements of central reserve and reserve city banks, but he did not think this would help the short-term rate picture or that it would supply much in the way of reserves. The step could be taken, however, as part of a necessary program.

With respect to open market operations, Mr. Deming said he would favor going out into the longer range of short-term securities within the framework of the Committee's present operating policy. This might have the effect of taking some pressure off the very short-term rates. However, he would not favor going out to the long end of the market at this time. He would not favor changing the directive.

Summarizing, Mr. Deming said that he would supply reserves to meet seasonal needs, being generous in the appraisal of those needs, and that he would let short-term rates go down if necessary. However, if a lowering of short-term rates could be avoided by technical measures such as action on vault cash or moving to purchases of maturities up to fifteen months, he would move in as many different directions as possible.

In clarification of his earlier statement, Mr. Hayes said that he agreed with Mr. Deming's views on reserve requirements. He thought that any change in vault cash provisions and in central reserve city reserve requirements probably would be construed as a step in a long-range program and not as an overt action.

Mr. Mangels said that although such Twelfth District data as had become available in the past three weeks did not indicate great change, the data were somewhat on the down side. Pacific Coast employment was down in September, while unemployment had risen from 6.3 to 6.8 per cent, compared with 5 per cent a year ago. Only two cities in the District, Sacramento and Honolulu, were classified as having a balance in the availability of and demand for labor. San Diego had recently been classified as an area of substantial labor surplus due to cutbacks in aircraft production and a substantial reduction in industrial construction since August 1959. Lumber output and prices were down and inventories were high, with third quarter shipments 18 per cent below the third quarter of last year. Reflecting the importance of the lumber industry in those areas, Oregon and Washington showed rates of unemployment of 7.3 per cent and 8.7 per cent, respectively. Public works construction in September was 10 per cent higher than in August, and steel production was holding at 54 to 56 per cent of capacity. Department store sales were unchanged; for the year to date they were about 1 per cent below a year ago. Sales of automobiles had been picking up.

Mr. Mangels went on to say that loans and investments of reporting banks declined in the three weeks ended October 12, while on the other hand there was an increase in deposits, both time and demand, with savings deposits increasing almost $100 million. Borrowings at the Reserve Bank were virtually nil; there had been some days when there were no borrowings on the Reserve Bank's books. District banks, however, had been fairly heavy net purchasers of Federal funds, and some banks reported that their positions were still rather tight. A recent survey indicated that there had been a decline of about 1/4 per cent in rates on business loans.

Mr. Mangels expressed the view that monetary policy had been quite appropriate. In the past three weeks, he noted, the Federal funds rate was under 3 per cent most of the time. Government securities dealers had adjusted their heavy inventories, and some issues were in short supply. For the period ahead, he would try to hold free reserves somewhere around $500 million, and he would not be inclined to go beyond dealing in bills at the present time. If the System went into the longer-term market, those funds might to a large degree land in the bill market anyway. He saw some merit in the suggestion for an adjustment of central reserve city reserve requirements, and he noted that the Board still had considerable leeway for the release of vault cash. The Board might wish to give some thought to either or both of those actions in the days to come.

After indicating that he would not favor changing the discount rate at this time, Mr. Mangels suggested that the Committee might want to consider amending clause (b) of the directive along lines that would provide for encouraging monetary expansion for the purpose of cushioning adjustments and encouraging increases in economic activity and employment.

Mr. Irons said there had been no substantial changes in the Eleventh District during the past three weeks although on balance the changes that had occurred probably could be characterized as a slight sliding-off of activity. While consumers appeared to have money--time deposits had increased substantially--they were being cautious in their expenditures. Department store sales had been moving somewhat along the lines mentioned by Mr. Allen, with one week quite strong and the next week not so strong; for the year they were about 3 per cent under a year ago. There had been no change in the crude oil situation. The eight-day allowable basis was still in effect, and people appeared to be getting rather accustomed to it. Even the oil people were not as critical as they were a few months ago. Despite hail and excessive rainfall in some areas, on the whole the agricultural outlook was reasonably favorable. Employment, unemployment, and the industrial production index had shown no significant change in the past three weeks.

Turning to the financial picture, Mr. Irons reported that District banks had shown declines in loans, investments, and deposits during the past three weeks. However, although total loans declined, commercial and industrial loans increased rather substantially. Reserve positions were much easier than a few weeks ago, and District banks had been net sellers of Federal funds, with virtually no buying of such funds except on the part of one bank. Borrowings at the Reserve Bank were accounted for almost entirely by a group of banks in West Texas, reflecting seasonal requirements.

Mr. Irons agreed with those who expressed the view that the System had taken sufficient action in terms of making reserves available. Excessive ease would serve no useful purpose. Thus, while he would make reserves available for essential and needed bank credit and growth, he would avoid undue ease. If he had any criticism of what the System had done in past periods of recession, it was in easing so much as to force interest rates down to low levels, particularly in the short-term area. He would like to see the Federal funds rate in the range of 2-1/2 to 3 per cent and the bill rate in the area of 2-1/4 to 2-1/2 per cent, and he would try to avoid further downward pressure on the bill rate. He had a strong feeling that there should be no change in the discount rate.

With regard to the directive, Mr. Irons said he was inclined to favor the suggestion of Mr. Hayes because something of that nature would simply recognize a fact. The System had been taking international developments into account, the problem had been discussed in the press, and it might be well to have on record that the Open Market Committee was giving consideration to the international situation. On the other hand, he would not favor any change in the directive that would point toward greater ease on the domestic side of the picture.

With regard to the question that had been raised about Account operations, Mr. Irons said he would favor operating within the limitations of present operating policies, which indicated that the Committee would operate in short-term securities, preferably bills. This might be an occasion when the Account Management would prefer, due to the rate movement, not to confine operations to bills. If the bill rate should go to 2 per cent or lower and it was necessary to supply additional funds to the market through open market operations, he (Mr. Irons) would favor supplying those funds through the purchase of such other securities as might be available, within the limitations of the Committee's operating policies. On the other hand, he would not favor going to the long-term area with the deliberate intent of forcing down long-term rates. In his opinion, the domestic situation had not reached a point that would call for such operations.

Mr. Erickson said that activity was still moving sideways in the First District. The New England index of production was up almost a point in August from July, and it was higher than in August of last year, and for the past eight weeks electric power output had been running ahead of a year ago, although not as much as nationally. Shoe production was at the best level since March. Favorable construction totals in August had previously been reported to the Committee, and there were no later figures available, However, the Engineering News Record reported a 15 per cent increase in construction contracts for September, the same as nationally. Through the middle of October, department store sales were 3 per cent above last year. The employment situation, however, was not good; insured unemployment was still running well ahead of last year. The September survey showed no change in the classification of any of the principal labor areas. The September survey of mutual savings banks showed an increase in deposits from a year ago of 4.8 per cent; the comparative gain had been increasing gradually each month since May, when the increase was 4.4 per cent.

Mr. Erickson went on to say that for the period ended October 12 commercial and industrial loans at weekly reporting banks were 5.5 per cent ahead of last year and stood at the highest point since the week ended July 13. During the past three weeks District banks were substantial sellers of Federal funds, and the use of the discount window had been more moderate than at any time since he became associated with the Reserve Bank. One day last week not a single bank was borrowing, the first time this had occurred in fifteen years except on end-of-year and mid-year dates.

Mr. Erickson said he would favor no change in the discount rate. He was rather intrigued by the suggestion of Mr. Hayes for a change in the directive in view of the international situation; he was more concerned about that situation than in the past and would like to see the change made. Being in agreement with those who said that the easing accomplished thus far had been sufficient, he would not favor more ease. Since it would be necessary to supply reserves in rather massive quantities for seasonal purposes, he would suggest that serious consideration be given to reducing the reserve requirements of central reserve city banks. After the next couple of weeks, he thought it might be appropriate to experiment with operations in short-term securities other than bills, with the hope of keeping the bill rate from going below 2 per cent.

Mr. Balderston said that he would favor a change in the directive such as Mr. Hayes had suggested. The gold outflow was part of the total problem; to ignore it would be unwise and might reflect on the System in the future. He would not like to see the discount rate reduced in view of the impact of such action on the bill rate.

After noting that the primary problem was to decide what quantity of reserves to feed into the banking system at this time, Mr. Balderston reviewed certain developments since the first of the year. Member banks had paid off their borrowings to the extent of about $900 million, nonborrowed reserves had increased about $1 billion, but total reserves were approximately the same as at the turn of the year and also a year ago. Despite the reduction in borrowings and despite overt actions taken by the System, long-term rates had not decreased much, perhaps 10 per cent, the money supply was at least $2 billion less than a year ago or at the turn of the year, and banks were still illiquid. Since these results were to him quite unsatisfactory, he urged that the System continue to press reserves on the commercial banking system until such time as the banks were liquid enough to make additional loans. The banks, he thought, would at first invest the additional reserves, since many of them were out of bills and felt illiquid. After replacing those bills, however, they would make other investments and, as opportunities arose, they would make loans.

The question of how to proceed toward the indicated objective without depressing the bill rate concerned him greatly, Mr. Balderston said. While he felt that the Committee should instruct the Desk to use the range of $500 to $600 million as a free reserve target, he would favor using such means as might be available to avoid depressing the bill rate below 2 per cent.

Chairman Martin stated that his general thinking had not changed, and that he could not get very pessimistic about the domestic picture. He continued to feel that the biggest shadow was cast by the balance-of-payments problem. Many, he thought, did not quite realize the magnitude of that problem in terms of prices, cost relationships, and other factors. Accordingly, he would have no objection to changing the directive in the manner suggested by Mr. Hayes.

As to the domestic situation, the Chairman said that if his premonition was correct the System would have to be careful that it did not feed fuel to the fires of pessimism by appearing to embark on a cheap money policy. The System should take every step possible to be helpful to the domestic economy, but it could not afford to have idle reserves just sitting around, for that would give the impression that the System had lost sight of fundamental factors. Regardless of the tone and feel of the market, he believed that when free reserves got to the $800 or $900 million level such an impression began to be created, and it was an impression that might be warranted. This, he noted, was in the realm of expressing a judgment.

The Chairman pointed out that a Treasury refunding operation was under way, which suggested that within reason the System ought to follow an even keel policy. He then said that he was impressed by the statement Mr. Robertson had read from the draft of policy record entry reflecting the consensus of the October 4 meeting, and that he did not see any good reason to change the policy indicated by that consensus at this time. It was essentially correct at the time, and it was correct now. However, when it came to the means of achieving the objectives, there appeared to be differences of opinion.

While one might like to see the markets different than they are, the Chairman continued, it is not easy to get the markets to perform in the way that one might want them to perform. The System should not be frozen in its policies, but he doubted the advisability of tinkering with open market operations when it probably would not be possible to prevent the bill rate from going down if the pressures were in that direction, or to alter substantially the prices of long-term securities. In saying this, he was expressing a personal judgment. As Mr. Johns had said, perhaps empirical evidence was needed at some time. In his own view, however, this would be a peculiarly inopportune time to gather such evidence, for it would create misunderstandings in the market as to the System's attitude. In other words, he questioned seriously whether this was an appropriate time to do much in the way of experimentation unless it was felt that some really important result would be achieved. There might be a question whether the Committee should change its whole attitude on how to deal with the market, but that was a procedural problem and he did not think this was the time to resolve it. In this connection, he noted, however, that dealings in securities within a maturity of 15 months would be within the scope of the Committee's operating policies that had been in existence right along.

The Chairman commented that it was heard continually that all the System had to do was to buy longer-term securities and sell bills, in order to make the bill rate go up and the longer-term rate go down. This was one theory, but the theory was not necessarily sound in practice. Possibly the Desk could acquire some long securities, while selling short-term securities, and long-term rates would come down, but in his judgment that was improbable. He questioned very much whether this was a course the Committee should be pursuing, but in any event that was a longer-range consideration.

After commenting that he took quite seriously the comments made at this meeting to the effect that the Board might be looking at reserve requirments, the Chairman remarked that he thought the System had been performing well on monetary policy and that it had made a good record. Perhaps the matter had not been presented well to the public, for there did not seem to be general understanding, but the record nevertheless was good. The System should be careful about taking the horse to water, pushing his head in the trough, and drowning him instead of letting him drink.

In his view, Chairman Martin said, unless the balance-of-payments situation could be gotten into better perspective, there would be a continuing decline in the business picture domestically, and probably internationally. One must pay his bills at some time, and that was the problem with which the whole world was wrestling. Steps had not been taken that would lead to the payment of the bills.

Chairman Martin said he came out in his thinking that he would have no objection to changing the directive as suggested by Mr. Hayes and that the consensus of the October 4 meeting, as read by Mr. Robertson, was adequate with respect to current policy. Although the System should do everything within its power to keep the bill rate in a reasonable relationship, he did not think the System had the power to control the bill rate under present conditions. He would have no objection to operating in maturities up to 15 months, or to having the Desk come in with concrete proposals for something different if the results could be clearly seen, but the System was dealing with forces that he thought were too big for it to control. The same problem was involved in the gold outflow. No one could know what the volume of purchases by speculators would be, and it might be that the market could be controlled by feeding in a little gold, but in his opinion the forces at work were bigger. Once anyone started down the path of trying to make interest rates or to control them, desirable as that might be, he was playing with a difficult problem.

The Chairman then reiterated his views regarding the directive and the appropriateness of the consensus at the October 4 meeting as a policy for the period ahead. There was a declining business picture, whether it be called a recession or a rolling adjustment, but the economy was not going over a precipice by any means. There was no sign as yet that the decline had burgeoned into a major depression. There had been recessionary tendencies since March, and that was when the System began to ease, so the System's record had been well attuned to business developments.

Chairman Martin went on to say he could not evaluate whether more money and lower rates would restore the building industry, but he questioned it. He felt that such a course might do damage to a revival of the building industry because some dealers were beginning to take a different look at the situation, both from the standpoint of the design of houses and the money problem. That was something that must be taken into account, for such adjustments might only be made more difficult. In his opinion, to put these builders in a position where they would have to compete with people who could get money for nothing would not stimulate the economy under present conditions.

The Chairman commented that the System would have to take care of seasonal needs and that it wanted the money supply to grow. It must proceed in an orderly way, and he felt that the job was being done in an orderly way.

The Chairman then inquired regarding the views of members of the Committee concerning a change in the directive such as suggested by Mr. Hayes.

Mr. Shepardson, who had indicated earlier that he would not be inclined to change the directive, commented that the point had been made, and he thought well taken, that the System in fact had been taking the international situation into account. This was appropriate, he thought, and therefore he wished to change the position he had taken with reference to the directive.

Mr. Robertson said that he did not consider the matter too important and that he would have no reason to oppose the suggested change in the directive.

The Chairman then inquired whether any members of the Committee would want to be recorded as opposing the suggested change, and there were no comments to such effect.

At this point Chairman Martin referred again to the language previously read by Mr. Robertson reflecting the consensus of the October 4 meeting, following which Mr. Hayes said that as he listened to the discussion today he got the impression that there was considerable concern regarding the bill rate and a general hope that the System could avoid driving the bill rate lower. He thought that that point probably should be mentioned.

Chairman Martin said he would be glad to have that mentioned and that personally he would like to see the short-term rate stay at 2 per cent or above. He did not believe that anyone could disagree.

It was noted by Mr. Thomas that there had never been a time in history when there were free reserves for any extended period and the bill rate remained above 2 per cent, following which Mr. Hayes suggested that the System would have to experiment with new techniques.

Chairman Martin said that perhaps this was so. Today, however, he would put the matter on the basis that he would like to see the bill rate stay at 2 per cent or above, but that he would not like to see open market techniques used which involved going beyond 15 months, that is, beyond the framework of present operating policies, for the purpose of achieving a higher bill rate. In his opinion, such techniques would not necessarily work.

Mr. Hayes said that what he had meant to refer to was the concern expressed about not driving short-term rates lower, and Chairman Martin responded that it would be appropriate to have that comment included in the minute record.

The Chairman then inquired whether any Committee members would like to be recorded as favoring a change in open market operating techniques, and Mr. Hayes said that although he would not necessarily favor going into long-term securities now, he had sympathy with the views expressed by Messrs. Johns and Bopp. He would have no great preference as to whether the type of experimentation suggested by them should be conducted at the present time or whether to wait until after the American Telephone and Telegraph flotation and the Treasury refunding were out of the way and it could be seen whether the long-term market had improved.

The Chairman then stated that apparently it was not necessary to take a vote today on the question of a change in open market techniques.

Mr. Balderston suggested that mere repetition of a consensus as to open market operations that seemed appropriate under conditions existing at the time of an earlier meeting might leave the Committee open to the charge of failing to give precise instructions to the Desk, following which Mr. Johns commented that the concern about the bill rate seemed to cut across what he had understood to be a rather clear consensus, that is, that seasonal reserves should be provided freely, with some feeling that they should be provided in excess of seasonal requirements. If, in the process of supplying seasonal needs, the bill rate should go below 2 per cent, he wondered whether it was intended that the Desk should stop supplying reserves.

Chairman Martin said he had thought it was clear that the Desk should supply reserves to meet seasonal needs regardless of the course of the bill rate, if that was the only way in which the reserves could be supplied. He inquired whether there were any further comments on that point, and several members of the Committee stated that this was their understanding.

Mr. Thomas noted that the question was one of providing reserves beyond the requirements of seasonal expansion in order to stimulate monetary growth. If free reserves were maintained over a period of time sufficient to stimulate growth in the money supply, he predicted that the bill rate would go below 2 per cent. Mr. Johns said he thought that was correct, following which Chairman Martin repeated he had thought it was clear that the decision would be to let the bill rate go below 2 per cent, if that was necessary, in order to supply reserves.

Mr. Deming said that in thinking in terms of supplying seasonal needs he had had in mind figures from the memorandum of the Board's staff which indicated a need for about $1.3 billion of reserves, give or take something in the light of developments. This would contemplate the maintenance of a substantial level of free reserves, but he would not regard such a program as going in excess of meeting seasonal requirements.

Mr. Thomas repeated that if, in addition to supplying seasonal needs, free reserves were maintained at a level high enough to encourage more than seasonal monetary expansion, he felt that the bill rate would go below 2 per cent.

Mr. Hayes said that, as he recalled the discussion, the majority of those who commented today had expressed the strong hope that in accomplishing the purpose of supplying seasonal reserve needs the bill rate would not go below 2 per cent. He interpreted those comments as a hope that the System might be able to use techniques, including operations in securities other than bills or further releases of vault cash, that would facilitate accomplishing the dual objectives.

Mr. Robertson commented that, as he understood it, the primary objective was the providing of needed reserves. He interpreted the comments on the bill rate as a hope that the supplying of the reserves would not force the bill rate too much lower.

Mr. Hayes said he thought the comments reflected more than a hope; that they reflected a suggestion that methods be explored of supplying reserves without undue impact on the bill rate.

Mr. Robertson then said that if the maintenance of the bill rate were to be set forth as the primary objective, he would be very much opposed. On the other hand, if the matter were put in terms of a hope that reserves could be supplied without having the bill rate go below 2 per cent, he would support such a statement.

Mr. Mills made the suggestion that the consensus of this meeting, as prepared for the record of policy actions, be drafted in a form which would make it clear that it was not merely a reiteration of the consensus at a previous meeting, and agreement was expressed with this suggestion.

Mr. Shepardson commented that it seemed to be agreed that the System should provide reserves to meet seasonal needs. However, as he understood the comment made by Mr. Thomas, this raised the question whether those needs could be supplied without at the same time maintaining a level of free reserves of, say, $500 or $600 million.

Mr. Thomas replied that seasonal needs could be provided at any level of net free or net borrowed reserves, but that the question was whether monetary expansion should be encouraged. If a policy were followed that would maintain free reserves so as to encourage monetary growth, he predicted that the bill rate would go below 2 per cent no matter how the reserves were supplied. It was the effect of free reserves in the market that would determine the bill rate, not what securities the Federal Reserve bought or sold or what course it followed in supplying the reserves.

Mr. Shepardson then stated that at the previous Committee meeting he had expressed the view, to which he still adhered, that the slack in the economy at present was not due to a lack of availability of credit, but instead to a lack of buying interest. This situation was not going to be changed by pressing more reserves into the market. Therefore, while he would not be averse to supplying what reserves were needed, he would not be too concerned if the free reserve figure should drop somewhat. He would be more concerned, in the period immediately ahead, if the System tried to push too hard for expansion of the money supply. The money supply had not increased as much as some would like, but funds had been going into savings and time deposits. As he saw it, there was not a lack of credit but a lack of demand, and the availability of more credit would not help that situation at the moment.

Mr. Mills said he believed instinctively that a forcing of reserves into the market under present conditions would amount to pushing on a string as far as providing any real stimulus to growth in the money supply was concerned. The real stimulus would come only on those occasions when the Treasury borrowed new cash through tax and loan accounts. When supported by reserves, the deposits created in that way would remain in the banks in the absence of pressure that would force the sale of securities by the banks.

Chairman Martin then said that he thought the Committee was in substantial agreement on the policy to be followed. It was not in full agreement on the techniques to be used, but he believed the general course to be followed could be stated quite clearly in the record in a manner that would be acceptable to everyone.

Mr. Rouse said he would interpret the discussion as meaning that there should be free reserves at all times.

The Chairman replied that this was correct, and there was no indication of views to the contrary.

Mr. Rouse said he also interpreted the discussion as meaning that although no specific target was being suggested, the Committee would have in mind somewhere from $300 to $500 million of free reserves.

Mr. Rouse then suggested that in view of the volume of open market operations that was indicated for the next four weeks, the Committee might want to consider changing the portion of the first paragraph of the directive which provides 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 the date of the Committee meeting in question, 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.

Chairman Martin suggested that the figure be changed from $1 billion to $1.5 billion, and no objection was indicated.

Mr. Rouse then referred to the discussion about dealing in securities other than bills, and to the references that had been made to securities having a maturity not longer than 15 months. In terms of a general definition of short-term securities, he felt that two years was better than 15 months. The 15-month limitation is generally satisfactory for credit purposes, but in the past has been applied only to repurchase agreements.

Mr. Mills commented that to go as far out as two years would permit operations in Treasury bonds if they fell within a two-year maturity range. By and large, the Committee had not operated in bonds, and he thought it had been the sense of the Committee to confine operations to bills and certificates. If the Desk were to go into notes and bonds, its operations might convey an impression that the Committee would rather not offer.

Mr. Hayes said it was his understanding that a 15-month definition would permit dealing in any securities maturing within 15 months, including notes or bonds, following which Mr. Thomas pointed out that there was nothing in the area beyond one year not already selling at a rate below the prevailing yield curve.

After some discussion based on that comment, Mr. Robertson indicated that experimentation in the area up to 15 months would be agreeable to him if such operations were deemed advisable by the Desk, but that he would not go further and in any event would hold down the volume of such operations.

Mr. Robertson also said that 15 months had been ingrained in the Committee's thinking over the years, to which Mr. Rouse replied that he had always thought in terms of 18 months or two years. The matter of deciding on 15 months for loan purposes was something different. In his view it might prove desirable not to tie the Committee's hands at some future date by adopting such a definition of "short-term" securities at the present time.

Chairman Martin concluded the discussion with the comment that he thought it was evident that some members of the Committee would feel easier if operations did not extend to maturities beyond 15 months.

Thereupon, upon motion duly made and seconded, it was 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 encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments, 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 $1.5 billion;

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

Chairman Martin referred to the memorandum from the Federal Reserve Bank of New York dated September 8, 1960, recommending that the Bank's Market Statistics Department be authorized to furnish quarterly statistics on the trading volume of individual Government securities dealers to the Securities Department, and said that he would like again to defer consideration of this item. In this connection, he noted that the Secretary of the Committee, who was not present today, had some observations on the matter.

No objection to Chairman Martin's suggestion was indicated.

It was agreed that the next meeting of the Federal Open Market Committee would be held in Washington on Tuesday, November 22, 1960, at 10:00 a.m.

The meeting then adjourned.

Assistant Secretary