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, November 22, 1960, at 10:00 a.m.

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

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

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

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Eastburn, Hostetler, 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. Hersey, Associate Adviser, Division of International Finance, Board of Governors

Messrs. Ratchford, Baughman, Coldwell, and Einzig, Vice Presidents of the Federal Reserve Banks of

Richmond, Chicago, Dallas, and San Francisco, respectively.

Mr. Parsons, Director of Research, Federal Reserve Bank of Minneapolis
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Meigs, Senior Economist, Federal Reserve Bank of St. Louis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 25, 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 25 through November 16, 1960, and a supplementary report covering the period November 17 through November 21, 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:

> As the written report to the Committee points out, System operations were undertaken in large volume since the last meeting of the Committee to supply the reserves needed for seasonal and other needs of the economy. It is probably worth noting that over $0.5 billion reserves were absorbed by gold and foreign account operations, pointing up the fact that the balance of payments problem has a very direct and measurable meaning as far as the System is concerned.
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> System purchases of short-term securities outside the bill area were generally taken in stride by the market. I stated at the last meeting that the techniques for operating in these other short-term securities might have to be somewhat different than normal. Our initial purchases, in fact, were made from several of the larger dealers who had made offerings to us, and this approach was gradually extended to cover all of the dealer firms. Then we found that dealers were offering short-term securities to the Desk in increasing volume. Last Thursday we were able to include other short-term securities on a go-around with Treasury bills, and several of the dealers commented on the smoothness with which the

operation was carried out even though it took longer than a go-around in Treasury bills alone.

Treasury bill rates rose generally over the period since the Committee last met, although unfortunately rates have declined somewhat in the past few days. Average rates in yesterday's Treasury bill auction were established at 2.40 per cent for three-month bills and 2.75 per cent for six-month bills, 27 basis points and 18 basis points higher than in the auction preceding the last Committee meeting. At these higher levels, and with recent actions by monetary authorities abroad to lower interest rates, the relationship of our short-term rates to rates abroad is somewhat more satisfactory from the balance-of-payments point of view. While System actions and attitudes have not been the whole story in this development, they have certainly helped to a considerable extent.

Over a good part of the period since the Committee last met, the money market has appeared tighter than would normally be expected with free reserves in the $400-$500 million range. The problem of the distribution of reserves between country and money market banks has continued to be with us and the New York banks have come under heavily increased pressure since the beginning of the month as a result of heavy deposit drains, part of which relate to Treasury Tax and Loan account withdrawals and part, no doubt, to the gold outflow. All of this leads us to view the high estimated reserve figures in the period ahead--as shown in the spread sheet attached to your supplementary report--with a great deal of caution. On the other hand, the pending changes in Regulation D will have a substantial effect, and perhaps once all vault cash can be counted as reserves, country banks will put more of their excess reserves to work. My own feeling is that we will have to approach the period ahead on an experimental basis, and see how the statistical reserve measurements are reflected in the money market. We would continue to look to the repurchase agreement as an instrument that provides the System with maximum flexibility during such an uncertain period--since in an easy money market we can permit the agreements to be withdrawn or mature without replacement. On the other hand, if temporary pressures are evident we can make new agreements. In this past period, we found it advisable, in order to keep repurchase agreements on the books, to lower the rate to 2-3/4 per cent, and we may need to do so again.

The seasonal period of expansion in the supply of bankers' acceptances is under way at a time when the outstanding volume of acceptances is at an all-time high, reflecting in part the pressure on the reserve positions of the New York banks and the relative attractiveness of the bankers' acceptance for both borrowers and investors. The holdings for foreign central banks at the New York Bank have also reached a postwar high, and the dealers have had some success in placing additional amounts with domestic investors. Nevertheless, dealers' portfolios, at around $56 million, have risen substantially since the time we last met. I would expect to increase seasonally the System's holdings of acceptances, both outright and under repurchase agreement, over the period of pressure ahead, as in other recent years.

With the refunding of mid-November maturities successfully out of the way, the Treasury is currently engaged in an optional offer to holders of about $750 million F and G bonds maturing in 1961 of an opportunity to exchange into an additional amount of $1.3 billion outstanding 4 per cent Treasury bonds of 1969. While the prices of the 4's--and some surrounding maturities--dipped yesterday, mainly as a result of the dealers' backing their bid prices down as a precautionary measure, we would not anticipate that these price developments would greatly affect the success of the exchange, in view of the nature of the holders of F and G bonds, or that the market itself should be greatly affected by the offering. If the Treasury were to get an exchange of $200-$300 million, the results would be satisfactory.

In response to Chairman Martin's question as to whether there were comments on Mr. Rouse's report of operations, Mr. Robertson read a statement substantially as follows:

In my view the Account was not administered during the past four weeks in a manner that accomplished the Committee objective, as I understood it, to create additional ease in the money market. The market was relatively tight throughout most of the period, when it should have been much easier. The minutes of the last meeting indicate that it was the will of this Committee to provide additional reserves, to more than offset all tightening factors--rather than to create tighter conditions. There can be differences of opinion with respect to the degree of easing which was contemplated but there is no basis in the record for contending that the Committee contemplated a tightening operation, which actually occurred.

Furthermore, without in any way challenging the motives or intentions of the Manager of the Account, it is my belief that what was done, was done in the wrong way:

a. In the first place, instead of "experimenting" in the area outside of bills for the purpose of preventing our easing actions from driving the bill rate below 2 per cent (as was contemplated by the Committee), the Manager entered this area in a large way--over $300 million--which was more than I thought of as an experiment, and was so great as to accentuate the problem of disposition when it becomes necessary to absorb reserves through reverse open market operations. The net effect, I fear, is a reduction of the liquidity of the System's Open Market Account. Instead of merely keeping the bill rate from going below 2 per cent, this operation, combined with other factors, served to drive the rate up considerably.

b. In addition, the operation during the four-week period consisted, in part, of an excessive use of repurchase agreements, and at rates lower than the discount rate. This was not done merely as a means of assuring dealers of adequate financing to carry their inventories, but was designed to stimulate the use of repurchase agreements by nonbank dealers.

I regard this massive use of repurchase agreements (which totalled over $600 million at one point) as an inappropriate and even detrimental course of action for the Federal Reserve System to follow. As the Committee knows, I have always questioned the legal basis for our repurchase agreements with nonbank dealers in Government securities. In view of this legal situation, it seems to me the System at least should hesitate to utilize repurchase arrangements unless the prospective benefits are very great and cannot be achieved in any other way.

As many of you will remember, in my December 1954 memorandum I attempted to demonstrate that the use of repurchase agreements by the System was difficult to justify, quite apart from any question of legality. I asked for answers to specific questions presented in that memorandum, but there has never been a response to that invitation.

Since 1955 the New York Reserve Bank, as agent for the Open Market Committee, has been authorized to enter into repurchase agreements with nonbank dealers "subject . . . to the understanding that the authority would be used sparingly in entering into repurchase agreements at rates below the discount rate." In my view the entering into such repurchase agreements with nonbank dealers during the past four-week period to the extent of hundreds of millions of dollars is not a "sparing" use.

Our authorization on this matter provides that repurchase agreements "shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis." In my judgment, it is not possible to reconcile this authorization with the recent massive engagement in repurchase agreements, admittedly designed "to encourage dealers to leave Government securities under repurchase agreements with the System for longer periods of time."

Our current action in this respect not only fails to yield special benefits but it fosters inequities in the Government securities market and tends to diminish the strength and independence of that market. Use of repurchase agreements in lieu of outright purchases of short-term Governments does not, in my opinion, materially relieve pressure on short-term interest rates. The reserves we supply in this manner flow into commercial banks, and in view of the temporary nature of these reserves the overwhelming volume inevitably flows into the short-term market. In other words, the result of our action is substantially the same as what would be accomplished by outright purchases, and the latter course would avoid the detrimental effects of the repurchase agreement program.

I suppose none of us will deny that furnishing reserves to nonbank dealers at 2-3/4 per cent when bank dealers must borrow at a 3 per cent discount rate places the latter group at a competitive disadvantage and consequently is inequitable as between the two groups. I do not believe we can justify this favoritism to nonbank dealers.

Even more important, our wholesale use of repurchase agreements, particularly at preferential rates, is injurious to the independence and strength of the Government securities market. It is another step toward dominance by the Federal Reserve System, with perverse effects on the market's own strength and reliability. Such use weakens rather than strengthens the market by getting dealers into the habit of relying on the Federal

Reserve rather than on commercial banks for their financing, and in turn unwisely relieves those banks of the responsibility to finance dealers and thus help to create a self-reliant market for Government securities. Perhaps the most unfortunate aspect of this course is the danger that our subsidizing of the nonbank dealers on such a large scale will gradually diminish our freedom to conduct open market operations with no considerations in mind except the welfare of the national economy. If those dealers should come to rely, with justification, on Federal Reserve financing of their inventories, it might prove psychologically difficult--and dangerous to our relations with the market--if the public interest should require abrupt withdrawal of repurchase agreement financing.

As is obvious from the foregoing, I oppose the use of repurchase agreements except "sparingly" (a word that does not fit recent practice) and--as required by the authorization to the agent Bank--"solely for the purpose of providing the money market with sufficient reserves to avoid undue strain on a day-to-day basis." Furthermore, I oppose the use of repurchase agreements at rates below the discount rate except in the unlikely situation in which there is no other available means of injecting needed reserves into the banking system.

I hope these latter comments on the experimentation in the nonbill area, and the excessive use of repurchase agreements, will not divert attention from the first point--that is, my belief that, during the past four-week period, the objective of ease in the money market was not achieved to the degree the Committee contemplated.

In the light of the foregoing, I find myself in a position where although I must vote to ratify and confirm the transactions of the Account during the past four weeks, because they have taken place and nothing can now be done about it, I cannot "approve" them.

Chairman Martin suggested that a copy of Mr. Robertson's statement be furnished to all members of the Committee for study with the thought that it might be put on the agenda for discussion at a later meeting of the Committee. He felt that it would not be desirable to discuss the statement on a piece-meal basis at this time.

Mr. Bopp said that he thought it might be in order for him to make a brief observation on Mr. Robertson's paper at this time, since he happened to have been the member of the Open Market Committee who usually participated in the morning telephone call with the Desk during the preceding four-week period. This had been an enormously difficult period, Mr. Bopp said, and on each day one found it difficult to put funds into the market and to keep them there, especially when it was known that at the turn of the year the System would be pulling funds out of the market. He felt that the market perhaps had been a little tighter at times than the Committee wanted it to be, but he noted that at the meeting on October 25 several members expressed considerable hope that the bill rate would not be permitted to get lower. During each of the morning calls during this period, he had expressed agreement with the intentions of the Management of the System Account as far as operations were concerned for that day. Perhaps it would be desirable as a matter of procedure if more members of the Committee were to participate in this morning call so that more of them would be fully aware currently of the problems confronting the Desk and the operations that were proposed. At any rate, Mr. Bopp said, he had received no indication from any member of the Committee during the past four weeks that the actions being taken to carry out the decisions at the October 25 meeting were in any way unsatisfactory, and he was not aware that any indication had been given to the Management of the System Account by any Committee member that operations should be different than those conducted.

Chairman Martin commented that he felt this was well said and he was glad that Mr. Bopp had expressed his views as one who had participated in the calls during this period. For himself, he had said on many occasions that he completely disagreed with Mr. Robertson on the use of repurchase agreements. He felt that repurchases represented a very useful instrument in the operations of the System Account and that their value had been well demonstrated over a period of many years. For the Committee to give up the use of this instrument would in his opinion be a step backwards. As far as the past four-week period was concerned, Chairman Martin said that he had not studied in detail the use of repurchase agreements in the operations of the Account, but generally speaking he would subscribe to their use. The Committee had many problems that it should be studying and he would commend to all the necessity of spending more time in examining what was involved in handling the System Account. This was a fundamental activity for all of us to have in mind. He then asked Mr. Rouse whether he had any comments he wished to make at this time.

Mr. Rouse said that, as suggested by Mr. Bopp, he had received no previous indication that any member of the Committee was dissatisfied with the operations carried on in the Account since the last meeting. He felt that some of the comments made by Mr. Robertson were rather extreme, but he would prefer to prepare before the next meeting of the

Committee a paper dealing with the points that had been raised rather than to comment on them now.

Chairman Martin stated that he felt this would be a desirable way of handling the questions that had been raised by Mr. Robertson, and it was understood this procedure would be followed.

Mr. Robertson stated that he wished to make one further comment at this time. It was rare for a member of the Committee to call upon the Manager of the Account, he said, and he believed it would be improper if he were to do so, indicating dissatisfaction with the way the Account was being handled. He thought that the Management of the Account should not be influenced by the views expressed by one member of the Committee.

Mr. Rouse stated that he has had such calls in the past, although they have been rare. On such occasions, if he felt that the member's views were at variance with the consensus of the Committee, he has had to make a judgment as to whether to disregard those views or to request a telephone meeting of the Committee. Mr. Rouse said that he is prepared to take the responsibility for making such a judgment.

Chairman Martin suggested that, unless there were further comments, the transactions in the System Account since the last meeting be approved, ratified, and confirmed, noting that in the case of Mr. Robertson he would vote to ratify and confirm but not to approve the transactions.

Thereupon, upon motion duly made and seconded, the open market transactions during the period October 25 through November 21, 1960, were approved, ratified, and confirmed, Mr. Robertson voting to ratify and confirm but not to approve the transactions for the reasons he had stated.

Mr. Balderston said that, in view of Mr. Robertson's statement, he would be interested in having Mr. Thomas comment on what the figures showed with respect to whether the System recently had supplied reserves over and above seasonal expectations.

Mr. Thomas said that the projections of needed reserves that were presented to the Committee at its preceding meeting, measured on the basis of a normal seasonal pattern, would have given total reserves of about $18,600 million. Actually, total reserves for the current week would be close to $18,800 million, or about $200 million more than would have been projected to take care of the seasonal pattern and to maintain free reserves of around $400 million. Mr. Thomas went on to say that during this period there had been much heavier drains on reserves because of market factors than had been estimated at the time of the October 25 meeting. For example, gold outflow had put a much greater strain on the market than had been anticipated and the Management of the System Account had found it necessary to meet that factor. Actual growth in required reserves had been a little larger than would have been projected, indicating that there had been somewhat more than the usual seasonal growth in deposits during the past four weeks. Mr. Thomas said he thought this was in accordance with the aim of the

Committee, and he felt that the figures indicated a movement toward the objectives that the Committee had set. Whether the operations had accomplished the objectives as adequately as might have been done was another question; the results might have been different had there been no concern as to what happened to the Treasury bill rate during this period. In sum, however, it seemed to Mr. Thomas that System operations had progressed in the direction desired by the Committee at its preceding meeting.

A staff memorandum on recent economic and financial developments in the United States and abroad had been distributed under date of November 18, 1960, and a memorandum on projections for member bank reserves also had been distributed to the Committee under that date. With further reference to economic developments, Mr. Noyes made the following statement:

> It would be a mistake, I think, to take too much comfort from the more nearly horizontal course of economic developments in October. While this was clearly preferable to a continuation of the increased slippage that appeared in September, there is little reason to suppose that the scattered gains signal any fundamental change in the situation. The apparent improvement in retail trade was largely associated with the weather and special conditions affecting automobile sales. The rise in housing starts was from a sharply curtailed rate, and there is some indication from the high percentage of permit use that November will see another decline.
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> The rise in unemployment to 6.4 per cent is foreboding, especially in view of the likelihood that the high current level of employment in the automobile industry will not be maintained for long. As pointed out in our memorandum, if the underlying situation does not improve, normal seasonal trends will carry the number of persons actually unemployed

to over five million by February. Put another way, the seasonal factors which have been working recently to minimize the number of persons actually unemployed will be operating in reverse from now until early spring. Hence, the human and financial problems stemming from a relatively high seasonally adjusted rate of unemployment will become more intense even if the rate itself does not increase further.

A similar observation might be made about the steel industry, where no more than seasonal declines are likely to add to the gloom already prevalent. Thus, while confidence may be maintained for a while by the usual seasonal bulge in retail trade, we are likely to see increased concern, and perhaps more outright pessimism, as the winter progresses, even if the seasonally adjusted measures of aggregate performance hold at or close to their present levels.

Neither consumers' nor businessmen's expectations, as reported in recent surveys, provide a basis for optimism regarding the near-term future. If presently reported expectations are borne out, consumer purchases of durable goods in the next six months will be below year-ago levels. For the first time since the bottom of the 1958 recession, less than half the businessmen responding to the Dun & Bradstreet survey expect sales to increase in the quarter ahead. Diffusion indexes of so-called leading indicators are still at low levels, well below 50 per cent.

Having said these rather discouraging things about the prospects for any immediate upturn in economic activity, I should remind you that the declines in activity which have occurred thus far have been very small, and that as yet there is no evidence of any acceleration in the rate of decline.

The prospects are that gross national product in the current quarter will be little changed from the third quarter--perhaps even up a little. For what it is worth, the evidence of future plans suggests that the further declines will be less precipitous than in any other postwar downturn. For example, the McGraw-Hill survey of expectations with regard to plant and equipment expenditures shows an expected decline of 3 per cent, while in October 1957 they reported an anticipated decline of 7 per cent for 1958. Similarly, consumer durable goods purchase expectations are off only very moderately for new automobiles, the item which bulks largest in terms of dollar volume of expenditure. Builders are expecting some improvement in residential housing activity in 1961 and, despite the misgivings some of us have felt about the continuing strength of housing demand, survey figures seem to indicate that there has been only a very moderate decline in the number of families who say they are actively interested in house purchases.

Certainly, the downward drift in the economy so far is not the sort of decline that has generally been associated with a recession in business cycle analysis. It has led to a profusion of new and refurbished descriptive phrases--and I can see no harm in offering still another. I would like to suggest that this might be termed a "moderated recession." An important goal of monetary policy--and, in fact, of all economic policy--is to moderate economic fluctuations. The Executive, the Congress, and the Federal Reserve have all avowedly been working in pursuit of this objective. It should not come as a complete surprise if we succeeded, at least in some small measure. In 1959, for the first time in recent history, bank credit expansion in a boom year was limited to about the amount of increase in time deposits. Fiscal policy inevitably lagged, but the shift from the fiscal 1959 budget to the fiscal 1960 budget was dramatic. The cost-price spiral was checked abruptly as it became clear to all concerned that they could not rely on further inflation to validate wage and price increases not justified by underlying demand/supply relationships. Hence, most of the excesses generally associated with a boom never appeared in 1959 or early 1960. Monetary policy was eased progressively--even while the total output of goods and services was still climbing--and later fiscal policy shifted away from the substantial surplus projected in the early budget estimates. In the light of all these facts, the moderate nature of the downturn so far, and the prospect that aggregate measures of activity, such as gross national product, will decline less this time than in 1954 or 1957-1958, seem altogether reasonable.

Mr. Koch presented the following statement with respect to credit developments:

The main point I would like to make today is that we have been achieving the bank credit and monetary expansion sought in the Committee's current directive. In the four months ending with October, total loans and investments of all commercial banks increased over seven billion dollars, or almost four per cent.

The June through October growth in bank credit was concentrated in holdings of Government securities, as the rise in loans was quite moderate, particularly considering that this was the season of the year when loans usually show their greatest strength. Business loans, for example, the largest component of the loan portfolio as well as the component with the most clearly defined seasonal movement, were down about $300 million from the end of June through October this year as compared with an increase of almost a billion dollars on the average over the same period in most recent years. Despite the greater relative increase in Government securities holdings than in loans in recent months, loan-deposit ratios of banks continue high and have declined only slightly from the peak reached earlier in the year.

Thus far in November, credit and deposits at city banks have declined rather sharply. This is to some extent seasonal and may also be a reaction to the large bank purchases of Treasury bills last month. Nevertheless, the current decline bears close watching.

The active money supply, demand deposits and currency, has also grown during the current half year but much less sharply than bank credit. Over this period, growth in the money supply on our new daily average basis has been about two billion dollars, or four per cent at a seasonally adjusted annual rate. You will note that this percentage growth is seasonally adjusted and expressed at an annual rate, whereas the percentage figure I cited for bank credit expansion was not seasonally adjusted and covered only four months. This is because seasonal adjustment factors are not available for the credit figures and, therefore, annual figures based on a particular season's data would not be very meaningful.

But even after allowing for a lack of direct comparability of the bank credit and the narrowly defined money supply figures, the money supply has grown less rapidly than bank credit, mainly because of the sharp rise in time deposits that has occurred in recent months. Since May, time deposits at all commercial banks have risen $3-1/2 billion, or over 14 per cent on a seasonally adjusted annual basis. Foreign interbank time deposits, however, have risen only moderately in recent months.

Looking at the reserve position of the banking system, free reserves have continued between $400-500 million, and member bank borrowing from the Reserve Banks around $150 million. Available reserves continue to be somewhat maldistributed, with country banks possessing the lion's share of them. The relatively tight reserve position of the city banks, however, is only partly due to the failure of country banks to channel a normal proportion of their resources into correspondent balances with the city banks. It has also been due to the behavior of the city banks in putting new funds that come into their possession to use very promptly, mainly by purchasing Government securities.

The recent course of the outstanding total reserves of member banks also clearly reflects the System's credit-easing actions. Such reserves totaled $18.9 billion on a seasonally adjusted daily average basis in October, as compared with $18.1 billion in April, an increase of almost 4-1/2 per cent over the six-month period.

Regarding the outlook for bank reserves and based on the free reserve figure, the pattern table before you shows that most of the large volume of seasonal reserves required by banks in late November and early December may already have been provided for by the vault cash and reserve requirement ratio actions taken by the Board last month. Even assuming no further System open market operations, which is the assumption underlying the second last column of the table, free reserves would likely fluctuate between $450 and $800 million between now and the next meeting of the Committee in mid-December.

These free reserve figures, however, may be quite misleading over the next couple of weeks. In the first place, the reserves already provided for will at first be available in the main at the country banks. Their flow to the cities may very well be slow, as has been the case several times in the recent past. Secondly, seasonal liquidity needs are approaching and these tend to be concentrated at city banks. Therefore, it would seem the part of wisdom over the next three weeks for the Desk to make sure that money market conditions and city bank reserve positions are kept quite comfortable, lest financing knots develop that threaten the desirable bank credit and monetary expansion that seem to be in progress.

It is undoubtedly too early to assess convincingly the results of the Account's recent actions in buying short-term certificates, notes, and bonds as well as Treasury bills. A few tentative judgments on the operation, however, may be in order.

First, as to the facts about recent System open market operations, in the four weeks ending November 16 the Account provided over a billion dollars of reserves through net purchases of Government securities. Roughly half a billion were through repurchase agreements with dealers, a quarter of a billion through direct purchases of Treasury bills of varying maturities, and another quarter of a billion through purchases of short-term certificates, notes, and bonds. Over the same period, the main reserve drains were a gold outflow about half a billion dollars and an increase in currency in circulation of a quarter of a billion.

As for our recent operations in short-term securities other than bills, both their market interpretation and observable results underline their modest character. They have been taken in stride by the market as a minor change in practice. In general, the operations seem to me to support the "bills preferably" policy, at least in so far as the policy applies to the short-term area of the Government securities market. Short-term Government securities other than bills have been available only in relatively limited quantities and it has apparently been more difficult to buy them on a "go-around" basis, thus raising questions not only of equity in doing business with the various dealers but also of being sure of getting the best price. The question of buying on a best price basis also becomes difficult to accomplish when it is necessary to compare prices of what are in effect two different commodities, say a 3-month bill and a 13-month bond. In such a case, the determination of best price necessitates a judgment about the appropriateness of a given yield curve.

On the other hand, it does seem possible, by buying different types and maturities of securities, even those concentrated in the short-term area, to achieve some differential effects on their interest rates, at least in the short run. This is undoubtedly due in part at least to expectational or psychological reasons, which may be beclouding to some extent real market forces.

The evidence of the differential effects of our recent open market operations on interest rates of various short-term Government securities is by no means clear, however, for this is the season of the year when short-term bill rates usually rise. Nevertheless, it does seem likely that such rates have risen more recently than they would have if open market operations had been confined to bills. I hasten to add that the differential effects on rates, if they have in fact occurred, probably have been small, indicating that private arbitrage in the short-term area has been quite effective.

As a final note on these operations, outside observers have commented quite generally that they bear witness to the flexible character of the System's actions and its willingness to try different techniques to achieve the maximum contribution of monetary action to economic stability. This is all to the good, for comment on the manner in which we conduct our operations in the Government securities market has gotten way out of hand and has brought upon us much undesirable and exaggerated criticism.

Mr. Hersey presented the following statement with respect to the United States balance of payments and related matters:

Indirect evidence suggests that the fairly large miscellaneous outflows of private capital from the United States that began earlier this year, and increased after the British and German discount rate increases in June, have been continuing. Much of this flow has to be estimated as a residual from known items in the balance of payments: we suppose that it includes such things as leads and lags on commercial payments, withdrawals by foreigners of money previously held in various types of assets in this country outside banks, and movements of U. S. nonbank funds to other countries.

Tentative estimates for the balance of payments in the July-to-September quarter suggest that unrecorded capital outflows exceeded one-half billion dollars in that period. These unrecorded outflows, taken together with something less than one-half billion of recorded outflows of U. S. private short-term loans and investments abroad, and blown up to annual rates, explain all but a small part of the over-all deficit in the third quarter, now estimated by the Commerce Department at a little under $4-1/2 billion (annual rate).

In addition, there have been net withdrawals of foreign private deposits and other known liquid assets in August, September, and October. Declines in foreign private dollar holdings result in larger additions to foreign official reserves, and these official reserve gains have been leading to large purchases of gold from the United States.

Foreign gold purchases this month have been very large, about $400 million thus far, after about $300 million a month in both September and October. However, this month foreign official dollar holdings at the New York bank have declined, through the first half of November, so that the net addition to official gold and dollars together has been less rapid than in October. The general impression to be gotten from these changes during November and from the more inclusive figures now available for October is that the over-all deficit in the balance of payments has stayed at a high rate. (The over-all foreign gain of gold and dollars in October was about $500 million, according to a very preliminary count, and as private dollar holdings declined, the official gold and dollar gain was about $600 million.) To create this deficit, it is pretty clear that miscellaneous capital outflows have been continuing pretty heavily.

Whatever the causes of these private capital movements have been, there is a real danger that the movement might snowball into much larger dimensions than we have seen yet, and with much larger participation by Americans, if a flight psychology should really take hold. A sidelight on this, which may or may not mean anything, is that the price of gold on the London market has now come down to about $35-1/2.

Meanwhile, the merchandise trade surplus in the third quarter exceeded $5 billion, annual rate, and though a leveling off seems to have begun last summer, we anticipate that no great change will occur in the present quarter. At this rate, the United States has been very close to a temporary equality of its international receipts and payments, apart from recorded short-term capital movements and the outflow of unrecorded capital.

However, many people understand that a really satisfactory balance in our basic international accounts--a balance that would hold over an average of good and bad years--is not going to be achieved in a matter of months, but is going to take a few years at best. Also, many people realize that a lot lies out of our hands: it is essential that we avoid inflation in this country, but it is also necessary that other countries, with surpluses in their balances of payments, take actions to reduce those surpluses.

Given all these circumstances--a persisting underlying lack of balance, requiring adjustments abroad as well as here, and an uneasy psychological situation--the Presidential directives issued last week served two purposes. (1) They were fairly drastic actions to show that the United States has no thought of devaluing the dollar. (2) They were a forceful reminder to countries with balance-of-payments surpluses, like Germany, where Secretary Anderson and Secretary Dillon are conducting talks this week, that we expect greater efforts on their part to get back to balance in international payments.

The German balance of payments this year has been in many respects the opposite of ours. Despite extreme boom conditions, they still have a small surplus on current and long-term capital accounts combined, and their earnings from foreign military expenditures are a very important factor in this surplus. On top of this there has been a very large inflow of capital, much of it unidentifiable--like our outflow.

While the German boom continues, and credit conditions remain tight, it is too much to hope that the German discount rate reduction twelve days ago, from 5 to 4 per cent, will change the situation drastically. Similarly, the British bank rate reduction on October 27, from 6 to 5-1/2 per cent, though it was made explicitly to reduce international rate differentials, did so only to a small extent.

In both Britain and Germany, and in Europe generally, there has been some easing of conditions in automobile and textile markets, and an approach to balance at a high level in steel markets. Nevertheless, demand has continued extremely strong for capital goods. For example, in the machinery and equipment field excluding autos, British new orders have exceeded deliveries by an average of 14 per cent over the first eight months of 1960, and in Germany the corresponding rate of monthly buildup in order backlogs during the first nine months equalled 20 per cent of monthly deliveries if you take the whole machinery and equipment sector including autos, and 30 per cent if you limit it to non-electrical machinery.

Another feature of the German situation--not paralleled in Britain--has been the accelerating rate of growth in retail sales, excluding autos. Whereas year-over-year gains in retail sales in 1959 averaged 5 per cent, they averaged 7 per cent in the first half of 1960, 8 per cent in August, and 11 per cent in September.

Given this strength in important focal centers of demand abroad, I would not expect any marked weakening in world trade in the next few months. Moreover, taking into account also the British failure so far this year to keep their exports from sagging while their imports remain high, and the very important part interest-induced capital movements have been playing in British reserve gains, I would not expect any further cuts in British or German discount rates in the near future.

Mr. Mills said that Mr. Hersey had spoken in terms of a gold outflow that recently had been running at a rate of $4.3 to $4.5 billion during the year. He pointed out, however, that the net gold outflow during the calendar year 1960 would be substantially less than $4.5 billion and that use of the annual rate of outflow might result in misunderstandings.

Mr. Hersey stated that the annual rate of net transfers of gold and dollar liquid assets from the United States during the first half of 1960 was under $3 billion, whereas in the third quarter it was running at a rate of approximately $4-1/2 billion. If the balance-of-payments deficit continued at the recent rate to the end of 1960, the total for the year would be somewhere between $3 and $4 billion.

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

The state of the domestic economy is not yet encouraging. There is little evidence of a probable pick-up in the near future. Since consumer spending is such a large part of gross national product, and since an early revival of economic expansion may well hinge on a resurgence of consumer spending, it is a little disturbing that consumption expenditures in the third quarter of 1960 showed the first drop since the 1957 recession. While there was a good recovery in retail sales in October, automobile "clearance sales" played so large a part that we cannot rely on the one-month figure as indicative of a trend. The expected seasonal rise in unemployment in the winter months may prove to be a deterrent to spending.

Inventory changes seem more likely to act as a drag on the economy than as a stimulus in the next few months. However, changes in total inventories this year have not shown any unhealthy aspects of cumulative decline. Some further realignment of inventory positions should still be consistent with continuation of the same general business climate that we have been living with most of this year.

Although private housing starts rose in October, the easing of mortgage credit has been modest. A sustained upturn in housing may still have to await a further easing of credit terms.

Business spending on plant and equipment is leveling off under the influence particularly of declining corporate profits. But we can take some comfort in the McGraw-Hill survey which suggests that there may be no significant decline in the offing.

As for the stimulating factors, we can probably look forward to a continuing uptrend in State and local government spending, and to higher Federal expenditures.

Significant bank credit developments in October included a pronounced weakness in loan activity (reflecting in part a sizable shift in sales finance company financing from the banks to the commercial paper market), but a marked rise in securities holdings and in total loans and investments. While the money supply rose sharply in October, the absence of any additional Treasury cash financing programs until late next spring indicates that a major source of increases in total bank credit and the money supply will be missing in the next five or six months. Also, Treasury deposits are likely to remain at a high level through the remainder of the year. However, we have at least achieved continuing sizable gains in total bank reserves, in bank liquidity, and in the total liquid assets of the nonbank public.

On the international financial front we can see some glimmer of light for the first time in several weeks, with the dollar showing greater strength in the exchange markets, the London gold market tending toward lower prices and diminished activity, the establishment of a helpful trend of interest rates in Europe, and clear signs that effective steps are being taken by the U. S. Government to reduce our balance of payments deficit. However, it is much too soon to cheer, and we should continue to give very careful attention to international considerations in the formulation of credit policy.

It seems to us that domestic economic conditions, and especially the substantial and growing unemployment figure, fully warrant our maintaining the current policy of ease and would in fact justify some leaning toward greater ease, if this can be accomplished without forcing short-term market interest rates below current levels. In some respects the task for open market operations seems less difficult than a month ago, for the gap between interest rates here and abroad has narrowed. Furthermore, the projections now suggest that few open market purchases will be needed in the next three weeks, thanks to the prospective release of reserves through the vault cash and reserve requirement changes. Should these latter sources of reserves prove unavailable, repurchase agreements could probably be used to make up the difference. I should think the Manager might be instructed to maintain, and preferably to increase moderately, the degree of ease prevailing in recent weeks, with primary attention to the feel of the market rather than to free reserve levels, and with the proviso that strong efforts be made to prevent a decline in Treasury bill rates. Incidentally, free reserve figures may become even less significant than usual after the changes in requirements become effective, since country banks are slow to make use of newly freed reserves.

I would think it unwise to reduce the discount rate at this time. To do so would tend to dissipate the important psychological benefits to the dollar which have resulted from the cuts recently initiated by the monetary authorities of Britain and Germany. The directive seems satisfactory in its present form.

While there do not seem to be any great difficulties for credit policy in the next three weeks, the dilemma between domestic and international objectives could become seriously aggravated over the coming months, if recessionary tendencies here should gain strength and if our balance of payments problem should prove recalcitrant. In that event, it might be necessary to think of new techniques to add reserves without depressing short-term interest rates unduly. The suggestions made by a couple of members of the Committee at the last meeting for experimenting with open-market transactions over the whole maturity range might well offer one very worthwhile approach. Under present conditions we are certainly justified in maintaining as flexible a view as possible of all alternatives for solving this perplexing policy dilemma.

Mr. Irons said that business conditions in the Eleventh District had been a trifle more favorable since the meeting on October 25 than he had reported at that time. Changes ranged from moderate declines in some areas, to no tendency toward deepening of earlier declines, to slight gains in some fields of activity. Conditions in agriculture were good. Unemployment as a percentage of the labor force was lower than the national figures, with most of the unfavorable trends centered in the manufacturing area. Attitudes were good.

After reviewing the financial picture, Mr. Irons said that he had been quite pleased with operations directed toward carrying out the Committee's policy during the past three or four weeks. He felt the Account Management had handled the situation satisfactorily and had achieved what he believed to have been an adequate degree of ease. Mr. Irons said that he would like to see the Committee's objective for the next period maintained about as it had been during the past four weeks. He did not feel the System Account should attempt to force further ease in the market. Operations had been accomplishing some of the things the Committee had desired such as an increase in bank credit, an increase in the money supply, and a better situation in the short-term rate structure. While the situation did not call for forcing further ease, Mr. Irons noted that the distribution of reserves had been uneven and that some of this might be corrected as vault cash was released. It would take several weeks for the effects of the vault cash release to extend from the country banks to the money centers, he said, and the free reserve statistics that would appear in the next few weeks would not be entirely meaningful. He would be pleased if the System Account could continue to hold about the degree of ease that had been attained, not being guided too much by free reserve statistics and taking into consideration the distribution of reserves. Mr. Irons said that he hoped the short-term Treasury bill rate could be held somewhere near the 2-3/8 per cent level, that he would be pleased if the Federal funds rate would range between 2-1/2 and 3 per cent, and that he would not be disturbed to see banks using the discount window for some of their current needs up to the $250-$300 million area for the System as a whole. He hoped that it would be possible to avoid substantial direct open market operations and would prefer that the System make reserves available to the market by repurchase agreements as far as possible in order to relieve any pressures that might occur on banks.

Mr. Mangels said that Twelfth District conditions continued to be spotty. Steel production had dropped below the 50 per cent rate and steel operators anticipated no improvement in the immediate future. Residential construction had been lagging and during the first nine months of 1960 had been 14 per cent below a year ago, although total construction contracts in September were 4 per cent higher than a year earlier. The lumber situation was weak, and unemployment continued fairly severe in both the Pacific Northwest and California.

Mr. Mangels said that operations for the System Account, both as to what was done during the period since the last meeting and the way in which it was done, had been handled excellently in his judgment. A few inquiries had come to the San Francisco Bank regarding a change in Committee policy as to purchases of securities other than bills, but those inquiries had not been pressed. The only reservations he had in connection with operations had to do with the use of the preferential rate on repurchase agreements for nonbank dealers in Government securities. He recognized, however, that there undoubtedly were circumstances that made the offering of such a rate desirable in this particular instance.

With reference to policy, Mr. Mangels said that it might not be easy to maintain the bill rate between 2 and 2-1/2 per cent during the next few weeks as would be desirable. In these circumstances he felt the Manager of the System Account should have considerable leeway in operations directed toward carrying out the Committee's policy during the next few weeks. Mr. Mangels felt it would be necessary for the Manager to base his operations on the feel of the market to a considerable extent. He would go along with the use of repurchases to the extent that that was necessary at rates below the discount rate, but as a practical matter he felt it likely that most of the operations would be directed toward absorption of reserves that might result from the release of vault cash rather than the supplying of additional reserves in this period. Mr. Mangels concluded his remarks with the comment that he would try to keep free reserves around the $500 million level and that he would make no change in either the discount rate or the directive at the present time.

Mr. Allen presented the following statement:

The business news in the Seventh District is again mixed. Production cutbacks are underway in television, construction machinery, and autos, all important in our area. But construction contract awards remain strong, particularly in the case of large public and private jobs. And consumers appear to be more willing to spend than in the third quarter.

The rate of steel operations in the District has for some time been a few points higher than the national average. The differential continues but is not what it was. Our friends in the business estimate that steel poured in the fourth quarter will be no more than 20 million tons, the same as in the third quarter. And their projections for the first half of 1961 are now 40 million tons, the same as the second half of 1960, which would imply a further letdown of total industrial activity. Possibly these people are as excessively pessimistic as they were excessively optimistic a short time ago.

Department store sales in the Seventh District were 7 per cent below last year in the week ended November 12, compared with 2 per cent less for the nation.

On the other hand, total construction contract awards in the third quarter were 5 per cent higher in our area than a year ago--2 per cent higher in the nation. Residential awards continued weak but public works and public utilities combined were up 43 per cent over last year in our district--30 per cent higher in the nation. And there is evidence that awards continued in large volume in October.

The number of automobiles sold in October was the highest for that month in history. November has started off so well that it should come close to the record November thus far, that of 1955. But production has been at such a high level that the large inventories are bringing reduced production schedules, despite the good sales. It is estimated that inventories at the end of November will be about the same as on November 10, 963,000 cars. One factor which I have mentioned before is that this year there are 24 different makes of cars compared to 18 a year ago.

The normal seasonal pattern of loan expansion has not occurred in our district either. And the only noticeable evidence of pressure is in our two dealer banks. Their deposits have held up, and their tighter position reflects mostly increased bill holdings. Our other central reserve city banks and our reserve city banks are in an easier position and many of them are sellers of Federal funds. Our country banks have followed the national pattern of higher excess reserves and lower borrowings.

In the matter of monetary policy I feel that we should endeavor to continue with about the same degree of ease as that of the past several weeks. To repeat what I have said before, monetary policy has done its job and I fail to see how greater ease would make a desirable contribution at this time. As a matter of fact, I have had qualms about whether the present degree of ease, although appropriate to the state of the domestic economy, is proper in the light of the international situation. I have partially resolved those doubts on the theory that, even though our relatively low interest rates are contributing to the gold outflow, that outflow has dramatically brought attention to the fundamental causes of our balance-of-payments deficit, whereas a higher rate structure would have meant less loss of gold immediately but

> would have delayed public concern and action and thus have postponed the evil day, and an even more evil one. That justification of what we are doing may appear to be circuitous reasoning, but it helps me to the conclusion that we can properly continue on our present course. I would not suggest any change in the discount rate or in the directive.

Mr. Leedy said that there were a few signs in the Tenth District of improvement in the economic situation but that they were not very strong. Generally nonfarm employment was showing some improvement but was overbalanced by slackening in manufacturing. Mining employment in Oklahoma was at the lowest level since 1951. Construction had been exceeding the levels of a year ago with strong gains in public works, utilities, and other nonresidential construction accounting for these gains. Residential building continued well below levels of a year earlier. Harvesting operations in the Tenth District were progressing rapidly with both wheat and corn crops large. Fall sown wheat was doing well and pastures in most parts of the District were in good condition. Retail trade appeared to have shown a fairly sharp increase during the past few weeks as compared with a year ago. Business loans had increased seasonally, although there had been some lessening in loan demand in other categories in the past four weeks. A considerable part of the loan expansion this fall was in commodity and food lines. At the Reserve Bank, borrowing continued relatively higher than in most other Districts with fairly active demand from country banks.

Mr. Leedy said that he would align himself on policy for the next few weeks with those who would, if it were possible, add some further ease. He would not force reserves into the banking system but to the extent that reserves could be put in without driving interest rates, particularly on the short end, lower, he would conduct probing operations with a view to making additional reserves available. He would be concerned about placing too much reliance on net free reserve figures because of doubts as to whether they represented the actual degree of ease. This was particularly true because of the unequal distribution of reserves among country banks.

Insofar as the past four weeks were concerned, Mr. Leedy said that it seemed to him that the accomplishment of what appeared to be two incompatible results had been of importance. The System had injected very large amounts of reserves into the banking system but at the same time the downward drift in interest rates, particularly in the short-term area, had been reversed. At the time of the October 25 meeting he had been concerned as to whether these two objectives could be accomplished; that is, whether the System could provide the reserves needed for the domestic economy and at the same time not intensify the condition in short-term interest rates that was encouraging an outward movement of funds. This had seemed to be an almost insurmountable problem, but as he now saw it the desired results had been accomplished to a considerable degree and the System had moved as it should have moved. Whether this could continue indefinitely was another matter. The projections of needed reserves now before the Committee indicated that perhaps any additional needed reserves could be supplied through repurchase arrangements. Mr. Leedy said that he would subscribe to use of this procedure. He also said that while departure from transactions in bills and the extension of repurchase arrangements at rates below the discount rate were matters that normally he would not subscribe to, it did seem to him that in the situation that had confronted the System the liberal use of these alternatives had been justified. He would make no change in what had been done during the past four-week period other than, if possible without adversely affecting short-term rates, to attempt to provide more reserves.

Mr. Leach made substantially the following statement:

The general level of Fifth District business activity continues in a slight decline. Seasonally adjusted non-agricultural employment has declined only a little since its May peak, but manufacturing activity, as measured by seasonally adjusted manhours, has decreased about 5 per cent. The furniture industry was fairly well satisfied with the fall market and expects to finish this year close to last year's record level. The lag in new orders for textile products has been met by reductions in output so that inventories have remained fairly well under control, prices soft but resistant to sharp declines, backlogs fairly strong, and prospects good that the current adjustment period will be fairly brief and moderate. Public and industrial construction continue at high levels, and new contract awards in these areas are increasing. With considerable numbers of unsold houses in existence in some parts of the district, home building and the lumber industry show substantial declines. Consumption of cigarettes, 80 per cent of which are produced in the Fifth District, is still increasing at an annual rate of about 5 per cent.

In spite of a more-than-seasonal rise in business loans, total loans of district weekly reporting member banks moved irregularly downward over the four weeks ending November 9, exhibiting considerably less strength than in the comparable period of any of the five previous years. Average daily borrowings at the discount window continued well below the levels of like periods of previous years, and district banks remained net sellers of Federal funds.

In implementing open market policy during the next three weeks, I suggest in view of the large release of vault cash that we lean relatively more heavily than usual upon the tone of the market, with particular attention to short-term rates. Experience has indicated that country banks are slow to use additional cash reserves and consequently the volume of free reserves is likely to indicate more ease than actually exists. I see no reason to change the degree of ease that we have been aiming at and I would not want a sloppy market, but I would not be hasty in mopping up temporary bulges in free reserves if they should occur. I have been happy about the level of the 90-day bill rate during the past several weeks and hope we can continue to do our job in the period ahead without causing a sizeable reduction in the rate. In general, I think monetary policy has made a useful and appropriate contribution in recent months and no further moves will be needed until there is a further change in economic conditions.

Mr. Mills said that from now to the end of the year the first call on the Committee's thinking might properly be how to devise ways and means to prevent a contraction in the active money supply in the first quarter of 1961. Although there has been a less than normal seasonal expansion in bank credit this fall, there should nevertheless prove to be a seasonal contraction of bank loans during the weeks immediately after the turn of the year that would have a depressing effect on the active money supply. This should be forestalled, Mr. Mills said, so as to prevent even a remote possibility of touching off a deflationary spiral in bank credit. As to means for preventing any such possibility, thought might be given to placing less emphasis on the absorption of reserves after the year-end than has been the Committee's practice in other years. Similarly, thought might be given by the Treasury to advancing its projected cash borrowing from April to some earlier date in the first quarter of 1961 so as to provide a springboard for maintaining or increasing the money supply and as a means of absorbing some of the reserves that would automatically develop after the year-end. Lastly, attention might be turned to the fact that two elements that have given most strength to the improvement in the active money supply have been the Treasury's two issues of tax anticipation bills, one of which will mature on March 22 and the other on June 26, 1961. Some of these securities are still in the portfolios of the banks and, particularly in the case of the March 22 bills, there could be a downward kink in the money supply at that time, if not forestalled by advancing the date of the Treasury's contemplated cash borrowing on a tax and loan account basis.

With respect to current policy, Mr. Mills said that he would be among those who would be content if the supply of reserves between now and the end of the year developed pretty much in line with the weekly average figures submitted in the projection handed to the Committee this morning. There should not be an oversupply of reserves, but banks should be kept in a relatively comfortable position. With respect to the imminent release of vault cash that will supply reserves, Mr. Mills said that he was not as concerned about the lag between their availability at the country banks and their becoming available in money market centers as he might have been in the past. This was because country banks are to be subjected to an increase in their reserve requirements of 1 percentage point simultaneously with the release of vault cash which would give them an automatic stimulus to put the reserves that became available through the release of vault cash to effective use. Mr. Mills said that he would not favor a change in the discount rate at the present time.

Mr. Robertson made the following statement:

> In the light of prevailing economic conditions as sketched by Mr. Noyes, and in order to give monetary policy a chance to perform whatever it can do in swinging the economy back into a moderated upward position (rather than a moderated recession point), I believe we should permit the total volume of bank reserves to rise further. I suggest we should strive for a level of free reserves in the neighborhood of $550 to $650 million. This means that we will have to absorb from $250 to $350 million of reserves, over the next three weeks, through the sale of securities from our portfolio. I would think this would permit bill rates to range above 2 per cent but not as high as they have reached during the past two or three weeks. I would expect the Federal funds rate to be lower than the recent average level.
>
> In this period (and the next one) perhaps it would be well to continue our experiment, <u>but in reverse</u>. Why not try to sell some of the securities - other than bills - we have acquired during the past four weeks? I would not expand the "experiment" into longer-term securities over the whole range of maturities - as suggested by Mr. Treiber.
>
> In addition, although it is not a part of the Open Market Committee function, in order to get more people thinking about the subject, I suggest that the System should take advantage of this "no pressure" interval to lift the ceiling on interest rates on time and savings deposits to perhaps 5 per cent - so high that it would not indicate a belief on the part of the System that banks should pay that rate, a rate that would not be

> approached by any commercial bank. This would free commercial banks to set their own rates in the light of their ability to pay, and the competitive conditions prevailing in their respective areas.
>
> It would certainly enable commercial banks to compete with other types of financing institutions for savings. It might tend to increase total savings. It might even tend to start a return flow of foreign funds back into American banks and perhaps have an impact on the gold outflow.
>
> Such an action should be accompanied by a carefully worded statement showing clearly that the action was experimental and that the System would remain in a position to lower the ceiling if speculative or unsound tendencies developed which threatened the banking system.

Mr. Shepardson said he was in complete agreement with the position that had been expressed by Mr. Irons. The country seemed to be in a good credit position at the moment and the degree of ease currently was sufficient. With the release of vault cash, there might be some deviation in the figures that would disclose the need for a change in the free reserve level, but he would not like to see any added ease pressed on the market as compared with the level that now existed. For that reason, Mr. Shepardson said that the views expressed by Mr. Irons as well as Mr. Allen seemed to him to describe the appropriate credit policy to be followed, both in terms of the domestic situation and the international situation.

Mr. King said that with free reserves in the neighborhood of $500 million, the position in the market should remain comfortable for the next few weeks. While the bill rate could not be controlled in minute degree, a range of from 2.20 to 2.30 per cent would seem to him to be desirable in this period. During the past few weeks there seemed to have been more problems to be handled by the Desk than in any similar period since he had been a member of the Committee, Mr. King said, and he felt the rebound of the bill rate to around the 2.50 level during that time had been desirable. This would go a long way toward discouraging any notion that the Federal Reserve was going to press easy money in order to deal with problems that could not be cured by money. For this reason, he would echo the thoughts expressed by Mr. Allen and he would add that he saw no reason for a change in the discount rate at the present time.

Mr. Fulton said that no significant change in the over-all economic picture of the Fourth District had appeared in the past four weeks. New model automobiles were selling fairly well but department store sales had weakened during this period. Unemployment was slightly less on a seasonally adjusted basis but it had increased in actual numbers. Construction had been holding up fairly well other than in the residential area. The steel industry is still running at about half its capacity, and people in the industry look for a continuation of the present rate of production almost to the fourth quarter of 1961.

Mr. Fulton said he looked upon the activities of the Desk as having been very good in the past four-week period. A large volume of reserves had been supplied without upsetting the market so far as the rate structure was concerned. Looking ahead, the earlier degree of ease should be maintained, disregarding the statistics of free reserves. Great difficulties existed for the Desk in trying to maintain any particular target of reserves, particularly in view of the early release of vault cash. For this as well as other reasons, Mr. Fulton said he believed the Desk should operate with as great latitude as could be given to it in carrying out the Committee's policy. He would make no change in the discount rate or in the Committee directive at this time.

Mr. Bopp said that there were no encouraging economic developments in the Third District to be reported. Final demand was no more than holding its own. He would not favor a change in the Committee's directive nor in the discount rate at this time and a comfortable reserve position should be maintained in the market for reasons already mentioned. Particularly because of the prospective release of vault cash, no special attention need be given to the level of free reserve figures during the period immediately ahead. With respect to Mr. Robertson's suggestion as to the maximum rate of interest on savings and other time deposits, Mr. Bopp said that he was sympathetic with the suggested approach to the problem. The Reserve System was concerned with money rates, but it seemed to him that to regulate a specific rate in the market was not consistent with the general position of having the market determine the price of money.

Mr. Bryan said that the economic situation in the Sixth District did not differ materially from national trends. As he looked at the reserve figures, it seemed to him that the System was moving in the right direction and he believed that it should continue to move in the same direction. It appeared that free reserves in the week ending November 16 averaged $445 million. It looked to him as though maintaining that figure would bring about approximately $18,949 million of total reserves for the next three weeks, which would be around $200 million more than last week's level. He did not think this would be excessive. Mr. Bryan said that he would advocate that the Committee aim at maintaining the free reserve figure as a general target without requiring that the Manager of the System Account hit or pretend to hit the figure on the nose. Mr. Robertson had advocated a figure somewhat higher than the one he (Mr. Bryan) had cited, and he would not argue much about that figure if it appealed to the Committee. Mr. Bryan said he could agree also with those who saw this as a particularly difficult time, one in which any particular figure should not be given as a single guide for the operation of the Desk. At the same time he believed that the Committee had a fundamental and basic and moral responsibility to give guidance figures and that the Committee should not abdicate this responsibility merely because it happened to be in a difficult situation.

Mr. Johns said there was nothing in the Eighth District business picture so different from the country as a whole as to warrant comment. So far, the St. Louis Bank had not been called upon to accommodate the Memphis cotton banks at the discount window, which was quite unusual at this season of the year. After commenting upon the reasons for this, Mr. Johns said that he anticipated that a demand for accommodation would develop sooner or later and that when that time arrived he would regret the necessity for charging the Memphis banks a discount rate having the present relationship to other short-term interest rates. However, he would not suggest a change in the discount rate at this time.

With respect to the operation of the System Account during the past four weeks, Mr. Johns said that he doubted whether a tight condition in the money market was consistent with the consensus at the meeting on October 25, at which time the conclusion was to supply seasonal reserve needs on a liberal basis with doubts to be resolved on the side of ease and with emphasis on the tone of the market. Apparently the tone of the market said that the market was tight. Mr. Johns said that he doubted that it would be practicable to expect the Manager of the Account to derive a consensus from comments by individual members of the Committee between meetings that differed from the consensus at the most recent meeting. So long as the intervals between meetings were not so great as to risk dire consequences, he felt the best procedure was to assume that operations would be carried on by the Desk from one meeting to another, and to bring up at a meeting any questions regarding operations during the preceding period. Mr. Johns recalled that at the October 25 meeting he had indicated that he was not sanguine about buying securities other than bills as a means of keeping the bill rate from going down, although he was willing to experiment. He did not think the experimentation in the past four weeks had proved anything in that regard. The bill rate had gone up, but he doubted that this was related to the fact that the System Account had purchased securities other than bills.

Mr. Johns went on to say that, for the next few weeks, the Board of Governors had taken action to inject a substantial quantity of reserves into the market through the release of vault cash. In view of this action, which he felt was wholly appropriate, the question was not whether the Committee should force additional reserves into the market. Rather, it was whether it should try to offset the reserves that would be made available by the release of vault cash. Mr. Johns said that he would prefer the Committee should not take action to offset these reserves. This would mean that the free reserve figures were going to be all over the lot. He hoped the Committee would not become frightened if this happened or if free reserves went to a figure beyond the range of any target that had been spoken of by the Committee at any recent meeting. He would let the reserves from vault cash stay in and would not try to offset them. In his view, the economic situation in this country was such as to call for continuation of a policy of monetary ease.

Mr. Szymczak said that in the light of the deficit in the balance of payments and considering all other factors, his judgment was that monetary policy had been about as nearly correct as it could be in recent weeks. He thought that no change was called for at this time in the directive or in the discount rate or in operations for the System Account. He would have as a target a free reserve figure more or less in line with the staff projections, but he would not allow such a figure to be a definite guide nor would he permit the amount of free reserves to go too high. The System Account should continue to watch the reserve supply from day to day and from week to week, and to the extent that it was necessary to put in any additional reserves at any time he would favor doing this through the use of the repurchase agreements much as was done during the past four weeks.

Mr. Balderston said that the System was walking a narrow path between domestic slide in the economy and a foreign outflow of gold. On one side, there was need for an increase in bank reserves to fortify the money supply still further as an antidote to unemployment. On the other side there was a need for maintaining the bill rate sufficiently so as not to encourage a movement abroad of short-term funds. Mr. Balderston said that his feeling was that seasonal factors between now and December 21 would help to maintain bill rates. One might conclude that any additional reserves that could be supplied to the market should be supplied between now and December 21. On the other hand, any redundancy of reserves would add to the problem with which the Committee would be faced in January. After commenting on changes in the money supply during the past few months, Mr. Balderston said that his conclusion was that the Committee should keep the degree of ease indicated by the staff projections placed before the Committee this morning. In short, as Mr. Mills had intimated, market forces should be permitted to operate unchecked by offsetting System actions until the next meeting of the Committee. If, however, the bill rate were to drop to or below 2 per cent, Mr. Balderston said that he would hope that the Desk would then intervene. He would make no change in the discount rate at this time. In response to a question as to the significance of December 21, Mr. Balderston said that in years past bill rates had tended to rise between the latter part of November and about December 21 and he was using that period for his comments.

Chairman Martin said that he felt System policy had been about as good as could have been expected over the past period. He continued to believe that the balance-of-payments problem was the most important problem for the country to deal with at this time. This was because he believed it to be the most significant shadow in the domestic business picture, and the only way that he could point this up was to say that the credit of the United States was now in danger. This had not happened for a very long time. It represented a real shadow for the planning of or making capital expenditures. This truth must be recognized. The dollar had been stronger recently, partly because of measures that had been taken publicly, but this should not mislead the members of the Committee into thinking that the problem was not very difficult. Until the whole world had a clear understanding of what the new Administration contemplated, it could be anticipated that there would be great difficulty in following a proper course. Unquestionably the new Administration would engage in some increased spending. The budget was already precariously in balance.

If increased spending occurred with a declining business picture, there could easily be a substantial deficit to deal with. The System should keep itself in position to be helpful in whatever way it might help. One word of caution on this, the Chairman said, was that more and more he got the impression that there was a conviction on the part of a good many people that all our problems--the budget, the cost-price relationship, debt management policy, and the like--could be solved if the System would just raise short-term interest rates and lower long-term interest rates. While this might be an overstatement, it represented the approach that some people were taking. In the Chairman's opinion, there was a very real question whether the System could operate in longer maturities for more than a very brief period of time without running into difficulties. The real point was that, when an attempt was made to determine the short rate against the long rate except for a very short period of time, the System would be in trouble. This was a problem that all members of the Committee should be studying carefully in the course of the next several months. The System did not wish to fall back into a pattern of rates or a partial pattern of rates.

Chairman Martin said that so far as today's meeting was concerned, it was perfectly clear that Committee policy was proceeding in a generally satisfactory way. There was no suggestion for a change in the discount rate nor for a change in the Committee's directive. So far as instructions to the Account Management were concerned, Chairman Martin said that he would suggest that Mr. Rouse be guided by the discussion that had taken place. Mr. Mills and others had made a good point on not trying to offset the reserves that would become available from vault cash, and in the Chairman's opinion there was certainly no need to try to be precise in any such offset when the Committee was thinking in terms of generally continuing a policy of ease in the money market. He then inquired whether there were any other comments with respect to instructions to the System Account and no comments were heard.

Chairman Martin then inquired of Mr. Rouse whether he had any comments to make, and Mr. Rouse suggested that the limitation of $1.5 billion approved for the first paragraph of the directive at the meeting on October 25 be restored to $1 billion.

> 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 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 a 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 to the Securities Department quarterly statistics on the volume of individual Government securities dealers, stating that he had discussed this subject with Mr. Hayes and that, with Mr. Hayes' agreement, he would suggest that the matter be tabled. There was no disagreement with this suggestion.

Chairman Martin stated that unless there was objection the next meeting of the Committee would be held on Tuesday, December 13, 1960, and that the following meeting would be scheduled for Tuesday, January 10, 1961. No objection to the fixing of these dates was indicated.

Mr. Treiber stated that he would like to join in the suggestion that Mr. Robertson had made regarding the desirability of raising the maximum permissible rate of interest payable on time and savings deposits under the Board's Regulation Q, Payment of Interest on Deposits.

Mr. Leedy said that he would be happy if the Board could be relieved of the responsibility now provided under the law for fixing maximum rates of interest on time and savings deposits. He felt that an attempt to regulate the level of interest rates on time deposits should not be lodged with the Board. However, it would be unrealistic to fix a rate far above a figure that any bank might pay and say that the Board was administering the existing legislation. Therefore, in Mr. Leedy's view the Board should be relieved of responsibility for fixing any such rate by legislative action.

Chairman Martin said that this was an appropriate subject for discussion. He also commented with a smile that of course a good case could be made for permitting banks to pay interest on demand deposits.

Mr. Mangels commented that, as a matter of interest, share accounts at savings and loan associations in the Twelfth District had risen sharply in both 1959 and thus far in 1960, whereas investments had increased by a lower percentage. This suggested that it might be only a question of time until the savings and loan associations in the area would not be able to pay the increased rates on share accounts that they had been offering as a means of attracting savings to their institutions.

The meeting then adjourned.

Ralph A. Young
Secretary.