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, April 18, 1961, at 10:00 a.m.

PRESENT: Mr. Hayes, Vice Chairman, presiding
Mr. Allen
Mr. Balderston
Mr. Irons
Mr. King
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Swan
Mr. Wayne

Messrs. Ellis, Fulton, and Deming, Alternate Members of the Federal Open Market Committee

Messrs. Bopp, Bryan, and Clay, Presidents of the Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Einzig, Garvy, and Noyes, 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. Furth, Adviser, Division of International Finance, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors
Mr. Yager, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Petersen, Special Assistant, Office of the Secretary, Board of Governors

Messrs. Heflin and Francis, First Vice Presidents of the Federal Reserve Banks of Richmond and St. Louis, respectively

Messrs. Eastburn, Hostetler, Baughman, Jones, Parsons, and Tow, Vice Presidents of the Federal Reserve Banks of Philadelphia, Cleveland, Chicago, St. Louis, Minneapolis, and Kansas City, respectively
Mr. Eisenmenger, Acting Director of Research, Federal Reserve Bank of Boston
Messrs. Holmes and Stone, Managers, Securities Department, Federal Reserve Bank of New York
Mr. Brandt, Assistant Cashier, Federal Reserve Bank of Atlanta

Prior to this meeting there had been distributed to the members of the Committee the revised drafts of minutes of the Committee meetings on March 7 and 28, 1961.

In presenting the minutes for approval by the Committee, Mr. Hayes said that, while he did not want to labor the matter, he had suggested upon circulation of the preliminary draft that the minutes of the March 7, 1961, meeting be revised slightly at two places. However, his suggestions were not incorporated in the revised draft because they involved some change in substance, and he wished to bring them to the Committee's attention at this time.

On page 4, last paragraph,* Mr. Hayes noted, the minutes read: "Therefore, it was the suggestion of the (Ad Hoc) Subcommittee that consideration of possible changes in the operating policy statements be tabled in order that everyone might have an opportunity to review and study carefully all of the material compiled by the Subcommittee." On page 8, paragraph 3, they read: "There being no further comments, it was agreed to table the consideration of the possible changes in the operating policy statements."

* Fourth sentence.

Mr. Hayes commented that this language seemed to carry the clear implication that the Committee had not changed the operating policy statements, whereas he thought that that was at least doubtful. Accordingly, he had suggested that the preliminary draft be revised to state that the question whether to renew the existing statements of operating policy or make changes therein had been tabled.

Mr. Balderston stated that if the change in wording Mr. Hayes had suggested would not alter in substance the meaning of the original wording in the preliminary draft of minutes, he (Mr. Balderston) would not wish to consume the time of the Committee by interposing objection. On the other hand, if the proposed changes were changes of substance--and he understood from Mr. Hayes that they were so intended--then he would feel that clarification was desirable. As he understood it, the question was whether the Committee had agreed at the March 7 meeting to table the question of (1) renewing or (2) reviewing the operating policy statements. If the word "renew" was used, then it might be construed that in the absence of affirmative action on the part of the Committee to renew the operating policy statements, those statements had been abandoned. However, if the proper word was "review," that would imply that, pending further action on the part of the Committee, the statements remained in force, subject of course to any special authorization such as that approved at the February 7 meeting and at each meeting since then permitting operations in longer-term Government securities as well as "swap" transactions.

In reply to a question by Mr. Robertson, Mr. Hayes said that specifically his suggestion had been to substitute the following for paragraph 3 on page 8: "There being no further comments, it was agreed to table the consideration of the question whether to renew the existing operating policy statements or to make changes therein." The suggested change on page 4 was of a similar nature.

Mr. Hayes went on to say that, as he had indicated at the outset, he would be content to have his observations recorded in the minutes of today's meeting. While he felt that there was a substantive question involved, he doubted whether it could be resolved at this meeting.

Mr. Allen suggested that inclusion of Mr. Hayes' comments in the minutes of today's meeting would afford the Committee members an opportunity to review the matter. Personally, he would prefer to look at the suggested changes in the context of the minutes as a whole before deciding whether any change should be made in the March 7 minutes.

Question was raised whether it was the thought of Mr. Hayes that approval of the March 7 minutes would be deferred, and Mr. Hayes said that he would have no objection to the approval of the minutes subject to the inclusion of the comments that he had made. Mr. Balderston noted that it might be of assistance to the Committee members in reviewing the matter if a memorandum were furnished by Mr. Sherman, following which Mr. Shepardson raised the question whether it would be appropriate to approve the minutes at this time if it was contemplated that they would be subject to further consideration. Mr. Sherman commented, in this regard, that a decision to make changes in the minutes subsequent to their approval would not be without precedent.

In further discussion, Governor Mills suggested that perhaps too much importance was being attached to the matter. As he understood it, in effect the operating policy statements were being continued, subject to the deviations occasioned by the special authorization to conduct operations in longer-term Government securities, pending such time as the Committee made a decision with respect to such recommendations for changes in the operating policy statements as might result from the study currently being made by the Ad Hoc Subcommittee.

Mr. Hayes agreed that from a practical standpoint no obstacle to the current program of operations was presented. He then reiterated that he would be content to approve the minutes of the March 7 meeting and merely to have his observations recorded in the minutes of today's meeting.

Mr. Hayes inquired whether there were additional comments, and Mr. Wayne said it was his understanding that what the Committee had done was to continue the operating policy statements in effect, subject to the deviations inherent in the special authorization, which was subsequently renewed for the period until the following meeting. The Committee had tabled consideration of any report from the Ad Hoc Subcommittee that would lead to reconsideration of the operating policy statements, and thus had continued the statements in effect. He felt that the Committee could approve the March 7 minutes, with a notation in today's minutes of the views that had been expressed, and not do violence to what actually transpired at the March 7 meeting.

Mr. Shepardson commented that he had not meant to infer by his previous question that he would not be willing to approve the March 7 minutes as they stood. He had only wished to raise the question of the appropriateness of approving those minutes if it was contemplated that they might be changed later.

Mr. Balderston said that the point stated by Mr. Mills was precisely the point that he (Mr. Balderston) had attempted to bring out earlier. However, he felt that the statement of Mr. Mills and his own observations were somewhat at variance with the point originally made by Mr. Hayes.

Mr. Robertson suggested that it was important only that the record show that the operating policy statements had been continued until changed, and that possible changes therein were under consideration.

Mr. Hayes commented, in this regard, that he felt the Committee, in granting the special authorization covering operations in longer-term securities, had changed the operating policy statements so radically, not only as to maturities in which operations were authorized but also as to swap transactions, that it was misleading for the minutes to convey the impression that the statements continued unchanged because consideration of the statements, and possible changes in them, was tabled.

Mr. Robertson then said that, according to his understanding, the Committee, in granting the special authorization, had authorized an exception to the operating policy statements. This had been done within the context of those statements, which specify that such exceptions may be made. It was in that posture that he thought the statements now stood. Consequently, he would concur in the suggestion that the March 7 minutes be allowed to stand in their present form, with the statement of Mr. Hayes included in today's minutes.

Mr. Swan commented that the changes in the minutes that had been suggested by Mr. Hayes appeared to carry the implication that the Committee presently had in effect nothing except the policy directive and the special authorization covering transactions in longer-term securities. He did not think that that was the case, so he would prefer to let the minutes stand as drafted.

Mr. Hayes then suggested that the March 7 minutes be approved, with the foregoing discussion included in today's minutes. This contemplated that if anyone wished to look into the matter at greater length, or to pursue it further, he could do so. Mr. Hayes also suggested that anyone reviewing the matter might wish to study the language on page 52 of the draft minutes for the meeting on March 28.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on March 7 and March 28, 1961, were approved, with the understanding that the comments of Mr. Hayes regarding the March 7 minutes would be incorporated in the minutes of today's meeting.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period March 28 through April 12, 1961, and a supplemental report covering the period April 13 through April 17, 1961. Copies of both reports have been placed in the files of the Committee.

In supplementation of the written reports, Mr. Rouse made the following comments:

> A good degree of ease in the bank reserve picture has been maintained while at the same time unduly low levels of short-term rates have been avoided. The demand for short-term issues, especially Treasury bills, has been notably strong in the past week, the demand coming to a large extent from nonbank sources. The underlying pressure on the short-term rate was reflected in yesterday's Treasury bill auction when an average rate of 2.29 per cent was established for the three-month Treasury bill and an average rate of about 2.46 per cent for the six-month bill. These rates were about 10 basis points below the rates established in the auction three weeks ago and 20 basis points below two weeks ago. Bidding was particularly aggressive for the six-month bill offering, which was for only $400 million, and it appeared that many banks were unsuccessful in their customer bids. With dealer awards small and concentrated, further pressure on rates would not be surprising. If this buying continues, as seems likely, even greater System efforts maybe needed to prevent short-term rates from declining further to levels which could inspire new outflows of short funds. Activity in foreign accounts at the New York Bank continues heavy, reflecting the continued activity in the foreign exchange market.
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> Rates on longer-term issues have not moved much, but there is mounting evidence that borrowers, both private and public, are willing to commit at these levels; also, that funds are flowing into the long-term capital market to meet this demand despite the inclination of some lenders to hold back for somewhat higher rates, which is not surprising in view of the prospects for better business conditions. Although some recent capital flotations have moved slowly and there is a fairly sizable overhang of unsold municipal issues, there is no indication of a serious blockage in this market. It is likely that

some of the stickiness arises from the offering of $300 million United States Steel Corporation debentures today or tomorrow which should give a good clue to the capital market. Initial indications were that it would move well at a rate around 4.55-4.60 per cent. It now appears that the issue, due in 1986, will carry a coupon of 4-1/2 per cent and will be reoffered at 99-1/4 to yield 4.55 per cent. A successful deal should help to clear up the rest of the market, possibly with some price adjustment.

Our operations in the longer-term market have progressed smoothly since the last meeting. Some dealers continue to talk about the one-sided artificial state of the long-term market, but seem to accept our buying as a "fact of life." Statistics on dealer volume indicate a substantial volume of trading away from the System, from which we conclude that comments of that kind cannot be given too much weight.

The publication of dealer statistics, plans for which were reported to the Committee at the March 7 meeting, got under way since we last met without any further complications. Some of the dealers have already stated that they have found the reports to be useful. The press has not yet made as much use of them as we hope it ultimately will.

The Treasury will be coming to market shortly with its May financing to refund total maturities of $7,752 million, of which $2,754 million is held by the System Open Market Account. The Treasury is expected to announce today that holders of the maturing issues (excluding the Federal Reserve System) will not be given pre-emptive rights to the new securities, which should work out well in the current market atmosphere. The auction of $2 billion of one-year bills last Wednesday was quite satisfactory. The dealers seemed anxious to stockpile this issue and the Treasury received a satisfactory rate.

Mr. Mills asked what weight Mr. Rouse would put on the following two factors in a situation where Treasury bill yields were under pressure almost constantly, as they had been since the last meeting. First, Federal funds were freely available at rates well below the discount rate. Second, there had been a rather abrupt increase in dealer positions, especially in bills.

Mr. Rouse replied that he thought a good deal of weight should be given the first factor. The low rate on Federal funds encouraged the banks to invest in bills rather than to sell Federal funds. On the second point, while there had been a steady increase in dealer positions, he was not sure how much weight should be given to that factor. Mr. Rouse added that an attempt had been made to find out what had been done with the proceeds from sales of longer-term Government securities. It appeared that they were going largely into municipals and corporate issues rather than into short-term Governments. There had not been much net change in the free reserve situation; one bank apparently was selling and another buying. In substance, this did not seem to be a factor of great consequence.

Thereupon, upon motion duly made and seconded, the open market transactions during the period March 28 through April 17, 1961, were approved, ratified, and confirmed.

Mr. Noyes made the following statement with regard to economic developments:

Concern about the economic situation is now centered around two related questions: First, how vigorous will the recovery, which seems clearly underway, turn out to be; and, second, how vulnerable is it to reverses which might come in the next few months?

So far, the facts would seem to support the widely held view that this upturn will be closer to the pattern of 1954 than 1958.

The improvement in business in March was certainly moderate--in fact, activity in some sectors continued to fall off a little. However, key factors showed some real improvement. Personal income was up $3-1/2 billion; housing starts were up for the third consecutive month, to a seasonally adjusted annual rate of 1,336,000. Automobile sales improved, and now stocks are not abnormally large for this time of the year. Recently unemployment claims have declined more than seasonally, and there are other indications of moderate improvement in the labor market. Exports appear to be holding at unusually high levels. The limited number of leading indicators for which March figures are available are up again, and final data confirm the strong February showing of the leading series.

Taken altogether, we can say that we now have some real gains in output and employment to add to anticipatory and expectational evidence we had a month ago. So far, however, these signs do not suggest anything more than an orderly and healthy recovery, with one exception. Such a pattern of moderate recovery is hard to reconcile with the large further rise that has occurred in common stock prices.

For all its erratic and sometimes apparently irrational behavior, the stock market reflects the current appraisal of economic prospects by an important and influential segment of the business and financial community. It is difficult to justify common stock purchases at present prices on any assumption other than a rapid and pervasive recovery. Yet these purchases are being made in large volume, not only by shoestring speculators but by large, responsible financial institutions.

This leads us directly to the second of the two questions which I raised at the outset--how vulnerable is the recovery to such phenomena as the kind of break that might occur in stock prices if investor sentiment shifted?

Historically, recoveries appear to be very hardy. While in each recovery there has been talk of the danger of its being "nipped in the bud" in its early stages, there does not seem to be any instance, in modern times, when this has actually happened. There were two fairly sharp breaks in the upward trend of stock prices in 1955, which had no noticeable effect on the pace of recovery in that year. The erratic movement of stock prices around the turn of the year probably contributed to uncertainty and the hesitation in the economy in early 1956, but this was after recovery had been underway for more than a year.

In pointing out that recoveries in the past have shown a surprising capacity to weather quite large reactions in stock prices and similar transitory discouragements, I do not mean to suggest that such developments should be encouraged or even viewed with equanimity. No one can say where the point may be, but there is no doubt that stock prices could be bid up to a level from which the reaction could, in turn, be large enough to do serious damage to orderly recovery. Just as it has been important to take into account the international repercussions of a depressed short-term rate it seems to me that it is now important to consider the possible ramifications in the equity markets of any aggressive action to depress long-term rates. In fact, one might raise grave question as to whether any action which would have the effect of discouraging investment in fixed income claims, such as bonds and mortgages--and encouraging further the current boom in the stock market--could be regarded as constructive in the present circumstances.

Quite aside from the broader question of whether operations by the Federal Reserve in longer maturities can and should be used to promote recovery at certain stages of the cycle, this seems to be a time, in terms of the over-all economic situation, when it is singularly appropriate for general credit policy to concentrate on providing the banking system with the reserves needed to support orderly recovery and for the System to refrain from doing anything which might accentuate the situation in equity markets that already poses a threat to sustained recovery. In my judgment, any attempt to literally depress the rate of interest, in any maturity area, could lead to this latter development. On the other hand, any indication that the System might be reluctant to supply the reserves needed for seasonal expansion and normal growth in bank credit and money could be equally damaging, since it would lead to widespread expectations of increasing rates and a consequent unwillingness to invest in longer-term fixed claims at current rates. This seems to be clearly one of the times when a steadying influence from monetary policy, rather than a shift in either direction, would make the greatest possible contribution.

Mr. Allen noted that at the outset of his report Mr. Noyes had indicated that the current recovery might be closer to the pattern of 1954 than 1958. He inquired whether Mr. Noyes had in mind the 1954 recovery as it continued through 1955.

Mr. Noyes replied that he would not want to go that far at this stage. In his remarks he was speaking more of the initial stages of recovery. It was too early to tell whether the present recovery would proceed into the same kind of vigorous movement that developed in late 1954 and 1955.

In reply to a question from Mr. Wayne, Mr. Noyes said that the latest available unemployment figures were for early March, when the ratio of unemployed to the total labor force was 6.9 per cent, substantially unchanged from earlier months. The reference in his statement was to unemployment claims, which had shown a more than seasonal decrease in late March and early April.

Mr. Thomas presented substantially the following statement on the credit situation:

> Since mid-March, there have been no significant changes either in the level or in the structure of interest rates; most rates have generally remained a little above the lowest levels and well below the highest levels of this year. Total loans and investments at banks have declined, perhaps somewhat more than is usual in that period. Aided, however, by a large reduction in Treasury deposits, the private money supply increased in the latter part of March and has been maintained at the higher level reached then; time deposits have continued to expand. New corporate capital issues scheduled for April are in exceptionally heavy volume, and State and local government offerings continue moderately large, even after withdrawal of one large issue. Common stock prices have continued to rise to new high levels, with exceptionally active trading.
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> Gold movements in or out of U. S. monetary stocks have been negligible. There have been large shifts in foreign holdings of dollar assets, and there appears to have been some increase in official holdings. Some of these changes reflect the effects of pressure on sterling, which followed the German and Netherlands revaluations and involved massive movements of funds that have been to a considerable extent absorbed by central bank and governmental cooperative cushioning operations.
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> Member bank required reserves did not show the decrease indicated by seasonal projections in late March and early April, as the substantial decline in U. S. Government deposits was counterbalanced by a greater than seasonal increase in other

deposits. Reserves have been supplied on balance by various market factors, with wide weekly fluctuations, partly offset by shifts in Federal Reserve holdings of securities. These holdings have been reduced on balance since mid-March by a net amount of over $500 million. In addition to $260 million of repurchase contracts made and terminated, operations included gross sales and redemptions of about $850 million of bills and $250 million of other short-term issues and gross purchases of $590 million, about equally divided between bills and longer-term coupon issues.

Free reserves have fluctuated between weekly averages of $430 million and $530 million, with an average of close to $700 million indicated for this week, when float is showing the usual mid-month rise and liquidity needs are large. The free reserve figure for the current week could be reduced somewhat by open market operations if the System sells today or tomorrow. In the next three weeks reserve availability will be substantially reduced by various market factors, and rather large System purchases of securities will be necessary.

Cyclical trends in the supply and use of credit revealed by newly-constructed seasonally-adjusted flow-of-funds data have considerable significance for monetary policy determination at this strategic stage. Total funds raised in credit and equity markets have declined sharply and almost without interruption since the third quarter of 1959. In the first quarter of 1961, according to preliminary estimates, this total, at an annual rate of $32 billion, was about half the exceptionally high rate reached in 1959. The decline in the total continued into 1961 notwithstanding a seasonally-adjusted upturn in Federal Government borrowing.

Long-term funds raised by borrowers other than the Federal Government, after declining sharply from mid-1959 to the second quarter of 1960, have shown little further decline in the past three quarters, but for the past two quarters taken together they have totaled less than in any six-month period since 1956. The sharpest decline in the past year appears to have occurred in short-term credit, which in the first quarter of 1961 showed practically no net amount raised for the first time since the third quarter of 1958. This reflected seasonally-adjusted decreases in consumer credit and in bank loans to business, offset by moderate additions to security loans and other loans. A small volume of short-term credit demands seems typical of periods around recession troughs, according to 1958 and 1954 experience.

The principal lenders or investors of funds recently have been nonbank financial institutions and commercial banks. Nonfinancial sectors--principally consumers and businesses--have liquidated holdings of securities on balance but have substantially increased their holdings of fixed-value claims, principally savings and loan shares and time deposits, thus passing available funds through financial institutions. This is in contrast to their behavior in 1959, when high interest yields attracted heavy buying of securities. Demand deposits have also risen on balance since mid-1960, showing an annual rate of increase of about 4 per cent.

If economic recovery that now seems to have been resumed is to continue, much larger amounts of credit will be needed than have been recently obtained. Records of the past two recessions show that resumption of credit expansion was initiated principally by increased borrowing of long-term funds, principally by the Federal Government but also by other borrowers, and that banks were important initial lenders. The way it worked was something like this: The Federal Reserve was active in supplying reserves to banks. In the absence of short-term credit demands, the banks invested in securities. Long-term, as well as short-term, interest rates declined, and long-term borrowers--governments and corporations--took advantage of the favorable bond market to refund or fund their indebtedness or to obtain new funds. Bank credit and the money supply increased before the upturn began, although it was not until later in the recovery advance that short-term borrowing demands expanded.

Owing to the balance-of-payments situation of this country and the consequent desire to avoid reductions in short-term interest rates, reserves have not been as plentifully supplied this time as in 1954 and 1958 and the discount rate has been kept at a higher level. The question that is being raised now--publicly as well as privately--is whether this sort of policy will provide an adequate stimulus to the credit expansion that is needed for economic recovery. However the Committee's directive may be worded, it is to be expected that an important task of Federal Reserve policy in the next year will be to assure the availability of money needed to foster recovery.

The Federal Government will be a net borrower, on a seasonally adjusted basis, for at least the next five quarters. Borrowing may not be as large as in 1958 and 1959 and it will probably not be as heavy in the long-term area, at least in the early stages, as in those years. Thus short-term credit might increase somewhat earlier this time, particularly in view of the lessened liquidity position of banks. Long-term borrowing by the Government, however, will be essential at some stage in order to avoid serious debt-management difficulties in the future.

The recent increase in housing starts and developments in the mortgage market point to the possibility of some increase in the supply of mortgages, although perhaps there also the expansion will not be as great as in 1958-59. Long-term offerings by State and local governments are likely to continue as large as the availability of funds will permit, and the recent increase in corporate offerings may be a precursor of greater activity in that area.

How much bank credit should be supplied to finance recovery? It should be at least enough to provide for cash balances that will be wanted and perhaps a little more to stimulate investment. Money supply needs are difficult to measure. Ever since the war, money supply has not expanded as much as national product, but the present ratio--at about 28 per cent--is close to the low level of the 1920's. Can any further downward drift be expected? Most current projections indicate that GNP might expand to around $530 billion by the end of 1961 or early 1962, an increase of 6 per cent from the current level but still not adequate for complete recovery. Similar increases occurred in about the same length of time in 1954 and 1958 and were accompanied by increases of 3 or 4 per cent in the money supply. Will such a relationship be adequate this time?

An increase of 6 per cent in the money supply would amount to over $8 billion. Assuming it all occurred in the deposit component, divided between member and nonmember banks in the present ratio, this would require close to $1 billion additional reserves by late this year or early 1962, or about $100 million a month. Allowing for the possibility that monetary needs of recovery will not be so large, or for some reduction in free reserves as expansion occurs, perhaps an average of $70 million a month would suffice.

It seems likely that the gold outflow will not be resumed on any significant scale. The seasonal increases in required reserves and in currency demands will require large amounts of Federal Reserve credit later in the year, but not much during the next five or six months. In the process of offsetting the wide temporary variations in factors affecting reserves, net additions to Federal Reserve credit of at least $60 or $70 million a month should be made available in the course of the next few months. Much larger amounts will be needed in the last three or four months of the year.

To what extent can additional reserves be supplied without causing a decline in interest rates or otherwise inducing a resumption of the gold outflow? Although pressure of sensitive capital movements has shifted from the dollar to the pound, the situation is by no means settled. The Germans are evidently endeavoring to follow policies that will tend to keep down interest rates in their markets and also undertaking to make payments both to the United Kingdom and to this country that will help to alleviate balance-of-payments difficulties. The export and import experience of this country has been remarkably favorable.

Nevertheless the situation has precarious possibilities. The very large volume of funds that moved out of London and the counterbalancing official holdings of dollars and sterling present threats to the reserves of the key currency countries. Continued high rates of economic activity in Western Europe and Japan and the delicate balance-of-payments situation of the United Kingdom will tend to limit any decline in interest rates abroad. Recovery in this country will probably result in an increase in our imports and a narrowing of our favorable trade balance. There seems to be little prospect for much, if any, reduction in our foreign aid and military payments. Maintenance of a balanced position requires that the capital flight not be resumed.

Credit demands and expectations incidental to economic recovery, however, might be expected to reduce pressures toward declining interest rates. It should now be possible to embark upon a program of supplying additional reserves for credit and monetary expansion without the risk of reducing interest rates. The more serious danger than the balance-of-payments one, may be that failure to make adequate reserves available will unduly retard recovery in this country. Interest rates will be largely determined by the strength of credit demands here and abroad; the delicate task of monetary policy will be to meet the credit demands of the domestic economy without inducing a flow of credit abroad. Economic recovery in this country should make that task easier than it has been.

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

The statistical evidence is increasingly strong that the bottom of the recession has been reached and that an upturn is either close or actually occurring. Business and consumer sentiment seem to support the same conclusion. On the other hand, the statistics do not provide any basis for a firm judgment as to the strength of the recovery; and as yet there are no indications that a vigorous upturn is in the making. Even if the improvement were to be sharper than now expected, the gap between present total employment and a moderately full employment of the labor force could not be closed for a long time.

The business improvement has shown itself in a wide variety of statistical series, such as personal income; retail and manufacturers' sales; new orders; automobile sales, production and inventories; steel production; average hours worked in industry; housing starts; and merchandise exports. Also, it was of interest to note that eight out of nine of the National Bureau's "leading indicators" were rising in February.

As for bank credit, according to preliminary weekly reporting member bank figures for March, business loans showed a more or less normal expansion, and, in contrast with earlier expectations, tax borrowing was heavy. The relatively weak performance of total loans may be attributed in good part to the rather sharp contraction in loans to security dealers and finance companies, which in turn can be explained by special factors affecting these areas. The timing of Treasury redemptions and new financing was largely responsible for a drop in investments and in total bank credit. The significance of corporate behavior during the tax period this year is not clear, but it may well be that medium and smaller sized corporations, which are probably the more important element in tax borrowing, were not as liquid as had previously been thought; whereas larger corporations were apparently sufficiently liquid to be able to avoid a substantial selling of Government securities as has been customary in the comparable tax period in most recent years.

It is gratifying to observe that the money supply rose substantially in March, despite the drop in total bank credit; and that the rise in the money supply between the second half of December and the second half of March has been at the annual rate of 4 per cent, as against only about 1-1/2 per cent from late June to late December. Money supply plus time deposits--and also total nonbank liquid assets--have behaved much better than in the two previous recessions and reached new highs at the end of February. During the last half of 1961 the money supply should receive an unusually strong impetus from the Treasury's relatively heavy prospective cash borrowing program. It is also gratifying to note various signs that capital funds have been flowing a little more freely into the corporate, municipal, and mortgage markets.

I feel some concern over the recent performance of the stock market, with very high activity concentrated particularly in low-priced speculative issues. Figures on stock market credit in March are not yet available, but this whole area would bear close watching, in view of the possible adverse effects of a sharp reversal in the stock market boom.

Turning to policy, I think the business situation clearly suggests the need for a continued policy of monetary ease. The very fact that we have, fortunately, avoided a flooding of reserves and extremely low short-term interest rates during the recession means that the banks are on a rather firmer rein than during previous recessions and that we can therefore well afford a policy of continued ease. At the same time, the international position of the dollar is in very delicate balance.

We are all, of course, gratified by the favorable development of our merchandise trade and some other elements in the balance of payments. We should not forget, however, that the improvement in the statistical situation as well as in foreign confidence in the dollar may be attributed in good part to the development of special technical arrangements, as well as to more effective cooperation among central banks. Exposed as I am to continuous contacts with foreign exchange markets and with the thinking of foreign bankers, businessmen, and government officials, I continue to be impressed by the fact that the dollar--and our ability to defend it--continues on trial. While it is true that we had no significant changes in the gold stock in the last few weeks, it is equally true that the dollar remains at the floor on most international exchange markets. Under these circumstances, it remains imperative that short-term interest rates be held in the present range or even a bit higher. I had this point brought home to me strongly during my conversations in Basle with a number of central bankers who have tried very hard, and are still trying, to reduce interest rate differentials by bringing their own rates down, even though purely domestic considerations would suggest the exact opposite course.

When additional reserves are supplied through open market operations over the next three weeks, I would hope that they could be injected, where possible, through purchase of longer maturities; and that when additional reserves are not needed, upward pressure on short rates may be exerted through sales of short-term securities, and equivalent purchases of longer maturities. It seems to me that the Manager should be given ample leeway to carry out such a program while maintaining roughly the same degree of monetary ease that has prevailed in recent weeks.

With the continuation of existing policy on reserves and interest rates, the discount rate should be left as it is. I also believe that the directive should be left unchanged; and that any future change in the directive should probably await both more definite indications as to the vigor of the business recovery and a substantive change of policy.

Looking a little further ahead, in the event that the economy does expand appreciably, pressure from political sources for lower interest rates may continue at the same time that the capital markets themselves are creating new upward pressures on rates. With the Federal Government now expected to come to market more often, and for substantial amounts, together with the prospect of growing corporate and municipal demands for funds, interest rates could easily move up significantly in the next few months. The System should aim, in these circumstances, at moderating interest rate increases until business recovery has made sufficient headway; and we should work to prevent the upward ratcheting of interest rates based on expectations alone. Such a policy objective would tend to keep interest rates more closely consistent with the underlying forces of supply and demand and the basic condition of the economy.

With respect to the possibility of higher margin requirements, there are good arguments on both sides of the question. A token increase of, say, 5 per cent, might be worth considering as a cautionary signal and a logical follow-up to the warning given to the market by Mr. Funston a few weeks ago. On the other hand, the recent pattern of stock market credit does not seem to call clearly for a change in margins, even though March may show a larger increase in credit than recent months, and there may be some question whether a symbolic change of this kind in margin requirements would be within the spirit of the law. There is also some risk that a rise in margin requirements might reinforce expectational influences tending to push up interest rates. I don't know just what the right answer is, but it would seem useful for the Board to give the matter careful consideration.

Mr. Francis reported that Eighth District business developments appeared to have paralleled those in the nation quite closely. Improvement was seen in some of the indicators, while weakness continued in others. Steel production had been reflecting improvement each month; in April to date, weekly average output was 19 per cent over January, compared with a gain nationally of 15 per cent. Department store sales in March were above the average of the previous four months, and were at about the May 1960 level. The agricultural situation was relatively strong. Cash farm receipts had been substantially higher this year than during the comparable period of 1960; in the first two months of the current year they were 16 per cent above the year-ago level and about 8 per cent above 1959. The District was experiencing a rather late spring and some concern had been expressed on that account, but there was adequate moisture and prospects were good. On the weaker side, residential construction contract awards during January and February were 15 per cent below the same period in 1960, compared with a 4 per cent decline nationally. The District employment situation continued to be sticky, with nonagricultural employment in the major metropolitan areas, combined, having been down in February not only from the all-time high but also from the year-ago level. The largest declines were in Louisville and St. Louis, and Little Rock was the only major area showing even a slight increase in total employment over last year's level. Unemployment was at a high level in all of the major labor markets, with three of the five major areas being classified in March as areas of substantial labor surplus. Insured unemployment edged down in March and early April, but was substantially higher than at this time last year or in 1959. However, the present unemployment level was under that of April 1958 in all parts of the District except St. Louis, where frequent layoffs in the automobile industry affected the situation. In St. Louis, unemployment was approximately the same as at the trough of the 1957-58 recession period.

Turning to the banking situation in the District, Mr. Francis said that total deposits were down slightly in March, while total credit at member banks, seasonally adjusted, was virtually unchanged during that month. Total credit, seasonally adjusted, for the first quarter of the current year increased at an annual rate of about 7.6 per cent. Borrowing from the Reserve Bank was quite modest; only one bank, in the Memphis cotton market, was at the discount window regularly.

Mr. Bryan presented substantially the following statement:

It is increasingly clear that the economy is at least in the bottoming-out stage of its current recession. Indeed, my personal opinion is that the direction of the economy has already turned. The principal question now facing us is, how do we manage the reserve position of the banking system in a recovery?

During a considerable part of last year, I was saying that we were permitting the total reserves of the banking system to diminish much too far below any proper approach to a long-term trend, judged either historically or upon a reasoned approach to the growth needs of the economy. At our meeting three weeks ago, in indicating a considerable sympathy with the point of view Mr. Allen had suggested, I was making precisely the same point fundamentally, but in response to an opposite set of facts. That is, I was trying to say that in the recovery phase of the business cycle we should strive to manage the reserve position of the banking system with a great deal more precision, and with a steadier hand, so to speak, than we have in past business cycles.

The record of our handling of reserves in past business cycles is that we have permitted reserves to fall far below a trend line, whether we judged the trend on the basis of historicity or rationale; then we have overstayed our position of great ease, so that total reserves have gone far above any reasonable trend. In order that we may refresh our minds on this point I am presenting again a postwar chart of reserves. 1/

However, at our last meeting the same point was implicit in the chart presented by Mr. Balderston. Clear in that chart were the tremendous fluctuations in the free reserve position of the banking system--half a billion plus to half a billion minus, often in the space of a few months. Likewise clear in the chart presented by Mr. Balderston was the jarring effect of these large movements on the growth rate in the money supply, effects that cannot, in my opinion, be justified on any basis related to long-run considerations: the need of a growing economy, growing both in population and transactions, for a growing money supply.

As I view the record, we have tended to overstay our position of tightness and to be too tight, and then to overstay our position of ease and to be too easy. I am not particularly critical of the record because we have been going through a decade of massive readjustments in response to the excess liquidity produced by the

1/ A copy of the chart is attached to these minutes.

war years and massive readjustments in interest rates throughout the whole scale from short to long. I do not believe that anyone would have the prescience necessary to do much better than we have done. At the same time, I am saying that from here on we need a steadier hand at the wheel. We will have zigs and zags, of course; but I believe that we will be wise if we make every endeavor to dampen down the amplitude of the zigs and the zags.

What has happened in the past, as I see it, is that by overstaying a posture of great ease, we have been compelled, finally, to clamp down hard, just in time to get credit for producing the ensuing recession. Be that as it may, no such argument is needed for the point I am making. The amplitude of the fluctuations in the reserve position of the banking system, as our Chairman and others of my colleagues have heretofore noted, has caused both short and long rates to fluctuate in an even greater amplitude. They have behaved like a bronco with a bee in his ear. Partly, that has been attributable to what I have called the massive readjustment of rates in the postwar period.

But can anyone doubt that the result has in some measure been produced by our own rather unsteady handling of banking reserves? Can anyone doubt that the amplitude of these fluctuations has had a debilitating influence on the intermediate and long market? Can anyone doubt that the failure of the long market to respond to the System's recent posture of ease in the degree that we would have liked, and with the precision of arbitrage and timing that we might have expected, is in some part attributable to the third-degree burns that the long investor has thrice suffered in recent years?

As I now see the situation, we are confronted by certain major considerations:

The total reserve figure is back practically--shy a mere couple of hundred million--to its long-term trend line.

We may expect, whether fast or slow, some influence of business recovery in expanding bank credit; and, in any event, we are rapidly approaching the second half of the calendar year in which demands for bank credit will increase.

We will have large Government borrowing in the second half of this calendar year, some part of which must be provided for by an expansion of bank credit, which in turn must be in some part supported by an increase of bank reserves.

Our present posture of ease has produced a reasonable adjustment in long rates, considering all circumstances, and is now producing an adjustment in mortgage rates.

Our actions have produced large excess reserves; large free reserves; and the liquidity of the banking system has been greatly improved, as can be attested by a single figure, the prodigious increase over the past year of nonborrowed reserves, an increase extending far beyond any seasonal considerations; and nonbanking liquidity has also increased.

In the light of these circumstances, I believe we will mishandle the situation if we force additional reserve ease on the banking system. Indeed, speaking in terms of total reserves and of a period covering several months, I can presently see no cause whatever for doing more than adjusting to seasonal variations with, perhaps, a slight growth element; but I wish here to recall that the growth factor on any trend basis would certainly not be over $50 million a month, a minuscule figure. In terms of free reserves and of the next three weeks, I notice that the blue book gives us a free reserve base of $492 million for what is called the present base period--the daily average for the three weeks ending April 12. I cannot but believe that this figure is ample, and, if I were to give an instruction in terms of free reserves, I could see no reason for advocating, speaking on a daily average basis for the next three weeks, any increase in free reserves as measured by the $492--say $500--million of the present base period.

The fact is, I think we must be alert in the coming weeks to any indications that the level of free reserves should be adjusted downward. If we are not so alert, we may again find ourselves being misled by the free reserve figure. All we need to do is to keep on with a constant level of free reserves through a period of expanding credit demands--each time required reserves go up, supplying the additional amounts necessary to maintain the level of free reserves--and we can run the total reserve figure and the money supply figure out through the roof.

Mr. Bopp said that business in the Third District seemed to have declined as far as it was going to in this recession. However, there was no evidence of a vigorous rebound. Steel production had increased, but not sensationally; construction, particularly of homes, showed little improvement; carloadings were rising, but remained low; all labor force indicators pointed to a continuance of unemployment at nearly the highest levels of the postwar period; and department store sales, after a good start, had dropped below 1960 totals. Manufacturers still maintained they would spend less for plant and equipment this year than in 1960.

The banking picture did not yet indicate any upturn in business activity. Loans had been relatively stable since early February, and bank reserve positions appeared to be fairly easy. Reserve city banks had not borrowed at the discount window and actually had been lending some Federal funds. Their basic reserve position was about in balance. Some country banks had been borrowing for special localized reasons.

In his view. Mr. Bopp said, policy should remain the same as it had been for the past several weeks. Developments and prospects in the economy did not justify any departure from that position. If any departure were to occur inadvertently, he would prefer that it be on the side of more ease. In view of occasional congestion in capital markets and cessation of the gold outflow, he felt that a slightly greater degree of ease could be permitted with safety. If this were to mean rather plentiful amounts of free reserves or somewhat lower bill rates from time to time, he would not be disturbed. But essentially he recommended no change from present policies and no change in the discount rate.

Pending some more fundamental decision concerning the directive, Mr. Bopp felt that a change in the wording of the present directive would be desirable. In the past few meetings, it had been suggested that recognition be given to the start of the recovery period. In his view, such a change would be purely for purposes of the historical record and would imply no change from current policy. However, this would seem to be about the last opportunity to make such a change without the Committee appearing to be unduly slow in recognizing the new developments in the economy. In this connection, he referred to the statement on page 14 of the staff memorandum on recent economic and financial developments, distributed before this meeting, that incomplete data for March and fragmentary data for early April suggested that cyclical recovery had begun. If the Committee believed a change in the directive would be desirable, he would suggest the following wording for clause (b): "to encouraging economic recovery and increased employment opportunities, while continuing to take into consideration current international developments."

If such a change were made, Mr. Bopp said, he thought the policy record should note that until recently the Committee had been concerned with arresting the recession, that for some weeks evidence of recovery had been emerging, that with the present amount of economic slack there was no immediate threat of inflation, and that the Committee continued to be concerned about the high level of unemployment and the international situation. The record should also note that in many of these respects the Committee was approaching this recovery period differently from the similar period in 1958.

Mr. Fulton said that although Fourth District indicators reflected over-all business improvement, the improvement was still quite limited. Activity was rising, but slowly. At a recent meeting of business economists, the participants reported an improvement in orders in their respective businesses, and increased production was anticipated a little later. There had been a moderate decline in unemployment, at least as measured by new insurance claims, but in the main the reductions were in only about seasonal proportions. A substantial labor surplus remained in the larger cities; 14 of the District's 15 major labor market areas were classified in the substantial labor surplus category, along with 38 of the smaller labor market areas. The volume of building had expanded in Cincinnati and Cleveland; this sector of activity was beginning to look up, but there was nothing in the way of vigorous improvement as yet. The weakness noted recently in department store sales was felt to be largely the result of cold and dismal weather. Auto sales had brightened considerably, but they were still 20 to 25 per cent below last year. In steel, persons in the industry were stating that the decline bottomed out in January and February, with some upturn in March as the result of minimum inventories in the hands of customers and the general seasonal pattern. In March the number of orders increased in relation to tonnage, indicating that more users were actually running out of steel. Although the auto industry was still lagging in taking tonnage, the industry was no longer deferring deliveries.

In the rubber industry, inventories of tires were at their highest point, reflecting somewhat the anticipation of a strike as the labor agreements, except as to wages, were up for review. As to iron ore, stocks in the hands of the mills were high, and it appeared probable that only about half as much ore would move down the Lakes this year as last year. As to paper and paperboard manufacturing, the growth rate was stated to be about 2 per cent, against an expected growth rate of about 5 per cent. A lot of production in finished forms was in the hands of retailers and wholesalers, and that would have to be moved before manufacturers ordered more containers.

All in all, Mr. Fulton said, the Fourth District was slowly seeing the light of some recovery.

As to policy, Mr. Fulton said he would not wish to change the discount rate or the directive at this time. In his opinion the Committee had overstayed the time for a change in the directive, and the present wording seemed to fit a recovery period about as well as it did the period of going into a recession. He concurred with the view that System posture as to the availability of credit should continue to be about as at present. As he saw it, the current signs of recovery should not be regarded as a signal for the System to reduce the supply of reserves available to the banking system. Instead, reserves should be supplied as needed, and without stinting. The Account Manager should be given every opportunity to accomplish the objectives of the Committee in all sectors of the market.

Mr. King stated that Mr. Bryan's appraisal of policy in the past, including the results of that policy, and his suggested philosophy for the future coincided closely with his (Mr. King's) own thoughts. It was that very philosophy that had whetted his interest in the Federal Reserve System a number of years ago, and he would endorse, he believed, everything that Mr. Bryan had said. While he also agreed generally with the suggestion that had been made by Mr. Noyes about remaining steady in the boat, he believed that such pressures as might develop in the short-term market could be tolerated to the extent of a slight decline in the bill rate. While he would not suggest any substantial relaxation of the policy that had prevailed, he felt that it would be possible to allow the short-term rate to reflect market forces and seasonal forces without disturbing anyone unduly. In making this comment, he was not unmindful of the point brought out by Mr. Hayes that the System should remain cognizant of the cooperation this country was receiving from friendly foreign sources but, as he had said, he did not believe that any relatively insignificant change in the short-term rate would be unduly disturbing.

Mr. King noted that he had been in the habit of suggesting free reserve targets in terms of fairly wide ranges. Today, however, he had decided to state a specific target. Although he realized that it would not be reasonable to expect the Account Management to meet such a target precisely, nevertheless, in order to indicate the volume of additional reserves that he thought should be supplied to the market, he would suggest a figure of $575 million.

Turning to the discount rate, Mr. King said he would not recommend any change at this time. The discount rate seemed relatively unimportant as long as the Federal funds rate continued considerably under 3 per cent, as it had during the past three weeks, and the only real effect of a change in the discount rate might be to disturb many people.

Mr. King commented that many people had been misled by stock market developments in the past, and this would probably also be true in the future. One could easily come to the conclusion that he could understand the trend of events by watching the stock market closely. In Mr. King's opinion, however, a person could be led into serious error if he attached too much importance to the recent rise in the stock market as an indication that business was about to expand with great vigor. Many highly optimistic appraisals of current business indicators had come to his attention, but he noted that business failures were still at a high level. To single out one area of activity, he mentioned that since the beginning of the current calendar year the lumber business in a part of the country with which he was familiar had experienced several turns of sentiment depending on the volume of orders on the books, with the most recent indication being on the pessimistic side. This situation, he felt, might be quite indicative of developments in many other businesses.

Mr. King concluded by saying that he found himself in agreement with the change in the directive suggested by Mr. Bopp.

Mr. Shepardson stated that he found encouragement in the signs of gradual economic upturn. He hoped that the upturn would continue to be gradual. One of the unfortunate aspects of the previous recession and upturn was the precipitate nature of the reversal, which occurred before it was possible to achieve the corrections that one would normally hope for at such a phase of the business cycle. He was also encouraged by the reports indicating that the balance-of-payments situation seemed to have improved somewhat, but there still appeared to be a delicate balance.

With reference to the promotion of sustainable economic growth, Mr. Shepardson commented that some fundamental adjustments appeared to be taking place gradually. More were needed, and there should be an opportunity for them to work out. This did not mean that he would want the System to be in a position of restraining recovery and growth. At the same time, however, he questioned whether this was an appropriate time for the System to be pushing too hard, in contrast to affording an opportunity for some of the other forces in the economy to develop in a manner that would assure longer-run sustainable growth. Therefore, he would continue the present degree of ease, which in his opinion was adequate. The situation in the money market did not seem to be restrictive, if one could judge by the Federal funds rate. Looking at the general availability of credit and the growth of the money supply and near-money substitutes, it appeared to him that the System was in a good position, and he would favor maintaining free reserves in a range indicative of a continuation of the present degree of ease; that is, $500 million plus or minus. He saw no reason to change the discount rate, and he would not be inclined to favor a change in the directive.

Mr. Robertson said that he continued to feel critical of monetary policy. In his opinion, System operations had been entirely too tight to carry out the language of the policy directive. The significant fault he saw in the analysis of Mr. Bryan was that the latter's long-term program would start with what he (Mr. Robertson) considered an inadequate volume of total reserves at the present time. In his own analysis, the System should have been easier up to this point, and the current volume of total reserves was not adequate.

Mr. Robertson repeated that he would like to see monetary policy easier than it was at present. He felt that a mistake had been made in over-emphasizing the international aspects of the situation, particularly the importance of holding up the short-term rate. He would agree with Mr. Bopp to the extent of sharing the latter's view that doubts should be resolved on the side of ease. In his (Mr. Robertson's) opinion, that should be a minimum requirement, for he regarded this as a time when there could be further injections of reserves without upsetting the applecart. In his view the Committee could go a long way toward correcting some of the mistakes of the past by taking advantage of what might well be its last clear chance to increase the volume of reserves before a real upswing in the economy took place. The upswing, he thought, was likely to be more rapid than most of those who had spoken thus far had suggested.

In terms of free reserves, Mr. Robertson said he would favor a level in the neighborhood of $600 million, and that he would not be concerned if the figure went as high as $650 million. He would not attempt to offset the natural increase in reserves that was going to occur next week to the extent that had been suggested. It would be possible, he thought, to move up to $600 million, or even $650 million, without too much of an impact on rates anywhere along the line. In any event, it would not be of concern to him if the bill rate went down somewhat.

Mr. Robertson expressed agreement with Mr. Bopp that this was a time when the policy directive should be changed. There had been a change in the economic outlook, and the directive should not be the same during an upswing as during the preceding downswing. The language for clause (b) that Mr. Bopp had suggested seemed to him satisfactory. If those specific words were not used, however, he would favor some other phrase that would indicate that the Committee was trying to encourage economic recovery.

Mr. Robertson also said that he would not favor a change in the discount rate at this time, because he thought the point when such action should have been taken had passed. In his opinion the discount rate should have been reduced several months ago. However, this was not the time to risk changing the rate because psychological reactions would be adverse. If the rate were changed, the System would appear to be showing less confidence in the recovery movement than he would like to display.

Mr. Mills commented that the economic intelligence reaching the Board and the Committee gave clear and substantive indications of a recovery. However, it remained to be seen whether the recovery was more than seasonal or whether it would be vigorous enough to survive the summer doldrums without relapse. To correlate monetary and credit policy with that estimate of the outlook, it was his opinion that the reserve climate that had been developed over the past several weeks was appropriate to the economic circumstances. Judging from the trend of Treasury bill yields, the trend of the Federal funds rate, and the increase in the money supply, the System's objectives were being realized. The System, he thought, had provided a lead to the financial community that, with a lag, should produce greater effects than were apparent at the present time.

In that connection, Mr. Mills observed, it was welcome to hear belated attention being given to the extremes of System policy in previous years in moving between tightness and ease. He felt the System should be wary at the present time about attempting to repair the damage that resulted from what he considered an overly restrictive policy a year or two ago, one which forced an untimely contraction in the money supply. To substitute for that policy one of extreme ease could produce evils of great consequence. Accordingly, it seemed to him that at the present time a level of net free reserves averaging around $500 million was adequate, or perhaps more than adequate, for the existing economic circumstances. The presumption that it might be more than adequate went again to the matter of recognizing the leverage that resides in maintaining a given level of positive free reserves or negative free reserves. Such a policy implied that at any time the level fell below the target, reserves would be restored to the original target. This produced the kind of leverage, up or down, that had resulted in the inequities of recent years in System monetary and credit policy, and it provided an object lesson as to what should be avoided in the future.

Mr. Mills said that he would not recommend a change in the discount rate at this time. Also, looking at the hazy economic horizon, he would feel that the policy directive should likewise be left unchanged at the present time.

Mr. Wayne reported that favorable trends in business activity were clearly gaining in the Fifth District. In some sectors they were predominant. Thus, it appeared that the economy of the District had turned the corner and that a slow but steady recovery was beginning. Manufacturers reported moderate improvement in new orders, and the work week was stable or rising. Insured unemployment declined a little more than seasonally in March, and bank debits showed steady improvement except in West Virginia There were encouraging signs of strengthening in the building and the lumber industries. Construction activity was fairly stable, and some textile markets had strengthened slightly. However, there were also some elements of uncertainty, as, for example, with respect to bituminous coal.

As to banking developments, Mr. Wayne said that most types of business loans had been rising more than seasonally in recent weeks. District banks appeared to be in a relatively easy position, however, and seemed able to accommodate increases in credit demand with no difficulty.

With respect to the national situation, Mr. Wayne said he was impressed by the extent to which economic data for February showed stability or some improvement. The data for March showed continued improvement, small in most cases but rather general and widespread. There seemed to have been no major development of an unfavorable nature except the failure of unemployment to decline. He was led to the conclusion that the low mark of business activity had been reached and that the country might be in the first month of recovery. However, it was always possible to be mistaken, especially at a time of seasonal rise.

As to policy, Mr. Wayne advocated continuance of the degree of ease that had prevailed for the past six weeks. He would not favor a change in the discount rate at this time, and he still considered the international situation sufficiently precarious to require continued consideration. He agreed with Mr. Bopp's suggestion for a change in the wording of the directive, and with Mr. Bopp's reasoning in regard to the explanation for such a change.

Mr. Clay noted that recent economic developments lent support to the view that the low point of the recession was behind us. Ahead lay the unknown configuration of the recovery and the goal of an economy employing its resources more fully than during the last upswing of the business cycle. Under these circumstances, the task of the Federal Reserve System continued to be that of conducting monetary policy with a view to encouraging economic expansion, and this objective called for a continuation of the policy of monetary ease.

In view of the international flow-of-funds problem, it appeared to him essential that open market operations be so conducted that the Treasury bill rate would ramain within the range of recent weeks. But it also appeared that with resource utilization at low levels and with interest rates high in comparison with other recessions, appropriate policy involved more than supplying some given volume of reserve funds without depressing the Treasury bill rate. It called for an added endeavor to bring about lower interest rates in the intermediate and longer sectors of the maturity structure, with the expectation that those developments would be reflected in other credit and security markets.

At times when the System had been free to allow the short rate to decline, intermediate and long-term rates had been brought down during a recession through the shift in investor demand toward longer maturities as the shorter rates declined under the joint impact of open market operations in Treasury bills and of greater reserve availability. During the current episode, that type of development had been impeded by the System's desire to prevent the Treasury bill rates from falling too low in view of the international flow-of-funds problem. At the present time, then, the System had the added burden of attaining its objective in the longer maturity sectors of the market without being free to encourage this development through lower short-term rates.

Preventing premature tightening of the longer end of the market would in itself serve a useful purpose, Mr. Clay commented, but the System should endeavor to do more than that. Insofar as this could not be done in the course of making necessary additions to reserve funds, the Federal Open Market Committee should undertake additional operations by offsetting purchases of longer maturities with sales of shorter maturities.

Mr. Allen said he felt there was no longer any question that the economy touched bottom early this year and had since been moving gradually upward. Based on what had happened in previous periods of recovery, he expected that the durable goods industries of the Seventh District would, as a group, make larger gains in the months ahead than would general business.

Steel production had risen since February and sources in the industry expected the trend to continue through June, probably through the year. The steel production index, nationally, rose from 75 in December to 88 in early April, at which time the rate was 92 in Chicago and 100 in Detroit. In farm machinery, both production and sales were continuing to increase. Inventory liquidation might be continuing on balance, but it was probably nearing an end. The Purchasing Agents of Chicago had just issued a report that orders, production, and hiring were now on the uptrend. Chicago housing permits issued during the first quarter were up nearly 30 per cent from last year, according to figures from one authority.

The Detroit Branch had provided a table covering the years 1955 to 1961 which showed, first, the average daily sales rate of domestically made automobiles for the period January 1 to April 10 in each year. Then it projected sales for the year on the basis of the sales during that early period. Next, for the years 1955 through 1960, it compared the projections with actual sales for those years. Lastly, it showed the discrepancies between the projections and the actual results. It was interesting to note that the average discrepancy for the six years was only 2.5 per cent. If sales from January 1 to April 10, 1961, were projected through the year 1961, the figure for total 1961 sales would be 4,899,000, considerably less than actual sales in any of the preceding six years except 1958, when sales were only 4,298,000.

Year	Average Daily Rate Jan. 1 - Apr. 10	Projected Annual Sales	Actual Annual Sales	Discrepancy in Projection
1961	15,957	4,899,000	--	--
1960	19,701	6,068,000	6,142,000	-1.2%
1959	17,467	5,362,000	5,485,000	-2.2%
1958	13,965	4,287,000	4,298,000	-0.3%
1957	19,482	5,981,000	5,824,000	+2.7%
1956	20,319	6,238,000	5,838,000	+6.9%
1955	23,638	7,257,000	7,375,000	-1.6%

Mr. Allen reported that no evidence of a pickup in loan demand had been found as yet. From March 15 through April 5, outstanding loans at Seventh District reporting banks declined $66 million compared with $46 million a year ago, with most of the decline in business loans. The reporting banks had continued to reduce their holdings of intermediate and long-term Government securities, but their holdings of "other securities," presumably tax exempts, had risen by almost $100 million over the last month. Not surprisingly, there was an absence of reserve pressures on the larger banks. The net deposit and reserve drains on Chicago banks over the

April 1 tax date were smaller than usual; last week those banks were net sellers of Federal funds for the first time since September, and sellers in larger amounts than at any time for at least many years.

Mr. Allen recalled that at the March 28 meeting he suggested the importance of giving timely evidence in operations to the Committee's sense of the business situation. It now appeared certain that the economy was experiencing a move upward, gradual thus far, in fact so gradual that there had been no pickup in net loan demand and bank reserves were in sufficient supply to support a substantial increase in loans and investments. Under the circumstances, he favored going along for another three weeks "about as we have since the last meeting." He would prefer that the net free reserve figure stay around $500 million, or, if a choice must be made, that it be less than that figure rather than more. He would not change the discount rate or the directive, although he did not feel strongly about the directive. It might not have been obvious from his choice of words, Mr. Allen added, but he was in agreement with the position stated by Mr. Bryan. He was glad that Mr. Bryan had used more erudite and persuasive language than his own.

Mr. Deming said there was little new to report about general economic developments in the Ninth District, except that the moisture situation had improved appreciably in recent weeks and that the outlook for iron mining activity in 1961 was quite bleak. It seemed highly likely that ore shipments from the Range in 1961 would be smaller than in either 1959 or 1960, and might be as small as in some of the prewar years. Aside from the mining sections, and one or two other small areas, however, the general picture was fairly good and improving.

So far this year, District banking developments had been mixed, with no clearcut trends indicated. In January, loans at city banks declined far more than seasonally; in February they rose contraseasonally; in March they declined by almost the same amount as they rose in March 1960. At country banks, loans had been growing rather steadily this year. As he had noted at the March 28 meeting, the seasonal decline in deposits apparently reached its low earlier this year; deposits were now above year-ago levels by 6 per cent at city banks and 4 per cent at country banks. With these loan-deposit developments, bank liquidity positions had varied; in general, city bank loan-deposit ratios had improved so far this year, while those in country banks had remained about the same. And, except for the peaks attained in the spring of 1960, loan-deposit ratios at both classes of banks were now significantly higher than at any time in the 1950's; 4 and 6 points higher at city and country banks, respectively, than they were at the peaks in 1957.

This situation led him to believe that monetary policy could well afford to, and in fact should, aim at providing somewhat more liquidity to the banking system. He would not want to press liquidity upon the banks, but he would think, along the same lines as indicated by Mr. Thomas, that the System could continue to pursue, perhaps increase slightly, its program of supplying ample reserves. To accomplish this purpose, and at the same time avoid undue declines in short rates, would require, as he saw it, that considerable latitude continue to be given to the Manager of the Account. So far, he thought the Account has done very well. He would hope that growing recovery would make the job easier insofar as interest rates were concerned, and thus permit the furnishing of adequate reserves without so much danger of rate declines at the short end and with more opportunities to hold down rate advances at the longer end.

Mr. Deming commented that he had listened with interest to the remarks made by Mr. Bryan and, in a general way, believed that Mr. Bryan's cautions should be heeded. As he saw it, however, there was far less danger this time than in previous post-war recovery periods in continuing a policy of ease after recovery had begun. In other words, he did not see the problem at present as one of "overstaying" the market, but rather as one of being sure of not "understaying" it.

Thus, Mr. Deming said, he would hope that the System could continue to operate in a \$500-\$600 million range of free reserves. He would not change the discount rate. With respect to the directive, he had considerable sympathy for Mr. Bopp's suggestion, particularly if the policy record could be made to show that such rewording reflected more a recognized change in the state of the economy than a change in the direction of policy.

Mr. Swan reported that some further indications of improvement had been seen in the Twelfth District in the past three weeks. However, they were not particularly vigorous, and they were still somewhat scattered. On the unfavorable side, the unemployment situation was still quite unsatisfactory. On the favorable side, conditions in steel, copper, and lumber improved in March. Orders for Douglas fir rose in March, but there was no attempt to expand production commensurately with the increase in orders. Therefore, unfilled orders increased rather rapidly, and there was some reduction in inventories at the mills. Nonresidential construction was strong, and new car registrations in California were up substantially in the first half of March from the first half of February.

The large banks of the District appeared to be in quite an easy position. They had been net sellers of Federal funds for several weeks, and last week they were net sellers on a somewhat larger scale. It was indicated that they expected to be able to continue in that position during the current week. Loans at weekly reporting member banks declined in the three weeks ended April 5, as in most other areas. However, a small sample of large banks indicated a noticeable pickup in business loans, this being the first time in many months that such comments had been made. Savings deposits continued to rise in the week ended

April 5, which included the quarterly interest date, compared with a drop a year ago.

Turning to policy, Mr. Swan said it seemed to him necessary to bear in mind that the vigor of the upturn, if an upturn was in prospect, was still much in question. While he had no major disagreement with the policy of the past three weeks, he continued to feel that the Committee should try to be a little easier than it had been whenever the opportunity arose. It appeared to him that the Committee could well attempt to increase total reserves somewhat. In saying this, he recognized the point made by Mr. Bryan regarding the ultimate result of maintaining a constant level of free reserves. Like Mr. Deming, however, he felt that in the present climate the situation was very far from going through the roof. In summary, he would favor a slightly easier position, even though that might mean for some period of time an increase in free reserves toward the $600 million level. As to the short-term rate, while he realized the importance of guarding against any abrupt decline, he would not be worried about fluctuations around the 2-1/4 per cent level. He saw no reason why it was necessary to exert pressure to move the bill rate up from present levels.

In conclusion, Mr. Swan said he would not argue for any overt change in policy, such as a change in the discount rate, at this time. However, he agreed with Mr. Bopp's suggestion regarding the directive, if such a change could be qualified by an explanation of the fact that no appreciable change in policy was involved.

Mr. Irons stated that conditions in the Eleventh District had not shown much change. There had been mixed movements within the District, but any changes that had occurred were minor. In effect, this was a continuation of what had been going on for some time; the Eleventh District did not have too much trouble throughout the recession, with activity holding at levels not far from where it had been earlier. Nonagricultural employment was holding steady, and the unemployment figures were remaining quite steady. There were fewer initial claims at present for unemployment benefits. The industrial production index had moved pretty much in line with crude oil production; that is, down a bit in February and up a bit in March. If there should be a cutback in crude oil production in April or May, the index might again drop a bit, but the other elements in it were quite stable. Construction was increasing about seasonally, and department store sales to the first of April were about 2 per cent above the previous year. However, the Easter business was not much above a year ago. There would probably be a decline in days allowable on crude oil production, which now stood at 9, having been dropped from the figure of 10 that prevailed for one month.

During the past three weeks, figures of reporting banks showed that loans were down slightly, while demand deposits, time deposits, and investments were up. District banks had been net sellers of Federal funds, with the weekly average running about $300 million on the buying side and $400 million on the selling side. Dallas banks were doing the buying, and Houston banks the selling. There was no borrowing of any significance from the Reserve Bank. In short, there was no evidence of tightening in the banking situation that was causing any trouble. Loan demand showed a little drop in the past three weeks, but in general there was not much change.

Mr. Irons said that the District was expecting a gradual increase in business activity. Conditions in agriculture looked quite promising. There was a cautious optimism on the part of businessmen; they were not too unhappy about what was happening, but they were looking for some slight improvement.

Mr. Irons commented that he was rather well satisfied with Account operations during the past three weeks. In his judgment, reserves had been adequate. The money market had reflected some degree of ease, and with loan demand lagging somewhat, the liquidity position of the banks was slightly better than it had been. The rate structure seemed reasonably satisfactory and had been fairly stable in spite of some strong forces that were at work during the past period.

The System, it appeared, might be making some progress toward the objectives of current policy; namely, to keep the short-term rate up and the long-term rates down. While long-term rates had not been nudged far, there were signs of an increased flow of funds into the long-term market, and at the same time reserves had been quite adequate.

Mr. Irons suggested continuing to maintain about the degree of ease at which the Committee had been aiming. As to free reserves, he noted that his own thinking had been a little lower than that of some others. At present he would like to see free reserves in the range of $400-$500 million, giving recognition to the point made by Messrs. Bryan and Mills that the very process of maintaining free reserves, with replenishment as reserves were used, could produce expansion. In his view, free reserves in the area he had mentioned would avoid a restrictiveness that would be damaging.

Mr. Irons also commented that in this recession the bill rate had not been driven down to 5/8 per cent and the discount rate had not been reduced to 1 per cent. Therefore, the System would not have so far to go to get back to what might be regarded as normal levels. Thus, it might develop that the caution exercised in protecting the short-term rate structure would turn out to have had some blessings in disguise. Also, there was a difference in the liquidity position of the banks as compared with earlier recessions. As he recalled the

1954 period, and the antirecessionary measures taken by the System, it subsequently took some eight months before the banks became illiquid enough for System measures of restraint to exert any appreciable effect, but that would not be so this time.

In summary, Mr. Irons suggested that it might be desirable to proceed in terms of meeting seasonal growth and necessary demands rather than to pump in reserves too fast. It would be his thought to go along with free reserves in the range of $400-$500 million and see what the difficulties might be. He considered the international situation as of major importance, just as the sustaining of the recovery was of major importance. Therefore, he felt that the System must "play both sides of the street." As to the discount rate, he thought that there should be no change at this time.

Turning to the directive, Mr. Irons commented that he had mixed feelings. On balance, however, it seemed to him that the Committee might get itself in a rather embarrassing position if it did not make some change in the directive at this time. Essentially, he liked to think of the directive in terms of stages of the business cycle. The economy had gone through the declining phase of the cycle and the bottoming-out period, and it now appeared that the economy was beginning to move into another stage of the cycle. Accordingly, while he did not feel too strongly about the matter, he was rather apprehensive about waiting another three weeks. If a change were deferred, the economy might be rather well along in the recovery stage before the Committee got around to making a change in the directive.

It seemed to him, Mr. Irons said, that three things ought to be recognized in the directive. First, the Committee wanted to achieve expansion of the money supply and bank credit consistent with economic recovery. Second, it wanted to facilitate, encourage, and stimulate the forces of recovery. Third, there were international factors that gave the Committee cause for concern.

In the current directive and in certain previous directives, Mr. Irons said, there were some things that he did not like. First, the language of the directive tended to center around the desirability of substainable economic growth, something that everyone wanted at all times. In this respect, therefore, the directive seemed to him rather meaningless. Second, there was the inclusion of specific reference to employment. In his opinion, there was going to be a substantial amount of unemployment that monetary and credit policy could not correct. The levels might be higher than they had been in the past, and he did not care to have in the directive an implication that System policy was directed toward correcting something that he did not think it could correct.

Mr. Irons then stated that he would suggest changing clause (b) of the directive so that it would call for operations with a view to encouraging expansion of bank credit and the money supply to contribute to strengthening the forces of recovery which appeared to be developing in the economy, while giving appropriate consideration to international factors.

Mr. Ellis commented that last week the Boston Reserve Bank held its semiannual business outlook conference of regional economists. The views expressed at that time, he said, reinforced the prediction that there would be an expansion of gross national product by the fourth quarter of this year. The consensus was that the expansion would be about 5 per cent from the first to the fourth quarters, with about half attributable to personal consumption expenditures.

The business picture in the First District conformed generally to what had been heard around the table this morning; it appeared that the low point of the recession had been reached and that recovery trends were setting in at the moment. The New England manufacturing index had been increasing for the last two months (January and February), and all four components of the index increased in February. The March survey of New England purchasing agents indicated further production increases in that month, and the man-hour index rose in February. Thus, on the production side, it looked as though the low point of the recession had been passed. As to construction contract awards, the trend was obscured by a poor and probably erratic February performance, during which month the figures were down in all major categories. Unemployment was still serious, but the recent trends were mixed. In February, total unemployment in New England, without seasonal adjustment, was almost equivalent to the rate for the nation as a whole, yet the First District did not at present have any of the "F" labor market classifications for which it was quite noted in years past.

Business loans were down slightly in the past three weeks, Mr. Ellis said, but in general the banking picture was good. The banks had adequate reserves, and they were net sellers of Federal funds to a small extent during the past few weeks. Demand deposits were rising, and bill holdings also had turned upward.

There had been a good deal of ease, Mr. Ellis said, and yet bill rates had not been unduly low. As to the period ahead, he expressed the view that it would be desirable to make the most use of credit to stimulate recovery that was possible without putting undue pressure on short-term rates. To him that meant, as he had stated at the March 28 meeting, exploring whether reserves could be used a little more effectively, with a little more ease than previously. The System, he noted, was trying to answer the question whether or not it was supplying enough reserves to provide for adequate growth, at a time when it had accepted the limitation on the supplying of reserves that was imposed by the potential impact on the flow of gold and short-term capital.

He endorsed the suggestion that considerable latitude be given to the Management of the System Account, and felt that the Desk should probe toward a little higher level of reserves where possible, again recognizing the importance of avoiding significant declines in short-term rates.

As to the directive, Mr. Ellis said he felt much the same way as Mr. Irons; that is, that the directive was valuable to a large extent in retrospect as a record of the ability of the Committee to recognize changes in current economic conditions. If the directive was to be changed on such a basis, it probably should be changed now, and he would favor the language Mr. Bopp had suggested.

Mr. Balderston noted that in the ten months since May 1960 the active money supply had grown at approximately the same rate as during the comparable phases of the two previous business cycles. However, in the ten months prior to May 1960 the money supply had contracted at an annual rate of 2.9 per cent. As he saw it, the problem before the Committee today remained that of giving such appropriate stimulus to recovery as was within its power, without on the other hand driving bill rates so low as to cause interest-sensitive funds to flow abroad or to suggest to observers that monetary policy was not prudent. Three weeks ago he suggested that developments warranted some probing efforts toward increasing the money supply. Data now available pointed to a gain in the money supply in March, and if that trend continued he would be more confident that the System was helping to foster recovery through such powers as it possessed. However, the money supply figures tend to vary so greatly that it would require a longer period for him to reach a conclusion as to whether the System was causing the money supply to rise fast enough to provide adequate liquidity, even if some allowance was made for time deposits.

The turn in business may have come, Mr. Balderston said, but no one could foretell either the rate or the extent of recovery. The System was pleasantly surprised in June 1958, he recalled, when the valley of that recession turned out to be V-shaped. What the contour of the 1961 valley might be was still unknown. However, there was the absolute certainty that an increasing number of school children would be coming to working age, and this made it imperative to provide more job opportunities than was the case in past business recoveries. It was not possible for him to appraise whether the recent level of free reserves would have sufficient cumulative effect to discharge the Committee's responsibilities as they related to domestic needs. That level of free reserves, if high enough in relation to the phase of the cycle, bank credit, and the discount rate, might have a greater cumulative effect the longer it continued. He thought it probably would. However, whether under current conditions a level of free reserves of $500 million would produce growth in the money supply seemed uncertain. Therefore, he would favor pushing the level somewhat higher through probing actions.

Mr. Balderston said he would consider it a mistake to change the discount rate at this time in the face of the foreign situation. However, he would change the directive, and he believed that he would favor the suggestion of Mr. Irons.

In conclusion, Mr. Balderston suggested that if time remained at the end of the meeting the Committee might like to ask Mr. Hayes to comment informally on his recent trip to Europe, during which he attended a monthly meeting of the Bank for International Settlements.

> Secretary's Note: Other Committee members having concurred in that suggestion, Mr. Hayes made brief informal comments at the conclusion of the Committee meeting.

In summarizing the meeting, Mr. Hayes said that although some differences of view existed, it probably would not be too hard to reach a consensus. First, however, he felt that it might be appropriate to deal with the directive. It appeared that a majority would like to change the directive, and two specific suggestions had been made. Mr. Bopp had suggested changing clause (b) to provide that open market operations should be conducted with a view:

> "to encouraging economic recovery and increased employment opportunities, while continuing to take into consideration current international developments."

Mr. Irons had suggested:

> "to encouraging expansion of bank credit and the money supply to contribute to strengthening the forces of recovery which appear to be developing in the economy, while giving appropriate consideration to international factors."

As the result of subsequent suggestions, it was agreed for purposes of discussion to change the language suggested by Mr. Irons in certain minor respects, as follows:

> "to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery that appear to be developing in the economy, while giving consideration to international factors."

Mr. Hayes noted that the essential difference between the two proposals was that the suggestion of Mr. Bopp mentioned employment specifically and did not mention the money supply, while the suggestion of Mr. Irons mentioned the money supply but not employment.

Mr. Hayes having inquired whether a possibility of compromise was seen, Mr. Robertson asked Mr. Bopp whether the latter would be willing to incorporate in his proposal a reference to encouraging the expansion of bank credit and the money supply.

Mr. Bopp replied that this would be agreeable to him. He noted that he was not at present a member of the Committee.

There followed further discussion during which Mr. King suggested that the proposal of Mr. Irons be left intact in order that the Committee might decide whether or not it wished to accept such language for the directive.

Mr. Hayes then stated that he would call for a go-around to determine how many would prefer the language suggested by Mr. Bopp and how many would prefer the suggestion of Mr. Irons. First, however, he turned to Mr. Rouse and asked whether from the Account Manager's point of view there would be any substantial preference. Mr. Rouse replied that as Manager of the Account it would make no particular difference which proposal might be adopted.

Mr. Bryan said that he liked the point made by Mr. Irons. The System could influence credit conditions and thereby encourage recovery, but the effect on employment was indefinite. He had been uneasy about having anything concerning employment in the directive.

Mr. Fulton stated that he would prefer the language suggested by Mr. Irons for the same reason.

Mr. King said he appreciated the danger in seeming to imply that monetary policy could resolve the unemployment problem. But neither did he like to create the impression that the money supply was as easy to turn around and move in one direction as the other. He added that perhaps he was basing his views somewhat on the manner in which the directive might be read by less sophisticated persons. Although he recognized the point Mr. Bryan had made, and found it persuasive, still he would like to write the directive in terms that took into account the way the average person might read it.

After the others around the table had expressed their preference, Mr. Hayes said it was clear that the majority preferred the language suggested by Mr. Irons.

Mr. Hayes then referred to a possible compromise suggested by Mr. Robertson, which would call for operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening the forces of recovery that appeared to be developing in the economy and increasing employment opportunities, while giving consideration to international factors.

Mr. Irons said that the question of including a reference to employment was the only point about which he felt strongly. He did not believe, for reasons he had expressed earlier, that the Committee should indicate in its directive that open market operations were to be undertaken with a view to increasing employment opportunities.

Mr. Hayes inquired whether anyone who had expressed a preference for the language expressed by Mr. Irons also would like to accept the compromise suggested by Mr. Robertson, and Mr. Deming replied affirmatively. Mr. Deming said that he had some sympathy for the position that the Committee should not include in the directive language indicating that a direct objective of monetary policy was to increase employment. However, in the manner in which the suggestion of Mr. Robertson was stated, the matter was put more in the nature of a hope that increased employment opportunities would result from achievement of the objectives of Committee policy. He felt that this would do no harm and that it would do some good.

Mr. Bopp said he felt it was important that a reference to increased employment opportunities be included in the directive, in terms of this being one of the hoped-for results of System policy. The proposed language, he noted, did not pretend to say that the System could produce full employment.

Mr. Clay pointed out that a reference to the fostering of employment was included in the current directive. He stated that he would like to find a way of easing that reference out of the directive. However, he was not sure whether this was an appropriate time.

At the request of the Chair, a poll was then taken on the question whether to include in the directive a reference to employment, in the manner suggested by Mr. Robertson. From this poll it developed that of the members of the Committee, Messrs. Hayes, Balderston, Robertson, and Wayne favored the inclusion of such a reference, while Messrs. Allen, Irons, King, Mills, Shepardson, and Swan did not favor it. Accordingly, it was understood that the majority of the Committee preferred not to include in clause (b) of the directive the suggested reference to the encouragement of increased employment opportunities.

Mr. Hayes next inquired whether any member of the Committee wished to be recorded as voting against the directive in a form in which clause (b) would be phrased in the manner suggested by Mr. Irons, subject to the minor editorial changes that had been agreed upon.

Mr. King said that he did not want to record a dissent. As he had brought out earlier, however, this was material that would be read by the public when the record of Committee policy actions was published. Further, he supposed that the directive, as adopted today, would probably remain in effect for some time. In these circumstances, he raised the question whether it was felt that the directive was appropriately phrased to fit prospective developments in the national economy.

During a brief discussion that ensued, Mr. Irons commented that he thought the Committee would be well advised to avoid getting itself in a box at this time insofar as the language of the directive was concerned.

Mr. Hayes then said that he took it the directive, as proposed, would be unanimously approved, and no dissent was indicated.

> 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 expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery that appear to be developing in the economy, while giving consideration to international factors, 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.

Mr. Hayes said it seemed quite clearly the consensus to continue substantially the same policy that had been in effect during the last period or two. This meant continuing to maintain approximately the same degree of ease, with some attention given to short-term rates, and with leeway given to the Manager of the Open Market Account to accomplish these purposes. He inquired whether there was any disagreement that this was the consensus.

In view of a question raised by Mr. Robertson, Mr. Hayes called for a poll of the members of the Committee as to the accuracy of his statement of the consensus. From this poll it developed that

Messrs. Balderston, Robertson, and Swan favored increasing the degree of ease while Messrs. Hayes, Allen, Irons, King, Mills, Shepardson, and Wayne favored continuing to maintain substantially the present degree of ease.

It being clear, therefore, that the consensus favored maintaining the existing degree of ease, Mr. Hayes inquired whether any member of the Committee wished to be recorded as dissenting from the policy indicated by the consensus, and Messrs. Balderston, Robertson, and Swan stated that they wished to be recorded as dissenting.

> Secretary's Note: Mr. Robertson subsequently submitted the following statement for inclusion in the record of the meeting in explanation of his dissent:

> Mr. Robertson voted against the decision to implement the directive by maintaining about the same degree of ease in the money market as in the past. He felt that to continue to supply reserves to the banking system only in the amounts that had been made available in recent weeks would not be adequate to encourage or support credit and monetary expansion needed for economic recovery at a rate that would be desirable and possible.
>
> The risk that additional reserves might cause a decline in short-term rates and encourage a movement of funds from this country with a loss of gold, Mr. Robertson believed, was likely to be much less than it had been in the past. There had been a resurgence of confidence in the future of the dollar, the lack of which had been an important cause of the earlier flight of funds from this market; interest rates in some foreign markets had been lowered; and the balance-of-payments problem and the outflow of gold had been alleviated. Moreover, economic recovery and expectations of such a recovery might be expected to bring about a rising trend in interest rates, or at least act as a damper on further

> decline. Additional reserves, therefore, would not be likely to cause an undue decline in interest rates, but might instead be needed to prevent an undue rise. Failure to supply adequate reserves for monetary expansion might retard recovery with undesirable economic consequences for the early return to fuller utilization of human and material resources.

Mr. Hayes then referred to the question of renewing the outstanding special authorization for operations in longer-term United States Government securities. This authorization, originally given by the Committee on February 7, 1961, was renewed on March 28 in a form that removed the previous restriction against operations in securities having a maturity longer than 10 years. Accordingly, on March 28 the Federal Reserve Bank of New York had been authorized, between that date and the next meeting of the Committee, within the terms and limitations of the directive issued on March 28, to acquire intermediate and/or longer-term United States Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Messrs. Allen and Robertson stated that they would dissent from renewal of the outstanding authorization, for the reasons that they had stated at previous meetings, most recently on March 28, 1961.

In this connection, Mr. Robertson raised the question whether any method was apparent by which it would be unnecessary to record a dissent at each Committee meeting as long as the special authorization was continued. Mr. Hayes commented that the original action of the

Committee on February 7 contemplated that the Committee would review the special authorization at each meeting and determine whether to renew or amend it. Mr. Robertson agreed and indicated that in the circumstances there would seem to be no alternative to recording his dissent at each meeting.

Mr. Rouse commented that in the Committee's policy directive, which had just been adopted in amended form by unanimous vote, there was a provision 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, should not be increased or decreased by more than $1 billion. The special authorization covering operations in longer-term securities contained an authority, within the terms and limitations of the directive, to acquire intermediate and/or longer-term United States Government securities, or to change the holdings of such securities, by an amount not to exceed $500 million. He suggested that the portion of the policy directive to which he had referred be augmented so as to specify that holdings of intermediate and/or longer-term United States Government securities were not to be increased or decreased by more than $500 million. As reasons for this suggestion, he stated that the proposed addition to the policy directive would satisfy the auditors working on the Open Market Account and that it would make the people who do the actual purchasing and selling of securities for the Account a lot happier.

Mr. Hayes commented that the incorporation of the suggested language would make it clear that the $500 million figure came within the $1 billion figure. In addition, inclusion of a more rigorous statement of the special authorization in the policy directive would serve to avoid any possible misunderstanding on the part of the auditors.

There followed a discussion during which it was brought out that reference to actions taken on the special authorization as well as on the policy directive would be made in the record of policy actions of the Committee. In other words, actions on both the special authorization and the policy directive, including the votes, would be included in the public record.

Mr. Sherman said that he would see no objection, from the standpoint of stating the substance of the authority given by the Committee, to incorporating in the directive language such as that suggested by Mr. Rouse. It might be desirable to have an explicit statement that the $500 million figure pertaining to operations in longer-term securities was within the $1 billion total limitation, although that did not seem essential. The record could be made clear that the authority for operations in longer-term securities would continue to be a special authorization, and if the Committee should change this special authorization the language that Mr. Rouse proposed could be dropped from the directive or modified in whatever way was appropriate. Mr. Sherman noted that it would, of course, be necessary to explain the reasons for any change in wording of the directive in the policy record to be published in the Board's Annual Report. Also, if this addition were made to the directive, Messrs. Allen and Robertson presumably would wish to be recorded as voting against the directive, at least as far as this portion was concerned.

With reference to the last comment by Mr. Sherman, Mr. Robertson said he would wish to be recorded as voting against the directive for the reason indicated, if Mr. Rouse's suggestion should be adopted, but only in that respect. Mr. Allen indicated that he would prefer to leave the suggested language out of the directive.

Mr. Wayne raised the question whether there was any opinion that the suggested change was necessary or desirable from a legal standpoint, and there was no indication to such effect. However, Mr. Rouse again stated that the proposed change in the directive would be for the purpose of avoiding any misunderstanding on the part of the auditors, and that the personnel engaged in the purchasing and selling of securities for the Account would like it.

Mr. Robertson commented that it would be possible to conform the wording of the special authorization with that of the policy directive without incorporating in the policy directive the suggestion of Mr. Rouse, following which Mr. Hayes commented that the Committee might be reluctant to change the wording of the special authorization because it had taken action originally in that manner and since that time had twice renewed the special authorization on the same basis as far as the particular wording in question was concerned. Mr. Robertson observed that if the special authorization had been adequate for the period to date, it would appear that it might also be adequate from this point forward.

Mr. Hayes then suggested that it might be advisable to afford the Committee an opportunity to think further about the suggestion of Mr. Rouse and to bring the matter up again at the next Committee meeting. After others indicated concurrence, Mr. Wayne suggested that before the next meeting there be distributed to the Committee a memorandum on the matter which would include a statement of the reasons why it was felt desirable that language such as proposed be incorporated in the policy directive. There was agreement with this suggestion, and it was understood that Messrs. Sherman, Hackley, and Rouse would prepare such a memorandum for the Committee.

Thereupon, the Committee authorized the Federal Reserve Bank of New York, between April 18, 1961, and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

Mr. Hayes inquired of Mr. Rouse whether the latter had any further comments or questions in the light of the discussion at this meeting, and Mr. Rouse replied in the negative.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, May 9, 1961.

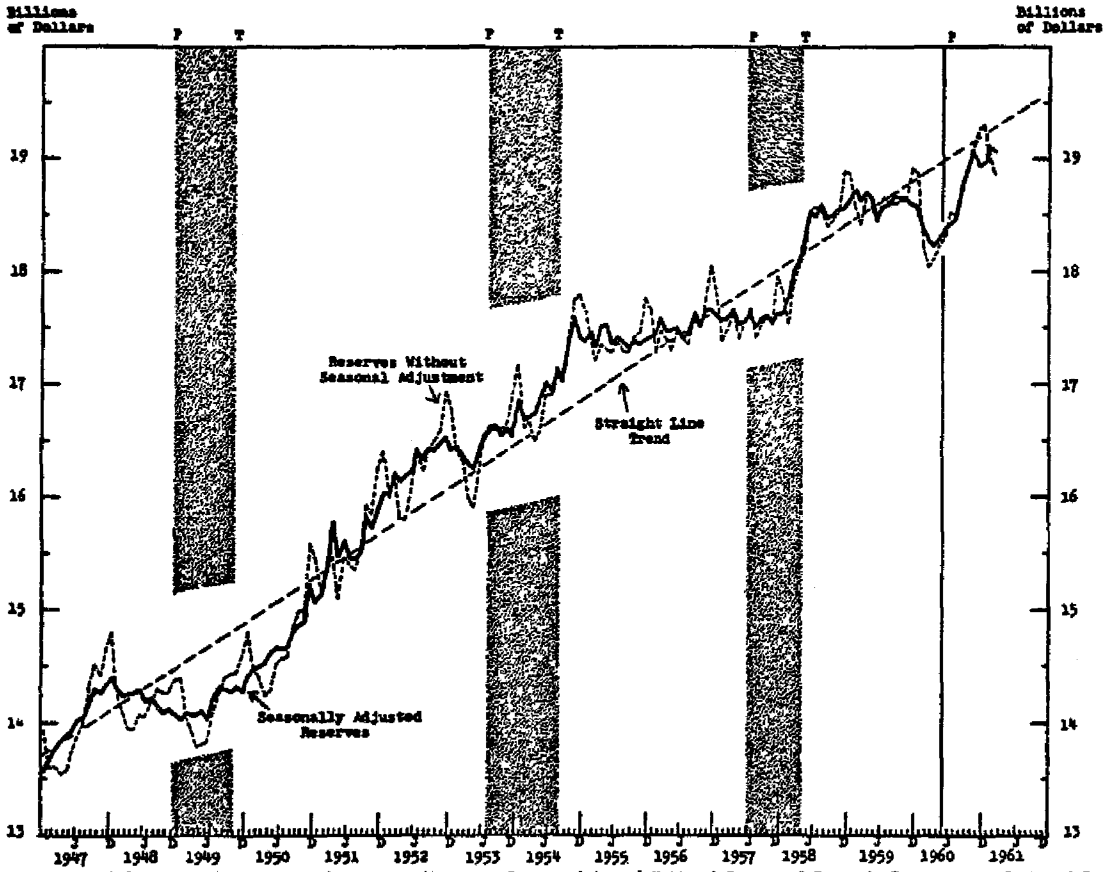
Secretary's Note: For the reason discussed at a brief meeting of the Board members and Presidents that followed the Open Market Committee meeting, it was agreed that the May 9 Committee meeting would be held at 9:00 a.m.

It was pointed out that if Committee meetings were held at three-week intervals, the meeting after May 9 would fall on Tuesday, May 30, which would be a holiday at most Federal Reserve Banks. After discussion, during which reference was made to preliminary arrangements that had been made for meetings of the Presidents' Conference and the Trustees of the Retirement System during the period June 19-21, it was agreed that meetings of the Open Market Committee would be tentatively scheduled for Tuesday, June 6, and Tuesday, June 20.

The meeting then adjourned.

Assistant Secretary

TOTAL MEMBER BANK RESERVES - BOARD SERIES
(Monthly Averages of Daily Figures)



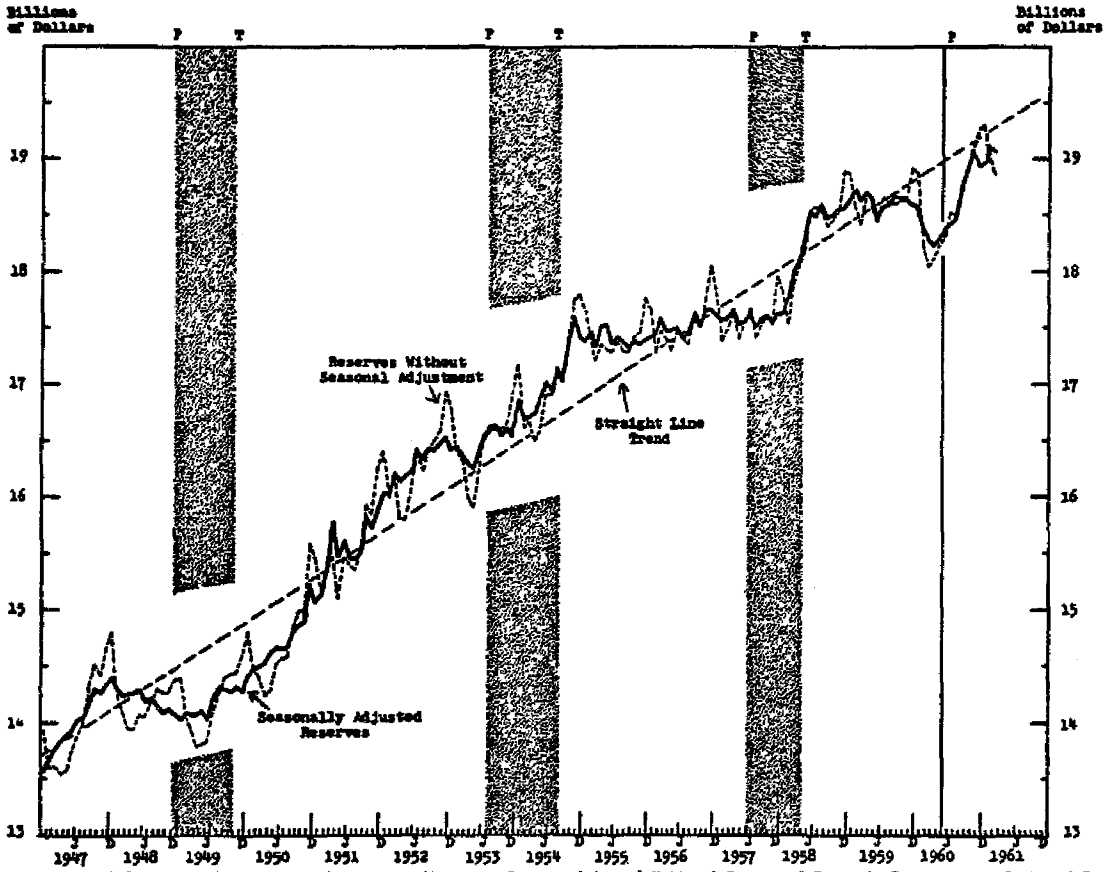
March 1961

Millions of dollars

Trend Line:	19,273
Reserves:	
Unadjusted	18,809
Seas. adj.	19,076

Note: Shaded areas indicate recessions, according to reference dates of National Bureau of Economic Research. P=Peak. T=Trough. Trend line (least squares method) exhibits an average growth of 3.0 percent per year. Last month plotted: March 1961. Method of computation described on reverse side.

TOTAL MEMBER BANK RESERVES - BOARD SERIES
(Monthly Averages of Daily Figures)



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Unadjusted	18,809
Seas. adj.	19,076

Note: Shaded areas indicate recessions, according to reference dates of National Bureau of Economic Research. P=Peak. T=Trough. Trend line (least squares method) exhibits an average growth of 3.0 percent per year. Last month plotted: March 1961. Method of computation described on reverse side.