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, March 6, 1962, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bryan
Mr. Deming
Mr. Ellis
Mr. Fulton
Mr. King
Mr. Mitchell
Mr. Robertson
Mr. Shepardson

Messrs. Bopp, Scanlon, and Clay, Alternate Members of the Federal Open Market Committee

Messrs. Wayne and Swan, Presidents of the Federal Reserve Banks of Richmond and San Francisco, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Furth, Garvy, Parsons, and Willis, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Coombs, Special Manager for foreign currency operations, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Messrs. Holland and Koch, Advisers, Division of Research and Statistics, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Broida, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Messrs. Francis and Shuford, First Vice Presidents of the Federal Reserve Banks of St. Louis and Dallas, respectively
Mr. Hickman, Senior Vice President, Federal Reserve Bank of Cleveland
Messrs. Eastburn, Ratchford, Baughman, Jones, Tow, Coldwell, and Einzig, Vice Presidents of the Federal Reserve Banks of Philadelphia, Richmond Chicago, St. Louis, Kansas City, Dallas, and San Francisco, respectively
Mr. Stone, Assistant Vice President, Federal Reserve Bank of New York

In the agenda for this meeting, the Secretary reported that advice had been received of the election by the Federal Reserve Banks of members and alternate members of the Federal Open Market Committee for the term of one year commencing March 1, 1962, and that it appeared the persons would be legally qualified to serve after they had executed their oaths of office.

Chairman Martin noted that each newly elected member and alternate member except Mr. Irons had executed the required oath of office prior to this meeting. A copy of the oath of office was being sent to Mr. Irons and would be placed in the files of the Committee after being executed by him.

The elected members and alternate members were as follows:

George H. Ellis, President of the Federal Reserve Bank of Boston, with Karl R. Bopp, President of the Federal Reserve Bank of Philadelphia, as alternate member;

Alfred Hayes, President of the Federal Reserve Bank of New York, with William F. Treiber, First Vice President of the Federal Reserve Bank of New York as alternate member;

Wilbur D. Fulton, President of the Federal Reserve Bank of Cleveland, with Charles J. Scanlon, President of the Federal Reserve Bank of Chicago, as alternate member;

Malcolm Bryan, President of the Federal Reserve Bank of Atlanta, with Watrous H. Irons, President of the Federal Reserve Bank of Dallas, as alternate member;

Frederick L. Deming, President of the Federal Reserve Bank of Minneapolis, with George H. Clay, President of the Federal Reserve Bank of Kansas City, as alternate member.

Upon motion duly made and seconded, and by unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1963, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

Wm. McC. Martin, Jr.	Chairman
Alfred Hayes	Vice Chairman
Ralph A. Young	Secretary
Merritt Sherman	Assistant Secretary
Kenneth A. Kenyon	Assistant Secretary
Howard H. Hackley	General Counsel
David B. Hexter	Assistant General Counsel
Woodlief Thomas	Economist
Harry Brandt, J. Herbert Furth, George Garvy, L. Merle Hostetler, Guy E. Noyes, Franklin L. Parsons, and Parker B. Willis	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after February 28, 1963.

At the February 13, 1962, meeting of the Federal Open Market Committee, reference had been made to the provisions of the Committee's

By-Laws and Rules of Organization regarding selection of the Manager of the System Open Market Account. The Committee's authorization of February 13 pertaining to operations in foreign currencies provided that the Special Manager of the System Account for such operations should be selected in accordance with the established procedure for the selection of the Manager. In a memorandum dated February 23, 1962, from Chairman Martin to the Federal Open Market Committee, it was noted that since the Committee had authorized the new position of Special Manager, the By-Laws and the Rules of Organization should be amended to provide for the Special Manager as well as the Manager. It was suggested that the Committee might also wish to consider a change in the method of selection of the Manager and the Special Manager, and a possible amendment to section 5 of Article II of the By-Laws was submitted for consideration. According to the amended section, the Committee would select a Manager of the System Open Market Account and a Special Manager for foreign currency operations for such Account, both of whom would be satisfactory to the Federal Reserve Bank selected to execute transactions for the System Open Market Account.

Chairman Martin stated that it had been planned that Chairman Reed of the Federal Reserve Bank of New York would come to Washington today to discuss this subject with the members of the Committee. However, he had been unable to make the trip due to adverse weather conditions. If agreeable to the Committee, Chairman Martin said, Chairman Reed would plan to present his views to the Committee on April 17, 1962, Meantime, he (Chairman Martin) would suggest that the Committee proceed with the approval of the Manager and Special Manager in accordance with the existing procedure.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the selection by the Board of Directors of the Federal Reserve Bank of New York of (a) Robert G. Rouse as Manager of the System Open Market Account and (b) Charles A. Coombs as Special Manager for foreign currency operations of the System Open Market Account was approved, it being understood that they would serve for the period until the adjournment of the meeting at which the suggested change in By-Laws of the Committee, as referred to by Chairman Martin was discussed, such meeting now being scheduled for April 17, 1962.

Consideration then was given to the continuing authorizations of the Committee, according to the customary practice of reviewing such matters at the first meeting in March of each year, and the actions set forth hereinafter were taken.

The first item to be considered was the continuing authority directive to the Federal Reserve Bank of New York, adopted by the Committee on December 19, 1961, with respect to transactions for the System Open Market Account in U. S. Government securities and transactions for the account of the Federal Reserve Bank of New York in bankers' acceptances. A revised draft of directive had been distributed with the agenda for this meeting, primarily with the thought that if the directive were adopted in such form it would be unnecessary to renew four separate continuing authorizations, relating respectively to: (a) the authority of the Account Manager to engage in transactions on a cash as well as a regular delivery basis; (b) the authority of the Federal Reserve Bank of New York to enter into repurchase agreements covering Government securities; (c) the authority of the Federal Reserve Bank of New York to buy and sell bankers' acceptances and to enter into repurchase agreements therefor; and (d) the rate authorized to be charged on special certificates of indebtedness purchased direct from the Treasury.

There was also included in the draft of revised directive, for the Committee's consideration, an additional paragraph that would authorize the Federal Reserve Bank of New York to deviate temporarily from the degree of reserve availability called for by the current economic policy directive if such deviation was considered by the Bank to be necessary in order to moderate untoward market pressures. This paragraph had been suggested by the Secretariat in the thought that its inclusion might help to deal with situations such as occurred when the New York Bank found that strict adherence to the total reserve concept included in the current policy directive issued by the Committee on December 19, 1961, would have contributed to market conditions not contemplated by the Committee.

Comments by members of the Committee regarding the possible additional paragraph were to the effect that the Account Management was expected to act in a responsible manner, which under certain circumstances might involve temporary deviations from the directive, and that a specific authorization was therefore unnecessary. It was also suggested that the proposed exception was based on a concept so vague as to permit deviations without adequate justification and that it might be difficult, in fact, to determine when deviations had occurred. It was further suggested that, if necessary in the light of developments, the Account Manager could get in touch with the Committee by telephone to obtain instructions.

Mr. Rouse expressed concurrence in the view that the paragraph, if included, should preferably be worded in terms of temporary deviation from the current policy directive rather than from the degree of reserve availability called for by such directive. However, he doubted the need for any authorization of this kind.

Accordingly, it was agreed unanimously that the suggested paragraph should not be included in the continuing authority directive.

Mr. Rouse then stated reasons why he felt that minor changes in wording at other places in the draft of revised continuing authority directive would be desirable, and his suggested changes were accepted by the Committee. Mr. Rouse also stated, with respect to the part of the directive dealing with the buying of bankers' acceptances under repurchase agreements, that it would not seem necessary to specify acceptances with maturities of six months or less at the time of purchase because such a limitation was contained in the Board of Governors' Regulation B, Open Market Purchases of Bills of Exchange, Trade Acceptances, Bankers' Acceptances. However, Mr. Rouse added that the inclusion of the proposed phraseology would do no harm, and in the circumstances it was agreed by the Committee to retain the language.

Thereupon, upon motion duly made and seconded, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Open Market Account in accordance with the following continuing authority directive:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the current economic policy directive adopted at the most recent meeting of the Committee:

(a) To buy or sell United States Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing United States Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1 billion during any period between meetings of the Committee;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $75 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York;

(c) To buy United States Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from non-bank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (a) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (b) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly 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 rate charged on such certificates shall be a rate 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases; and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mitchell, and Shepardson. Vote against this action: Mr. Robertson.

Mr. Robertson dissented from the foregoing action for the same reasons that he dissented on December 19, 1961, from the adoption of the continuing authority directive in its original form. In his opinion it was an inadequate directive, without sufficient restrictions.

In view of the approval by the Committee of the foregoing revised continuing authority directive, the following separate authorizations, each of which had been renewed most recently at the meeting on March 7, 1961, were terminated:

Authorization to the Manager of the System Open Market Account to engage in transactions on a cash as well as a regular delivery basis.

Authorization to the Federal Reserve Bank of New York to enter into repurchase agreements on Government securities.

Authorization to the Federal Reserve Bank of New York to purchase bankers' acceptances, and to enter into repurchase agreements therefor.

Authorization providing that the rate charged on special short-term certificates of indebtedness purchased direct from the Treasury be fixed at a rate 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchase.

Upon motion duly made and seconded, and by unanimous vote, the following authorization regarding open market transactions in foreign currencies, originally adopted by the Committee on February 13, 1962, was reaffirmed:

Pursuant to Section 12A of the Federal Reserve Act and in accordance with Section 214.5 of Regulation N (as amended) of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee takes the following action governing open market operations incident to the opening and maintenance by the Federal Reserve Bank of New York (hereafter sometimes referred to as the New York Bank) of accounts with foreign central banks.

I. Role of Federal Reserve Bank of New York

The New York Bank shall execute all transactions pursuant to this authorization (hereafter sometimes referred to as transactions in foreign currencies) for the System Open Market Account, as defined in the Regulation of the Federal Open Market Committee.

II. Basic Purposes of Operations

The basic purposes of System operations in and holdings of foreign currencies are:

(1) To help safeguard the value of the dollar in international exchange markets;

(2) To aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets;

(3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;

(4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and

(5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

Within the basic purposes set forth in Section II, the transactions shall be conducted with a view to the following specific aims:

(1) To offset or compensate, when appropriate, the effects on U. S. gold reserves or dollar liabilities of those fluctuations in the international flow of payments to or from the United States that are deemed to reflect temporary disequilibrating forces or transitional market unsettlement;

(2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;

(3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and

(4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy

IV. Arrangements with Foreign Central Banks

In making operating arrangements with foreign central banks on System holdings of foreign currencies, the New York Bank shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee.

The Bank shall instruct foreign central banks regarding the investment of such holdings in excess of minimum working balances in accordance with Section 14 (e) of the Federal Reserve Act.

The Bank shall consult with foreign central banks on coordination of exchange operations.

Any agreements or understandings concerning the administration of the accounts maintained by the New York Bank with the central banks designated by the Board of Governors under Section 214.5 of Regulation N (as amended) are to be referred for review and approval to the Committee, subject to the provision of Section VIII., paragraph 1, below.

V. Authorized Currencies

The New York Bank is authorized to conduct transactions for System Account in the currencies and within the limits that the Federal Open Market Committee may from time to time specify.

VI. Methods of Acquiring and Selling Foreign Currencies

The New York Bank is authorized to purchase and sell foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the Stabilization Fund of the Secretary of the Treasury established by Section 10 of the Gold Reserve Act of 1934 and with foreign monetary authorities.

Unless the Bank is otherwise authorized, all transactions shall be at prevailing market rates.

VII. Participation of Federal Reserve Banks

All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G (1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

VIII. Administrative Procedure

The Federal Open Market Committee authorizes a Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) to give instructions to the Special Manager, within the guidelines issued by the Committee, in cases in which it is necessary to reach a decision on operations before the Committee can be consulted.

All actions authorized under the preceding paragraph shall be promptly reported to the Committee.

The Committee authorizes the Chairman, and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors:

(1) With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

(2) To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities;

(3) From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Problems.

IX. Special Manager of System Open Market Account

A Special Manager of the Open Market Account for foreign currency operations shall be selected in accordance with the established procedures of the Federal Open Market Committee for the selection of the Manager of the System Open Market Account.

The Special Manager shall direct that all transactions in foreign currencies and the amounts of all holdings in each authorized foreign currency be reported daily to designated staff officials of the Committee, and shall regularly consult with the designated staff officials of the Committee on current tendencies in the flow of international payments and on current developments in foreign exchange markets.

The Special Manager and the designated staff officials of the Committee shall arrange for the prompt transmittal to the Committee of all statistical and other information relating to the transactions in and the amounts of holdings of foreign currencies for review by the Committee as to conformity with its instructions.

The Special Manager shall include in his reports to the Committee a statement of bank balances and investments payable in foreign currencies, a statement of net profit or loss on transactions to date, and a summary of outstanding unmatured contracts in foreign currencies.

X. Transmittal of Information to Treasury Department

The staff officials of the Federal Open Market Committee shall transmit all pertinent information on System foreign currency transactions to designated officials of the Treasury Department.

XI. Amendment of Authorization

The Federal Open Market Committee may at any time amend or rescind this authorization.

Upon motion duly made and seconded, and by unanimous vote, the following continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, originally adopted by the Committee on February 13, 1962, was reaffirmed:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs

Total foreign currencies held at any one time shall not exceed $500 million.

The next continuing authorization to be reviewed was a resolution adopted by the Federal Open Market Committee on November 20, 1936, following consideration by the Board of Governors and the Federal Reserve Bank of New York of the question of the overlapping jurisdictions of the Board and the Federal Open Market Committee with respect to foreign transactions of the Federal Reserve Banks. On November 18, 1936, the Conference of Presidents of the Federal Reserve Banks had expressed agreement with a suggestion by President Harrison of the Federal Reserve Bank of New York that a desirable arrangement would be one under which the Federal Open Market Committee would grant blanket authority to the Federal Reserve Banks to purchase and sell cable transfers, and bills of exchange and bankers' acceptances payable in foreign currencies, in connection with accounts of Federal Reserve Banks established in foreign countries with the approval of the Board of Governors pursuant to the provisions of section 14 of the Federal Reserve Act; it being understood that all such transactions in such accounts were subject to special supervision by the Board of Governors of the Federal Reserve System. Accordingly, the Open Market Committee had adopted the following resolution:

> RESOLVED that, unless and until the Federal Open Market Committee hereafter directs otherwise, each Federal Reserve Bank, subject to the provisions of Section 14 of the Federal Reserve Act as amended and the regulations, conditions, and limitations of the Board of Governors prescribed thereunder, may without further directions or authorization of the Committee purchase and sell, at home or abroad, cable transfers, and bills of exchange and bankers acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction or discontinuance of accounts of Federal Reserve Banks in foreign countries.

At the request of the Chairman, Mr. Hackley made a brief statement on the matter which he concluded by expressing the opinion that the actions taken by the Federal Open Market Committee in respect to the current program of operations in foreign currencies seemed clearly to have superseded the 1936 resolution and probably introduced an element of conflict.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the resolution adopted on November 20, 1936, was repealed.

On September 1, 1953, there became effective a procedure for allocation among the Federal Reserve Banks of securities in the System Open Market Account that had subsequently been reaffirmed by the Committee at the first meeting in March of each succeeding year, subject to amendments approved at the meetings on March 1, 1960, and March 7, 1961. One of the principal objectives of the present allocation formula, based on total assets, had been to avoid the frequent adjustments due to low reserve ratios that had proved troublesome under an earlier formula, which was based on estimated expense and dividend requirements. The formula served this purpose satisfactorily for a number of years, as the reserve ratios were generally above 40 per cent when the formula was adopted and had declined only gradually as the System Open Market Account grew. No adjustments were called for until the annual reallocations of April 1, 1960, and April 1, 1961, but subsequent to the latter date two interim adjustments had been necessary. With a current reserve ratio of about 35.6 for the System as a whole, a reappraisal of the formula had seemed appropriate. As the result of such reappraisal, a revised procedure for the allocation of securities was suggested in a memorandum dated February 28, 1962, from the Manager of the System Open Market Account and the Director of the Board's Division of Bank Operations. This plan was designed to minimize the likelihood of adjustments and, if adjustments should be necessary, to simplify the calculations and reduce the inequities caused by the inflexibility of existing procedures. (There had also been distributed a memorandum from the same persons dated February 20, 1962, discussing the recent experience under the present procedure for allocation of securities and submitting a pro forma reallocation of securities as of February 1, 1962, in anticipation of possible renewal of the existing procedure and the reallocation that in such event would be made on April 1, 1962.)

At the Chairman's request, Mr. Rouse made an explanatory statement concerning the objectives and operation of the proposed revised procedure, under which reallocations would be made on the first business day of February, May, August, and November of each year.

There followed questions concerning the proposal, to which Mr. Rouse replied, and one editorial change in the statement of procedure was suggested.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the following revised procedure for allocation of securities in the System Open Market Account was adopted, effective immediately:

1. Securities in the System Open Market Account shall be reallocated on the first business day of February, May, August and November of each year by means of adjustments proportionate to the adjustments that would have been required to equalize the average reserve ratios of the 12 Reserve Banks over the first 85 days of the preceding three calendar months.

2. If a Bank's reserve ratio should be reduced below 30 per cent as a result of the reallocation, or should fall below 30 per cent on the next to the last business day (as observed by the Agent Bank) of a statement week or month, its holdings as of the close of business that day shall be adjusted the following day by an amount sufficient to raise its reserve ratio to the average reserve ratio of the 12 Banks combined on the preceding day. Such securities shall be allocated to the Bank in a position to absorb the largest additional amount without reducing its reserve ratio below the ratio of the 12 Banks combined. If that Bank is unable to take the entire amount, the excess shall be allocated to the Bank which can absorb the next largest amount without reducing its reserve ratio below the average for the System.

Any such adjustment will be reversed on the first succeeding Thursday (before the next quarterly reallocation) when it can be accomplished without reducing the Bank's reserve ratio below 30 per cent, except that if the Thursday is a holiday or the last business day of a month the reversal will be made the following business day. A reversal will restore individual Bank holdings to their established participation percentages before the adjustment occurred, except to the extent that a Bank may have been involved in another adjustment in the interim.

3. If a Bank's reserve ratio should fall below 30 per cent on any other day, or if a Bank anticipates that its reserve ratio will fall below that figure, it may arrange with the Manager of the System Open Market Account for an adjustment similar to those provided for in Paragraph 2 so as to increase the Bank's reserve ratio to the average of the 12 Banks combined.

4. The Account shall be apportioned during the succeeding quarter on the basis of the ratios determined in Paragraph 1, after allowing for any adjustments as provided for in Paragraphs 2 and 3.

5. Profits and losses on the sale of securities from the Account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.

The authorization for distribution of periodic reports prepared by the Federal Reserve Bank of New York for the Federal Open Market Committee, as renewed March 7, 1961, and amended December 5, 1961, was continued by unanimous agreement. This authorization provided for the following distribution:

1. The Members of the Board of Governors.
2. The Presidents of the twelve Federal Reserve Banks.
3. Officers of the Federal Open Market Committee.
*4. The Secretary of the Treasury.
*5. The Under Secretary of the Treasury for Monetary Affairs and the Deputy Under Secretary for Monetary Affairs.
*6. The Assistant to the Secretary of the Treasury working on debt management problems.
*7. The Fiscal Assistant Secretary of the Treasury.
8. The Director of the Division of Bank Operations of the Board of Governors.
9. The officer in charge of research at each of the Federal Reserve Banks not represented by its President on the Federal Open Market Committee.

*Weekly reports of open market operations only.

10. The alternate member of the Federal Open Market Committee from the Federal Reserve Bank of New York; the Assistant Vice Presidents of the Federal Reserve Bank of New York working under the Manager of the System Account; the Managers of the Securities Department of the New York Bank; the officer in charge and Assistant Vice President of the Research Department of the New York Bank; and the confidential files of the New York Bank as the Bank selected to execute transactions for the Federal Open Market Committee.

11. With the approval of a member of the Federal Open Market Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or of a Federal Reserve Bank.

The Committee reaffirmed by unanimous vote the authorization, first given on March 1, 1951, for the Chairman to appoint a Federal Reserve Bank to operate the System Open Market Account temporarily in case the Federal Reserve Bank of New York is unable to function.

The following resolution to provide for the continued operation of the Federal Open Market Committee during an emergency was reaffirmed by unanimous vote:

In the event of war or defense emergency, if the Secretary or Assistant Secretary of the Federal Open Market Committee (or in the event of the unavailability of both of them, the Secretary or Acting Secretary of the Board of Governors of the Federal Reserve System) certifies that as a result of the emergency the available number of regular members and regular alternates of the Federal Open Market Committee is less than seven, all powers and functions of the said Committee shall be performed and exercised by, and authority to exercise such powers and functions is hereby delegated to, an Interim Committee, subject to the following terms and conditions.

Such Interim Committee shall consist of seven members, comprising each regular member and regular alternate of the Federal Open Market Committee then available, together with an additional number, sufficient to make a total of seven, which shall be made up in the following order of priority from those available: (1) each alternate at large (as defined below); (2) each President of a Federal Reserve Bank not then either a regular member or an alternate; (3) each First Vice President of a Federal Reserve Bank; provided that (a) within each of the groups referred to in clauses (1), (2), and (3) priority of selection shall be in numerical order according to the numbers of the Federal Reserve Districts, (b) the President and the First Vice President of the same Federal Reserve Bank shall not serve at the same time as members of the Interim Committee, and (c) whenever a regular member or regular alternate of the Federal Open Market Committee or a person having a higher priority as indicated in clauses (1), (2), and (3) becomes available he shall become a member of the Interim Committee in the place of the person then on the Interim Committee having the lowest priority. The Interim Committee is hereby authorized to take action by majority vote of those present whenever one or more members thereof are present, provided that an affirmative vote for the action taken is cast by at least one regular member, regular alternate, or President of a Federal Reserve Bank. The delegation of authority and other procedures set forth above shall be effective only during such period or periods as there are available less than a total of seven regular members and regular alternates of the Federal Open Market Committee.

As used herein the term "regular member" refers to a member of the Federal Open Market Committee duly appointed or elected in accordance with existing law; the term "regular alternate" refers to an alternate of the Committee duly elected in accordance with existing law and serving in the absence of the regular member for whom he was elected; and the term "alternate at large" refers to any other duly elected alternate of the Committee at a time when the member in whose absence he was elected to serve is available.

The following resolution authorizing certain actions by the Federal Reserve Banks during an emergency also was reaffirmed by unanimous vote:

The Federal Open Market Committee hereby authorizes each Federal Reserve Bank to take any or all of the actions set forth below during war or defense emergency when such Federal Reserve Bank finds itself unable after reasonable efforts to be in communication with the Federal Open Market Committee (or with the Interim Committee acting in lieu of the Federal Open Market

Committee) or when the Federal Open Market Committee (or such Interim Committee) is unable to function.

(1) Whenever it deems it necessary in the light of economic conditions and the general credit situation then prevailing (after taking into account the possibility of providing necessary credit through advances secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act), such Federal Reserve Bank may purchase and sell obligations of the United States for its own account, either outright or under repurchase agreement, from and to banks, dealers, or other holders of such obligations.

(2) In case any prospective seller of obligations of the United States to a Federal Reserve Bank is unable to tender the actual securities representing such obligations because of conditions resulting from the emergency, such Federal Reserve Bank may, in its discretion and subject to such safeguards as it deems necessary, accept from such seller, in lieu of the actual securities, a "due bill" executed by the seller in form acceptable to such Federal Reserve Bank stating in substantial effect that the seller is the owner of the obligations which are the subject of the purchase, that ownership of such obligations is thereby transferred to the Federal Reserve Bank, and that the obligations themselves will be delivered to the Federal Reserve Bank as soon as possible.

(3) Such Federal Reserve Bank may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts in the general account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed $5 billion at any one time.

Authority to take the actions above set forth shall be effective only until such time as the Federal Reserve Bank is able again to establish communications with the Federal Open Market Committee (or the Interim Committee), and such Committee is then functioning.

By unanimous vote, the Committee reaffirmed the authorization, first given at the meeting on December 16, 1958, providing for System personnel assigned to the Office of Civil and Defense Mobilization Classified Location (High Point) on a rotating basis to have access to the resolutions (1) providing for continued operation of the Committee during an emergency and (2) authorizing certain actions by the Federal Reserve Banks during an emergency.

There was unanimous agreement that no action should be taken to change the existing procedure, as called for by resolution adopted June 21, 1939, requesting the Board of Governors to cause its examining force to furnish the Secretary of the Federal Open Market Committee a report of each examination of the System Open Market Account.

Chairman Martin then referred to a memorandum distributed with the agenda under date of February 27, 1962, relating to the procedure authorized at the meeting of March 2, 1955, whereby, in addition to members and officers of the Committee and Reserve Bank Presidents not currently members of the Committee, minutes and other records could be made available to any other employee of the Board of Governors or of a Federal Reserve Bank with the approval of a member of the Committee or other Reserve Bank President, with notice to the Secretary. The most recent list of persons so authorized (exclusive of secretaries and records and duplicating personnel), as shown by the Secretary's records, was attached to the February 27 memorandum.

It was agreed unanimously that no action should be taken at this time to amend the procedure authorized on March 2, 1955.

Before this meeting there had been distributed to the members of the Committee a report of open market operations in U. S. Government securities covering the period February 13 through February 28, 1962, and a supplemental report covering the period March 1 through March 5, 1962. Copies of both reports have been place in the files of the Committee.

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

> The money market has been generally comfortable since the last meeting of the Committee. Federal funds have moved between effective rates of 1-3/4 per cent and 2-3/4 per cent, a range which has given rise to a moderate but generally well sustained demand for Treasury bills on the part of the banks. This demand was superimposed on buying from nonbank sources, which was augmented by the investment of the proceeds of new capital issues. Under these circumstances, bill rates moved from the 2.85 per cent level reached shortly after the last meeting to about 2.65 per cent a week ago. Since then rates have edged up slightly, but despite the addition of a total of $500 million 91-day bills to the weekly auctions over the past six weeks, the rate through yesterday remained at close to 2.70 per cent. We have found it particularly difficult this week to keep the reserve statistics up without pushing short-term rates back down toward the 2-5/8 per cent level. It was only yesterday afternoon that we began to get the signs of firmness in the money market that normally would be associated with the somewhat lower reserve statistics that were developing. Yesterday we arranged to put about $170 million of reserves in the market, but despite this the reserve statistics this week may turn out to be somewhat low. We are hopeful, however, that the slight firming that has developed in the money market will reduce the downward pressures on the bill rate and possibly cause the rate to move a bit higher. Dealer awards of over $600 million bills in yesterday's auction may be helpful in this respect.
>
> The longer-term market has been greatly influenced by the emergence of a less optimistic view of the business situation--

a view emphasized in discussion in the press and in market letters. This factor, together with a continuation of maturity extension programs by banks seeking higher earnings to meet increased payments of interest on time and savings deposits, has encouraged additional bank buying of intermediate-term Treasury securities, tax-exempt issues, and mortgages. Other investing institutions have shown increased interest in all sectors of the capital market, and yields have undergone significant declines. Yields on intermediate-term Treasury issues, for example, are down by as much as 25 basis points since the last meeting, while reoffering yields on new corporate utility issues are lower by about 12 basis points. In this favorable atmosphere, the Treasury's advance refunding went over well, with public subscriptions totaling more than $4 billion, $2.4 billion of which were for the new 4s of 1971 and about $1.2 billion for the 3-1/2s of 1990 and 1998. Smaller and medium-sized banks apparently took the opportunity to extend their maturities in this way but the largest banks did not participate extensively. The 4s of 1980 did not attract many conversions.

According to the latest estimates, the Treasury will have to come to the market for more new money for payment on March 23 to redeem such maturing tax anticipation bills as are not used to pay taxes. The Treasury is thinking of selling about $1.5 to $2 billion of September tax anticipation bills through an auction on March 20, without tax and loan credit, to be announced March 13. This, together with a continued offering of $100 million additional 91-day bills each week, should take care of the new money needs up to about the end of April, with more new money needed the first part of May. Alternatively, the Treasury may raise the next several weekly bill offerings by $200 million and borrow correspondingly less through the tax anticipation bills. In either case, this will leave only short gaps between the Treasury financing operations to be conducted between now and the May refunding. There will be about ten days between now and the March 20 auction, about ten days to two weeks between that and the refunding of the April 15 bills and another ten days until it becomes necessary to borrow cash for payment early in May.

I should like to inform the Committee that Blyth & Company has indicated to me that they expect to begin operations as a dealer in Government securities. The firm has been thinking of this move for some time, and has been deterred in part because they did not feel they had found the man whom they wished to head up the operation. I have been informed that they have now hired James Wilson, who resigned last Friday as Executive

Vice President of Second District Securities Company. The President of Second District Securities, Morris Shapiro, informs me that that firm intends to continue as a dealer in Treasury issues.

Thereupon, upon motion duly made and seconded, the open market transactions in U. S. Government securities during the period February 13 through March 5, 1962, were approved, ratified, and confirmed.

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

Our view of the economic landscape seems more obscure than usual today. Although little information on February is yet available, most of the weekly data suggest a further pause in activity. The data are still consistent, however, with the hypothesis that we are witnessing mainly a beginning-of-year period of hesitation such as sometimes happens even though the underlying movement is still expansive. But as the evidence accumulates, the question becomes more gnawing as to whether the slowdown reflects, in part at least, more lasting forces.

As for the over-all economic indicators, we have no adequate basis as yet upon which to estimate the February level of our industrial production index. Its man-hour components may well have gone up, since the January figures were depressed to some extent by bad weather. On the other hand, two of its actual physical output components, autos and steel ingots, went down. Our present rough guess is that the index is more likely to recover the point lost in January than show no change. Even this relatively favorable outcome would leave us with no net increase in the index over the past 3 months and only a 2 point rise since last August.

Gross national product may do well if it reaches an annual rate of $550 billion this quarter, up some $7 or $8 billion from the fourth quarter, but the smallest increase since recovery got under way a year ago. A $550 billion GNP would represent a shortfall of $3 to $4 billion from projections made late last year.

Construction activity was down a little in February, and from a January level that has also been revised downward. Private housing starts in January, the latest data available, slipped down a little further after two months of fairly sharp decline.

The National Bureau leading indicator data now available for January show more numerous declines than in the preceding two months. The new order series for manufactured durable goods is the only leading series showing a steady rise over the three-month period ending in January.

Indeed, new orders for durable goods have recently been the major evidence suggesting that further expansion is still ahead. These orders increased 2 per cent in January to a new high level, and continued appreciably above sales. As a result, unfilled orders rose again. Although defense ordering has been partly responsible for the recent rise in new orders for durable goods, increases were quite widespread among major industries.

Personal income is another area that offers some encouragement. It did decline in January, but from an exceptionally high December level. It has risen 6.7 per cent from its February 1961 cyclical low--a somewhat larger rise than in the comparable period in 1958-59, and a considerably larger one than in 1954-55. Consumers still have the wherewithal to buy.

Turning back to industry, steel output leveled off in early February and then declined in the second half of the month. New orders in this bellwether industry declined as the opinion grew that a strike was unlikely, and thus that there was a less pressing need to build up stocks.

Were the break-off in bargaining talks announced last weekend to continue for long, it would no doubt lead to renewed precautionary stockpiling. Current indications, however, point to a resumption of negotiations within the next few weeks. A settlement without a strike still seems likely, although negotiations may be more prolonged than was indicated earlier.

In autos, February sales of domestically produced cars are now estimated at a seasonally adjusted annual rate of between 5.8 and 6.0 million units--down from the 6.3 volume in January. Auto output also declined further but, despite the decline, auto stocks rose to about a million cars on February 20. These recent auto figures illustrate the danger, at a time like this, in relying too heavily on comparisons of current data with those a year ago. The newspapers have been playing up how good automobile sales look today compared with a year ago, without suggesting how poor automobile sales were early last year.

Manufacturing inventories as a whole rose $450 million on a seasonally adjusted basis in January. This was the largest increase since August, and compares with an average monthly increase of $250 million in the final quarter of last year. With sales down, the inventory/sales ratio for manufacturing as a whole rose in January, after having fallen steadily throughout 1961. The ratio still looks fairly moderate, however, by recent historical standards.

Except for autos, the only retail sales data available for February cover department stores. For what these figures are worth, such sales were little changed from January. They were fairly strong early in the month, but dropped off later.

A favorable development for February is a small improvement in unemployment and in total employment. The unemployment rate declined somewhat to 5.6 per cent from 5.8 in January. Indications are that construction and service employment showed better than seasonal gains. Manufacturing employment, however, probably showed little change. If so, the period of unusual stability in manufacturing employment has continued for still another month of this recovery. Reductions in hours worked per week in both December and January, the latest data available, have also brought this leading economic indicator down to its level of last July.

As for prices, the wholesale index declined slightly in February after a small rise in January. This index has continued little changed now for over four years. The consumer price index was unchanged in January. Further small price increases for food and services were offset by reductions for apparel, house furnishings, and used cars. The rise in the consumer price index over the past year has been the smallest in the last six years.

To sum up, most of my colleagues and I still feel that the recent economic lull is likely to prove temporary reflecting in part unusually adverse seasonal influences, and, for the rest, a type of interruption that sometimes happens in a recovery movement. Paraphrasing a recent editorial in The Washington Post, developments to date this year seem to have cut down by a small amount the optimistic total economic gains foreseen by some observers for 1962 as a whole. The irregularities that we have witnessed in the current upswing, first last August and September and now since the beginning of the year, are not signs of strength. They do not yet, however, basically alter the favorable direction we see for economic developments this year.

Nevertheless, it would be difficult to find in domestic developments justification for a materially less easy monetary and credit policy. Indeed, they suggest rather some preliminary thinking as to the most appropriate posture of monetary policy were the economic slowdown to persist.

Mr. Furth presented the following statement with respect to the U. S. balance of payments and related matters:

In the first two months of 1962, our international payments situation improved greatly. In January, net transfers to foreigners of gold, convertible foreign currencies, and dollars, as reported by U. S. banks and the U. S. Treasury, were practically nil. In February, fragmentary preliminary data indicate transfers in the neighborhood of $150 million, as compared to a monthly rate of about $450 million during the last quarter of 1961.

The January figure was distorted by the year-end window-dressing operations of foreign banks. Nevertheless, the improvement is encouraging. Some basic data for these months are still lacking, including trade figures; any attempt at explanation must therefore be in part based on guesses. We know that the recent outflow of recorded short-term capital was reversed in January. We also know that more than half of the reported February deficit reflected the transfer to the International Bank of the proceeds of its New York bond issue. But we still do not know whether we succeeded in increasing our current surplus, the prerequisite of a lasting solution of our international payments problem.

The situation on foreign exchange and gold markets continued on the whole satisfactory. The dollar rate improved in relation to the Swiss franc; for a few days, it climbed above par in relation to the German mark; and it stayed close to par against the Netherlands guilder. The dollar remained weak, however, in relation to the French franc and the Italian lira, as well as against the pound sterling.

This pattern of exchange rates suggests the influence of movements of funds from Switzerland, Germany, and the Netherlands to London. Such movements largely involve trilateral exchange transactions through the U. S. dollar; accordingly, they tend to support the dollar rate in the countries of origin and depress the dollar rate in London. There are no signs of a significant direct flow of short-term funds from New York to London.

The Canadian dollar rate appears recently to have been stabilized at slightly better than 95 U. S. cents. In January, the intervention of the Canadian authorities in support of the Canadian dollar helped to improve our international payments position.

The continued weakness of the dollar against the French franc and the Italian lira may hurt our pride, but these currencies do not play as important a role in international exchange and capital markets as the German mark, the Swiss franc, or the Netherlands guilder, not to speak of the pound sterling. If unusual movements of funds should occur that might make intervention advisable to take the dollar off the floor against these currencies, the credit granted by Italy to the U. S. Treasury and the recent System transaction with the Bank of France would provide the United States with the needed foreign exchange.

More important is the dollar-sterling rate. However, the strength shown by sterling in the face of a continuing high trade deficit of the United Kingdom is, in fact, an advantage for the dollar. No banker or investor in the world believes that the pound sterling would be revalued against the dollar. Therefore, confidence in sterling is, *a fortiori*, confidence in the dollar. No foreigner who fears that the dollar might be devalued in the foreseeable future would think of investing in sterling, without forward cover. Since funds recently moved from the Continent to London have apparently been so invested, the financial community finally seems to have become convinced that the recurrent rumors of an impending devaluation of the dollar, which would also mean a devaluation of sterling, are nonsense. This interpretation is supported by the recent quiet and stability in the London gold market.

Thus, the threat of a capital flight from the dollar because of lack of confidence in the stability of our currency seems to have subsided, at least for the time being. However, we do not yet know whether similar progress has been made in the more important fight against the continuing deficit in the so-called basic elements of our international payments.

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

Financial markets in February absorbed a large volume of new issues of securities by corporations and State and local governments and also took care of various Treasury financing operations. Bank credit in the aggregate appears to have declined less than usual for the month. Time deposits continued to increase, while demand deposits declined by close to customary seasonal amounts. Reserves have been available in amounts adequate to meet seasonal needs and to avoid pressures toward either rising or falling interest rates. Though showing some short-time fluctuations and significant structural changes, interest rates generally continued closer to the top than to the bottom of the relatively narrow range that has prevailed during the past year and a half. In brief, credit has been available in amounts adequate for the demands of the lagging recovery that has been occurring, but little, if any, more.

New issues by State and local governments, aggregating $1 billion in February, were in exceptionally large volume for that month. Corporate issues, enlarged by the $300 million A.T.& T. offering, were large but not a record. In contrast to January, when underwriters were able to distribute new issues promptly, considerable investor resistance to the lower yields offered was encountered in February. The volume of unsold issues increased. Later, however, following conclusion of the Treasury refunding operations, and perhaps in view of the lighter calendar of offerings in prospect for March, distribution of the new issues improved. Taking the first quarter as a whole, the total volume of new issues offered and scheduled to be offered is not exceptional.

Yields on high-grade corporate and on long-term Government bonds showed little change during February, continuing close to recent highs. Yields on long-term municipal bonds, after declining sharply during January and the first half of February, rose slightly in the third week of February and have since been firm at close to record low levels relative to yields on other types of securities. Yields on medium-term Treasury securities, in contrast to the steadiness in long-term issues, declined notably in the latter part of February; the difference presumably reflected the Treasury advance refunding, which has the effect of shifting a volume of maturities from the medium- to the long-term area. This decline in medium-term yields should enable the Treasury to borrow some of its needed funds within that maturity range at lower rates than might otherwise have been possible.

In addition to the advance refunding operation, which came in the latter part of February and which succeeded in extending the maturities of some $5 billion of securities, the Treasury also effected during February a successful refunding of maturing issues, with a low percentage of cash redemptions. Following cash financing of $1.5 billion in January, $500 million of cash has been obtained through additions of $100 million to regular weekly bill offerings; some additional cash will need to be raised in March and a substantial amount in April or early May, followed by a quarterly refunding operation in May. Operating surpluses in May and June should be adequate to cover retirement of tax bills maturing in June with no additional borrowing until July.

Borrowing by the Treasury in January and February was effected without any net addition to bank holdings of Government securities. In fact, such holdings declined considerably in the first half of February, Dealers' positions in Government securities also declined substantially in January and early February. They have subsequently increased moderately, but continue smaller than during most of last year. Dealers' positions in medium-term issues increased somewhat in early February, in connection with the regular refunding operation, but have subsequently been reduced to a minimal amount. Their holdings of long-term issues, in turn, increased during the latter part of February in connection with the advance refunding operation and are now larger than at any time in over a year. Holdings of bills and other short-term issues, which nearly always comprise the bulk of dealers' portfolios, are moderately light at present. The relatively light dealers' positions provide a comparatively strong underlying element in the Government securities market.

Bank credit, after increasing sharply in December, then declining correspondingly in January and continuing the downward tendency into February, appears, on the basis of partial data for city banks, to have increased sizably in the last week of February. Largely as a result, the month as a whole probably showed a greater than seasonal increase in total loans and investments--at least at banks in leading cities. Much of the increase was in loans to dealers in securities--both on Governments and on other securities. Loans to business and to sales finance companies and loans on real estate also increased in February by close to, or in excess of, customary seasonal amounts. In addition, there was a further sizable increase in the banks' holdings of other securities, while holdings of U. S. securities were reduced.

Changes by types of borrowers in business loans at banks have been somewhat mixed, but on the whole demands for loans seem to have been moderate, with no great differences from customary seasonal patterns. Repayments have been fairly large in some lines--such as chemicals and public utilities, probably reflecting the use of proceeds of new securities issues.

Time deposits at commercial banks have continued to expand at a rapid pace, although probably somewhat slower than in January. Time certificates and open accounts, including deposits of State and local governments, have accounted for the largest increases, but the growth of savings deposits has also been substantial.

Data available for January indicate that only a small portion of the large growth in savings and time deposits at commercial banks can be attributed to shifts of funds from other savings institutions. Although withdrawals from savings and loan association shares increased, and the net increase in such shares, seasonally adjusted, declined somewhat in January, the net growth was still quite large. Mutual savings banks continued to gain deposits, although the situation was mixed among the different sections of the country.

Demand deposits at banks, which decreased more than seasonally in January, increased on a seasonally adjusted basis during the first half of February. The situation in the second half of the month is still uncertain; there was a decline in the third week, but partial data available for February 28 and for early March indicate an upturn that may have been sufficient to show a net gain since January.

As a net result of the varying rates and directions of change as between demand and time deposits, total deposits have increased considerably since the first of the year, while the seasonally-adjusted money supply has probably declined on balance. As a consequence, member bank required reserves, with adjustment for usual seasonal changes and elimination of the effect of variations in U. S. Government deposits, have changed little on the average since mid-December. This means that there has been no net expansion in required reserves in that period. Although compared with earlier periods the rate of growth may be considered satisfactory and partial data indicate the possibility of a sizable increase in the current week.

These differences with respect to increases in demand and time deposits raise difficult questions of judgment as to the determination of Federal Reserve policy. Total bank credit and total deposits, after adjustment for customary seasonal variations, have increased in recent months. These increases in aggregate figures are the result of the exceptional growth in time deposits, which reflects either increased saving or the diversion of saving from other uses, and the investment of such funds by banks. To a small degree, the funds have come directly or indirectly out of demand deposits at banks. To the extent that they were balances that would otherwise have been held idle, the basis for expanding the active money supply is enlarged, because of reserves released by the differentials in reserve requirements, assuming that these released reserves are not absorbed by System operations. If, however, the funds shifted would otherwise have been used for spending and the reserves released are absorbed, then the potential for economic expansion is reduced by the shift from demand to time deposits.

The net result is probably somewhere between these two extreme possibilities. To avoid contractionary effects, the System should as a minimum refrain from absorbing all the reserves released by any shift of funds from demand to time deposits. Probably some demand deposit expansion should be permitted, though the amount could be moderated in consideration of the rate of growth in time deposits.

Judgment as to the need for additional reserves and credit expansion has to be based on an appraisal of current developments. The current domestic situation appears to call for no severe restraints and possibly for some stimulants. The balance of payments problem, however, continues to call for caution in applying stimulants.

Usual seasonal patterns, together with a moderate allowance for further total bank credit expansion, indicate the need for only moderate System operations during the coming month. Some purchases and sales will be needed to adjust to intra-month variations among factors affecting the supply of reserves. In April and May, moderate net increases in System holdings will be needed.

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

There has been a pause in business expansion. In recent weeks business expansion has fallen short of the expansion experienced in corresponding periods of earlier recoveries. While some indicators are moving up, many are moving down. It is too early to say whether the pause has been caused by the usual winter slump, unusually bad weather, or something more fundamental.

Prices continue generally stable, and there are few, if any, signs of inflationary pressures. In previous post-war recovery periods there has been some stimulus based on inflationary expectations. In a noninflationary recovery it may well be that we should expect some hesitation from time to time. Further developments during the current month may help us to resolve the question to what extent the forward movement of the economy has been impaired. In the meantime, I remain impressed by the elements of underlying strength in the economy.

There has not been much change in credit conditions. In early February bank loans seem to have advanced in roughly seasonal proportions, with business loans giving a good account of themselves.

The seasonally adjusted money supply declined in January; this was the first decline in five months. On the other hand, time deposits rose substantially, undoubtedly because of the higher interest rates paid on such deposits pursuant to the liberalized Regulation Q. Judging from data for the weekly reporting member banks, this strong rise in time deposits has continued into the first half of February. The money supply also rose during the first half of February.

There would seem to be plenty of built-up spending power on the part of consumers and businessmen. The liquidity of the banks and of the nonbank public is quite comfortable. Current levels of liquidity should not deter consumers and businessmen from increasing their spending. Our adverse balance of payments still plagues us. While the first quarter of 1962 will probably produce better statistics than the last quarter of 1961, there is no real cause for optimism. Data for the first quarter of 1961 also appeared reassuring; we suspect that a faulty seasonal correction may favor the first quarter picture. The drain on our gold stock has continued in the first quarter of 1962. It could rise appreciably in the next few months in view of the heavy deficit we have been running and the increased dollar holdings of foreign central banks which, in some cases, may feel that their credits to us represented by their dollar holdings are now excessive.

Last week the subscription books on the Treasury's latest advance refunding were closed for individuals. The subscription books for financial institutions and business concerns had been closed a week earlier. Next week the Treasury will probably announce its plan to borrow $1-1/2 to $2 billion by the sale of tax anticipation bills in competitive bidding. Thus there is a relatively short period within which the Federal Reserve could undertake a shift in policy, if such a shift seems desirable, without interfering with the bidding for the new bills.

Because of the continuing threat to our gold stock arising from the accumulation of unusually heavy dollar balances by foreign central banks, and because of the continuing general balance of payments problem, I think that we should make a moderate move towards a policy of somewhat less ease. I believe that our underlying domestic business situation has enough momentum to withstand the effects of such a step, which would be taken solely because of balance of payments considerations. Although the time within which we can move in this way is limited by the Treasury's financing plans, I think we could move now toward a three-month Treasury bill rate between 2-3/4 per cent and 3 per cent, with the rate on Federal funds at or close to the discount rate at most times. This would probably involve some moderate reduction in free reserves.

For the time being an increase in the discount rate would seem to be inappropriate. Unless the business picture improves appreciably, I would doubt whether a higher discount rate should be considered in the near future except as part of a "package" or set of forceful actions to be taken by our Government on several fronts to focus attention on our balance of payments problem and our determination to find lasting solutions.

Mr. Bryan reported that the situation in the Sixth District was similar to the national picture. However, two indicators--construction contracts awarded and average hours worked--showed rather sharp declines.

Turning to the national situation, Mr. Bryan said it seemed clear that there was a lull in economic activity. He saw no way, however, of predicting conclusively whether this lull heralded a continuing decline or was simply a period of hesitation such as occurred in September 1961. Therefore, it seemed to him that monetary policy should continue essentially in its present posture, certainly with no restriction and with some allowance for growth in the reserve supply, until there was a better degree of visibility. Except, perhaps, for the responsibility that attached to the international situation, the Committee seemed in a good position to continue the supplying of reserves, at least on a seasonal basis plus a small growth factor, because in this recovery there was no conflict between employment and price goals. The growth factor, he thought, should be moderate--at an annual rate in the range of 3 or 4 per cent.

Mr. Bopp said that business had not improved this year in the Third District, although the District was much better off than a year ago, with production, retail sales, and construction all higher. However, since the beginning of the year most indicators were off more than seasonally. There was one major exception: preliminary figures on electric power consumption showed an increase, both on an adjusted and unadjusted basis. At the end of last November, half of the District's labor market areas had rates of unemployment below the national average, while at present only three were below the national average.

Mr. Bopp questioned whether it was desirable over a period of time to have references to Treasury financing in the current economic policy directive continually. It might be advisable, he suggested, to delete such references from the directive that would be issued today even though the interval before the next financing operation was not very great. With that exception, he would favor no change in the directive. Neither would he favor any change in the tone of the money market or the discount rate.

Mr. Fulton said the subdued tones of recent economic reports in the Fourth District had done nothing to mitigate the uneasiness that resulted from the January slippage. The steel situation was still in a state of flux. He had reported a couple of meetings ago that the union would probably present a large package, that this would be rejected by the steel companies, and that a settlement encouraged by the Administration might be the final result. This seemed to be the pattern that was developing. The union leadership could hardly afford to agree readily to a settlement that was inferior to the settlement effected in the auto industry, and that type of settlement would necessitate a substantial increase in steel prices if the earnings of the companies were to be maintained at a reasonable level. However, the union leadership might accept more gracefully a settlement substantially along lines suggested by the Administration.

Continuing, Mr. Fulton reported that construction in the District declined more than usual in January. Information for Cleveland and Cincinnati showed a disproportionately large volume of publicly financed projects, with relatively little industrial investment on the boards. Sales of new cars remained moderately brisk during the first three weeks in February, and the auto companies were still projecting sales of about 6.7 million cars for the year, including some 350,000 foreign cars. However, data for December, January, and the first two 10-day periods in February suggested that sales might be at an annual rate of about 6.4 million, again including 350,000 foreign cars. Department store sales were down from their previous high levels.

Bank credit had continued to decline, Mr. Fulton said, and bankers seemed somewhat resigned to the thought that in the immediate future there probably would be no strong demand for commercial credit. Savings deposits had risen substantially in those banks that had increased their rates of interest to the ceiling. A recent study in the District showed that banks had gained substantially vis-a-vis savings and loan associations; the latter had gained a considerably smaller portion of the savings dollar than in previous periods. It appeared that new savings were now going into the banks, rather than the savings and loan associations, to a greater extent than previously.

Mr. Fulton said he could see no reason to change current monetary policy. He hoped the Desk would continue to maintain about the present posture, with the bill rate around 2-3/4 per cent and Federal funds near the discount rate. He would not like to see any restriction of credit, feeling that credit should be amply available. The view that the directive could be left unchanged, except for elimination of the references to Treasury financing, met with his concurrence, and he would not favor changing the discount rate.

Mr. Mitchell said it seemed to him that the business upthrust was about at the stage where the momentum provided by the inventory turnaround had been lost. This meant that something else was needed to furnish the stimulus for continued economic growth. One would ordinarily expect this stimulus to come from consumer spending. However, the available evidence on consumer spending indicated a seasonally-adjusted decline from November through January, and it did not seem likely that February would show a higher level of sales than January. Information on automobile and department store sales and on the use of consumer credit suggested that the consumer was not responding effectively enough to keep the trend of business moving upward. Another possible stimulant was business spending on plant and equipment. The results of the latest Commerce-SEC survey, which would be available shortly, should provide the basis for a better judgment as to whether the economy was likely to get a renewed thrust from that source.

Mr. Mitchell said he was inclined to agree with the staff that the economy was going to come out of the current pause satisfactorily. On the other hand, he could not help but feel that there was a fairly substantial possibility that the economy might falter. If this were to happen, there would be in prospect a substantial budget deficit in an attempt to pull the economy back to a rising trend. Rather than to run the risk of such a development, he would prefer to see monetary policy somewhat more aggressively easy than at present. The difficulty was that this might have an adverse psychological impact; people would say that if the Federal Reserve was worried, things must be getting bad. The System should not contribute to such a psychological attitude. On balance, therefore, he would favor no change in policy at this time. As to the directive, he would eliminate the references to Treasury financing.

Mr. King said he thought it would be possible for the Committee to respond in a modest way to the slowdown in economic activity without creating an adverse psychological effect. He would not advocate any significantly easier policy. In terms of the level of free reserves, he would think it appropriate if they continued in the same general pattern as had prevailed recently. He believed, however, that a little less emphasis could be placed on maintenance of the bill rate at its present level. In his opinion, any strong effort to hold the bill rate at that level, particularly in view of the decline in intermediate-term Treasury yields, could not help but produce unfortunate results. Therefore, in the sentence of the current economic policy directive that called for open market operations to be conducted with a view to maintaining a supply of reserves adequate for further credit expansion, he would eliminate the words "while minimizing downward pressures on short-term interest rates." At the present time, he did not believe that short-term rates were going to decline to an extent that would seriously aggravate the international situation. Accordingly, this seemed an opportune time to place somewhat less emphasis on the bill rate in the formulation of monetary policy. This did not mean that he would not again attach considerable importance to the bill rate if developments should warrant. However, he thought this was the point in the cycle where a modest contribution might exert a significant effect.

Mr. Shepardson expressed the view that the economic situation was basically sound. Even though at the moment there seemed to be a pause, he did not see that this had been brought about by any lack of availability of credit. The continued growth in total deposits indicated that funds were available. The increase in savings might reflect, on the part of consumers, a little uncertainty and a desire to see what adjustments might be made. As to business investment, there might be some hesitance in order to see what developed from certain proposals now before the Congress. As to the balance of payments, the situation looked a little better on the surface, but the fundamental problem apparently had not changed very much.

Mr. Shepardson said, with respect to policy, that he did not believe anything would be gained by increasing the degree of ease. In fact, while he would agree that the System should continue to supply reserves for some credit expansion, he would personally lean toward a somewhat lower growth rate than had prevailed. He would prefer to run a little closer to 3 per cent than 4 per cent. Further, there was the possibility of a relatively easy transfer of time and savings deposits into the active money supply. In the circumstances, he would continue about the degree of ease that had prevailed, with possibly a slightly lower provision for reserve growth. There would seem to be no purpose in changing the discount rate at this time. As far as free reserves were concerned, they probably should be maintained at approximately the level of recent weeks. At the same time, attention should continue to be given to the bill rate, which in his opinion should preferably be above 2-3/4 per cent rather than below. As to the current economic policy directive, he would concur in the suggestion for elimination of the references to Treasury financing.

Mr. Robertson said it appeared to him that the differences between those who had spoken were relatively minor. Practically everyone wanted to "stay about where we are," not becoming too much easier or tighter. This was also his thinking. This was no time for tightening. Rather, it was a time for continuing a ready availability of reserves in order to stimulate the economy and offset as much as possible the current pause in business activity. While he thought there was likely to be continued economic growth, and that it might be rapid after a month or two, for the moment he would concur in what he sensed to be the majority view among those who had spoken, namely, that the System should maintain just about the same degree of ease as at present. He would prefer more ease to less ease, but he would not advocate either. As to the current policy directive, he would agree with the suggestion that the references to Treasury financing be deleted. He would also eliminate the part of the directive that called for minimizing downward pressures on short-term interest rates.

Mr. Wayne reported that recent developments had not significantly changed the general course of Fifth District business. Broad statistical indicators extended through January the patterns of fluctuation at or near record levels that began last fall. The following points stood out in the Reserve Bank's opinion survey of a fairly representative group of businesses covering the first three weeks in February: significant gains in new orders and shipments, not limited to durable goods; considerable stability, leaning a little toward the up-side, in employment, hours, wages, and prices; and a slightly more optimistic view of the outlook for profits.

As to policy, Mr. Wayne said that he would concur in the appraisal that seemed to be quite general and that he would favor continuing about the same policy that had been followed for the past six weeks. He would not favor any change in the discount rate at this time. On the directive, he would eliminate the reference to Treasury financing but would retain the language with respect to minimizing downward pressures on short-term interest rates.

Mr. Clay said it was apparent that economic developments thus far in 1962 had been less than satisfactory. Adverse weather developments beyond normal, and beyond seasonal adjustments in statistical series, may have been a significant factor; but these sluggish developments could not be explained away solely by the weather. This did not necessarily mean that the underpinnings of the business expansion were unsound or that events of the weeks ahead might not be more favorable. Whatever the cause, however, it did mean that any movement toward monetary restraint or any trending toward less monetary ease would be distinctly inappropriate under present circumstances.

The Committee would be looking for clarification of economic developments in the weeks immediately ahead, Mr. Clay noted. That clarification probably would be needed not so much to determine whether credit should shortly be tightened as to learn whether the System would be faced with the much more difficult and awkward problem of doing more toward encouraging economic expansion rather than less. In the meantime, the Committee could not afford to be sympathetic with any tightening of credit, either in terms of the rate of seasonally adjusted bank credit expansion or in terms of an upcreep in the level of interest rates. With reference to the international flow-of-funds problem, the Committee should not lift the range of the Treasury bill rate at this time above its previous goal. So far as he could judge, it did not appear to be necessary to do so at this time for purposes of the international flow-of-funds situation. Moreover, the needs of the domestic economy dictated that such credit tightening be avoided if at all possible.

In keeping with the monetary policy he recommended, Mr. Clay expressed the view that no change should be made in the Federal Reserve Bank discount rate. Mention had been made from time to time of the positive contribution to this country's international financial situation to be derived from a discount rate increase as a signal of the soundness of monetary policy. An increase in the discount rate would be a signal to the domestic economy too--as to the System's policy toward facilitating economic expansion--and under present circumstances the signal would be inappropriate.

Mr. Scanlon said conditions in the Seventh District appeared quite similar to those reported by others who had spoken thus far. Despite the trend of some indicators, businessmen remained confident that developments would be favorable for the year as a whole. In the auto industry production was still falling, but manufacturers remained optimistic about sales for the year. In general, cutbacks in industry had been accomplished mostly by means of shortening the workweek rather than reducing employment. Electric power statistics indicated a decline in industrial consumption of 11 per cent in the Detroit area from December to January, along with a 4 point decline in the Indianapolis area. Although business loans had increased since January, total bank credit had continued to decline. The position of banks generally remained easy.

The trend of bank credit, coupled with business developments thus far in 1962, suggested to Mr. Scanlon that no change in monetary policy was called for at this time. He would favor elimination of the references to Treasury financing in the current policy directive. He would not change the discount rate at this time.

Mr. Deming commented that, as had been noted in this room before, it was quite fashionable to blame or credit the weather with rather pronounced effects on economic trends. In general, he thought such blame or credit was overweighted. This year in the Ninth District, however, the weather almost certainly had affected some lines of endeavor quite adversely. The District had experienced a very severe winter, with quite low temperatures and a lot of snow. These conditions were believed to account almost entirely for the slowdown in retail sales in the area. Department store sales were barely even with a year ago in January, and in February were 4 per cent below those of February 1961. The weather also had hampered construction, logging, and other outside work.

Other District economic indicators presented a brighter picture. In January, personal income held at the December level. Total District nonfarm employment, seasonally adjusted, rose significantly in January despite the winter weather that held down outdoor work. (Such employment had grown slowly last fall and paused in December.) No District figures for February were as yet available, but in Minnesota nonfarm employment in February fell substantially less than it did last year. The nonfarm employment gains reflected mainly rising manufacturing employment, with the rise rather broadly based. Employment people in the Twin Cities, basing their estimates on employer statements, expected manufacturing employment to rise about seasonally for the next three months. For the first time in some time they noted the possibility of shortages in some skilled jobs--machinery and ordnance particularly. As a footnote observation on employment that might indicate one way in which future employment gains would come, the total gain in manufacturing employment in Minnesota over the past five years was smaller than the gain registered in the electronics industry.

Ninth District banks are subject to rather pronounced seasonal changes in loans and deposits, Mr. Deming noted. Thus, in all of the postwar years total deposits at city banks had dropped from 5 to 10 per cent in the first quarter, and those at country banks had declined from 2 to 5 per cent. For December, January, and February combined, roughly the same picture prevailed although in two such three-month periods (1950-51 and 1960-61) deposits at city banks registered small gains--less than 1 per cent. At country banks the December-January-February declines ran a bit smaller than first quarter declines, but every postwar year had witnessed a decline in those three months. The recent December-January-February pattern had been in the same direction as in former years, but had been significantly smaller. The difference seemed to lie entirely in time deposits, which were up far more than usual in both classes of banks, but with the gains very large at city banks. At the close of February such deposits were 33 per cent larger than a year earlier at city banks and 9 per cent larger at country banks. Demand deposits in both classes of banks were 3 to 4 per cent ahead of year-ago levels.

Loan changes did not show quite such a neat pattern at District banks, but in general (in 10 of the past 14 years) the December-January-February loan change at city banks had been minus whereas the change at country banks in 12 of the past 14 years had been plus. This year the change at city banks had been plus, the first such plus change since 1956-7. At country banks the three-month change this year was a small minus, probably reflecting both last summer's drouth and the severe winter.

In short, both loans and deposits at District banks were showing rather pronounced strength for this time of year. The banks, however, remained quite liquid, at least by standards of recent years; borrowings from the Reserve Bank had been quite small and the city banks had been on the selling side of Federal funds transactions for some time, although their net sales had tended to shrink in recent weeks.

Thus the District picture looked somewhat different from the national picture, Mr. Deming pointed out. While he would not assert that it could foreshadow resumed growth nationally, he did not see any more basic strength in the District than in the nation. He saw no persuasive reason to believe that the current expansion nationally was topping out and, in fact, he would rather expect that it would accelerate again in the near future.

Mr. Deming said he still believed, then, that the posture of policy over the next several months was more likely to trend toward less ease than more ease. Therefore, he believed it would be a mistake to shift to more ease now, despite the current record of the economy. On the other hand, he saw no reason to renew the trend toward less ease now. Accordingly, he came out with the feeling that the System should stay just where it was in terms of reserve availability. He hoped that this would be done without short rates declining significantly further. Perhaps they even could work back up a bit if the Treasury made some more additions to its weekly bill offerings. He saw no need to change the discount rate. The directive, he believed, might be renewed with only the references to Treasury financing stricken from it.

Mr. King withdrew from the meeting at this point.

Mr. Swan said there did not appear to have been any appreciable change in the business picture in the Twelfth District. On a seasonally adjusted basis, the rate of unemployment in the Pacific Coast States fell in January to 5.6 per cent, this being the first month since January 1960 when the rate was below 6 per cent. Manufacturing employment rose, principally because of further gains in defense-related industries. On the banking side, loans of weekly reporting member banks rose modestly in the first three weeks of February, but the category showing the largest increase was real estate rather than business loans. A number of bankers had recently been expressing keen disappointment about their inability to find indications of any substantial increase ahead in business loan demand.

It seemed to him, Mr. Swan said, that the domestic situation called for no less than a continuation of the degree of ease that had prevailed in recent weeks. In fact, he would go a little further and say that in his opinion the current pause had lasted long enough to suggest that a slight intensification of the degree of ease would be in order. He did not argue that this should be appreciable; if it had not gone out of fashion recently, he would use the phrase "resolving doubts on the side of ease." Both required reserves and total reserves available fell a little short of the so-called standard by the end of February and the money supply, which declined rather sharply in January, appeared likely to show little change in February. Therefore, even allowing for the continuing growth in time deposits, it did not seem to him that the reserve pattern was entirely consistent with recent business developments. It was, of course, necessary to look at international factors with caution, but this was a point at which it appeared possible to give a little more weight to domestic relative to international considerations, particularly in view of reports that neither gold nor dollar transfers to foreigners were substantial in January and that in both January and February they apparently were well below the level of the fourth quarter of 1961.

In summarizing, Mr. Swan said he would suggest a move, though only very slight, in the direction of more ease. This would mean providing a little more than seasonal reserve needs in the weeks immediately ahead, with no appreciable change in free reserves but a leaning toward the \$450-\$500 million level rather than the \$450-\$400 million level. He would not expect any significant change in the bill rate, but if the rate was around 2-5/8 per cent rather than 2-3/4 per cent he would not be particularly concerned. As his comments suggested, he would not favor a change in the discount rate. As to the directive, the references to Treasury financing should be deleted. Also, he would like to see the reference to minimizing downward pressures on short-term interest rates eliminated.

Mr. Ellis said that New England business conditions seemed to be stronger than the national pattern. Indirect evidence suggested that consumer spending was remaining strong. Sales tax receipts were above year-earlier levels and rising, while auto contracts extended by the larger banks were running well ahead of a year earlier through January. Poor weather had affected department store sales recently, but they were strong for the year as a whole. Business spending seemed to remain strong. In his opinion, incidentally, the economy might still get some lift from inventory accumulation, particularly in durables. The responses to a current Reserve Bank survey of a large part of New England manufacturing were now being tabulated, and preliminary results suggested a substantial gain in capital outlays in 1962 from 1961, with substantial sales gains also expected. Corporate income tax collections in the seven months through January were up from the previous year. Production reached a new peak in January, according to the New England index of manufacturing, with most of the thrust coming from durable goods industries, along with electronics.

Continuing, Mr. Ellis noted that weekly reporting member banks experienced less than the normal seasonal decline in deposits in January and February and showed a substantial gain in time deposits. There was an appreciable rise in business loans in February, though they were below banker expectations, and the banks still anticipated an increase in loan demand this spring.

Mr. Ellis said he would judge that the pattern in New England was stronger than that for the nation as a whole. Yet the evidence provided by the staff seemed to him to indicate that the economic lull was of the same character as occurred last August and September. On balance, he believed that the underlying trend still was one of strength and expansion. Policywise, he agreed that it would not be appropriate to tighten at a time when the economy was hesitating and that this was no time for discount rate action. However, he did feel some concern about the fact that short-term interest rates had dropped since the February 13 meeting. Looking at the staff projections on the need for reserves, he felt it might be appropriate to supply those reserves, to the extent feasible, through purchases of longer-term securities in an effort to support the bill rate at a level above 2-3/4 per cent. As to the current policy directive, he would strike the references to Treasury financing. He had come to the meeting prepared to suggest strengthening the first paragraph, but he gathered from the comments around the table that this was not the sense of the meeting. If the Committee wanted to change the first paragraph, however, it might consider including a reference to the adverse balance of payments and the desirability of maintaining a viable international exhange system. He would favor continuing to include the language that related to minimizing downward pressures on short-term interest rates.

Mr. Francis reported that the pace of business activity in the Eighth District had slowed down since December. Employment had leveled off, and department store sales were down from November through February. Output of manufacturing firms, as indicated by electric power consumption statistics, rose in December but was down in January in most of the major cities in the District. Bank deposits were down in five major metropolitan areas in December, but rose in January. In the first three weeks of February, deposits of weekly reporting banks rose. Time deposits increased sharply at banks in major cities, the increase being principally in time certificates rather than savings accounts, and demand deposits were about unchanged. Bank loans increased in the three-week period, but the increase was centered almost entirely in Memphis banks. In general, economic activity in the District was exhibiting a sideways movement, with little evidence of rising tendencies since the turn of the year.

Mr. Shuford said he would forego a detailed statement on the Eleventh District and make only the observation that there had been no significant changes since the Committee meeting three weeks ago.

Mr. Balderston said there were certain aspects of the current situation that particularly impressed him. First, there were the data on the international situation. Second, there were the data regarding the domestic scene. Third, the change in maximum permissible interest rates on time and savings deposits was evidently causing a churning action that had had some by-products. In January, the seasonally adjusted rate of turnover of demand deposits at banks outside New York

City and other financial centers rose to a new post-war high of 27.4. Also, while the money supply, narrowly defined, had remained level during the past 2-1/2 months, there had been an added supply of almost $4 billion of near money. He mentioned these last two facts because they might induce some caution in the use of the indicators or guides that the Committee had been following for a number of months. They suggested that the Committee may have countered sufficiently the current economic pause, at least until the impact of the churning subsided and the Committee could get a somewhat clearer view. At the February 13 meeting, he had remarked that the Committee was faced with a choice between the current international problem and the pause in economic expansion and that, faced with such a choice, he would take a chance on a somewhat lower level of free reserves in order to assist in firming the bill rate, especially because he looked forward to some gold withdrawals in the weeks ahead. As to the current policy directive, Mr. Balderston said he would omit the references to Treasury financing but would not omit the passage with regard to minimizing downward pressures on the short-term interest rates.

Chairman Martin commented that the members of the Committee did not seem to be very far apart this morning in any sense of the word.

Continuing, the Chairman said it seemed to him the Treasury had been helping out the Federal Reserve, in that its financing operations were complementary to System policy. The advance refunding had been reasonably successful, with $4 billion of debt lengthened, and this would have some effect on the market. Further, the Treasury was proposing in the next few weeks to issue more bills, which would assist in stabilizing the bill rate.

The Chairman went on to say that "steady in the boat" seemed to him to be the watchword at the moment. In terms of monetary policy, this would involve maintaining the status quo.

As to the balance of payments problem, Chairman Martin noted that everyone had his own views. He found himself more and more convinced that this problem was a vital factor in the unemployment situation. Foreign capital was finding the United States less and less attractive, there were pressures for movement of capital abroad, and this was having a deleterious effect on employment in this country. It was also causing uncertainty with regard to capital investment for modernization and improvement of plant and equipment, which investment was vital to an expanding business picture. Therefore, the balance of payments problem was not separable from the over-all problem. He felt, also, that this country was going to have to be prepared to lose more gold in the course of the next year or so. The improvement in the balance of payments at the moment was probably a temporary improvement when viewed in the light of the broad factors he had mentioned.

Basically, however, short of a confidence crisis, the posture of the System ought to be one of rendering maximum assistance to the domestic economy. The System should not get into a position where it could be accused of throttling the economy through an insufficient availability of funds. If there were inflationary pressures, the problem today would be quite different, but goods and services were in adequate supply and prices were stable. Further, the increase in maximum interest rates on time and savings deposits was encouraging saving, which had already been at a reasonably high level. In his opinion, it was not necessary to make minor adjustments in policy in terms of the balance of payments. The Government's endeavor to improve military procurement policies and its continuing attack on the balance of payments problem in other ways constituted evidence that the problem was not being ignored. With full recognition of the importance of the adverse balance of payments to the over-all economic problem, he came out in essence with the view that the wisest course for the System to follow at this time would be the status quo. If and when international flows of capital should present a critical problem, the System might have to react by raising the discount rate or doing something more dramatic than effecting a modest adjustment in the level of reserves, but this was borrowing from the future.

Turning to the current economic policy directive, Chairman Martin commented that Mr. Young had a suggestion that had been worked out with Mr. Rouse and seemed to reflect the consensus of the meeting according to the views that had been expressed. He then read the suggested language and the expressions of Committee members were favorable.

Accordingly, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Open Market Account in accordance with the following current economic policy directive:

In view of the continued underutilization of resources, and particularly of the evidence of some hesitation in the pace of business activity, it remains the current policy of the Federal Open Market Committee to promote further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments and the need to maintain a viable international payments system.

To implement this policy, operations for the System Open Market Account during the next three weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit expansion, taking account of the desirability of avoiding undue downward pressures on short-term interest rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mitchell, Robertson, and Shepardson. Votes against this action: none. 1/

Messrs. Yager and Broida withdrew at this point.

There had been distributed to the Committee reports from the Special Manager of the System Open Market Account on System and Treasury operations in foreign currencies and on foreign exchange market conditions for the weeks ended February 21 and February 28, 1962, along with a supplementary report for the period March 1 to March 5, 1962. Copies of these reports have been placed in the files of the Federal Open Market Committee.

1/ Mr. King stated subsequently that if he had been present when this action was taken, he would have voted in favor of the directive.

Among other things, the supplementary report recorded the fact that on Thursday, March 1, the System Open Market Account had acquired 245 million French francs ($50 million equivalent) in a swap arrangement with the Bank of France. Under the terms of the swap, the dollar proceeds accruing to the Bank of France were invested in a non-transferable United States Treasury certificate of indebtedness--foreign series, at 2.70 per cent per annum, while the franc proceeds accruing to the System were being held in a Bank of France "money-employed" account bearing the same rate of interest. The swap was to mature on June 1, 1962, but would be renewable, and each party was protected against a revaluation of the other party's currency.

Upon poll taken by the Secretary of the Committee, the foregoing transaction had been approved by a majority of the Committee on February 28, 1962. Those voting to approve the transaction included Messrs. Martin, Balderston, Irons, Mills, Shepardson, Swan, Fulton (alternate), Ellis (alternate for Mr. Wayne), and Treiber (alternate for Mr. Hayes). Messrs. King and Robertson dissented, and Mr. Mitchell abstained. The two dissents and the one abstention were on the grounds that the members of the Committee had not been afforded sufficient time or sufficient information properly to appraise the then proposed transaction on its merits.

At the beginning of today's discussion of System foreign currency operations, Chairman Martin emphasized the highly confidential character of such operations. He noted that skepticism had been expressed in some quarters as to whether it was feasible for a group as large as the full Open Market Committee to operate in this area. It was particularly important, he pointed out, for all those in attendance at this meeting to bear in mind that in these operations the Federal Reserve was dealing with foreign governments and central banks.

The Chairman then turned to Mr. Coombs for comments supplementing the written reports that had been distributed.

In his comments, Mr. Coombs noted that the foreign exchange markets had been quiet during the past three weeks, this probably having been attributable in some measure to the recent improvement in the U. S. balance of payments. There had been few takings of gold, but this reflected restraint on the part of foreign central banks that were holding large amounts of dollars. Announcement of the initiation of a Federal Reserve foreign exchange program, in addition to the activities of the Stabilization Fund, seemed to have contributed to the quietness of the market.

After discussing briefly developments with respect to the positions of certain foreign currencies, Mr. Coombs noted that System accounts had been opened with four foreign central banks since the last meeting of the Committee, through the mechanism of purchasing foreign currencies from the Stabilization Fund. Also, there had been the $50 million swap arrangement with the Bank of France.

As to possible future System operations, Mr. Coombs pointed out that the Stabilization Fund had substantial commitments, pursuant to forward operations, to deliver Swiss francs. Although Swiss francs might well become available for purchase shortly, the Treasury had established as a guideline a maximum of $120 million on foreign currency holdings in the Stabilization Fund, and present holdings were $10 million in excess of that figure. In this situation, there seemed to be an opportunity for the Federal Reserve to acquire some additional foreign currency and at the same time to cooperate with the Stabilization Fund. One possibility would be for the System to purchase a quantity of German marks from the Stabilization Fund. Another possibility would be for the Federal Reserve to purchase Swiss francs and to sell them forward to the Stabilization Fund. The purchase of marks would involve a loss of interest because the German Federal Bank was not authorized by statute to pay interest on Federal Reserve holdings of German marks. It could pay interest, however, on holdings of marks by the Stabilization Fund. Nevertheless, as between the two alternatives, Mr. Coombs indicated that he would favor the purchase of marks from the Stabilization Fund to the acquisition of Swiss francs.

At this point Chairman Martin requested that Mr. Coombs comment in more detail on the swap arrangement with the Bank of France, particularly in regard to the haste that was involved in consummating the transaction.

In reply, Mr. Coombs stated that the negotiation with the Bank of

France was conducted by Mr. Young and himself in Paris on Thursday, February 22, at which time agreement was reached on the general nature of the transaction, including the protective features. After commenting in those regards, he went on to say that the Bank of France was at first somewhat inclined toward a swap arrangement of around $25 million, whereas he and Mr. Young thought it better to go to $50 million. By the week end, however, the Bank of France agreed to go to $50 million. At the same time, the Bank urged a value date of March 1, because on that date France was making a payment in the amount of $60 million to the International Bank for Reconstruction and Development and the Bank wanted to mesh the two transactions. A telegram was received from the Bank of France on Monday, February 26, containing terms as to which agreement had been reached in the negotiation in Paris. Subsequently, a call was received from the Bank of France again urging the March 1 value date. Meantime, on Tuesday afternoon a wire--or memorandum quoting such wire--had been sent by the Secretary of the Open Market Committee to each member of the Committee requesting approval of the proposed transaction. The following day word was received by the Special Manager from the Secretary that a majority of the Committee had approved the proposed transaction, and it went into effect as scheduled.

As to what might be done with the francs that had been acquired, Mr. Coombs said that he would suggest sitting tight for a while. It would be possible to sell francs on the open market to try to push the dollar rate from the floor, but he would like to see signs of some lessening of the inflow of funds into France before making any such move.

Certain technical questions regarding the transaction were then raised, to which Mr. Coombs responded. Among these was the question whether the Federal Reserve could have held the dollar proceeds accruing to the Bank of France in a "money-employed" account similar to the account in which the franc proceeds accruing to the System were being held by the Bank of France, and Mr. Coombs stated that he understood the Federal Reserve was not so authorized. If this could be done, a transaction of this kind would be more symmetrical. The Bank of England and the Bank of France could do this. On the other hand, the German Federal Bank could not see its way clear at the moment under German statutes. Thus, the Federal Reserve had not been able to invest the $7 million equivalent now held in the account that it had opened with the German Federal Bank.

Chairman Martin noted that there was the question of entering into a swap arrangement with the Bank of England similar to that entered into with the Bank of France. The pound sterling was strong at the moment, and the principal value of a swap arrangement at this time would seem to lie in the area of furthering mutual cooperation between central banks. This involved the so-called confidence factor. Also, such an arrangement might have the effect of holding some gold in this country.

Mr. Coombs indicated that he regarded the confidence factor as important. An arrangement such as that with the Bank of France tended to give the market the impression that there was agreement between the two central banks concerned and their governments on maintaining the parity of their currencies. In further comments, Mr. Coombs noted that such an arrangement with the Bank of England would provide some cushion against a conversion by the British against what could amount to a very sizable inflow of dollars. If there was some kind of reciprocal credit arrangement with the Bank of England, possibly in the amount of $200-$250 million, this would mean that in the event of heavy inflows into the United Kingdom, the Federal Reserve could run down temporarily its pound sterling balances.

Mr. Coombs reiterated that a number of European central banks holding large amounts of dollars had been deliberately refraining from taking gold. If any bank should come in for a large amount of gold, an "every man for himself" proposition could possibly develop.

Mr. Mitchell presented the question whether, if a foreign country had achieved a certain position resulting from favorable balance of payments and felt that basically it should have a certain proportion of gold in its reserves, it was not better to work toward getting the gold there rather than to try to keep the gold from leaving the United States.

In discussion of this question, Chairman Martin said that, as he had indicated earlier during this meeting, he felt that the United States must face the loss of some additional amount of gold over the next year or so. It was of considerable importance, however, whether the gold was lost gradually or in big bites. If this country attempted to use foreign currency operations as a substitute for curing the basic deficit in its international payments position, it would be in serious trouble. But that did not mean that there should be no intervention at all to make the flows of funds more reasonable and orderly. He thought that already the willingness of this country to intervene had brought a lot of attention to the exchange mechanism that had been beneficial.

Mr. Mitchell commented that the worst way to lose gold would be to lose it involuntarily. If possible, the loss of gold should be accomplished according to an orderly process. However, he did not find any indication that such a policy was being pursued.

Mr. Hayes noted that foreign countries, by taking gold, would not be improving their liquidity; they would just be changing the form of it. From the standpoint of total world liquidity, the situation would be worse if foreign countries took their dollar holdings in gold. The holding of dollars had served to promote a degree of world liquidity that could never have been achieved if everyone held gold. Everyone would agree, he thought, that the basic solution was in remedying the U. S. balance of payments. At such time as it was demonstrated that the United States was doing that, the desire for gold would fade away. The reason for uncertainty was nervousness as to where this country was headed.

Mr. Mitchell said he understood the System was engaged in an operation that had two goals: improvement of the international exchange system and defense of the dollar. He was in favor of many of the things that were being done, but he was not persuaded that the gold policy was working in the right direction.

Mr. Mitchell then commented in explanation of his attitude toward the swap arrangement with the Bank of France. First, in the material that had been sent to the members of the Committee in connection with the Secretary's poll, there was no explanation as to why the value date could not be postponed, although subsequently that point was explained. Second, he did not have available at the time any memorandum about the French economic, balance of payments, and political situation, and he would regard such a memorandum as essential to the making of an intelligent decision. If any similar transaction with the Bank of England or another central bank should be in prospect, he felt that appropriate information should be made available to the members of the Committee in advance of their being asked to make a decision.

In reply, Mr. Young said that a memorandum on the French situation would be distributed to the Committee within a day or two. If a similar transaction with another central bank should come into prospect, appropriate memoranda would be submitted to the Committee in advance.

After further discussion of the nature and objectives of System foreign currency operations, along with additional discussion of certain technical aspects of the arrangement with the Bank of France, Mr. Coombs said there was another area in which a swap arrangement might serve a useful purpose. After referring to the arrangements for enlargement of the standby resources of the International Monetary Fund, he pointed out that Switzerland was not a member of the Fund and that this constituted a gap in the system of defenses. In discussion of alternatives, the Swiss authorities had suggested that the Swiss National Bank might negotiate a reciprocal transaction with the Federal Reserve. This could be a matter of considerable importance.

There followed discussion of the Swiss situation and the possibility of a reciprocal arrangement, following which Mr. Balderston addressed himself to the thrust of policy that Mr. Mitchell had indicated he thought would be advisable. This country, Mr. Balderston said, ought to be prepared for some further loss of gold, not as something desired but something that might occur. The public ought to be prepared as well as possible, so as to minimize the psychological impact if the gold stock should drop toward $15 billion. As to the direction of policy, it seemed to him that for quite a while the key currency that would be viable, in the sense of being used outside the sterling bloc, was likely to be the dollar. It would be helpful if the dollar could be joined by the German mark and other currencies, but that might take some time. As long as the dollar was acceptable to central banks of the world as a supplement to gold for reserve purposes, then the reserves available to the Western countries outside the sterling bloc would consist not of gold alone but gold plus dollars. Conversely, to the extent that central banks were not willing to keep reserves in dollars as well as gold, the reserve base for the trade of the western world would thereby be diminished. If the thrust of United States policy was to preserve its gold, that would be a means of reassuring those who were willing to use dollars for reserve purposes. It might likewise encourage users of dollars as a key reserve currency also to employ other sound currencies as well.

In response, Mr. Mitchell said he continued to feel that the thing to do was to let the uneasy holders of dollars use those dollars to buy gold in an orderly fashion. Otherwise, the continuing overhang of demand for gold could only worsen the confidence factor and might result in a gold withdrawal at a most awkward time.

Mr. Bryan suggested a similarity to the situation that prevails when rumors circulate around a small town that the bank may be in difficulty. The question was one of how best to provide reassurance, and he did not know the answer to that kind of problem. He had seen several different approaches work and also fail. The fundamental problem was the U. S. balance of payments. He had heard it said at times that the British must take austerity measures, but Europeans might say at present that the United States should be prepared to take such measures.

Mr. Mitchell inquired of Mr. Coombs whether a purchase by the System of marks from the Stabilization Fund might not be the kind of operation that would leave the System open to the charge of bailing out the Stabilization Fund.

Mr. Coombs replied that the Treasury had thought of $120 million as the limit on the Stabilization Fund's holdings of hard currencies. In the past two or three months, the Swiss situation had turned in favor of this country. The Stabilization Fund was now able to buy Swiss francs, but the currency holdings of the Fund had gone up to $130 million. To meet the Stabilization Fund's need for more Swiss francs, it could wedge out room by selling marks. Simultaneously, the Federal Reserve could buy marks from the German Federal Bank if it did not want to enter into a direct transaction with the Stabilization Fund. However, he saw no difficulty in doing this business direct with the Stabilization Fund, although the loss of interest on the holdings of marks was a point of some concern.

Mr. Hayes said he felt strongly that inasmuch as the Federal Reserve and the Stabilization Fund were in the same business, they must work closely together. He would be prepared to defend the proposed transaction with the Stabilization Fund as a natural thing in the course of System operations.

Mr. Coombs, in a further comment, noted that it was necessary to be cautious in dealing with a central bank that was already loaded with dollars. It might look rather odd to the German Federal Bank, he added, if the Federal Reserve and the Stabilization Fund found it impossible to deal with each other but instead had to use the Bundesbank as an intermediary.

At this point reference was made by Mr. Thomas to the fact that the Federal Reserve could not purchase U. S. Government securities direct from the Treasury, except within specified limitations.

Mr. Coombs replied that the Federal Reserve had acquired foreign currencies from the Stabilization Fund in opening accounts with four foreign central banks. That bridge had already been crossed. Now the Treasury was faced with the problem of effecting a shift in its portfolio, and at the same time the Federal Reserve faced the problem of building up a portfolio. Therefore, the needs of the two agencies seemed to mesh.

In response to a question about the alternative possibility of buying Swiss francs direct and selling them forward to the Stabilization Fund, Mr. Coombs said that this might well appear to be a logical course of action. The Treasury needed to cover its forward commitments, and it would like assurance as to the rate at which it could acquire the Swiss francs. The real objective, he noted, was to give the Treasury an opportunity to bring to a successful conclusion an operation that it had been working on for eight or nine months.

Mr. Ellis inquired whether this was likely to be a recurring situation (that is, a situation where the Treasury wanted to accomplish something and the holdings of the Stabilization Fund were up against the ceiling). He asked whether this was not a problem that needed to be settled as a matter of principle.

Mr. Coombs indicated that he found it difficult to forecast developments. Much would depend on whether the Federal Reserve decided at some future date to engage in forward operations. The program of the Treasury at the moment was largely dictated by forward operations that it had undertaken.

If one wanted to consider the possibility of the System's acquiring Swiss francs, Mr. Coombs said, the next question was whether the Federal Reserve should immediately sell them forward to the Treasury or whether it should decline to do so. From the standpoint of friendly relations between the two agencies, it would seem reasonable for the Federal Reserve to sell the Swiss francs forward to the Treasury rather than leave the matter to chance.

Mr. Mitchell commented that over the years the Federal Reserve's relations with the Treasury had been on the whole quite good. At times, however, the Federal Reserve had been dominated by the Treasury, so there was always a problem of maintaining a kind of an arms-length relationship. On the present occasion, the objectives of the Treasury and the Federal Reserve tended to coincide, but a different situation could possibly develop.

Chairman Martin commented that System operations in foreign currencies must always be for the defense of the dollar. He added that he was not completely sure of the actual terms of reference for operations of the Stabilization Fund, in light of the history of such operations since the Gold Reserve Act of 1934. Mr. Thomas, he noted, had prepared a memorandum that seemed to indicate that it would probably be better in the longer run if this country's foreign exchange operations--at least if conducted on any sizable scale--were conducted exclusively by the central bank. He (Chairman Martin) questioned whether it would be advisable at this juncture to say that there was a need for this type of operation and the need should be met by increasing the resources of the Stabilization Fund. Instead, he felt that the Federal Reserve was proceeding in the proper way. If the Federal Reserve did a good job and it developed that there was a need for foreign currency operations, it might come to pass that the System would take over all foreign exchange activities, with the full consent of the Treasury. On the other hand, some criticism of the System's operating in this field had already been voiced in the Congress.

The Chairman went on to say that after having thought about the matter at length, it was his conviction that the System should not give up this operation and turn it over to the Treasury. He thought that was the way the matter would have gone if the System had not undertaken its current program. Perhaps that was the way the matter would end up anyhow; perhaps the Congress would decide that it did not want to have the Federal Reserve operating in this field. Also, this country might be on such a solvent basis at some point in the future that no one would care about intervening in the foreign exchange markets.

The Chairman went on to way that he felt the Open Market Committee ought to continue to have discussions of all aspects of the operations in foreign currencies. There was much to learn, and no one should have a closed mind. There were many interesting facets of the matter. The Committee should follow the subject as closely as it could, calling upon Mr. Coombs to give it the benefit of his experience.

Question then was raised as to what authorizations or guidance Mr. Coombs would like to have the Committee give at this meeting.

Mr. Coombs replied that he would recommend an authorization to negotiate with the Treasury for the purchase of German marks up to $25 million equivalent. He felt that this was perhaps the most reasonable of the alternative solutions. Also, he would like the Committee's views on opening negotiations with the Bank of England and the Swiss National Bank regarding the possibility of entering into swap arrangements.

Chairman Martin stated that the most difficult matter, in his view, was the proposed acquisition of marks from the Stabilization Fund. As to the other two matters, he thought it would be entirely appropriate to start negotiations, but the question of relations with the Stabilization Fund, as pointed out at this Committee meeting, was complex and difficult.

The Chairman then turned to Mr. Hackley, who said that the matter of dealings between the Federal Reserve and the Stabilization Fund was one to which he had given considerable attention, having in mind particularly the point made by Mr. Thomas that the law clearly indicates that direct purchases of U. S. Government securities from the Treasury are not open market transactions. As to foreign currency operations, he had come to the conclusion, however, that in this sense the Stabilization Fund was a part of the open market. Although there was the possibility of criticism because of the analogy to purchases of U. S. Government securities, he did not feel that purchases of foreign currencies by the Federal Reserve from the Stabilization Fund would involve serious legal questions.

Mr. Robertson pointed out that the Federal Reserve had already acquired quantities of four foreign currencies from the Stabilization Fund, including German marks. Therefore, he felt that the bridge had been crossed. As to the other matters mentioned by Mr. Coombs, he felt that it was appropriate to authorize negotiations with the Bank of England and the Swiss National Bank. There should be an understanding, however, that before the Open Market Committee was asked to approve any transactions arising out of such negotiations, it would receive memoranda of the type to which Mr. Mitchell had referred earlier. On the transaction with the Bank of France, there had not been sufficient information presented, in his opinion, to permit making an intelligent judgment.

Mr. Young repeated his earlier comment to the effect that the staff was now preparing a memorandum for the Committee on the French situation. Also, before any similar proposals reached a head, appropriate memoranda would be distributed to the Committee.

> Thereupon, upon motion duly made and seconded, the action of a majority of the members of the Federal Open Market Committee on February 28, 1962, in approving the then proposed $50 million swap arrangement with the Bank of France was ratified.
>
> Also, upon motion duly made and seconded, the other foreign currency transactions for the System Open Market Account since the meeting of the Open Market Committee on February 23, 1962, were approved, ratified, and confirmed.

In further discussion, Mr. Mitchell made the suggestion that some appropriate person be asked to give close thought to the question of relations between the Stabilization Fund and the Federal Reserve, in light of factors such as the Committee had been considering today. He would have no objection to the particular transaction proposed by Mr. Coombs, but he would not like to think of it as establishing a precedent.

Chairman Martin agreed that the Committee should continue to work on the matter. A lot of work had been done already, he noted. The documents presented to and accepted by the Committee included guidelines for operations in foreign currencies and a memorandum on the scope and character of initial System foreign currency operations. In considering those matters, he recalled, it had been recognized that it was difficult to write precise rules at this stage.

Mr. Balderston inquired whether it was the thinking of the staff that forward operations should be handled exclusively by the Stabilization Fund, and Mr. Young replied in the negative, saying that this was a short-run compromise. How the matter might develop over a longer period of time was intended to be left open.

Mr. Swan commented that a critical point was whether the currencies that the Federal Reserve purchased from the Stabilization Fund were currencies that it wanted for its own purposes.

Mr. Coombs expressed agreement, adding that Swiss francs and German marks were both good currencies.

Mr. Ellis inquired about the degree of urgency in purchasing marks from the Stabilization Fund, to which Mr. Coombs replied that the Stabilization Fund might have an opportunity to pick up Swiss francs tomorrow. As stated earlier, the holdings of hard currencies in the Stabilization Fund amounted at present to $130 million, against the thinking of the Treasury that the ceiling should be $120 million. Therefore, the Stabilization Fund was strained to the utmost at this moment.

After further discussion, it was agreed unanimously to authorize the purchase for the System Open Market Account from the Treasury of German marks up to $25 million equivalent now held in the Stabilization Fund.

Authorization was also given for the starting of negotiations with the

Bank of England and the Swiss National Bank concerning swap arrangements with those institutions.

Chairman Martin stated for the information of the Committee that on February 16, 1962, he had sent to the Secretary of the Treasury, as Chairman of the National Advisory Council on International Monetary and Financial Problems, a copy of the authorization, as approved by the Open Market Committee on February 13, 1962, for operations in foreign currencies for the System Open Market Account. This had been sent in compliance with section 4(c) of the Bretton Woods Agreements Act.

The Chairman also reported that in response to the request made by members of the Congress at the time of hearings on H. R. 10162, a bill to authorize U. S. contributions in connection with expansion of the standby resources of the International Monetary Fund, he had sent to the Chairman of the House Committee on Banking and Currency on March 1, 1962, the following documents for inclusion in the record of the hearings:

(1) A memorandum from the Open Market Committee's General Counsel dated November 22, 1961, expressing the opinion that foreign currency operations by the System were authorized by the Federal Reserve Act;

(2) A summary opinion rendered by the Open Market Committee's General Counsel to the Congressional Joint Economic Committee, upon request, under date of February 19, 1962;

(3) A copy of the letter from the General Counsel of the Treasury dated January 8, 1962, expressing his concurrence and that of the Attorney General in the opinion of the Committee's

General Counsel and enclosing a memorandum that he had submitted to the Secretary of the Treasury to the same effect;

(4) A copy of the letter sent by Chairman Martin on February 16, 1962, to the Chairman of the National Advisory Council, along with a copy of the enclosed authorization of the Federal Open Market Committee for System foreign currency operations; and

(5) A copy of an action by the National Advisory Council dated February 28, 1962, indicating that the Council was in accord with the System's decision to undertake foreign currency operations.

Chairman Martin pointed out that this meant that the authorization for foreign currency operations, approved February 13, 1962, was now a public document.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, March 27, 1962.

The meeting then adjourned.

Ralph A. Young

Secretary