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, June 19, 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. Mills
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. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Messrs. Brandt, Brill, Furth, Garvy, Hickman, Holland, Koch, Parsons, and Willis, Associate Economists
Mr. Stone, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Mr. Williams, Adviser, 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

Messrs. Francis and Shuford, First Vice Presidents of the Federal Reserve Banks of St. Louis and Dallas, respectively
Mr. Rouse, Vice President and Senior Adviser, Federal Reserve Bank of New York
Messrs. Eastburn, Black, 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. Sternlight, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, the minutes of the meeting of the Federal Open Market Committee held on May 8, 1962, were approved.

In view of the resignation of L. Merle Hostetler from the employ of the Federal Reserve Bank of Cleveland effective at the end of this month, Mr. Fulton nominated W. Braddock Hickman to serve as Associate Economist of the Federal Open Market Committee in place of Mr. Hostetler.

Upon motion duly made and seconded, Mr. Hickman was elected Associate Economist, effective immediately.

Before this meeting there had been distributed to the members of the Committee a report on open market operations in United States Government securities covering the period May 29 through June 13, 1962, and a supplementary report covering the period June 14 through June 18, 1962. Copies of both reports have been placed in the files of the Committee.

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

Reserve availability has generally been comfortable throughout the recent period, and the tax date has passed with little

or no strain in an atmosphere of ample corporate and bank liquidity. Federal funds traded for the most part at 2-3/4 per cent, although the rate dipped below that level for a few days toward the middle of the period and moved up to 3 per cent yesterday. The period was generally characterized by a broad and active demand for short-term securities both from banks and nonbank sources. The Treasury's additions to the total supply of bills were readily absorbed and the 91-day rate moved from about 2.70 per cent at the start of the period to around 2.64 per cent before turning up again to slightly above 2.70 with the approach of the June 15 tax date.

As several of the Committee members anticipated in their comments at the last meeting, there was some room for differences in emphasis in carrying out a policy of "no change" in the System's current posture. Thus, in the first part of the recent period, against the background of the highly charged atmosphere generated by the sharp break in stock prices, the emphasis in conducting operations was tilted toward the free reserve measure and the avoidance of any unsettling swings in that indicator. As the period moved along, while the stock market failed to show much bounce, it did at least settle back to a somewhat calmer tempo. This made it possible to shift the emphasis to the Committee's objectives in terms of preserving the general market tone that had characterized the several preceding weeks.

Throughout the period the behavior of the stock market continued to attract a good deal of attention. While a number of rallies have been attempted, all have proved abortive, and the declining trend of prices that set in several months ago continues. The pace of trading activity in stocks, which was very active in the first few days after the last meeting, tapered off during much of the period but has picked up again in the past few days, and the atmosphere continues to be unsettled.

Prices of Treasury notes and bonds showed relatively minor day-to-day movements and no decisive trend during the period despite the continued weakness in stock prices and also despite some questions raised in the market concerning the underlying strength of the business expansion. The failure of Treasury bond prices to respond to these developments may in part reflect a recent resurgence of concern over the gold situation and the possibility of increased budgetary deficits ahead.

Turning to Treasury financing, the Treasury has added $800 million to the bill supply in the past five weeks, and its program for cash financing over the next two months depends in good part on whether it chooses to fill out the bill cycle at $2 billion per issue or whether it will stop short of that. If the Treasury continues to add to the bills until each issue amounts to $2

billion, it will not, according to present estimates, have to do any additional cash financing until late August. If, on the other hand, the Treasury should terminate now its program of addition to the weekly bill issue, it would have to move some of its cash borrowing ahead to July. This of course would be in addition to the rollover of the July 15 one-year bills and, in early August, the refunding of the August 15 maturities.

I should mention to the Committee that we have taken a careful look at the projections of reserve needs over the next three weeks from the point of view of whether the $1 billion limitation in the continuing authority directive would be adequate. The Board staff's figures suggest a need for about $750 million, while the New York Bank's projections indicate a need for perhaps $600 million. In the absence of some unforeseen--and substantial--additional drain on reserves, it seems to us that the existing limitation will not be constricting.

Thereupon, upon motion duly made and seconded, the open market transactions in Government securities during the period May 29 through June 18, 1962, were approved, ratified, and confirmed.

The economic review at this meeting was in the form of a visual-auditory presentation for which Messrs. Garfield, Hersey, Altmann, Axilrod, and Trueblood of the Board's staff joined the meeting and in which they participated along with Mr. Koch. Copies of the text of the presentation and the accompanying charts have been placed in the files of the Open Market Committee.

The text of the introductory portion of the economic review was as follows:

These are days when economic analysts the world over are paying unusual attention to stock market developments. Trading has been heavy and price declines have been dramatic. Increasingly over recent weeks questions have arisen concerning the effects, as well as the meanings, of these declines. Sometime in the future data can be assembled to show at least what the sequels proved to be--although not necessarily to establish

causal connections to everybody's satisfaction. Today we might consider the purport of nonstatistical reports, and of daily quotations in various commodity and security markets; scattered weekly or 10-day reports on activity and sales through early June; and the latest weekly credit figures for city banks. In large part, however, the latest organized information we have relates to the month of May--and even for May some figures are still missing.

To make a virtue of a necessity, we might argue that in times of dramatic events it is well to take a quiet look at the background against which these events are occurring. Actually, the stage of the cycle already reached in May was of considerable interest in its own right. After 15 months of recovery and expansion the economy had reached a point in time after which, in the two preceding upswings, further increases in activity had been small. But conditions this time were different in certain--perhaps important--respects. A steel labor contract had already been negotiated, for example, whereas in midsummer of 1959 a four-month strike was beginning. This time industrial prices had a recent history of three years of little change. Even before the recent decline in stock prices, expectations of a generally advancing price level had been greatly modified--by the continuing availability of unutilized resources as well as by recent price behavior. By contrast, in mid-1959 prices had been rising during recovery; and in the previous cyclical upswing--the auto-housing-capital goods boom of 1955-57--there had been a major advance in prices. The situation this time was different in other ways, too, and it was evident that analogies drawn from the past did not provide clear guides to the future.

Domestic developments, of course, have continued to depend in some degree on international developments. Since the Second World War and especially since the Korean outbreak in 1950, defense outlays in this country have been at levels unprecedented for peace time. In this recovery period they have been expanding. Since 1958, moreover, balance of payments problems have been almost continuously in the foreground of economic analysis.

There followed sections dealing with the balance of payments, the recent performance of the domestic economy, developments in the major categories of demand, business inventories and consumer spending, and financial developments. The presentation concluded with comments, as follows, on what the analysis of domestic business and financial conditions and of the balance of payments position might mean for monetary policy:

Recent economic and financial developments have been highlighted by the gradualness of the advance in economic activity, the availability of resources to permit further advances, and the sharpest stock price decline of the postwar period. At the same time, prices in commodity markets have not risen since early 1961, and there is little evidence of any incipient inflation. While credit supplies are ample, the liquidity of key spending sectors does not appear excessive.

Internationally, our balance of payments problem remains to be solved. There have been some recent improvements, but they may have been due in part to the impact of Canada's financial troubles on our capital flows. The dollar remains weak in European markets, and private demand for gold has reappeared in London.

To facilitate continued expansion of output domestically, the economic situation calls for further expansion in bank credit and the money supply in order to assure a ready availability of credit and longer-term capital at moderate rates of interest. The pace of such credit expansion must, of course, take into account that which has already occurred over the expansion period, as well as additional liquidity needs of the different sectors of the private economy as it grows.

On the other hand, our international position calls for the avoidance of a redundancy of bank reserves, liquidity, and credit availability lest the capital outflow be stimulated and our payments and gold reserve problem accentuated.

Domestic and international considerations, then, call for somewhat different policy emphasis at this juncture and may continue to do so for some time. To some observers, the existence of this disparity suggests the need for a differing mix of fiscal and monetary policies. This issue is receiving increasing discussion in the press, and will receive more in the near-term future, now that the possibility of an across-the-board cut in tax rates has been raised by Administration spokesmen.

The consequences of any change in the mix of fiscal and monetary policies, however, cannot be foreseen with assurance and risks are involved. Monetary policy and fiscal policy, while interacting in many aspects, are not simple substitutes one for the other. Each affects the economy through different channels and with different time lags. Whatever change in policy mix may occur in time, monetary policy has a continuing problem of keeping in such relation to fiscal policy that the mix fosters a high utilization of resources at home and a sustainable payments position with the rest of the world.

The effects of any mix of monetary or fiscal policies depends in large part on what the underlying economic situation really is.

As we have seen this morning, information available on developments before the recent sharp stock market declines indicated that economic activity was following an intermediate course, not booming, not declining. In May economic activity was at a level about as much above pre-recession highs as at the comparable stage of earlier recoveries. But resources were being less fully utilized. Incentives to accumulate inventories were not great and the level of inventory holdings was not high in relation to sales. With final demands fairly strong, however, some further gradual advance in activity was widely anticipated.

What the effects will be of the recent unsettlement in the stock market and, for that matter, of market developments ahead remains, of course, to be seen. Few excesses other than those in the stock market are readily discernible. Yet, in the present climate, to many market participants uncertainties as to future trends appear bigger than they normally do, and some anxieties unquestionably exist because of extended debt positions. It is too early to conclude either that the economy will be able to absorb recent market shocks and still move forward or that expansion will be interrupted.

In discussion following the economic presentation, Mr. Balderston inquired as to any indications concerning the lending and collection practices of banks in the recent period of stock market decline.

Speaking for the Board's staff, Mr. Brill commented that little information was available. Although a survey had been authorized by the Board some time ago regarding the volume of nonpurpose lending, it was still in the pilot stage. The Securities and Exchange Commission was contemplating a study of the actions of banks and other lenders during the recent severe stock market break, but this had not gone beyond the planning stage.

Mr. Hayes said representatives of the New York Reserve Bank had come to the general conclusion that the amount of forced

selling under pressure by lenders was modest. Perhaps some non-bank lenders had been lending on narrow margins, but this was a relatively small-scale business. One large New York City bank advised that it had asked for additional collateral on only 600 out of 12,000 loans and that there had been only six sell-outs.

Mr. Garvy confirmed the impression that there had been few calls in relation to the amount of credit outstanding. Many of those called for additional collateral had been able to provide it, and the number of sell-outs appeared to have been small.

Mr. Bryan said that at the most recent meeting of the Atlanta Reserve Bank's directors, directors from Birmingham and New Orleans reported surveys indicating that the banks in those cities had not called any loans or asked for any additional collateral. This was also said by two Atlanta banks to have been true in their cases.

Reports by other Reserve Bank Presidents were to the same effect.

Chairman Martin then called for the usual comments around the table, beginning with Mr. Hayes, who presented the following statement of his views with respect to the economic situation and monetary policy:

> I find it rather harder than usual to summarize my view of the domestic economy. The latest statistics, while somewhat mixed, seem to point to continued gradual business expansion, but with nothing to suggest probable attainment of the more

optimistic goals originally predicted for 1962 by many observers. The pause in retail sales in May is not in itself unduly disturbing, coming on top of the rapid increase of the preceding two months, but on the other hand we cannot overlook the recent deterioration in business sentiment. Moreover, the purchasing agents' survey speaks of "signs of fatigue" in the improvement of business activity; and business plans for capital investment are clearly lagging, even if the steel episode did not have the catastrophic effect on spending plans that some had predicted. The lagging tendency may well be enhanced by the persistent weakness in the stock market and by the prevalent atmosphere of business uncertainty. So far the stock market decline does not seem to have had much effect on consumers, but even here there could well be some delayed adverse influence.

With respect to the causes of the stock market weakness, I find it hard to reach any firm conclusions. While it is easy to point to some correction, in a noninflationary environment, of the high price-earnings ratios and speculative fever of the last year or two, this does not wholly explain the timing and intensity of the drop. Our fragmentary findings do not confirm the widespread press suggestions that forced selling through pressure by lenders, and selling from foreign sources, were important causes of the decline, although they doubtless had some contributing influence. Pessimism over the longer-range outlook for profit margins and widespread questioning of certain aspects of Administration leadership undoubtedly played a significant part; and a slower rate of stock accumulation by large institutional buyers since the latter part of 1961, coupled with an increased volume of new stock offerings, doubtless tended to weaken the market's underpinnings some months ago.

As for the latest balance of payments indications, the picture is mixed but on balance still very vulnerable. While the May over-all deficit was sharply lower than in the two preceding months--and while this occurred despite a probable substantial rise in long-term capital outflows--I suspect that the improvement was due in large measure to Canada's difficulties. The dollar has been persistently weak in European markets. Although the gold stock has remained steady now for five weeks, this has not prevented a growing state of nervousness on currencies in general and on the dollar in particular. This is evidenced, for example, by the heavy buying pressure in the London gold market in recent weeks, as well as by the rising interest in gold shares. Despite the somewhat better outlook for the balance of payments figures themselves in the second and

third quarters, the position of the dollar, in the light of current heavy dollar holdings abroad and growing nervousness in the gold and exchange markets, cannot be looked upon with complacency.

Total credit at commercial banks rose again in May, resuming the rise that had been interrupted in April. The demand for business loans continues relatively weak, in keeping with the absence of buoyancy in the business picture. The decline in the money supply should be viewed in the light of an unusually large build-up in Government deposits and a rise in time deposits. Liquidity of the banks remains at a high level; and the banks are both able and willing to reach out for new outlets for their funds, including foreign term loans in the case of some of the large New York banks.

Under these complex circumstances, it is not easy to form a clear-cut judgment as to appropriate monetary policy. Nevertheless, I believe that the balance of considerations is strongly on the side of a firmer policy. For one thing, it seems to me that the liquidity of the country is high enough so that the domestic economy can, in all probability, take in stride somewhat firmer rates and a lesser degree of ease. In a sense our policy of ease has probably contributed about all that it can to the current expansion. If additional Government measures are needed to stimulate the economy, they are more likely to be found in the fiscal area than in monetary policy. Of course, the weakness in the stock market and the nervous business atmosphere argue against any sharp or drastic change of policy.

The gravity of the dollar's international position is such that we should re-examine the question whether we have been doing all that we could in the monetary field to improve our balance of payments and foreign confidence in our currency. It is not easy to demonstrate to what extent a firmer monetary policy would dampen outward capital flows, both short term and long term, but I believe there is a growing body of expert opinion--with which I would concur--that the effect might well be considerable. Moreover, the increasing likelihood of a tax cut in the coming year and a resulting substantial deficit in the Federal budget points to a need for progress towards a higher rate structure to permit orderly financing of that deficit. To put it another way, foreign confidence in the dollar could be seriously hurt if the impression were to gain ground abroad that a more expansionary fiscal policy was likely to be accompanied by an unchanging policy of monetary ease. Conversely, I do not believe that foreign confidence would be shaken if a tax cut carefully designed to help restore business confidence and stimulate expansion, especially in business investment, were backed up by a firmer monetary policy.

I would repeat, then, that in my judgment the time has come for some modification in our monetary policy. The weakness of the stock market and the nervous business atmosphere suggest that, in the first instance at least, this policy change should be gradual and cautious. I think the Manager should be given a high degree of flexibility to probe toward lesser ease, with the hope of getting bill rates somewhat higher and avoiding downward rate pressure in the Federal funds market. The feel of the market should, I think, be a major guide, with the level of free reserves a secondary consideration, and with the proviso of course that a close watch would have to be kept on possible repercussions of such probing toward lesser ease on the domestic situation, and especially on the stock market.

A decision as to whether to make a more overt policy move might well wait for further clarification of the Administration's fiscal plans, and naturally such a move would be much more effective and would meet with greater public understanding if it enjoyed the Administration's support as a part of a broader program. No discount rate change seems desirable in the immediate future, although we may have to consider one before very long; but even the gradual shift in open market policy I have advocated would call for some modification today of the present directive.

Mr. Ellis reported that the New England economy seemed to be running along quite smoothly, with no pronounced trends evident. While manufacturing output was up in April, available data for May indicated no further gain. Unemployment showed some decline in April, and it appeared that the decline may have continued in May. Auto salesmen remained optimistic, but department store sales declined in April and May after seasonal adjustment and a further decline was suggested by weekly figures for June. The most recent purchasing agents' survey showed a reduction of inventories and a shortening of forward ordering policy.

Loans of First District weekly reporting banks continued at a high level, but loan demand seemed to have slackened somewhat since April. After an interruption in the expansion of time deposits, the most recent weekly figures suggested a resumption of the growth trend. Bankers continued to suggest that interest rates should be higher, giving as a reason the probable effect on international capital flows.

Mr. Ellis noted that the economic presentation this morning had seemed to point out that this was a period of turbulence and change. He also noted that analysts in the Boston area were tending to modify their assessment of prospects for the balance of the year, with a fairly general marking down of previous estimates of gross national product for the fourth quarter.

Mr. Ellis expressed agreement with the staff assessment that the problem of monetary policy was one of maintaining adequate but not redundant reserves. In the absence of fiscal action designed to move the economy forward, and in the absence of international repercussions from the stock market decline that would accelerate the outward flow of gold, he came out in his thinking that the wisest course would be to make no change in policy at this time. He doubted the appropriateness of moving on the monetary front in anticipation of fiscal action; that would bring on the Federal Reserve

responsibility in the public view for whatever might happen, particularly if blame was to be assessed. While he was sympathetic to the analysis presented by Mr. Hayes, in his view there should not be a probing toward less ease at this time for two reasons. First, if the probing was not effective in the sense that it did not affect the course of the economy, there would be no point in probing. Second, assuming that it would be effective, he thought this was the wrong time to undertake such a probing. In other words, he did not feel that it would be appropriate to make any significant move in response to international pressures while uncertainties about the domestic economy were growing. Accordingly, he came out to no change in the System's posture at this time. That would mean a continuation of money market ease, with a comfortable availability of reserves. It would mean free reserves of around $400 million and the continued use of open market operations to offset downward pressures on short-term rates, while allowing such rates to rise if market pressures should carry them in that direction. He would not be inclined to change the policy directive or the discount rate at this time.

Mr. Shuford reported that there had been little change recently in the Eleventh District economy. Industrial production was up slightly and there had been some increase in nonagricultural employment. There had been a little improvement in the chemical

industry as well as electronics. The oil situation was mixed, crude oil production having declined a little while refinery runs were up somewhat. Retail trade continued strong, although May figures showed a slight decline from the previous month. Agricultural activity reflected an improved moisture situation. Wheat output was down substantially due to Government restrictions, but cash receipts from agriculture nevertheless were up considerably.

As to the financial picture, loan demand in the District appeared to be a little stronger than in the nation generally. Loans were up, along with investments. Time and savings deposits showed a slight decline, but demand deposits were up strongly. While purchases and sales of Federal funds were both down, the margin of average weekly purchases over sales continued about the same as it had been running. Borrowings from the Federal Reserve Bank were nominal.

Mr. Shuford noted that the Vice Chairman of the Dallas Bank, a man with long experience in the international area, had written a memorandum to the other directors, with a copy to President Irons, in which he expressed concern with respect to the degree of monetary ease. At the most recent directors' meeting, the directors appeared more concerned and were more vocal than for some time. Some of the concern no doubt reflected the stock market situation, but the directors had also received the memorandum from the Vice Chairman. There was

some discussion of sending the Board of Governors a letter summarizing the views expressed at the meeting, but it was finally resolved that the Chairman of the Board would probably write a short letter to the Board of Governors referring to the concern of the directors.

Mr. Swan reported that the Twelfth District business situation seemed to reflect a good deal of uncertainty and mixed trends, with perhaps a further--but no more than a very gradual--improvement in May. While no June figures on auto sales were yet available, in the first half of May sales in California were down quite sharply from the first half of April. However, department store sales had been quite well sustained through May. There was considerable uncertainty in the fact that labor negotiations in certain major areas of production seemed far from reaching any satisfactory conclusion at the moment. There were shutdowns in construction because of labor problems in several parts of the District.

The District banking situation showed little change. The banks were looking eagerly for business loans, but did not appear able to develop them in any substantial volume. Real estate loans, however, were still rising. Savings deposits, after a decline in April that appeared to be associated with income tax payments, increased in May. However, the increase was significantly smaller than in May 1961.

Mr. Swan commented that it was not yet possible to assess the effects of the recent stock market behavior on business and consumer spending plans. In any event, however, the behavior of the market was casting a rather large shadow of uncertainty over a business situation that of itself had been displaying something less than satisfactory progress. Consequently, it seemed to him that monetary policy should not be made tighter at the moment, for that would only introduce further uncertainties.

He agreed with Mr. Ellis that changes should not be made in monetary policy in anticipation of possible fiscal moves, particularly under present circumstances. It must be recognized that uncertainties continued to exist and that there was a possibility, at least, of some significant deterioration in the business situation. He would not recommend a change in the discount rate at this time, and in his opinion the language of the policy directive adopted at the May 29 meeting continued to be appropriate. In terms of free reserves, he would prefer to think of $450 million rather than $400 million. While he would not attempt to offset upward pressures on the bill rate if the market supplied them, he doubted that such a development would occur. Neither, within reasonable limits, would he attempt to offset downward pressures.

Mr. Deming reported that the most recent economic data for the Ninth District continued to show a generally expanding economy, with gains in May and the first half of June apparently a little better than seasonal. Whether the District expansion was running slightly ahead of or slightly behind the national rate was open to question; the answer depended largely on what period of time was used for comparison. Speaking broadly, however, it seemed fair to say that the differences in rate of gain were not significant, except possibly in one respect.

Four specific points about the Ninth District were then noted by Mr. Deming. First, the agricultural crop situation could be classed as excellent for this time of year. Badly needed rainfall had turned rather poor prospects into good ones, and continued rain had now changed the good prospects to excellent. Second, iron ore shipments through May totalled almost 11 million tons, more than double the amount in the same period last year although well below the volume shipped in 1959 and 1960. Third, general retail sales had been rather weak recently, but this might reflect no more than the long newspaper strike in Minneapolis. Auto sales had been quite good.

Finally, the District banking picture continued to show more life than the national scene. City bank loan growth, in dollar amount and percentagewise, was at a record level in May. At country banks the May loan expansion in dollars was exceeded

only in 1959, and percentagewise only in two previous years. Available figures for June were inconclusive beyond indicating that loan growth had continued. Deposits also showed continued strength in both classes of banks, influenced mainly by time deposit growth. As a result, despite the fairly sharp increase in loans, loan-deposit ratios at both city and country banks were lower than a year ago, and at city banks were 7 to 8 points below their postwar highs of two years ago.

With respect to monetary policy, Mr. Deming said he found himself in a quandary, a position that was growing increasingly uncomfortable because of the length of time it had prevailed. The quandary resulted not merely from the oft-cited conflict between domestic and international monetary objectives but also from the current course of the domestic economy when viewed against the background of previous years.

Turning to some statistics that he thought impressive, Mr. Deming noted that in the past 52 years the year-to-year change in real GNP had been positive 34 times and negative 18 times. In 10 of the 52 years, the changes were less than 1 per cent, plus or minus; in 11 years there were losses of more than 1 per cent; in 9 years there were gains of 1 to 5 per cent; and in 22 years there were gains of more than 5 per cent. The large gains came either in war years or in years following sharp drops in total output.

Continuing, Mr. Deming pointed out that the increase in dollar GNP from the first quarter of 1958 through the second quarter of 1959 was more than 12 per cent. From the first quarter of 1961 to the second quarter of 1962, the gain was about 11 per cent. From the fourth quarter of 1961 to the second quarter of 1962, the rise was about 5 per cent annual rate. Even though the second quarter change was disappointing, the quarter was better than the first quarter, and appreciably better in terms of final takings. As a matter of fact, the current expansion rate compared favorably with the record of 34 of the past 52 years, and specifically with every year since 1951 save 1955 and 1959.

Mr. Deming went on to say that he had concluded, after looking at some long-term series on bank credit and liquidity in an attempt to obtain perspective on current positions, that the general liquidity position was reasonably good and that bank liquidity was significantly improved from the postwar lows of 1959 and 1960. As to the money supply, its recent performance seemed to be inordinately affected by the course of Government deposits.

Factors such as he had cited, Mr. Deming said, made him feel that the need to continue to pursue so easy a monetary policy as had prevailed for some time was unnecessary and conceivably might be unwise. On the other hand, he had difficulty in finding positive

reasons, on the domestic side, for moving toward less ease. In fact, recent developments added to this difficulty. Balance of payments reasons might argue for some movement toward less ease, but at the moment they did not seem to him to be very persuasive. He might be more persuaded if fiscal actions were leading to more expansionary strength, which might be the situation for the future, especially if there should be a tax cut.

Accordingly, Mr. Deming said, his policy prescription was one of essentially no change, but with any deviations on the side of less ease. To put it another way, he would suggest a very gradual shift, perhaps no more than a probe, toward a less easy position. Specifically, he would let free reserves float below $400 million, about as they had done during the past week. He would hope that the bill rate would move up to 2-3/4 per cent or higher and would try to keep the Federal funds rate in that area or higher. While he would not change the discount rate, he would change the policy directive slightly to reflect the slight shift in posture that he had suggested. The language adopted at the May 29 meeting applied more to the sharp break in the stock market than to the present somewhat less unsettled, although not particularly favorable, conditions in the market. As a suggestion for the directive, Mr. Deming submitted the following:

> In view of the modest nature of recent advances in the pace of economic activity, the continued underutilization of resources, and the uncertainties reflected in some financial markets, it is the current policy of the Federal Open Market Committee to permit further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments and the level of bank liquidity.
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> 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, but slightly smaller seasonally adjusted, for further credit and monetary expansion, taking account of the desirability of avoiding sustained downward pressures on short-term interest rates.

Mr. Scanlon reported that measures of economic activity relating to employment, production, and retail sales continued to be mildly favorable in the Seventh District. Nevertheless, there appeared to have been a deterioration of business confidence that must be given consideration in assessing economic prospects and formulating monetary policy. Discussions with businessmen, bankers, and economists indicated a widespread tendency to downgrade earlier optimistic expectations. It had become fairly common to "move up" the expected date of the next downturn to the fourth quarter of the current year. As yet, there was no specific evidence that capital spending projects had been affected adversely. However, local surveys indicated that many business firms planned to reduce inventories or at least hold down further accumulations. This was suggested

also by the continued sluggishness in steel orders. Local surveys also indicated that hiring intentions had been scaled down from earlier plans.

Employment in the District apparently continued to move up moderately in areas not directly affected by the steel cutbacks, and new claims for unemployment compensation continued to run substantially below the levels of either a year or two years ago.

Steel production was still declining, although slowly. Industry estimates indicated that the current rate of steel consumption by fabricators would support an annual rate of ingot production of at least 100 million tons, as compared with the current production rate of 82 million tons. Nevertheless, orders continued to be disappointing, suggesting either that the pre-accord inventory build-up was greater than had been thought or that many customers were prepared to reduce stocks to very low levels.

The pace of auto deliveries in the first 10 days of June, although 20 per cent above the same period of last year, was about the same as in 1959 and 1960. This was disappointing to the industry. Production would decline somewhat in June, and substantial declines would occur, of course, in July and August. Auto makers seemed intent upon reaching the model changeover period with smaller inventories than last year.

Contacts with large Midwest producers of capital goods indicated that new orders exceeded last year by about 10 per cent for the first five months. Gains approximating this proportion were noted by firms in the industrial equipment, electrical generating equipment, and farm and construction machinery industries. Construction machinery orders were very strong in April and May after a slow start early in the year.

Reserve positions of large city banks had continued to be relatively easy and borrowings at the discount window had remained negligible. Demand for business loans at Seventh District banks had continued somewhat stronger than in the rest of the nation. Some loan officers indicated that they detected a weakening in the demand for loans during the past two weeks; however, this might be largely seasonal.

As to policy, Mr. Scanlon said that he had great sympathy for Mr. Hayes' analysis. However, in view of the increasing uncertainty and continued dissatisfaction with the tempo of business activity, he did not believe he would take any steps that would tend substantially to reduce the availability of credit at this time. Slightly, yes, but not substantially. He would not favor a change of discount rate, and he felt that the policy directive could appropriately be continued without change.

Mr. Clay commented that recent domestic economic developments underscored earlier doubts concerning the vigor of the expansion that was under way. The various indicators presented a mixed picture, with only a moderate increase in aggregate activity. Moreover, a search for sources of stimulus to expansion in the months ahead sufficient to make important inroads on available manpower and other resources did not produce encouraging results.

One of the most disquieting pieces of domestic economic information of recent days was the Commerce-SEC report on business capital outlays. In addition to once again reporting a shortfall for the last completed quarter compared with the earlier projection, the full-year projection showed no expansion over the previous survey. The probability of business capital spending exceeding the survey projection for the year was very small under present conditions of demand for goods and unused productive capacity. At this stage of a business upswing, the economy was particularly dependent upon business capital outlays as a source of expanding activity. The modest scale of the outlays projected thus raised disturbing questions as to its impact on both the extent of the current upswing and its duration.

If monetary policy were shaped entirely in terms of domestic considerations, and apart from the international balance of payments

problem, Mr. Clay felt that it would be desirable to shift to a policy of more aggressive ease. All factors considered, however, he thought it appropriate to pursue essentially the same monetary policy in the period ahead that had been agreed upon at the meeting three weeks ago. This would include the Committee's goal with respect to the Treasury bill rate. No change was recommended in the discount rate, and in his opinion the directive was suitable in its present form.

Mr. Wayne reported that Fifth District business had continued to make gradual progress. Manufacturers still reported increases in employment, workweeks, and shipments. Textile demand was slightly stronger, business was a little better for lumber producers, and furniture makers continued to prosper. Construction remained a source of strength, as evidenced by April increases in employment and contract awards. Retailers continued to report good business, and much-needed rains had greatly improved the agricultural outlook. Loan demand at District banks had been showing some improvement.

Nevertheless, Mr. Wayne continued, a spreading sense of uncertainty was apparent among District businessmen, and some statistical evidence was unfavorable. Manufacturers reported a recent leveling out of new orders. Coal production and domestic shipments had been trending generally downward, although mine operators remained optimistic

about the long run. Residential and nonresidential contract awards declined in April. Cigarette production during the first third of this year showed very little increase over 1961--nowhere near the 4 per cent per year growth rate typical of recent years. Despite the improved outlook, it was unlikely that this year's crops would equal last year's bumper harvests. Whether these areas would prove to be major trouble spots was uncertain. Up until now, however, the trend of over-all District activity had been clearly upward.

With respect to policy, Mr. Wayne noted the possibility that the time might be approaching when monetary policy and fiscal policy would appear to be moving in different directions. It seemed reasonable to believe that fiscal measures designed to spur the economy might be taken in the not too distant future. Under such circumstances, considering the international situation, it would seem that the proper mix would involve a firmer monetary policy, not in an effort to thwart any bolstering fiscal policy but to provide necessary defense for the dollar internationally. The Federal Reserve System should be prepared to accept the responsibility involved in arriving at such a mix of monetary and fiscal policy.

Mr. Wayne went on to say that he found himself in agreement with the analysis of Mr. Hayes as to the proper posture of System policy at this time. As he understood it, this did not imply any

overt reduction in the availability of money but rather a slight trending toward somewhat firmer monetary conditions. It would imply letting free reserves drift below $400 million, and if there should be a slight firming of short-term rates, that would be all to the good. He was inclined to favor changing the directive along the lines suggested by Mr. Deming.

Mr. Mills commented that the state of the economy and the turbulence in international financial markets caused him to repeat his earlier pleas to the Committee to abandon the apathetic approach that had characterized the development of Federal Reserve System policy for a long time and to turn attention to the international situation, which had an increasingly direct influence on the domestic economy. At present, a combination of circumstances offered a new opportunity for a policy change. First, professional observers were now anticipating and urging a change in policy. Second, natural factors had automatically reduced the level of free reserves, thereby facilitating an inconspicuous policy change. Third, the Treasury would be absent from the market for new money for a reasonable period of time. The stage therefore had been set for a policy change which, if not undertaken, could unsettle confidence in the leadership and judgment that was expected of Federal Reserve System policy-making. To effect the change, the level of free reserves could be kept around the $350 million range into which they had drifted recently.

In order to reflect a policy such as he advocated, and in order to focus attention on the availability of credit as a prime responsibility of Federal Reserve System policy-making, Mr. Mills suggested that the current policy directive might be changed to read as follows:

> In view of the modest nature of recent advances in the pace of economic activity, the continued underutilization of resources, and the uncertainties created by the disturbed conditions in international financial markets, the current policy of the Federal Open Market Committee is to insure a degree of credit availability which will be sufficient to meet prospective needs for bank credit but will take greater account of the country's adverse balance of payments.
>
> 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 to permit the satisfaction of demands for bank credit within the bounds of a supply of reserves geared to the size of such demands.

Mr. Robertson said he would weigh more heavily the domestic than the international situation. It seemed to him, therefore, that this was precisely the wrong time to be trying to tighten as far as monetary policy was concerned. Conditions were uncertain at the moment, and that uncertainty should restrain the System from trying to move in either direction. Accordingly, it would be wise at this juncture to maintain the policy that the Committee had been trying to follow for some time in order to do whatever was possible to aid the domestic economy, which was characterized by underutilization of resources and excessive unemployment. This would suggest a free

reserve target between $400 and $450 million. He would not want at this time to anticipate fiscal policy moves that certainly were not coming into effect tomorrow or the next day. He would not attempt to offset, to any noticeable degree, either upward or downward pressures on short-term rates. As to the directive, it appeared to him that some of the changes made were more in the nature of word changes than otherwise. While he did not object to such changes, he could see no purpose in making them.

Mr. Shepardson expressed agreement with the views stated by Messrs. Hayes, Deming, and Mills, which were in accord with those he had stated at recent Committee meetings. Changes in the policy directive along the lines suggested by Mr. Deming or by Mr. Mills would be satisfactory to him. In his judgment, it was time for the Committee to make the policy changes indicated by the suggested language.

Mr. King commented that it was entirely possible that changes such as Mr. Hayes and others had suggested would be necessary at some time. However, he did not believe that this was quite the time. In his judgment, recent stock market developments would have significant reverberations that would continue indefinitely, and he would not like to see the Federal Reserve System assume the blame for everything that might go wrong in the economy. A move toward lesser ease at this point would run that risk. Therefore, his policy prescription today would be to "stay exactly where we are."

Mr. Fulton reported that in the Fourth District, with steel sales losing ground in May, new car sales and unemployment data provided the only discernible favorable factors in the economic picture. New car sales increased further in May throughout the District and seemed to be sustained in the early part of June. Department store sales were estimated to have eased off slightly in May; for the year to date they were 4 per cent above a year ago, compared with a 6 per cent rise for the nation. The unemployment situation, while not good in the steel areas, had improved somewhat in the other parts of the District.

Steel production had dropped off faster in the Fourth District than elsewhere in the nation, particularly during the past five weeks. The latest week showed a slight increase, but it was questioned whether the increase was sustainable. One steel executive had expressed the view personally that the rate of production in the first quarter of this year would not be matched again until 1964.

In April, construction in the District fell below the previous year for the first time in 1962. For the year to date the percentage increase in total District construction had been less than a quarter of the increase nationally. Inquiries did not seem to turn up changes in business plans for spending, however, although there was some indication of uncertainty as to longer-run plans.

Turning to policy, Mr. Fulton said he would like to align himself with the views expressed by Mr. Hayes and to repeat the conclusions he (Mr. Fulton) had stated at the May 29 Committee meeting. He felt that the Committee had baited the trap well with reserves and had not found takers. The liquidity of the banking system may have been overdone, and the situation could become unmanageable. The level of free reserves for the past week seemed to him appropriate; he would prefer that free reserves run between $300 and $400 million rather than between $400 and $500 million. However, emphasis should be placed on the feel of the market, with the Manager given adequate latitude to endeavor to maintain the short-term rate at 2-3/4 per cent or better. In his opinion, such a policy would not deter any real advance in the economy, and it would place the System in a better position to move in either direction according to what might develop. He would not recommend changing the discount rate at this time. As to the policy directive, some words could perhaps be changed. However, he would have no particular feeling in that regard.

Mr. Bopp said information available for the Third District indicated that the labor force picture had brightened gradually, production had increased slowly, construction awards had shown consistent strength, and automobile and department store sales had been very good. With few exceptions, however, the data were a month old, so it remained to be seen whether business in the District had been experiencing any hesitation or drop in confidence recently.

The District banking picture suggested some increased pressure from both the demand and supply side. Loans had been rising, while investments had declined somewhat. Deposits recently had dropped by a significant amount. Measures of liquidity and borrowing (in the Federal funds market rather than from the Reserve Bank) also reflected less ease.

As for policy, Mr. Bopp observed that the basic conflict remained between a desire to stimulate the domestic economy and a need to strengthen the balance of payments. In his view, the Committee's policy to date had succeeded, probably as much as could be expected under the circumstances, in resolving this conflict. He would favor continuing this policy. However, in recommending no change in policy, as he had for some months, his reasons had changed somewhat. The need for domestic stimulus was more pressing than before; the repercussions of moving toward less ease would be more serious than before. The necessity for putting brakes on the economy in the foreseeable future seemed less and less likely, so there was little need to let up on the accelerator on this score. It was true that fiscal policy should give increasing stimulus to the economy in coming months, but it would be a mistake to use that as justification for less ease at this time. For the next three weeks, therefore, he would continue approximately the same degree of ease (disregarding the drop in free reserves last week) and approximately

the same range of rates as in the past. He would continue the present directive and existing discount rates.

Mr. Bryan indicated that the Sixth District continued to be characterized by a gradual increase in economic activity. He could think of little that had been said with regard to other Districts that could not also be said in regard to the Sixth District.

Mr. Bryan went on to say that he would align himself with those who had advocated no essential change in policy. He added that at the most recent directors' meeting of the Atlanta Bank a good deal of time was spent in discussing the effect of recent stock market developments. While the total effect could not be estimated, there was unanimous agreement that the market decline had impaired the outlook for economic expansion. With regard to a subject discussed by Mr. Shepardson at the May 29 meeting, Mr. Bryan said he was appalled by reports from the staff of the Atlanta Bank with regard to the trend of farm land prices in the Sixth District. It appeared that at some point there might not only be shock waves in the equity market but in the real estate market as well, and he would not want to magnify them by a restrictive monetary policy. While he could sympathize with the view that there was a dangerous balance of payments situation, he did not feel that this could be remedied by monetary policy. This was because, in his judgment, the balance of payments difficulty had not been caused by monetary policy. Accordingly, he came out in his thinking at about the same point as Mr. King.

Mr. Francis reported that business activity in the Eighth District had shown moderate improvement since April. Unemployment in the major labor market areas appeared to have declined from April to May, and department store sales rose more than seasonally. According to preliminary data, they were continuing at a high level in early June. Bank debits also rose somewhat in May. However, industrial use of electric power in the major cities of the District declined from April to May on a seasonally adjusted basis. Crop prospects were good throughout the District. Total deposits at District banks showed no particular change in May or early June, the upward trend in time deposits having been off-set by a decline in demand deposits. Loans increased but investments declined, so the total volume of bank credit was little changed. Business loans increased rather sharply in Little Rock, rose moderately in St. Louis, showed approximately no change in Memphis, and showed a greater than seasonal decline in Louisville.

Mr. Balderston said he felt there were possibilities of serious crises. As to the best System posture for meeting them, however, he was not sure. As Mr. Bryan had suggested, a severe decline in land prices would have repercussions on the economy of grave consequence, so attention could not be confined to stock market prices. The Canadian situation was also of concern, from the standpoint

of trade and of finance. Even the Swiss situation did not seem to be free from concern in view of its adverse trade situation. On balance, Mr. Balderston favored continuance of about the present System policy for the period just ahead, using $400 million as a free reserve target. The actual level has been about $450 million for the three weeks ending June 13. He would be inclined to leave the policy directive unchanged.

Chairman Martin said that this had been an interesting meeting, with a full expression of views around the table. He wanted to make his own position clear. After careful consideration over a period of time, he felt personally that the time had come when those in the System ought to stand up and be counted. As he had remarked many times, the importance of monetary policy should not be exaggerated. However, he felt that what was required at the present time was to be "steady in the boat," which did not mean the continuation of a policy that was being construed in some quarters as ease compounded by ease. Accordingly, he wished to align himself with the point of view expressed by Messrs. Hayes, Deming, and Mills.

Chairman Martin went on to explain that while he wanted an easy money policy continued, he also favored somewhat less ease than had prevailed, and he would be willing to take whatever risks were

involved. In his judgment, the Committee would have made a mistake had it moved two months ago. It could have been blamed for the stock market collapse. Now, however, with an international situation that had not yet reached the crisis stage but which, in the present temper of things, could reach that stage quickly, he felt that the System would be in a stronger position if it supplied a reduced level of reserves and permitted interest rates to firm in the absence of a decline in loan demand. Loan demand had been disappointing throughout, but the System had supplied reserves intensively for a long time.

It was easy to get twisted up in the money supply figures, the Chairman noted. As nearly as he could observe, however, there was no question today but that mortgage rates were beginning to decline. There had been no lack of availability of funds in any area of the country for a long period. In fact, a decision by the Federal Reserve to follow a somewhat less active easy money policy might give impetus and strength to the economy rather than the reverse. This was, of course, a matter of judgment.

Chairman Martin brought out that he would consider it most unfortunate for the Federal Reserve to make any dramatic or overt change of policy at this time. He was thinking in terms of a very delicate operation--an operation designed to make clear that the Federal Reserve had a policy, that it did not intend just to drift along and continue to compound ease with ease.

Chairman Martin repeated that it was important for the Federal Reserve actually to have a policy, and he questioned whether "ease compounded with ease" was really a policy. There would continue to be easy money with a slightly lower level of free reserves than at present. The only way he could make a distinction was to say that the situation would be less easy. The time had come, in his judgment, when the Committee ought to make that clear.

As to the current policy directive, Chairman Martin said he would be prepared to accept either the language suggested by Mr. Deming or the language suggested by Mr. Mills. First, however, he would propose that a vote be taken on the question of a shift of policy toward slightly less ease; that is, the maintenance of an easy money policy but a move toward slightly less ease.

Accordingly, a vote was taken on the general policy position expressed by Chairman Martin. The vote indicated that those Committee members who would favor such a position included, along with the Chairman, Messrs. Hayes, Balderston, Deming, Ellis, Fulton, Mills, and Shepardson. Those recording their dissent were Messrs. King and Robertson. Mr. Bryan voted "present."

In an exchange of comments that ensued, Chairman Martin noted that he had refrained intentionally from presenting the statement of

general policy position in terms of any particular free reserve figure. Mr. Shepardson inquired, however, whether it might not be anticipated that such a position was likely to be associated with a free reserve figure under $400 million, rather than above, and the Chairman responded affirmatively. Mr. Hayes indicated that he would be inclined to think primarily in terms of a somewhat firmer feel in the market.

Consideration then was given to the current economic policy directive, and the formulations that had been suggested earlier by Messrs. Deming and Mills were read again to the Committee. Mr. Hayes presented at this point a third alternative formulation.

In discussion, Mr. Deming indicated that he would accept the wording suggested by Mr. Mills or that of Mr. Hayes, while Mr. Mills said that his position on the directive likewise was flexible and that he would be willing to withdraw his suggestion and accept that of Mr. Hayes. Mr. Hayes expressed a preference for wording in the second paragraph of the directive outlining how policy would be implemented that would place emphasis on a somewhat firmer market tone.

Chairman Martin then turned to Mr. Stone, who said a directive such as suggested by Mr. Hayes would mean to him, in terms of implementation, that Federal funds probably should trade generally around 2-3/4

to 3 per cent, moving only temporarily down to 2-1/2 per cent or below. Any temporary liquidity bulge that might develop would be absorbed before it threatened to encourage capital outflows. On the other hand, reserve needs that were generated from business expansion within the economy would be readily accommodated.

After further discussion, there was placed before the Committee for action the current policy directive that had been proposed by Mr. Hayes.

> Accordingly, upon motion duly made and seconded, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to effect transactions for the System Open Market Account in accordance with the following current economic policy directive:

It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the same time to avoid redundant bank reserves that would encourage capital outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance of economic activity, the availability of resources to permit further advance in activity, and the unsettlement of financial markets resulting from the sharp decline in stock prices. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next three weeks shall, to the extent consistent with the behavior of financial markets, be conducted with a view to providing a somewhat smaller rate of reserve expansion in the banking system than in recent months and to fostering a moderately firm tone in money markets.

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

Mr. Bryan stated that his vote on the current policy directive was premised on the adoption by a majority of the Committee of the general policy position on which a vote had previously been taken.

Chairman Martin commented that the shift in policy that had been agreed upon by the Committee was of a very modest nature. It was important that those present at this meeting bear in mind the need for care in discussions outside this room: it would be most unfortunate if the modest shift should be magnified into some major change of policy by financial writers, with resultant repercussions in the market.

The discussion then turned to System foreign currency operations and related matters.

There had been distributed to the Committee, in this connection, a report 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 period May 29 through June 13, 1962, along with a supplementary report for the period June 14 through June 18, 1962. Copies of these reports have been placed in the files of the Federal Open Market Committee.

In comments supplementing the written reports, Mr. Coombs noted that on May 31, 1962, the System had entered into a three-month $50 million sterling-dollar swap with the Bank of England on terms approved by the Open Market Committee at the May 29 meeting. He added that thus far there had been no occasion to use the sterling proceeds. If and when new flows of funds to London should begin, consideration would be given--in consultation with the Bank of England--to the possibility of intervention. However, there was the question as to how fully the System should commit its limited sterling resources at an early stage in view of the possible subsequent demands upon them. It would be his present inclination not to move too rapidly.

Mr. Coombs next mentioned that on Thursday, June 14, the System had entered into a three-month renewable swap agreement with the Netherlands Bank under which it bought $10 million equivalent of Netherlands guilders, with a further $40 million equivalent available on a standby basis if needed. (The final terms of swap arrangement, which had been endorsed in principle by the Open Market Committee at its May 29 meeting, were approved on June 12, 1962, upon poll of the Committee.) Mr. Coombs observed, in this connection, that shortly before the swap arrangement was executed dollar holdings of the Netherlands Bank had risen beyond the traditional ceiling of

$200 million; if the swap had not been under negotiation, the Dutch would have ordered gold. Since the consummation of the swap, there had been an easy money market situation in Amsterdam, and the selling of rights to the Philips Lamp issue enabled the Dutch to get rid of some surplus dollars, with the result that dollar holdings had declined. The head of the Foreign Department of the Netherlands Bank was expected to arrive in New York today, and there would be discussions with him focusing particularly on the problem that would be presented by payment on the Philips issue, which could result in an inflow of $50 to $100 million into the Netherlands. The discussions would include whether the situation could be handled most appropriately by spot or forward operations. The Federal Reserve probably could afford to be somewhat more liberal in its use of guilders than in the case of sterling, the amount of guilder holdings being more substantial in relation to possible swings in the account of the Netherlands Bank.

Mr. Coombs also mentioned that pursuant to Committee approval at the May 29 meeting, the System on June 1, 1962, renewed for a further three months the $50 million franc-dollar swap with the Bank of France, on the same terms and conditions as the original swap. The Account Management had refrained from using the System's French francs pending the development of a somewhat more balanced market situation. During May, and thus far in June, flows into France had been so heavy that nothing useful could have been accomplished by utilizing the French francs.

Mr. Coombs then noted that the System had completed negotiations with the National Bank of Belgium for a six-month $50 million Belgian franc-dollar swap. It was expected that this would be put on the books tomorrow. (This swap arrangement was approved in principle by the Committee at the May 29 meeting and was finally approved on June 18, 1962, upon poll of the Committee.) Since the May 29 meeting, the Belgians had purchased $17 million of gold, probably reflecting a corresponding inflow of dollars during that period. If further inflows should occur, he expected inquiries from the National Bank of Belgium as to whether the System wanted to mop up the inflow or would prefer that the Belgians take gold. Such a problem would have to be met on an ad hoc basis. Here again, however, the Federal Reserve holdings of Belgian francs were reasonably sizable in relation to the probable size of swings in the account of the National Bank of Belgium.

Mr. Coombs reported that he had continued to discuss with the Swiss National Bank by cable and telephone the possibility of a Swiss franc-dollar swap arrangement. As mentioned at the May 29 Committee meeting, he had previously talked with the Swiss in terms of a standby swap of $150 million, with an immediate drawing of $50 million. Since the beginning of this month, and largely in reflection

of the stock market situation, the Swiss National Bank had taken in another $75 million. Of this amount, it had been possible to fit a part under the Swiss ceiling of roughly $175 million, and the U. S. Stabilization Fund had mopped up some of the inflow. However, there remained in the hands of the Swiss National Bank holdings of dollars over and above their ceiling, which situation was putting pressure on the National Bank. The Bank's management would like to move on the swap proposal but apparently was encountering certain legal difficulties. Here again, particularly in view of the willingness and desire of the National Bank to be as helpful as possible, Mr. Coombs would be inclined to make rather liberal use of the proceeds of any swap that might be negotiated.

Mr. Coombs turned next to the continued heavy selling pressure on the Canadian dollar. The Bank of Canada had lost $560 million in reserves from January to May, and a heavy speculative onslaught had cost the Bank $245 million thus far this month. It had been financing the deficit by running down dollar balances and also by selling gold; the gold loss in the past month amounted to $140 million.

Mr. Coombs reported that he had talked with the Governor of the Bank of Canada by telephone on three or four occasions about the possibility of a swap arrangement. The Governor had appeared

hopeful that a move could be made on some such arrangement once the Canadian elections were over; he continued to feel that a swap of roughly $250 million would be required to have a real impact on confidence. It also appeared that the Canadians might seek recourse to a drawing on the International Monetary Fund. Unfortunately, Mr. Coombs pointed out, the results of the recent Canadian elections were not clean cut, leading to the likelihood of a coalition government. It would remain to be seen whether an effective financial program could be developed.

After further comments on the Canadian situation, Mr. Coombs said he had found it difficult to decide what recommendation to make to the Committee. On balance, however, he would recommend that the Federal Reserve wait a little and see what developed, that is, whether the Canadians decided to go to the Monetary Fund and what sort of financial program they could put together, before initiating any new approach to the Bank of Canada regarding a swap. If the Bank of Canada should raise a question as to the possibility of a standby swap arrangement, it might be appropriate to inquire what the Canadians were going to do with regard to the possibility of borrowing from the Monetary Fund. The Committee might want to consider a swap arrangement only if it were part of a larger package.

No disagreement was expressed with Mr. Coombs' recommendation.

Mr. Coombs next reported that there had been a fair amount of selling pressure on the dollar in the Frankfurt market today. There seemed to be a speculative flow of funds into Germany, and the dollar-mark rate had been driven up to $.2507 in Frankfurt this morning. The German Federal Bank had intervened this morning to the extent of $25 million, and the rate had moved to somewhat below $.2506. There had been a suggestion from the German Federal Bank by telephone that the Federal Reserve might intervene this afternoon to keep the rate from going above $.250625. Mr. Coombs thought that intervention on the basis indicated would be suitable. Therefore, unless there was some objection on the part of the Committee, he would propose to proceed in that manner.

No objection on the part of the Open Market Committee was indicated.

Mr. Coombs then commented briefly on developments in the London gold market and responded to certain questions in that regard.

> Thereupon, upon motion duly made and seconded, the System transactions in foreign currencies during the period May 29 through June 18, 1962, were approved, ratified, and confirmed.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, July 10, 1962.

The meeting then adjourned.

Assistant Secretary.