A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, November 13, 1962, at 9:30 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. Mitchell
Mr. Robertson

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

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

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Noyes, Economist
Messrs. Brandt, Brill, Furth, Garvy, Hickman, Holland, and Koch, 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. Williams, Adviser, Division of Research and Statistics, Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Spencer, General Assistant, Office of the Secretary, Board of Governors

Messrs. Eastburn, Ratchford, Baughman, Jones, Tow, and Green, Vice Presidents of the Federal Reserve Banks of Philadelphia, Richmond, Chicago, St. Louis, Kansas City, and Dallas, respectively
Messrs. Litterer and Lynn, Assistant Vice Presidents of the Federal Reserve Banks of Minneapolis and San Francisco, respectively
Mr. Eisenmenger, Acting Director of Research, Federal Reserve Bank of Boston
Mr. Cooper, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 23, 1962, were approved.

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 October 23 through November 9, 1962. A copy of this report has been placed in the files of the Committee.

At the request of the Chairman, Mr. Stone commented in supplementation of the written report substantially as follows:

The period since the last meeting has been highlighted by developments in Treasury financing. On October 25, two days after the last meeting, and in the midst of the period of maximum tension following the President's speech on Cuba, the Treasury chose and announced the terms of its refunding operation. By the time the subscription books opened on October 29, tensions had eased perceptibly, bond prices had risen, and the rates that the Treasury had placed on its new issues, particularly the 3-1/2 per cent, 3-year note and the 4 per cent, 9-1/4 year bond, looked very attractive indeed to the market. The results of the refunding were highly successful from the point of view of debt extension, but perhaps too successful from the standpoint of the short-rate problem, for the public exchange into the 3-1/8 per cent certificate amounted only to a little over $1 billion. There has been some market comment that the Treasury might usefully reopen the issue for some of its remaining cash financing this year; and in this connection I should say that we plan to sell some of our holdings when opportunity arises, particularly in January.

Meanwhile, the bill rate had moved down to below 2.70 in the auction of October 29, and although it edged a basis point or two higher over the next two or three days, the rise was far short of offsetting a rise in British bill rates and a narrowing of the discount on forward sterling. In consequence, the covered spread between U.S. and U.K. bills widened to 5/8 to 3/4 of a percentage point, and money started to move toward London.

This situation led the Treasury to offer a strip of $1 billion bills for auction on November 7, thus adding a third auction to the two already scheduled for last week. (The auction that would have been held yesterday was held last Friday because of the Monday holiday in a number of districts.) Bill rates moved sharply higher the day following the Treasury announcement, and many in the market regarded the three forthcoming auctions as a major burden which they viewed with a good deal of apprehension. On Monday, however, the higher rate levels that had emerged brought out a good deal of investor buying, and a consensus began to develop that the rise in rates had gone as far as it was going to go, and indeed might even have been overdone. In this atmosphere, the three auctions that had been viewed on Friday as major burdens were viewed on Monday as major opportunities to acquire bills while rates were high and prices low. In consequence, bidding was rather spirited in each of the three auctions, and the average issuing rate for three-month bills in the regular weekly auctions held on Monday and Friday were 2.84 per cent and 2.80 per cent, respectively, while the average rate in Wednesday's auction of the bill strip was 2.87 per cent.

It is interesting to note that the rate on the six-month bill has narrowed to only 4 or 5 basis points over the three-month issue, and indeed the one-year bill is only about 10 basis points above the three-month bill. These comparisons emphasize the point, which is worth repeating once more, that the demand for short-term securities, particularly by the corporate sector, continues strong. This strong demand presses on a supply of short-term securities that has been substantially reduced by the refunding. This fundamental fact was temporarily masked by the Treasury's announcement of its bill strip, but it began to be reasserted very quickly last week and accounted in large measure for the ease with which the market handled those three auctions.

I should say a word about the bond market. Prices of Treasury bonds moved higher nearly every day of the period just past, and by last week yields had nearly reached the 1962 low recorded last May. In the corporate market, yields have reached the May lows. We now have in syndicate a relatively small ($14 million) Aa-rated utility issue, which was reoffered at a yield of 4.22 per cent. Investors have shown resistance to this yield thus far, and it remains to be seen how the contest between them and the underwriters comes out. In the municipal sector, yields are at the lowest levels since 1958. New borrowing in that sector remains light, although a good volume of capital projects was authorized in the election and before too long we may begin to see some borrowing on the basis of those authorizations.

Mr. Mills referred to transactions undertaken to acquire securities from foreign accounts since the October 23 meeting, and also to repurchase agreements entered into in that period. He judged that the acquisition of bills from foreign accounts was undertaken to keep those bills out of the market, but he inquired whether the transactions for the System Account might create a statistical illusion, at least when the report of reserves became available at the end of the week. In other words, the weekly report would indicate higher holdings of securities and injection of reserves into the market than actually had taken place, since there was no reason to believe that the proceeds of the bills purchased from foreign accounts necessarily would move immediately into reserves.

Mr. Stone noted that if the securities that had been acquired by the System from foreign holders had instead been sold into the market, the initial effect would have been to withdraw reserves from the market. The Federal Reserve had purchased these bills because it needed to supply reserves to the market; the purchases from foreign account represented a means indirectly of supplying the needed reserves while at the same time minimizing the downward impact on the short-term rate that might otherwise have occurred from System purchases in the market. As to repurchase agreements, the funds provided by this means were placed in the market until reserves became available from other sources. Moreover, while the dealers themselves were aware that these provided the market with only temporary funds, Mr. Stone felt sure that once the funds moved beyond the dealers into the market they were not identified beyond being available as reserves.

Mr. Hayes stated that, with respect to the acquisition of bills from foreign accounts, such accounts do not normally keep a large cash working balance. Therefore, it seemed to him that the acquisition by the System of securities from those holders resulted in as permanent an addition of reserves to the market as would result from System purchases of securities from other holders.

In response to questions from Mr. Mitchell, Mr. Stone stated that while time deposits of official foreign institutions had increased, none of the bill sales that the Desk had undertaken for foreign accounts had been for the purpose of raising funds to put into time deposits.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities during the period October 23 through November 9, 1962, were approved, ratified, and confirmed.

There was distributed to the Committee a report from the Special Manager of the System Open Market Account on foreign exchange market conditions and on Open Market Account and Treasury operations in foreign currencies for the period October 23 through November 7, 1962, together with a supplementary report for the period November 8 and 9, 1962. Copies of these reports have been placed in the files of the Committee.

Chairman Martin turned to Mr. Coombs, who presented a review of foreign exchange market developments substantially as follows:

> The gold stock will probably remain unchanged this week for the second week in a row. We should be able to stave off further losses for several weeks to come and possibly through the yearend. We now have $50 million in the Stabilization Fund, with $40 million more available from the Swiss and possible sizeable receipts from the London gold pool.
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> On the London gold market, the price has fallen off to roughly $35.09 as compared with a peak of $35.19-1/2 reached during the Cuban crisis. So far there has been no sign of private dishoarding in any volume, but an apparent shortage of foreign exchange is forcing the Russians to sell sizeable amounts of gold. Partly owing to such Russian sales, the October gold loss by the Pool was limited to no more than $35 million and since the beginning of November the Pool has actually taken in $50 million on balance. A Bank of England man who has recently visited Moscow reports that the Russians now seem to be persuaded that the Gold Pool is capable of holding the price and that they may continue to sell in some volume for another month or so. Most of the central bankers represented in the meeting of the Bank for International Settlements last weekend expressed considerable gratification over the way the Gold Pool has operated, more particularly in restraining the potentially dangerous pressures which developed during the Cuban crisis.
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> As for exchanges, most of the European central banks also seemed to feel that coordinated operations by the central banks exerted a strongly stabilizing effect during the Cuban crisis. They expressed a great deal of worry, however, about reports that the U. S. balance of payments had deteriorated during the third quarter. As Mr. Furth will probably report, the deficit has increased to a truly alarming degree during October. As reflected in the exchange markets and central bank reserve positions, much of the outflow seems to have gone to France which continues to run a surplus in excess of $1 billion annually and, more particularly, to Canada which has been pulling in very sizeable amounts of both short- and long-term funds. Sterling, which should have moved into a seasonal deficit during the autumn months, has also been firm while our hope that the Swiss franc would weaken, after the heavy speculative inflows of recent months, has been disappointed.
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> The sensitivity of money flows to short-term rate differentials has been well illustrated during the past week or so by a flow of covered arbitrage funds from New York to London as the differential in favor of London increased to 3/4 of 1 per cent. As you know, the differential was quickly pulled down to almost 1/2 per cent

by the rise in our bill rate. Meanwhile, I telephoned Bank of England officials to suggest that the situation called for a three-way squeezing out of the differential, involving not only a rise in our bill rate but also an increase in the forward premium on the dollar and possibly some decline in the British bill rate which had moved up during the Cuban crisis. Last Friday, the Bank of England brought about a decline in their bill rate from 3.78 to 3.72, but their efforts to increase the forward premium on the dollar have been frustrated by a concurrent outflow of forward arbitrage money from London to the Euro-dollar market. Ninety-day rates on the Euro-dollar market have moved up strongly, partly because of the Cuban crisis and a repatriation of funds by German and Swiss banks. The main reason, however, seems to have been a revision of the Italian exchange regulations which has permitted the Italian banks to borrow Euro-dollars in heavy volume. Since November 1, such Italian borrowings of Euro-dollars have amounted to at least $140 million and in the process have been pulling funds out of London. I had numerous conversations on the telephone and again this past weekend in Basle with Italian officials who promised to do everything possible to restrain the pressures their commercial banks have been generating in the Euro-dollar market. As of the moment, the situation has moved into better balance with the Euro-dollar rate declining towards the end of last week, while the New York-London differential has also become reduced to about 1/2 per cent.

In thinking about the possible future development of our exchange operations, I have been troubled by the problem of effectively converting our holdings of one foreign currency into another. Assuming that we wished to switch from marks into Swiss francs in order to absorb an excessive flow of dollars to Switzerland, there would, of course, be no technical obstacle to our converting marks into Swiss francs through the market or through direct transactions with the central banks involved. But the net result of switching, say, $25 million of marks into Swiss francs, either through the market or through direct central bank arrangements, would simply be to place an additional 25 million dollars in the hands of the Swiss National Bank, thus frustrating the whole purpose of the operation. The most effective solution to this problem of switching from one European currency to another, of course, would be to negotiate with each of the countries concerned, arrangements whereby we might convert our foreign currency holdings into gold at their official parity, thus enabling us to use marks, for example, to buy gold which could in turn be used to buy Swiss francs without adding to the dollar holdings of the Swiss National Bank. As of the moment, however, we have been able to negotiate such gold purchase arrangements with only one country, namely, Switzerland, and this has not been particularly helpful in view of the difficulties we have encountered in acquiring Swiss francs. And even if we should be able to acquire Swiss francs in considerable volume, our willingness to do so might be limited by the virtual nonexistence of investment facilities in Switzerland. Pending some effective solution to this basic problem, I have tried to find ways and means of temporarily switching from one currency to another in order to deal with temporary situations. As you know, during the Cuban crisis the Swiss National Bank took in $50 million and suggested that we might mop up the entire amount by drawings upon our swaps with the Bank for International Settlements and the Swiss National Bank. In order to conserve our resources, I limited our drawing upon the BIS swap to no more than $20 million and dealt with the remaining $30 million by securing U. S. Treasury agreement to one month Swiss franc forward operations in an equivalent amount. These forward contracts will mature during December, when the Swiss banks will be engaging in the usual yearend window dressing and will probably be unwilling to roll over or extend such forward contracts. Against this background, I have negotiated a four-cornered deal involving the U. S. Treasury, the Bundesbank, the Bank for International Settlements and the Swiss National Bank, which will enable the U. S. Treasury to utilize $30 million of its mark holdings to acquire Swiss francs against a forward commitment to repurchase marks with Swiss francs at the same rate. The net cost of this operation to the Treasury will amount to no more than the loss of interest on its holdings of German Treasury bills. This forward operation will be executed during December and mature in February, at which time the Swiss franc should be somewhat less strong than at present.

As certain members of the Committee may know, the U. S. Treasury has been engaged in discussions with the Spanish Government during the past month or so with respect to financial assistance to that country. In view of those discussions, I think it would be useful to have research memoranda prepared evaluating the Spanish situation and the problems that might arise in connection with a possible swap arrangement.

I referred earlier to the sizeable inflow of dollars into the Bank of Italy as a result of borrowing by Italian commercial banks on the Euro-dollar market, and to the promises I had received from Italian officials that they would do everything possible to restrain such borrowing. Meanwhile, however, the Bank of Italy faces the problem of showing this sizeable increase, of at least $140 million, in its end of November statement. At Basle, Governor Carli suggested to me that the U. S. Treasury might wish to engage in further borrowing of lire, but I expressed some doubt, in view of the fact that the U. S. Treasury had only recently announced a

$150 million lire borrowing operation and a second operation following so quickly might well tend to stir up the exchange market. Since the Italian balance of payments has, for at least the time being, moved into more or less of an equilibrium position, I suggested that the influx of exchange resulting from Italian commercial bank borrowing on the Euro-dollar market might well be construed as a temporary affair which might suitably be dealt with by drawing upon a Federal Reserve or Treasury swap arrangement with the Bank of Italy. I noted, however, that the amount involved considerably exceeded our present Federal Reserve-Bank of Italy standby swap facility of $50 million and that, accordingly, we might usefully consider the desirability of increasing the Federal Reserve swap facility from $50 million to, say, $150 million. Governor Carli found no difficulty in such an enlargement of the swap facility but indicated that he would like to discuss with his associates back in Rome other possible alternatives. At this present stage of my discussions with the Bank of Italy officials, therefore, I am not in a position to recommend Committee action to increase our lire standby swap facility to $150 million, but just wanted to bring the Committee up to date on negotiations so far.

Finally, I should like to ask Committee approval of a renewal for another three months of our $50 million standby swap arrangement with the Bank of England which matures on November 30.

At the conclusion of Mr. Coombs' comments, there was a general discussion during which a number of questions arising out of his comments were reviewed.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the System open market operations in foreign currencies during the period October 23 through November 9, 1962, were approved, ratified, and confirmed.

In response to a question from the Chairman, Mr. Coombs indicated that his only specific recommendation at this time was that the Committee authorize a three-month renewal of the $50 million standby swap arrangement, dated August 30, 1962, with the Bank of England.

Without objection, renewal of the standby swap arrangement with the Bank of England, as recommended by Mr. Coombs, was authorized.

The Chairman then referred to a memorandum from Mr. Sherman, distributed under date of November 8, 1962, which noted that at the meeting of the Committee on October 2, 1962, question was raised as to whether the Guidelines for System Foreign Currency Operations (approved on February 13 and reaffirmed on March 6, 1962) were formulated in a way to provide for a transaction such as the swap with the Austrian National Bank. A staff review of the Guidelines had indicated that the point was well taken. The review also indicated that the Guidelines did not provide for swap arrangements wholly or in part on a standby basis. Certain amendments to the Guidelines therefore were suggested, the proposed changes being shown in the memorandum.

In discussion, a change in the suggested amendment of Section 2 of the Guidelines was agreed upon.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, Section 2 of the Guidelines was amended to read as follows (deletions shown by canceled type; additions by capital letters):

2. <u>Exchange Transactions</u>

System exchange transactions shall ~~mainly~~ be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of ~~volatile~~ funds and their destabilizing effectS~~ed~~ on U. S. and foreign official reserves and on exchange markets.

IN GENERAL, THESE TRANSACTIONS SHALL BE GEARED TO PRESSURES CONNECTED WITH MOVEMENTS THAT ARE EXPECTED TO BE REVERSED IN THE FORESEEABLE FUTURE; WHEN EXPRESSLY AUTHORIZED BY THE FEDERAL OPEN MARKET COMMITTEE, THEY MAY ALSO BE GEARED ON A SHORT-TERM BASIS TO PRESSURES CONNECTED WITH OTHER MOVEMENTS.

SUBJECT TO EXPRESS AUTHORIZATION OF THE COMMITTEE, THE FEDERAL RESERVE BANK OF NEW YORK MAY ENTER INTO RECIPROCAL ARRANGEMENTS WITH FOREIGN CENTRAL BANKS ON EXCHANGE TRANSACTIONS ("SWAP" ARRANGEMENTS), WHICH ARRANGEMENTS MAY BE WHOLLY OR IN PART ON A STANDBY BASIS.

The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates without trying to establish rates that appear to be out of line with underlying market forces.

If market offers to sell or buy intensify as System holdings increase or decline, this shall be regarded as a clear signal for a review of the System's evaluation of international payments flows. This review might suggest a temporary change in System holdings of a particular convertible currency and possibly direct exchange transactions with the foreign central bank involved to be able to accommodate a larger demand or supply.

Starting operations at a time when the United States is not experiencing a net inflow of any eligible foreign currency may require that initial System holdings (apart from sums that might be acquired from the Stabilization Fund) be purchased directly from foreign central banks.

It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions in order that System transactions do not conflict with those being undertaken by foreign monetary authorities.

The November 8 memorandum also suggested that, if the foregoing changes in the Guidelines were adopted, a minor change, as described, be made in paragraph (1) of Section III of the Authorization Regarding Open Market Transactions in Foreign Currencies, approved on February 13 and reaffirmed on March 6, 1962.

Upon motion duly made and seconded, and by unanimous vote, Section III of the Authorization was amended to read as follows (deletions shown by canceled type; additions by capital letters):

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 ~~these~~ DISEQUILIBRATING fluctuations in the international flow of payments to or from the United States, AND ESPECIALLY THOSE 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.

At the Chairman's suggestion, Mr. Young commented informally on his recent trip to Europe, reference being made particularly to a meeting of Working Party 3 of the Economy Policy Committee of the Organization for Economic Cooperation and Development and a meeting of the Economic Policy Committee that followed.

Mr. Hayes commented briefly on a private meeting of central bank governors that he had attended recently while in Basle for a meeting of the Bank for International Settlements.

The Committee then turned to a review of the economic and financial situation, and the Chairman called first upon Mr. Noyes, who presented the following statement on economic developments:

Looking back over the last three weeks, it is hard not to allow one's thoughts to be dominated by a sense of relief, and to regard the problems that remain as trivial compared to those that might so easily have been. This is all the more true because the information that has become available on the performance of the domestic economy has tended to be either favorable or less unfavorable than was widely anticipated.

The very strong performance of auto sales in October--and especially in the last ten days of the month--has been so widely publicized that it needs no elaboration here. The relatively weak showing in other retail markets has received less attention, but it was associated in the trade press with unseasonable shopping weather.

Aside from the surge of auto buying, which may have been completely unrelated, there was very little evidence of "scare" buying in the week following the Cuban crisis. The reaction in financial markets was also mixed and no clear trend attributable to the crisis developed. Stocks have generally moved higher, but this has been related by most observers to other factors than the crisis.

Nor does the economy seem to have responded in any notable way to the results of the election. They are generally interpreted to have strengthened the President's hand in Congress somewhat, but not enough to change substantially the pattern of legislative reaction to economic issues prevailing in the last session.

Thus, two major developments--an international crisis of the gravest proportions and a national election--seem to have left the basic economic situation substantially unchanged. If there are plans for increases in defense expenditures beyond the levels contemplated prior to the Cuban crisis, we are unaware of them.

So far as I have been able to ascertain, work is proceeding on the budget estimates for fiscal 1964 in a routine manner. The deficit for fiscal 1963 has not yet been officially re-estimated in the light of legislation actually enacted and economic developments since the budget message. There will, of course, be a deficit--and a sizeable one--but our preliminary calculations suggest that it will not be as big as some of the estimates that were made at the time a tax cut was under discussion in July. The seasonally adjusted cash expenditures and receipts moved from balance to a small deficit in the third quarter and will probably move a little further in the same direction in the current quarter. The shift in the budget on an income and product account basis is even smaller.

In the interests of brevity, I shall pass over many developments of some importance which have been reported to you in the staff memorandum, but I think two surveys that became available to us at the end of last week deserve special mention. Both were in the fire just before the Cuban crisis and, of course, also before the election. The McGraw-Hill capital expenditure survey indicates that plans for such expenditures in 1963 exceed 1962 by around 3 per cent. If these plans are realized, it would mean about a continuation of the fourth quarter level of plant and equipment spending for next year as a whole.

Consumer buying plans as reported by the Bureau of the Census show a somewhat more favorable picture--with intentions to buy new autos up sharply, some further recovery in interest in household durables, and house purchase plans down only slightly, perhaps no more than seasonally. Consumers were also a little more optimistic about their future income prospects than they had been in July.

Taken together, recent developments seem to suggest that prophecies of a significant downturn in the second half of this year were as premature as the forecasts of a $570 billion GNP for the year as a whole.

It seems to me that it would be unrealistic not to assign some small role to monetary policy in this moderately favorable state of affairs. The fact that credit has continued to be readily available and liquidity has been ample has helped the economy maintain its modest forward momentum. A continuation and even some increase in this relative ease would undoubtedly contribute further to this end in the period ahead--and the favorable balance is certainly so delicate that it could easily be upset by restrictive action from any quarter.

While the focus of my remarks has been, and will remain, on domestic economic conditions, I should add that I have noted with concern the apparent deterioration in the balance of payments situation in recent weeks. We can only hope that last week's reversal in this trend portends some real improvement, for it is about as clear as anything can be in the uncertain business of economic analysis that monetary action drastic enough to have an appreciable short-run effect on capital outflows would have unfortunate consequences for the domestic economy.

Mr. Holland presented the following statement on financial developments:

The past few days have been eventful ones for the financial system, as Mr. Stone indicated earlier. Yet, rather paradoxically, some of these same movements have served also to bring somewhat longer run relationships into focus; this, together with the availability of more dependable figures now for the third quarter and for October, provides some improved perspective for decision-making.

Looking back, we can now see fairly clearly the pattern of moderately firmer money conditions that developed through June, July, and in some respects August, followed by a gradual suffusion of a more expansionary tone through much of the financial system that continued up until early November. This pattern is stamped upon the reserve situation, the interest rate structure, and the general market atmosphere although the precise timing of upturns and downturns in the different series inevitably varies.

In retrospect, I think this change in reserve availability is best demonstrated by the course of total member bank borrowing from the Federal Reserve. Bank borrowing averaged $70 million in the first five months of the year, then climbed to an average $120 million between mid-June and mid-August, and thereafter has dropped back to the $70 million level characteristic of early 1962. These bare statistics describe a significant difference in bank experience: the lower figure is characteristic of a minimal level of borrowing, with a few banks meeting known seasonal or other needs and scattered others occasionally finding need for temporary assistance; the $120 million figure is high enough to involve a sizeable number of banks finding less reserves in the banking system than they expected, week after week, and being crowded into borrowing as reserve accounting periods draw to a close. In such contrasting circumstances, it would seem reasonable to expect that the resulting change in atmosphere would be disproportionate to the size of the borrowing figures involved, and that in fact appears to have been the case.

Bank deposit expansion clearly slowed in the summer, then picked up in the fall, and by significantly more than seasonal dimensions. We have spoken at times in the past of the complications to interpretation created by changes in Government deposits and in time deposits. When the final figures are examined in broad perspective, however, it can be seen that whatever the week-to-week erraticisms contributed by Government and (to a lesser extent) time deposit changes, they do not alter the basic characterization of the summer as a period of slackened monetary growth and the fall as one of renewed expansion.

Banks, in accomplishing this renewed deposit expansion, did not seem to meet much of an upswell of private loan demand. Most bank loan increases of more than seasonal dimensions seemed to concentrate in nonfinancial borrower categories for which banks were being more aggressive competitors with other lending institutions or with the capital markets. Beyond this, banks after July managed to add unevenly to their combined holdings of securities and financial loans, with sizeable fluctuations in holdings occurring around major financing dates.

Capital market flotations, meanwhile, have not as yet shown much recovery after their summer fall-off from the high first-half volume. This is particularly true in the corporate market, albeit new issues may be held down by interim borrowing on favorable terms from banks, particularly by utilities.

Statistics from other financial institutions give some indications of the increased effectiveness of bank competition, both for savings funds and for earning assets. On balance, however, consumers seem to be channeling a striking proportion of their savings into financial intermediaries of all types. Corporations, at the same time, are continuing to experience large cash inflows, and the statistics suggest a pause, if not a halt, in the long postwar downtrend in corporate liquidity. These influences, along with fall uptrends in reserve availability and bank credit, have helped to create a gently stimulative atmosphere in most sections of the domestic financial structure.

The events of the past few weeks, however, have drawn increased attention to developments in the international financial sphere. With interest rate incentives to international flows enhanced, several counteracting official actions were undertaken in domestic markets, at least partly in order to bring about a dampening of this incentive. The Treasury brought its strip of bills to market, and the resulting market reaction was reinforced by open market sales of bills from System Account. The Account was also able to meet a good portion of the reserve needs of succeeding days with open market purchases outside the bill area. Finally, the Board action cutting reserve requirements on time deposits--particularly the reduction at country banks--served to diffuse some reserves through the banking system without easing the central money market. The best single indication of the latter influence is the $160 million increase in excess reserves which developed this past week, while at the same time the Federal funds rate pushed up to the 3 per cent level in the central markets. This means the free reserve figure for this week had an upward bias, and the free reserve figures of the next few weeks will probably also be subject to this upward bias, although in decreasing dimension.

At the moment, as Mr. Coombs indicated, this particular flurry of movement into foreign liquid assets appears to be subsiding somewhat. Any feeling of respite, however, needs to be conditioned by an awareness of market prospects regarding domestic interest rates. As Mr. Brill's presentation to this Committee three weeks ago made clear, the current rates of individual and corporate financial saving relative to demands for funds bode further natural downward pressures upon domestic interest rates. In addition, before December is over we shall have entered the period of the year when seasonal downward rate pressures will be substantial, particularly on the short rate. If, therefore, the circumstances that have made British and Canadian rates attractive relative to ours do not prove temporary, a more troublesome period for policy may be ahead.

With such an eventuality possible, the domestic monetary and financial record of the last six months should be helpful. This record makes clearer than usual the benefits that a moderately stimulative monetary policy can bring, and also the consequences that can accompany even a moderately tighter policy, in something like the prevailing economic environment. This underlines the premium to be placed on maintaining tolerable international rate relationships in the months ahead, by means which will not restrict domestic credit availability unduly. Of various policy measures that could be impressed into service, one of proven effectiveness is concentration of Treasury financing in short-term issues, although this would be a substantial cost in terms of foregone opportunities to lengthen the debt and to tailor it more prudently. Other alternatives that could be considered include further reductions in bank reserve requirements, operations in forward exchange markets to increase the cost of covering money market investments abroad, increased concentration upon System purchases of securities other than bills, and even a raising of the interest rate ceiling applicable to 3-month time deposits, in order to allow banks to utilize this instrument to compete more directly for investible funds that might otherwise be bidding for 3-month bills.

Each of these possible alternatives cited has its own drawbacks, and their probable effects on interest rate differentials vary. A careful comparison of the likely benefits and costs of each alternative action, however, might lead to a more efficiently integrated assault upon our domestic and international financial problems--an assault in which general monetary policy would need to play an important part, but in which it could be employed as something less than the ultimate weapon.

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

According to preliminary data, transfers to foreigners of gold, foreign currencies, and dollars amounted in October to a record sum of $900 million, more than twice the monthly average for the third quarter. The amount would be $75 million greater if it were not for a statistical adjustment by which, contrary to previous practice, certain newly issued government obligations that will not be redeemed within 12 months are no longer counted as liquid liabilities. While the data are fragmentary and tentative, they probably give a reliable indication of the order of magnitude involved.

The October transfers will bring the total for the first ten months of the year to $2-1/4 billion, according to the official computation. If both the statistical adjustments and the receipts from extraordinary debt prepayments are disregarded, the sum rises to $3-1/4 billion--as much as the deficit for the entire year 1961.

But the increase in the October deficit over the average for the third quarter was probably due to non-recurrent factors.

More than half of the deficit reflected transfers to Canada and included a few large capital transactions as well as considerable amounts of volatile funds, attracted by the unusually wide (uncovered) interest-rate differential maintained by the Bank of Canada.

Other extraordinary transactions were a large royalty payment to Venezuela and the final payment of the U. S. subscription to the Inter-American Development Bank. Some short-term money went to London in response to the re-emergence of a substantial covered differential in favor of British money-market paper. And I am convinced, although without statistical evidence, that the Cuban crisis led to flight movements of U. S. funds to countries regarded as safe havens. Finally, the threat of a longshoreman strike may have reduced the trade surplus for the month.

Preliminary data for the first week of November show transfers <u>from</u> foreigners <u>to</u> U. S. residents, mainly on private account, of $150 million (excluding statistical adjustments). Last Friday, for the first time in months, there seems to have been a reflux of funds from Canada. Both developments support the view that the size of the October deficit was due to unusual circumstances.

In continental Europe, there was less talk of an approaching end of the boom, and more talk of a need for restrictive rather than expansionary policies. For the U. S. payments balance, contractive monetary policies in Europe, especially if they involved a rise in interest rate levels, might be nearly as bad as an end of the boom. But Britain and Japan recently took some modest expansionary actions, Britain by reducing some taxes, and Japan by easing credit restrictions.

Gold sales to foreigners since the beginning of October have been less than $100 million, a small sum considering the size of the October deficit and the impact of the Cuban crisis. But in contrast to the favorable short-run prospects reported by Mr. Coombs, we must expect larger sales in the long run.

First, the Bank of Canada, which so far has not converted any of its dollar accretions into gold, will probably at the very least repurchase the $190 million of gold it sold to the U. S. Treasury last spring, as soon as it unwinds the remainder of the assistance it received in June from the United States, Britain, and the International Monetary Fund; and it could do so any moment as it has by now gained more reserves than it lost during the first half of the year.

Second, many European countries are likely to convert further dollar receipts into gold at a more rapid pace than hitherto.

Until recently, some of these countries could use their dollar receipts for debt prepayments to the United States and repurchasing drawings from the Monetary Fund. But now, only Britain and France still owe large debts to the United States; and Monetary Fund holdings of dollars have nearly reached 75 per cent of the U. S. quota, the limit beyond which repurchases can no longer be made in dollars.

Furthermore, the forward operations of the Treasury and, to a much smaller extent, the System swap arrangements have enabled some countries to convert straight dollar holdings into holdings protected by an exchange value guarantee. During the first nine months of this year, more than $600 million were thus converted by continental European countries. While the eight major continental European countries statistically increased their dollar holdings by $150 million, they actually reduced their <u>uncovered</u> holdings by $450 million. Only Austria, France, and Sweden accumulated any significant amounts of uncovered dollars; and Austria has meanwhile converted its entire accrual into gold or guaranteed dollars, while France continually converts dollars into gold and presumably intends to use the rest of its accruals for further debt prepayments. Only Sweden among all European countries apparently still adheres to the policy of keeping the bulk of its very modest reserves in straight dollars.

The greater part of the decline in uncovered dollar holdings was on official account. Thus, the decline apparently was not so much the result of lessened willingness to hold straight dollars on the part of the public, but rather a reflection of the policies of the European monetary authorities.

There are obvious limits to the volume of guarantees the Treasury and the System can give in order to prevent surplus countries from converting their dollars into gold. Unless these countries become more willing to accumulate uncovered dollars, we must therefore expect that the proportion of our deficit reflected in a decline in our gold stock will rise sharply, and with it the psychological impact of our deficit on the international standing of the dollar.

Mr. Hayes presented the following statement of his views on the economic situation and monetary policy:

The performance of the domestic economy appears to have been slightly better, on the basis of the data coming to light in the past three weeks. Particularly encouraging is the very strong behavior of auto sales in October, although this may reflect a bunching of sales as new models have become widely available. The prospects are for a good auto production level in November. The McGraw-Hill survey of business plans for plant and equipment spending in 1963 may be regarded as only mildly encouraging, after allowance is made for past inaccuracies in this forecast--but this evidence pointing to continued, though mild, advance finds some support in the NICB's latest appropriation figures. Last month's decline in unemployment would have had more significance if it had not been due primarily to a drop in the labor force. On balance, a relatively sluggish advance seems about the best to expect in the fourth quarter.

I am somewhat reluctant to point with alarm at the increasingly discouraging balance of payments situation, as I realize that this can be regarded as "playing an old record". Yet I feel strongly that, as the central bankers of this country, we must give this factor very close continuing attention; and sometimes I have an uneasy feeling that this Committee is inclined either to overlook the seriousness of the risk of real loss of confidence in the dollar or to assume that other than monetary remedies for the balance of payments are so controlling that the Federal Reserve System can simply leave it to others to grapple with this danger while we keep our eyes focussed mainly on the domestic economy. This philosophy would seem to me quite unacceptable. Of course we must keep a close watch on the domestic economy--but at a time when most business indices are at historical highs, when the latest figures give little ground for expecting any imminent decline, and when the liquidity of the economy and the availability of credit remain ample, it would seem to me wholly logical to shift the weight of our emphasis a little towards international as against domestic factors.

To back this view we need only look at the preliminary October data, which suggest for that month alone an over-all payments deficit of around $900 million, following the recently published official third quarter deficit of $2.9 billion (seasonally adjusted annual rate). Even after deduction of several non-recurring items the October figure is still about $700 million, the largest monthly deficit on record. Much of this reflects movements of capital into Canada, both short-term and long-term. Part represents Canadian bank window dressing; part the acquisition of Canadian time deposits by U. S. corporations taking advantage of high rates; part long-term bond flotations in the U. S. In addition, the recent temporary widening of the covered spread between U. S. and U. K. short-term market rates has drawn funds to London in significant, though not very large, amounts, and this has included some transfers by

American banks for their own accounts. Mr. Young's comments on short-term rate expectations in Europe suggest that this type of problem is likely to be a persistently recurring one.

Against this we can find satisfaction in the continued steady performance of the dollar in foreign exchange markets and the recent calm atmosphere in the London gold market. To a very considerable extent this probably reflects the increasingly close cooperation among leading central banks and recognition by financial markets of the strength of this cooperation. Yet we cannot afford to forget that the major cornerstone of this co-operation is faith in the individual countries' ability and willingness to guide their own economic affairs in a way that will make for better international equilibrium. No member of this cooperative group is free to go its own way, concentrating on its domestic affairs and neglecting its international responsibilities. We have seen many examples of other countries' willingness to take at times, strong measures for the sake of better international equilibrium that tended to be contrary to purely domestic considerations. Specifically, the large European holders of dollars have been led to believe that the U. S. is taking effective steps to eliminate its payments deficit within a reasonable period, and the September Bank-Fund meetings were marked by expressions of confidence on all sides that we were making steady progress towards this goal. In this atmosphere a sudden realization that we are not making progress, but are now retrogressing, could have very serious consequences, especially in the form of enlarged drafts on our gold stock.

Now let us look for a moment at the current credit situation, which must necessarily provide the basic framework for our own operations. Bank credit apparently continued to grow at a strong pace in October. Investments of weekly reporting member banks in both governments and municipals were up sharply. Business loans were about in line with seasonal expectations, after the stronger showing of September and August--probably in part because of greater use of the market for new corporate bond issues. Banks have remained relatively liquid, the money supply rose enough in October to wipe out the net decline that had occurred since April, and the combined money supply-plus-time deposit increase was the largest for any month this year. Seasonally adjusted required reserves against private deposits have been close to or above the Board's 3 per cent guideline since late October, and current projections suggest that they will continue to exceed the guideline through at least early December.

As the Committee is well aware, an ample flow of savings and high corporate liquidity have been placing important downward pressure on interest rates throughout the maturity range. Despite the temporary success of the Treasury and the Desk in reversing the downward trend of bill rates last week, the underlying forces seem to be asserting themselves again, and we shall have our hands full trying to maintain a firm rate structure, unless we face frankly the probability that a firm rate structure calls for a somewhat less easy monetary policy. With the international problem as pressing as it is, and with the Nation's liquidity as ample as it is, I can see no excuse for pursuing a policy which is reflected in free reserves in a range only $100 million or so lower than the range we were aiming at at the bottom of the recession nearly two years ago. I believe we should make a moderate but definite move toward lesser ease, encouraging the 90-day bill rate to remain close to or even above 3 per cent. If free reserves in the neighborhood of $200 million should prove to be necessary to achieve this, I would have no objection to such a development.

It might be argued that an immediate increase in the discount rate would provide a useful signal of our willingness and determination to use monetary policy to do our part in defending the dollar. At this point, however, I am not prepared to press this view and would be content to see a moderate tightening through open market operations as a first step. Obviously the closer we come to the time when a substantial tax reduction will become a reality, the less will be the risk that our own actions may have harmful effects on the domestic economy and the broader will be our scope for constructive monetary policy.

If the Committee is willing to make a modest policy change of the kind I am advocating, I think the directive should be modified accordingly. In any case the reference to an imminent Treasury financing should be eliminated, together with the specific reference to a quarantine on armament imports into Cuba; and at the same time I believe we should place greater emphasis on international capital outflows and less on the desirability of encouraging further increases in bank credit and the money supply.

The policy directive suggested by Mr. Hayes was as follows:

In view of the margin of underutilized resources in the economy and the absence of inflationary pressures, it is the current policy of the Federal Open Market Committee to permit moderate further increase in bank credit and the money supply to the extent that this is compatible with the maintenance of money market conditions that are not likely to stimulate capital outflows from this country. This policy takes into account the difficult balance of payments situation and the important role of capital movements in the balance of payments.

> It is also the Committee's policy to cushion such unsettlement in money markets as may stem from international political and military developments.
>
> To implement this policy, operations for the System Open Market Account during the next few weeks shall be conducted with a view to meeting seasonal needs for reserve expansion in the banking system while encouraging a somewhat firmer tone in money markets.

Mr. Shuford, commenting on the Eighth District, noted that conditions had changed little since May. The economy seemed to be on a plateau, with employment remaining near the level reached in May. With respect to unemployment, there had been a slight decline reflecting a decline in the labor force. The use of electric power was about the same as the May rate, and department store sales showed no significant change since spring. Bank loans rose little from September to October. Total deposits did continue to rise, as in the previous month, but the level of demand deposits remained essentially the same. The increase was almost entirely in the time deposit area.

Mr. Shuford said that he appreciated Mr. Hayes' observations with respect to the international situation and that he recognized the problem. It was a matter not to lose sight of, and he was certain that the Committee would not. The domestic situation, however, was particularly disturbing at this time in view of the relatively long, high-level plateau that had existed. Without losing sight of the international problem, it would be well, he thought, for the Committee to take advantage of any opportunity to stimulate production by monetary means. This would not call for any change in basic policy; he would think in terms of aiming at free reserves in the neighborhood of $400 million. Of course, the Committee did have the bill rate to consider, but he felt that the level of free reserves he had in mind was compatible with a bill rate in the neighborhood of 2-3/4 per cent.

Mr. Bryan, reporting on economic conditions in the Sixth District, commented that some series were up and some were down. In general, the District series seemed to be following close to the national pattern. There had been some interest at the Reserve Bank in formulating plans to deal with problems that might have resulted from the Cuban situation; however, no appreciable effects of the crisis could be detected. There had been a run on canned water, and a run on automobiles in one area. However, the Bank could not detect any unusual currency demands other than in the Florida area, where for about two days during the crisis there was a greater than usual demand for large bills. There had also been some demand for currency from the armed forces in connection with the movement of troops, but that was all.

Turning to the national economic picture, Mr. Bryan said he found it disappointing. One month was encouraging, the next was disappointing, and he found himself wishing the economy would make up its mind what it was going to do. The latest figures did offer a little encouragement, however.

With respect to monetary policy, Mr. Bryan commented that he believed as little change as possible should be made. On the matter of the policy directive, Mr. Bryan said that he would recommend no change. As to Mr. Hayes' statement on the balance of payments, he agreed that this was a dangerous situation. However, the Committee must analyze the mechanics of influencing this situation through the use of monetary policy. He believed that if one analyzed that mechanism closely, it would come down to discouraging domestic economic expansion, and he had great doubt whether the Committee would want to take such a step.

Mr. Bopp commented on developments in the Third District, noting that there was no evidence of buoyant activity.

With respect to monetary policy, Mr. Bopp said that the last few weeks had been exceptionally difficult ones for him and others at the Reserve Bank. He found a great diversity and switching of individual views about current conditions and prospects--more so than ever before. At this time he would favor slightly greater ease, with emphasis on operations in the intermediate and longer term markets.

With respect to the international situation, Mr. Bopp said it would seem to him that if the Committee felt it must adjust monetary policy to obtain substantial results, the Committee would have to tighten so significantly as to injure the domestic economy.

Mr. Fulton reported that the Fourth District economy continued to move sideways, with no pronounced indication of either an upswing or downturn in the immediate future. After a poor showing in October, improved department store sales for the past two weeks had carried the index back to the high September average, and a record Christmas business was anticipated. Auto sales in major cities had advanced to new high ground, with a substantial number of undelivered orders on dealers' books. However, it was reported in some quarters that new orders had slackened, portending a possible cutback in production in late December. If sales were to decline, then a year-end inventory of 975,000 units would appear to be a reasonable estimate. Used car inventories were becoming heavy, with a softening in price.

Construction contracts in the third quarter remained under the second quarter average despite the fact that heavy engineering contracts had been favorable, bolstered by public works expenditures. The increase in unemployment had been slightly more than expected on a seasonal basis. Those areas dependent on basic steel and heavy industry continued to have the highest totals. This was probably the result of the modernization of the mills and the increased use of labor-saving processes as well as the low operating ratio of the mills. The paper and container industry reported a good and increasing volume of output, but a highly competitive situation with soft prices. Large capital investments made over the past two years had increased capacity greatly, and the industry was waiting for orders to grow up to capacity and to increased prices and profits at that time.

As to steel, Mr. Fulton said there was some indication that the automobile companies were beginning to reach the bottom of their inventory stockpile and were ordering increased tonnages to maintain current high production. However, other users of steel had not increased takings; in fact, some mills reported a reduction of orders. There was no indication of inventory building. Orders were on a hand-to-mouth basis, with the mills still carrying inventories for immediate delivery. The estimate of production for 1962 was 97.5 to 98 million tons; for 1963, about the same. The steel companies were more and more concerned about the import of foreign steel at prices under those obtained abroad.

A recent meeting of industrial economists indicated that new orders of many firms were below current sales, with a consequent decline in backlogs. Others stated that new orders had not increased as expected seasonally. Some of these economists felt that the economy had already peaked out; others felt that a softening would occur after the turn of the year.

Mr. Fulton said he was inclined to the premise that the stability in the indexes was only a pause and that the economy might break out on the up side rather than into a recession. If a downturn occurred, he believed it would be minor and short-lived. He would like to see fewer reserves supplied to the banking system and a firmer tone in the short-term market, with no further decline in the long end. The large increase in time money posed a threat to future stability. Until the strip of bills was sold last week, short-term rates had declined progressively, as had long-term Governments, municipals, and corporates. These movements had encouraged the outflow of funds on a covered basis. Mr. Fulton felt that monetary policy had all but surfeited the economy with reserves and that the time had arrived to slow the injection of funds. He would suggest maximum free reserves of $300 million.

Mr. Mitchell presented the following statement:

Formulating policy in the current economic atmosphere is exceptionally difficult. Fears of another postwar-type recession seem less pervasive than earlier, but hopes for a sustainable significant upthrust also seem to be rapidly fading into the oblivion of "no change." The economy continues to absorb jolts--both economic and political, internal and international--but it does it at per capita zero, i. e., with deflated GNP per capita showing no significant change, as it did between the second and third quarters and probably will between the third and fourth. An economy in which GNP is not rising faster than the growth in population is not the image we have of ourselves nor one that we want others to have of us. It conforms neither to our needs nor our aspirations and it is not an equilibrium situation for long.

Something will happen which will stir the economy from per capita zero. It may roll off the roof with everyone, including the foreigners, watching helplessly. It may get up and go, following a substantial reduction in taxes or a substantial increase in defense spending. It would more surely be in a go position if monetary policy gave the increasingly serious domestic needs a higher priority than it gives the intractable problem of trying to maintain an artificial rate structure for balance of payments purposes.

The problem is approaching a crisis stage because the sort of economy we have is generating a large and increasing amount of savings, which in the free play of markets would be put to work by depressing the interest rate structure. In the corporate area, a high level of profits and a growing volume of depreciation charges is being maintained while inventory spending is reduced and capital spending is leveling off. The result points toward a glut of business funds available for investment and a decline in capital financing needs. In the consumer area, flows of savings continue to grow, at least those that can be categorized as "nondiscretionary." Debt repayments are beginning to catch up with new debt extensions, and the volume of savings flowing to pension funds and insurance companies grows with regularity. At the same time, we seem to be getting a shift in the structure of consumer saving, with the decline in the stock market and the diminished availability of corporate and municipal flotations forcing a diversion of savings into thrift institutions.

Against this background of rising private savings and declining private credit needs, the Federal Government doesn't appear to be much of a contracyclical force, at least through fiscal action. The cash budget was in balance in the second quarter, on a seasonally adjusted basis, and in only very small deficit in the third quarter. For the calendar year as a whole, the cash deficit is likely to be only \$5 to \$5-1/2 billion, down from close to \$7 billion last year. (Even on the national income and product basis, the deficit would be rather small, perhaps on the order of \$2 billion compared with almost \$4 billion last year and over \$9 billion in 1958.) Neither can we regard debt management as having been contracyclical since (a) the Treasury has borrowed more than it needed in terms of expenditures and receipts, and locked up the excess in its cash balance,1/ (b) has--at least in recent months--been reducing the supply of short-term liquidity instruments through extensive refunding actions.

How long can the rate structure withstand such Federal fiscal and debt management policy, growing private liquidity, and a reserve policy which keeps free reserves in at least the \$300-\$400 million range? This is not a tenable combination of policies and facts, and we ought to recognize it. I urge that we practice what we preach about free markets, and let the rate structure obey the laws of savings supply and investment demand.

But if the Committee remains persuaded that the foreign situation should continue to dominate its posture, it makes a difference as to how that objective is realized. We could, of course, try to maintain the desired short-rate level by snugging up on reserves. This might have some expectational effect for a while, but I doubt whether, once it started, we could maintain this effect without successive reductions in reserve availability. How far it would have to go I don't know, but in a sluggish economy generating so much liquidity I suspect it would ultimately have to go far. I would venture that there are few at this table who would be willing to live with net borrowed reserves while unemployment remained close to 6 per cent. Can we start on a course in this direction without being prepared for such a consequence? I doubt it.

There is another possible line of action, one we haven't explored to the fullest. This would be providing a reserve climate favorable to renewed domestic expansion by injecting reserves primarily outside the short end of the investment spectrum. Despite all the talk about having freed ourselves from the bills-only restriction, we still behave as though this were still the prevailing rule. I know that some will argue that

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1/ Which need not be deflationary so long as monetary action permits bank reserve expansion to continue over and above reserves needed to support Treasury balances.

it can't be done in the magnitude needed for reserve operations, and that some will argue that we will wind up dominating and distorting the rate structure. I think the burden is on them to prove that it can't be done, especially since this would be a move in the same direction that market forces are now working. As for compromising our allegiance to free market forces, it seems ridiculous to talk about maintaining a "free" long-term market so long as we are putting a floor under the whole rate structure by pegging the short rate. I, too, would be in favor of letting the markets run free, but if we won't, we may be able to do an effective job of controlling both level and structure. Finally, I recognize that this policy runs the risk of accelerating long-term capital outflows, perhaps in substantial magnitude. Here again, the burden must rest on those who advance this argument, and I would welcome any evidence that would enable us to quantify the risk.

We have about run out of devices to bolster the rate structure in its present form while facing the increasing need, both for domestic and international reasons, to stimulate investment demand. Unless the System is willing to utilize its last arrow--pushing reserves out through aggressive intermediate- and long-term purchases--we may well have to face a slippage in rates along the line or a tightening of credit availability in the face of a host of domestic economic indicators calling for a contrary policy.

Timing is important if this operation is to be used. The flow of funds seeking investment has put rates in capital and mortgage markets under considerable pressure. More pressure will be supplied by seasonal factors at year end. If we act overtly and aggressively now, for a few months we will have market trends and seasonal forces with us; we might also have the benefit of some expectational influence. On the short side, the bill rate could be held up a while longer. There is every reason to believe that this policy would be significantly stimulative; it moves in the same direction as market forces. It should forestall a decline in over-all business activity and thus avert the damaging effect of that development on business psychology. Properly executed, it could get the economy moving ahead again. When that goal has been achieved, the dilemma of policy we face will have been dissolved.

Mr. King said that he was slightly encouraged about the domestic economy. While he did not foresee any strong breakthrough at this time, he did not believe the economy was quite so sluggish. He did not base this judgment of the situation on economic reports and statistics, but on his own "straws in the wind."

With respect to the balance of payments, Mr. King commented that there was nothing in the record at present about which to be encouraged. Looking back at the domestic economy, he felt the Committee's contribution had been large and real. He was reassured to a large extent by the formation of time and savings deposits. He did not believe it would be wise to predicate any change in policy on a tax cut. While some might be hopeful with respect to a tax cut, he was less hopeful; the possibility of achieving it was far from clear.

Mr. King noted that his attitude regarding the balance of payments had followed a course varying from slightly more concern to slightly less concern. In the past year or so he had attached a little less significance to it because of doubtful forces in the domestic economy. However, as he had said, he was presently somewhat encouraged, particularly because of the economy's demonstrated ability to absorb the shocks it had absorbed, while his concern about the international situation was slightly greater than it had been. Nevertheless, despite his view that the international situation warranted concern, he would not favor a change in System policy at this time. Mr. King believed that System policy had been constructive. He also believed that the Committee's responsibility required it to stay on line.

Mr. Robertson presented the following statement:

> I returned to the deliberations around this table, after missing two consecutive meetings, to find the general business situation still disappointing. Auto sales have been spectacular

for a few weeks, after the new model introductions, but this is not yet a reliable basis on which to judge prospects for the full model year, and moreover the auto industry is not likely to be able, by itself, to reinvigorate a slack economy. I would judge, from what I have heard this morning, that the most favorable general statement that can be made about the economy is that at least the recession that had been forecast by some gloomy prophets has failed to materialize. The harsh fact remains that we still face an economy with a substantial amount of unutilized resources and with a current rate of growth so slow that, unless it is stimulated, it offers no hope for putting these resources back to work.

On the other hand, I am heartened by what monetary policy appears to have accomplished this fall. I note that the slightly easier bank reserve position has been accompanied by a general downward drift of interest rates and a fairly substantial pace of monetary expansion. This seems to me the kind of stimulative credit atmosphere which I hoped for when I voiced my views at the late September meeting of the Committee. I regard this as an attribute of policy with longer-range significance, and a policy appropriate, indeed essential, for the alleviation of our longer-range problem of economic growth.

With respect to our coordinate problem of achieving a viable international balance of payments position, I judge that our situation has become neither much better nor much worse, taking the year as a whole. In terms of the sales of goods and services across international boundaries, perhaps the most that can be said is that we have experienced not quite as much worsening of trade surplus as would be expected cyclically. The fundamental fact in this area, however, continues to be that our trends of prices and costs are less inflationary than for our leading industrial competitors, and hence our basic competitive position is improved. Even "Cuba" has not seemed to disturb that relationship. This I regard as the most fundamental fact about our international situation, and its long-run implications are favorable.

We have been beset in recent days with an upsurge of news suggesting actual and potential net capital flows from this country to other major nations, chiefly Canada. Comments make it clear that these flows have occurred for a variety of reasons, most of which do not seem to be associated with interest rate differentials on money market assets. So far as I know, those few flows that might be moving into foreign money market assets for purely interest rate reasons are themselves responding to rate differentials which have no certainty of persisting. Certainly the policies of Canada are not rooted in circumstances which should compel a long continuing maintenance of their short-term interest rates at levels so far above our own.

More basically, however, I think we should be careful not to place too much weight in our policy formulations upon these short-term capital flows which may exist for transitory reasons. One need only take a look at the international financial problems of the United States, and other major industrialized countries, through the eyes of the less developed countries -- as I have been privileged to do recently -- to realize the overwhelming strength of our position and the unnecessary anguish involved in overemphasizing disturbances such as we have been witnessing these past few weeks.

The industrial nations of the free world do not experience precisely the same pattern of economic developments, and they cannot always be expected to follow policies which mesh neatly the financial conditions in their money, credit, and capital markets. When changed economic circumstances are developing and new policies need to be evolved to deal with them, some less than perfect interest rate relationships must be expected internationally, with corresponding flows of capital developing. Indeed, in a dynamic world, in which change is continual, pressures of unexpectedly large capital flows, first in one direction and then in another, ought to be expected to occur. It is important for us to remember that, for all our gold losses of recent years, we are still probably in a better position to withstand the pressures of capital flows during periods of economic transition than is any other country. It behooves us to handle our domestic economic policies accordingly. To be specific, I think this means we should not alter monetary policy with every shift in the breeze of international capital flows, but aim our policy in so far as we can to press in the direction of our longer-range objectives.

It seems to be clear, as I have indicated earlier, that our fundamental position domestically, with substantial underutilization of resources, is unfavorable; while our fundamental position internationally, with our improving competitive cost-price relationships, is favorable. As a result, it seems to me the policy prescription is obvious: continue to promote a monetary environment with ample availability of bank credit and liquidity in order to assist in stimulating higher rates of employment and economic growth. This, to me, is putting first things first. I would expect such an objective to be served by a free reserve level ranging at least around $450 million, with stable to buoyant conditions prevailing throughout the credit and capital markets.

Mr. Mills said the statement he would make was not intended to minimize the seriousness of the balance of payments situation, but tied into his previously expressed belief that a strong United States economy was the best guarantee to long-run worldwide economic growth and foreign exchange stability.

Therefore, he believed that domestic considerations must take precedence over international balance of payments considerations. If, however, the balance of payments situation worsened critically, stern and strong measures should be taken and temporizing experiments abandoned. By strong measures, he referred to such as those the United Kingdom and Canada had effectively taken during the last year and which contained confidence restorative qualities.

Mr. Mills then presented the following statement:

> As the year 1962 comes toward its close, a backward rather than a forward look offers the best vantage point from which to develop an appropriate Federal Reserve System monetary and credit policy reaching into the year 1963. A portentous appraisal of past economic events must include the years of 1961 and 1962 and leads to the conclusion that throughout both years the national economy held its own, but little more. Coincidentally, the leveling-out in the money supply that has occurred in 1962 was accompanied by a flattening-out in general economic activity. Furthermore, over this period obsolescence has run down excess plant capacity at the same time that a rapid growth in population has increased human wants and needs--all of which, in line with some slight seasonal strength, indicates that the economy may now be poised for a new upsurge in growth entailing a vigorous revival of enlarged capital investment programs, in the process of which new industries and their outlets for capital expenditure may be uncovered.
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> A Federal Reserve System monetary and credit policy less restraining and more expansionist than that now in evidence can be an important influence for stimulating economic activity and, in particular, for encouraging the expansion of commercial bank credit with consequent support to growth in the money supply, which latter is an essential ingredient for any advance into new ground. However, it will be necessary for Federal Reserve System policy to revert to the kind of free market principles that are largely identified with a "bills only policy" if the objectives sought after are to be realized. A flexible monetary and credit policy freed from the pegging restraints by which it is now handicapped would also be consistent with a monetary attack on the nation's balance of payments problems, because dealers in U. S. Government securities would be constrained to reduce their positions and in adding to the market supply of securities in this manner, an upward pressure would be exerted on interest rates

that could be backed up through open market policy actions--and all within the context of providing adequate credit availability and an incentive for credit expansion. In other words, a firm interest rate structure as a balance of payments defense, and opportunities for credit expansion, can be made to be consistent with a flexible monetary and credit policy.

I see no need for an increase in the discount rate at this moment, nor a change in the directive whose framework carries ample authority for conducting the kind of monetary and credit policy proposed--but which authority has not been used to my satisfaction in the interval since the Open Market Committee's last meeting.

Mr. Wayne reported that Fifth District business conditions had apparently remained quite stable during the past few weeks. According to the Reserve Bank's latest survey, the downtrend in textiles had moderated significantly, with orders and shipments steady but employment and hours still tending to decline. In other manufacturing industries, shipments had reportedly continued to rise, but new orders, employment and hours had remained about the same. Construction activity continued at a high level even though contract awards had been declining. Retail trade appeared to be exhibiting normal seasonal strength at near-record levels, and the demand for coal was somewhat stronger again.

Two aspects of the national economy seemed to him particularly worthy of attention; Mr. Wayne said. The first was that in the nation, as in the Fifth District, business activity had remained quite stable at a high level, gaining considerable support from record automobile production and sales. The second was the economy's remarkable stability in the face of the Cuban crisis. This, on top of the steel difficulties, the stock market decline, and the Canadian monetary crisis, suggested that the economy was in a stable equilibrium not likely to be upset by anything short of a major disturbance. Increased military activities would certainly raise defense spending and the budgetary deficit to some degree, but unless there was a further acceleration of the military buildup, it was not likely to cause any strong upsurge in business. It seemed more probable that the increased spending would simply be an additional force tending to sustain activity at about its present high level.

In the policy field, Mr. Wayne said he did not see any valid arguments for more ease. He would recommend that the Committee aim at a level of free reserves of $400 million or less, and that special attention be given to keeping the three-month bill rate above 2.75 per cent and preferably above 2.80 per cent. He believed the Committee should make it clear--by actions not words--that it had not changed policy in either direction. The reference to Treasury financing should be eliminated from the directive.

Mr. Clay noted that recent events had underscored the dilemma of monetary policy with which the Federal Open Market Committee had been wrestling for more than two years. This dilemma had resulted from unfavorable developments in the international balance of payments at the same time that the domestic economy was showing little basis for encouragement. It was apparent that the month of October brought little change in the level of seasonally adjusted activity in the national economy. While new automobile sales were outstanding, the aggregate performance of the economy in terms of production, employment, and sales added up to little more than seasonal increases. The full meaning of the very favorable beginning of the new automobile sales year was not yet apparent; it would be necessary to await further sales developments in order to be able to gauge the basic strength of that market and its impact on the economy.

Looking ahead, the McGraw-Hill survey of business capital spending plans for 1963 did not foreshadow an expansionary impact from that important sector of the economy. Rather, the report projected a pace of activity that at best was sluggish. All in all, except for the spurt in automobile sales, economic indicators at the moment produced little evidence of expansionary forces in the private sectors of the economy leading to significant strides toward fuller employment of manpower and other resources.

Under the circumstances, Mr. Clay said, the goal of public policy for domestic purposes should be one of endeavoring to stimulate economic activity. For monetary policy, that meant to him a program of monetary ease leading to the provision of member bank reserves and the expansion of bank credit in excess of seasonal proportions and to a further downward movement in the level of interest rates. Recent evidence of declining rates and improving credit availability in the residential mortgage market were one aspect of the response to these policies over past months.

Mr. Clay noted that recent developments in the international flow of funds had led to Treasury financing and Committee open market operations fostering higher Treasury bill yields. He felt that this deterrent to downward movement in short-term rates should not be permitted to inhibit the provision of member bank reserves in excess of seasonal proportions and a further easing of longer term yields. The Committee should seek the attainment of these objectives by purchasing longer term securities and by conducting offsetting purchases and sales so far as necessary to attain its goals.

In Mr. Clay's opinion, the Reserve Bank discount rate should be left unchanged. As to the directive, in the present directive's reference to the recent Treasury financing operation and the emergency aspects of the Cuban crisis, it apparently would have to be rewritten.

Mr. Scanlon reported that in the Seventh District concern about the business outlook appeared to have taken a favorable turn in recent weeks. The views expressed by the Reserve Bank's directors at their meeting last Thursday tended to reinforce this view. One important factor had been the extremely high level of auto sales. Also, manufacturers of some other consumer durables had reported a strong rise in sales to dealers. Another factor was the expectation that military spending would be increased more than was planned earlier and that the kinds of items produced in Midwest plants would share in the spending rise. While the impact of these developments could be of short duration, they had tended, in the meantime, to bolster waning business confidence to some extent.

As Mr. Noyes had indicated, developments in the auto industry hardly required comment. Sales in October were phenomenal--well above expectations--and orders for future delivery were said to be large in comparison to the experience of recent years. Sales of domestically produced cars in October were the highest for any month in history and were exceeded only by May 1955 on a daily rate basis. Instead of increasing as expected, dealer inventories declined during October. Production schedules had been increased, and called for more than 2 million assemblies in the fourth quarter. If realized, this would exceed the record for the period, established in 1955.

As to policy, while the balance of international payments data clearly indicated that no solution to problems in that area was imminent, Mr. Scanlon suggested that the combination of domestic and international conditions appeared to call for continuation of the policy objectives stated in the current directive. The directive should be changed to remove the reference to imminent Treasury financing and eliminate specific reference to the potential financial effects of the quarantine on military imports to Cuba. He would not change the discount rate at this time.

Mr. Deming said the latest available evidence continued to indicate that the Ninth District economy was pushing ahead at a moderate pace, sparked by the excellent farm situation. September personal income was up from August and was 8-1/2 per cent ahead of a year earlier. October bank debits were 8 per cent larger than in October 1961. Nonagricultural employment in Minnesota in October, after seasonal adjustment, rose slightly from the September level. Insured unemployment was well (40 per cent) below year-ago totals in both September and October. In a survey of business opinion taken early in November, two-thirds of the respondents reported retail sales up and auto sales up considerably. The bulk of the respondents reported manufacturing and nonmanufacturing employment holding even to up slightly and unemployment even to down slightly. For the weeks ahead, two-thirds saw improvement in business as probable or certain, and most of the remainder saw business continuing stable, about the same pattern as had held since early July.

The District banking picture remained about the same, with deposits growing and loan demand fairly strong. In October city bank loans behaved about in normal fashion, but this followed a very strong September expansion. Country bank loans grew at a record level in October, and they also were strong in September. Both types of banks remained in a fairly liquid position. Borrowings from the Reserve Bank were nominal, and those banks in the Federal funds market had been mainly on the selling side.

With respect to monetary policy, Mr. Deming commented that although the economy was not doing as well as the Committee might like, he did not see any significant basis for easing. With respect to the balance of payments, Mr. Deming said he agreed with Mr. Hayes that the central bank should do everything within reason, particularly in the area of short-term rates. Perhaps, under certain circumstances, the Committee should do more than it had been doing. On the other hand, he would not like at this time to see the short-term rate the major guide for policy; in his opinion, the Committee should key its policy primarily to the domestic economy. He thought what Mr. Mitchell had said at this meeting had a great deal of merit: the Committee should seek alternative means for dealing with the balance of payments problem.

Mr. Deming said, with respect to the directive, that he was a little puzzled about suggestions to remove reference to the Cuban situation. The reference to imminent Treasury financing should be removed. The Cuban situation remained a factor, however, even though the situation perhaps was not as tense. Therefore, from deletion of the Treasury financing phrase, he would feel that the directive could be renewed.

Mr. Swan reported that the Twelfth District was exhibiting somewhat mixed trends, but that there was a reasonably good level of activity. The data for October were still fragmentary. Going back to September, there was a 4 per cent increase in nonagriculture employment in the District from a year earlier, with an increase in defense-related employment of 10 per cent. In October, department store sales were apparently about unchanged from September. Steel production was down in October, and petroleum refining was down slightly.

With respect to the financial picture, Mr. Swan said that in the past few weeks the reserve position of major District banks had tightened, and they had switched from being suppliers of Federal funds to net buyers. In the week of November 7th there was a substantial increase in borrowing from the Reserve Bank.

Turning to monetary policy, Mr. Swan said the situation stood in delicate balance. The Committee was still faced with a domestic situation that showed no significant expansion. He could not see a basis for a significant switch toward a tighter policy despite problems in early November on the international side. He would think that during the next few weeks the Committee should supply reserves beyond seasonal requirements, which would imply a free reserve position of $400-$450 million.

With respect to the directive, Mr. Swan said he would remove the references to Treasury refinancing and the Cuban crisis.

Mr. Irons said that there had been no very significant changes in the Eleventh District economy, but that the level of activity had been favorable. Comparing the current level of economic activity with the forecast made in late 1961, the economy in that District was not accomplishing what had been predicted. However, comparing the current levels with those of a year ago, the District was up in construction, department store trade, and agriculture, and conditions in the oil industry were not too bad.

Turning to the financial picture in the Eleventh District, Mr. Irons reported that demand deposits were down and that there had been little borrowing from the Reserve Bank. There was little concern on the part of the Reserve Bank's directors with respect to the domestic economy, but growing concern with respect to the international situation.

Mr. Irons said he was pretty much in agreement with Mr. Hayes' statement. The Committee had to try to walk a tightrope as between domestic and international problems, but he was inclined to think it should avoid giving any less attention, from the standpoint of the rate structure, to the international situation. There was a risk in every approach, but he felt that less risk was involved in the domestic economy than on the international side. He would favor, for the next three-week period, continuing to follow current policy, but he felt the banking system was liquid and he would lean toward being a little less easy, though meeting essential needs for reserves. As to free reserves, he would say under $400 million; $300-$350 million would be all right. For the Treasury bill rate, he would say 2.75-2.85 per cent, with the Federal funds rate rather consistently at 3 per cent. He would not change the discount rate.

With respect to the policy directive, Mr. Irons said he would take out the words relating to Treasury financing. With respect to phrases on the Cuban problem, he would prefer the passage of more time before making any changes.

Mr. Ellis described business in New England as unsettled at a relatively high level. Department store sales were lagging behind last year, but automobile sales were strong. Personal income reached a peak in June and was leveling out. Employment had declined slightly in excess of seasonal expectations. In the banking field, demand deposits of weekly reporting member banks, on seasonally adjusted basis, had declined, but loan demand was up.

Mr. Ellis said it seemed to him the Committee should be satisfied with the position of monetary policy. He found it difficult to recommend changing the present policy materially, even though recognizing the importance of Mr. Hayes' comments with relation to the international policy aspects. He would prefer to wait a while longer.

With respect to the directive, he would strike out the phrases regarding the Treasury financing and the Cuban crisis. If that was done, the sense of the directive would come very close to no change in the position of policy.

Mr. Balderston said he was of the view that the Committee should consider probing in the direction suggested by Mr. Hayes and Mr. Fulton. The goal of a balance in international payments seemed as far from attainment as it was a year ago. There was some continuing tendency for wage rates and

Governmental costs to increase, and it was just not good enough to depend on European competitors being improvident and impractical. He was disturbed by the behavior of the stock market in recent days, which behavior appeared to be a matter of reacting to fright, and also that the Government would now spend more because of political and military uncertainties. As he pondered those matters, he came back to the question of liquidity, and he felt the amount of liquidity in the banks and economy at large was very great. Therefore, as he looked at required reserves held against private deposits, which had increased since June by 3-1/2 per cent, he concluded that the time may have come to probe in the direction of a lower level of free reserves.

Chairman Martin said that he had been impressed by the amount of thought reflected in the comments that had been made at this meeting. The discussion pointed up the difficulties of the period which, although perhaps no more difficult than many other periods, was nevertheless an extremely difficult one. Nothing said in the comments this morning had changed essentially the position at which he had arrived before coming into the meeting--a position that the present was not a good time for an overt change in monetary policy. Public psychology had shown several reversals during the past month. Observing these shifts, the Chairman said, it seemed to him that the Federal Reserve System had gained by having maintained a policy of stability in a period when the public had shifted from one extreme to another in a short period of time.

Chairman Martin said that he sympathized with the views expressed by Mr. Hayes and would lean in the direction advocated by the latter if it were not for the pyschological repercussions that he thought he sensed. The views expressed by the members of the Committee seemed more evenly divided than had been the case for a considerable period of time. He doubted that anyone in the room would perceive the right answer to the problems; he did not pretend to do so, but his feeling at this particular time was that monetary policy, if anything, was too easy and may have been so for some little time. He was just as anxious as anyone to see further growth in the economy and to see an expansion in activity that would get rid of unutilized capacity. He was convinced, however, that easier money would not bring about these desired goals. The Chairman then cited a personal experience over the past week end that illustrated that banks were not only willing to extend credit but were soliciting loans when there was the slightest sign of a potential borrower. One result of this, he noted, was a lowering of standards of credit in the lending business. This may not have gone to the point of justifying concern, but in his opinion some concern was warranted.

Chairman Martin also commented that the problem of growth in the domestic economy and the solution to the balance of payments problem of this country should not be put on a basis of assigning priority to one over the other. The two problems essentially were one; the Committee was wrestling with the solution of both of them at the same time. He thought that the money market sensed this. In a sense, the Committee was caught between the "bills only" pressures and the "buy long-term securities" group. He doubted that any devices that might be used would effectively mark certain interest rates up and others down to deal with the contrasting objectives of domestic growth and the solution to the balance of payments problem. There had been a resurgence of business sentiment and activity within the last week or ten days, the Chairman noted, but no one could tell how long that would last. To base a change in monetary policy on a shift of the sort observed recently would not be desirable, he felt, and if he were to arrive at a policy decision entirely on his own, he would make no change at this point in monetary policy. To base a change in monetary policy on a shift of the sort observed recently would not be desirable, he felt, and if he were to arrive at a policy decision entirely on his own, he would make no change at this point in monetary policy, although if he were forced to choose between change in one direction or the other, he would have to come out on the side of slightly less ease rather than on the side of slightly more ease than at the present time. While concluding that the Federal Reserve should maintain the same policy at this point, Chairman Martin remarked that he did not believe that continuance of that policy indefinitely was going to provide the solution to the balance of payments problem. The time might come when the System would have to raise the discount rate in order to deal with the balance of payments problem. Turning to the Committee's discussion, there was a close division of judgment in the views expressed this morning, with a wider gap in the views than he had observed for a long period of time. Several of the members were advocating a shift in policy to provide for greater ease, while several others were advocating a shift to provide for less ease and some wanted no change at all. No one was advocating a change at this time in the discount rate.

With respect to the discount rate and the balance of payments problem, the Chairman said he believed interest rates to be the controlling force in the movements of funds. This might not appear to be so at any given time, but it was his belief that in the longer run the rates were a controlling force. This morning the Committee was between the "easy money" view and the "easier money" view. He saw no way of resolving the weight of these views other than to call for a vote on the general question. He then suggested that a vote be taken in which the members of the Committee would indicate whether they would vote for or against a change in the degree of ease called for by existing policy.

On this question a total of five members of the Committee indicated that they would vote for no change (Messrs. Martin, Bryan, Deming, Ellis, and King), while six indicated that they would prefer to make some change in the present policy (Messrs. Balderston, Fulton, Hayes, Mills, Mitchell, and Robertson).

Chairman Martin then suggested that to approach a closer understanding of the views he would present the question whether the Committee's policy should be changed at this meeting to provide for a lesser degree of ease.

On this question four members voted "aye", while seven voted against a change to a policy of less ease. (Messrs. Martin, Balderston, Fulton, and Hayes voted "yes", while Messrs. Bryan, Deming, Ellis, King, Mills, Mitchell, and Robertson voted against a change to a policy of less ease.)

Chairman Martin next put the question of a change in policy to provide for a greater degree of ease, and on this question seven members voted against such a policy, with three in favor and one abstaining. Those voting against a change to a greater degree of ease were Messrs. Martin, Hayes, Balderston, Deming, Ellis, Fulton, and King; those voting for a greater degree of ease were Messrs. Mills, Mitchell, and Robertson; and Mr. Bryan did not vote.

In the discussion that followed, Mr. Robertson stated that, while his basic inclination was toward a policy of somewhat greater ease, he would be strongly in favor of holding policy unchanged if the only practicable alternatives were a policy of no change or a policy of less ease. Accordingly, he was prepared to change his vote on the first question put to the Committee from a vote against no change to a vote in favor of no change in the present policy.

Chairman Martin then called for any further comments with respect to the indications of views. In the absence of comment, he declared that the Secretary should record the Committee's policy vote on the question of whether there should be a change in the present degree of ease as showing six members voting for no change (Messrs. Martin, Bryan, Deming, Ellis, King, and Robertson), and five voting for a change (Messrs. Balderston, Fulton, Hayes, Mills, and Mitchell). Of these five, Messrs. Balderston, Hayes, and Fulton would favor a lesser degree of ease, while Messrs. Mills and Mitchell would favor a greater degree of ease.

With respect to his own position, the Chairman stated that, as he had indicated at the outset, he favored no change in the degree of ease. However, if it had been necessary to vote for a change to greater or lesser ease, he would have favored slightly less ease than at present.

The Chairman then took up the question of the current economic policy directive to be issued to the Federal Reserve Bank of New York, noting that some suggestions had been made that reference to the Treasury financing and to Cuba should be deleted from the directive issued at the meeting on October 23. The Chairman stated that he felt the present directive, with a deletion of the reference to the Treasury financing, could be used. Mr. Hayes had suggested a change which would move in the direction of less ease but, in view of the vote of the Committee against such a change, such wording would not be appropriate.

During the ensuing discussion several suggestions of wording were presented.

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 current economic policy directive:

In view of the recent stability of economic activity, with a margin of underutilized resources and an absence of inflationary pressures, it is the current policy of the Federal Open Market Committee to encourage moderate further increase in bank credit and the money supply, while avoiding money market conditions unduly favorable to capital outflows internationally. It is also the Committee's policy to cushion such unsettlement in money markets as may stem from international developments of an emergency or near emergency character.

To implement this policy, operations for the System Open Market Account during the next three weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a steady tone in money markets.

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

Mr. Hayes stated that his vote against the wording of the directive in the foregoing form was based on his feeling that the wording gave too little attention to the difficult international balance of payments situation and that it placed its main emphasis on the domestic situation.

Chairman Martin noted that the next meeting of the Committee had been tentatively scheduled for December 4, 1962.

Thereupon the meeting adjourned.

Ralph A. Young

Secretary