A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, March 3, 1964, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Daane
Mr. Hickman
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson
Mr. Shuford
Mr. Swan
Mr. Wayne

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

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

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Noyes, Economist
Messrs. Brill, Furth, Garvy, Holland, Jones, Koch, Mann, and Ratchford, Associate Economists
Mr. Stone, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Mr. Williams, Adviser, Division of Research and Statistics, Board of Governors
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Miss Eaton, Secretary, Office of the Secretary, Board of Governors

Mr. Hemmings, First Vice President of the Federal Reserve Bank of San Francisco
Messrs. Eastburn, Baughman, Parsons, Tow, and Green, Vice Presidents of the Federal Reserve Banks of Philadelphia, Chicago, Minneapolis, Kansas City, and Dallas, respectively
Mr. Brandt, Assistant Vice President of the Federal Reserve Bank of Atlanta
Mr. Meek, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Arena, Financial Economist, Federal Reserve Bank of Boston

In the agenda for this meeting, the Secretary reported that advice had been received of the election by the Federal Reserve Banks of members and alternate members of the Federal Open Market Committee for the term of one year beginning March 1, 1964, and that it appeared such persons would be legally qualified to serve after they had executed their oaths of office.

The elected members and alternates all of whom had now executed their oaths of office, were as follows:

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

Edward A. Wayne, President of the Federal Reserve Bank of Richmond, with George H. Ellis, President of the Federal Reserve Bank of Boston, as alternate;

W. Braddock Hickman, President of the Federal Reserve Bank of Cleveland, with Charles J. Scanlon, President of the Federal Reserve Bank of Chicago, as alternate;

Harry A. Shuford, President of the Federal Reserve Bank of St. Louis, with Malcolm Bryan, President of the Federal Reserve Bank of Atlanta, as alternate;

Eliot J. Swan, President of the Federal Reserve Bank of San Francisco, with Frederick L. Deming, President of the Federal Reserve Bank of Minneapolis, as alternate.

Upon motion duly made and seconded, and by unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1965, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

Wm. McC. Martin, Jr.	Chairman
Alfred Hayes	Vice Chairman
Ralph A. Young	Secretary
Merritt Sherman	Assistant Secretary
Kenneth A. Kenyon	Assistant Secretary
Arthur L. Broida	Assistant Secretary
Howard H. Hackley	General Counsel
David B. Hexter	Assistant General Counsel
Guy E. Noyes	Economist
Daniel H. Brill, J. Herbert Furth, George Garvy, David L. Grove, Robert C. Holland, Homer Jones, Albert R. Koch, Maurice Mann, and Benjamin U. Ratchford	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Federal Open Market Committee after February 28, 1965.

Upon motion duly made and seconded, and by unanimous vote, Robert W. Stone and Charles A. Coombs were selected to serve at the pleasure of the Federal Open Market Committee as Manager of the System Open Market Account and as Special Manager for foreign currency operations for such Account, respectively, it being understood that their selection was subject to their being satisfactory to the Board of Directors of the Federal Reserve Bank of New York.

Secretary's Note: Advice was subsequently received that Messrs. Stone and Coombs were satisfactory to the Board of Directors of the New York Federal Reserve Bank for service in the respective capacities indicated.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on January 28 and February 11, 1964, were approved.

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

Chairman Martin noted that the Secretariat had distributed, under date of February 24, 1964, a draft of a proposed new continuing authority directive relating to transactions in U. S. Government securities and bankers' acceptances, and he invited Mr. Young to comment on the nature of the changes recommended. Mr. Young said that the proposed revisions included an increase from $1 billion to $1.5 billion in the standing limitation specified in paragraph 1(a) on changes in System Account holdings of U. S. Government securities between meetings of the Committee; and revisions in the language of the preamble of the directive and of paragraph 1(a) that were intended to clarify the Committee's intent and remove certain ambiguities. Two supporting memoranda had been attached to his memorandum of February 24; one, dated February 14, 1964, from Mr. Stone, giving the reasons for the proposal to increase the standing limitation on changes in security holdings, and one, dated February 24, 1964, from the Secretariat, setting forth the reasons for the proposed language revisions. (Note: Copies of these memoranda have been placed in the files of the Committee.)

Following Mr. Young's remarks, Mr. Mills said that the Committee might recall that for a long time he had been distressed over the directive and had offered suggestions for changes because he thought it lacked clarity and led to confusion regarding its meaning. He moved that the Committee resume the type of directive which had been in effect at the beginning of 1961 and in use for many years previously. He thought that in those directives the intent of the Committee with respect to current policy was clearly expressed by clause (b) of paragraph 1. For example, the clause in effect in the latter part of 1961 provided for open market operations with a view "to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors." Mr. Mills also moved that the Committee resume the statements of operating policies that were in effect from 1953 until December 19, 1961.

Mr. Robertson seconded Mr. Mills' motion, expressing the view that the former type of directive provided greater restrictions on and better guidelines for operations in the System Open Market Account than did the continuing authority directives of the more recent type, which provided blanket authority and served no purpose. He thought the Committee would recall that he had taken the same position on earlier occasions.

In the ensuing discussion, Mr. Balderston asked whether the focus of Messrs. Mills' and Robertson's objections was on the continuing authority directive or on the current economic policy directive. Mr. Mills replied that he was concerned both with the directive that was issued to the Manager at each meeting, and, of greater importance, with the continuing directive that provided operating guidelines. Mr. Robertson said that his remarks at this stage were directed solely to the continuing directive.

Mr. Mitchell observed that he felt the current policy directives the Committee had been issuing were unsatisfactory; the Manager was at times given inconsistent instructions and was forced to make policy judgments if he was to operate at all. Mr. Mitchell said he did not know whether Mr. Mills' proposal would provide the solution, but he felt something should be done. He thought that the Committee's staff might be able to suggest some means of dealing with the problem.

Chairman Martin said he thought all members of the Committee were interested in improving the form of the current policy directive, but the question was how to do so. He personally would not want to return to the procedures the Committee had followed earlier, which in his opinion were inadequate. The problem facing the Committee was the perennial one of language and the meaning attached to words.

Mr. Hayes commented that in his judgment a detailed defense of present procedures was not necessary. It seemed to him that the change the Committee had made from its former procedures was clearly an improvement. While present procedures were not perfect, on the whole they were working well, and he failed to see the basis on which Mr. Mitchell objected to them.

Mr. Mitchell said that under present procedures one might argue that there were occasions when the responsibilities of the Open Market Committee were in fact transferred to the Manager of the Account, and Mr. Hayes replied that he could not agree with such an argument.

Chairman Martin observed that since the subject under discussion was so important it was desirable for everyone to have an opportunity to comment on it. Such a discussion was particularly appropriate today, since this was the Committee's organization meeting. He noted that Mr. Young had been concerned with the problem of the directive and he invited him to comment.

Mr. Young said he thought that the nature of the instructions given the Manager should be reviewed intensively from a technical standpoint from time to time. The problem was a continuing one to which no one as yet had found the solution. If the Committee so desired, it could designate a staff group to take the matter under study and make recommendations for the Committee's consideration.

Mr. Ellis agreed that the Committee should re-examine its techniques from time to time, and at least once each year. He felt the

Committee had made progress when it had established its present techniques, and that it probably could make further progress. He favored the proposal that a staff committee be appointed to suggest further improvements.

Mr. Irons thought the Committee's present procedure and directive were much better than those used previously. He did not consider them perfect, and he agreed that they could, and perhaps should, be studied periodically. It might be desirable to have a staff committee appointed for this purpose at this time. However, he was not dissatisfied with present procedures.

Mr. Swan said that he felt much the same as Mr. Irons. The present continuing authority directive was better than the previous one, he thought, and perhaps could be improved further. With respect to the current directive, he tended to share Mr. Mitchell's attitude. He would like to see the current directive formulated in more precise terms, but he did not know just how to do so. He did not favor returning to the former procedures.

Mr. Deming observed that he had no real criticism of the continuing authority directive, and he would not want to resume the operating policy statements as Mr. Mills had suggested. However, he agreed with Mr. Mitchell that the current policy directive was not as clear-cut as it might be, and that it should be possible to improve it. He thought this was something the Committee usefully could give attention to.

Mr. Scanlon said that he agreed with Mr. Irons. However, he thought that it would be desirable to ask the staff to make specific proposals for Committee consideration.

Chairman Martin commented that the staff had been doing that; for this meeting they had prepared alternate drafts of the current directive that would be distributed at the appropriate time. But a thorough review of the alternatives would be a rather difficult operation, since twelve people had to be satisfied. The Committee had once attempted a procedure under which it reconvened in the afternoon to review a draft of the directive prepared by the staff on the basis of the discussion in the morning session, but this had not proved wholly satisfactory. Perhaps some better procedure could be devised.

Mr. Mitchell said that he had had a somewhat different question in mind. It seemed to him that there were some typical problems in the directive, involving conflicts between objectives specified in terms of interest rates and money market conditions on the one hand, and in terms of bank reserves on the other. He hoped that the staff could suggest ways by which the Committee could avoid such conflicts.

Mr. Clay said that he did not think the directive could be made perfectly precise. He often had felt sympathy for the Manager in view of the nature of his instructions. On the whole, however, he thought the Manager had produced about the results that the Committee had intended. While he agreed that the Committee should continue to struggle for improvement in the directive, he did not think the present procedures were bad.

Mr. Wayne commented that it would be useful for the staff and the Committee to consider this subject and to circulate memoranda, but it was his personal feeling that the search for precision in the directive was futile. Unless the Committee was prepared to meet daily, its instructions had to be general in nature. The real problem, he thought, was not one of the degree of precision in the directive, but of difference in philosophy and views among the members of the Committee itself. Some members would favor returning to a "bills preferably" policy, and they would like to have the directive so drawn. Other members would not favor such a course, and they would not want the directive so drawn. In his opinion the present form of directive was an improvement over the former one, and he would not want to change it at this time, although he had no objection to discussion of the matter.

Mr. Shepardson said he felt much the same way as Mr. Wayne. He thought the present directive was definitely an improvement over the previous one. He agreed that the subject should be studied from time to time and that it would be desirable for the staff to be given a specific assignment for such a study now, with their report scheduled for consideration and discussion by the Committee. Until then, he would favor retaining the present form of the directive.

Mr. Robertson noted that the discussion had been broadened to relate to the current directive as well as the continuing authority directive. He then made the following statement:

> To my mind some revision in the language of our current policy directive to the Manager is very much in order for three reasons:
>
> (1) to gradually work away from so intense a focus on stable money market conditions as our prime operational target;
>
> (2) to reorient our attention towards more objective reserve measures, in so far as our present abilities allow us to estimate their current magnitude and the levels most appropriate for promoting the desired performance of the over-all economy;
>
> (3) to recognize more explicitly the fact that money market and reserve developments may not always unfold in the pattern we had in mind, and to give the Manager guidance for some appropriate redirecting of his operations on such occasions.
>
> When it comes to the precise wording to achieve these purposes, I have not been able to improve the phraseology I suggested about a year ago. You may think that it has not improved with age, but let me reiterate it nonetheless as a way of exemplifying my thinking:
>
> > "To implement this policy, operations for the System Open Market Account during the next three weeks shall be conducted with a view to maintaining marginal reserve availability at about the average level thus far this year, fluctuating as necessary to moderate substantial swings in money market conditions and to partly offset any tendency for aggregate reserve expansion to deviate substantially from the average rate for 1963 as a whole."

> To give you a concrete idea of the reserve statistics which this kind of directive would be asking the Desk to keep in mind, let me report that thus far this year free reserves have averaged about $135 million and borrowings around $270 million and that total reserve expansion for the year 1963 as a whole averaged a shade over 3 per cent. I would not want to include these specific figures in any directive, because I would not want either the Manager or the public to be led into thinking that the Committee wished to achieve any precise statistical objectives, or that it had any illusions that the Manager could in fact hit such statistical targets even if they were desired. Rather, I think the purpose of our directive should be to suggest, in clearly objective terms, the kind of money market and reserve climate that the Desk should be seeking to achieve and the general way in which the Desk should modify its operations if results do not turn out as desired.

Mr. Daane said that he had a great deal of sympathy with Mr. Wayne's position. The Committee had been struggling with this problem for a long time, and, it seemed, the more it strove for precision in wording the more it retrogressed. He felt that the Committee members sometimes failed to indicate clearly to the Desk the tenor of their objectives and philosophy To his mind this, rather than the lack of precise reserve or rate targets in the directive, was the real gap. He agreed with Mr. Hayes that the Committee had not abdicated from its responsibilities in favor of the Desk, and while he thought the Committee could give clearer guidance to the Desk, he doubted that the appropriate mechanism lay in making the wording of the directive more precise.

Mr. Hickman said he agreed essentially with Mr. Daane and others who had taken a similar position. He thought that the present continuing authority directive was better than the previous one. There was always room for improvement in the current policy directive. But since Committee members did not agree in general philosophy or with respect to particular objectives, it was necessary to cast the language of the directive in general terms in order to reach some measure of consensus. He thought that the operations of the Desk yielded a remarkably accurate reflection of the Committee's intentions.

Mr. Bopp remarked that he would prefer a more precise directive, but it should be cast in terms of magnitudes over which the Account Manager had direct control, such as the amount and composition of the System portfolio or particular market rates. He did not believe that precise targets should be set in terms of such variables as reserves or the volume of money, over which the Manager had no direct control, certainly not in the short run. The directives often specified inconsistent objectives, and there was room for improvement in this connection. But any directive had to leave the Manager some degree of flexibility in operations.

Mr. Bryan said that he saw several separate problems. One was to give directions to the Manager in terms sufficiently precise to make clear that the Committee was not delegating its powers to him. Unfortunately the Committee had never been able to agree on what criteria were most appropriate, and, he thought, for good reason. He personally had experimented with criteria drawn in terms of free reserves, nonborrowed reserves, and reserves against private deposits, but he had not gotten far because of the difficulties inherent in the problem.

Secondly, there was a problem beyond that of criteria--namely, that of the general philosophy on which the Committee operated. Behind the old form of directive there had been a concept of a free market in which it was assumed that, while intervention by the central bank was necessary, it should occur at the point at which it would have the least impact on the market. The Committee operated on the reserve base, taking into account those things that needed to be taken into account, such as employment, the general price level, and so forth. He thought the idea of the free market was a good one and the least dangerous to the central bank in the long run. But the Committee had received almost no academic or other support for this position Moreover, the Committee had found that "bills preferably" simply did not suit its policy objectives as time passed, and accordingly it had changed. Mr. Bryan said he was afraid that in the long run the Committee would find itself in difficulty as a result of that change.

Mr. Shuford said he, as everyone else would like to give more definitive instructions to the Desk; he was sure that such instructions would be helpful to them. The Committee was continually working on the problem of improving its instructions. He was in accord with the observation of Mr. Wayne that the basic problem was one of differences in philosophy and approach, and differences of view with respect to the variables that should be given the most consideration. He had talked with economists who urged that the Committee use specific guidelines in its operations, but he had been interested to note that each had a different set of guidelines in mind. This sort of problem probably would always exist in an evolving economy.

Mr. Shuford said he thought the Committee should work toward developing more definitive directions to the Desk. The Committee had made a little progress in this direction, and in general the Desk had operated in the manner the Committee had intended. In his opinion Mr. Robertson's suggestion was helpful, and he agreed that study of the directive by the Committee staff would be constructive. He thought this was a problem the Committee would have to continue to work with; as long as the economy was dynamic and changing, and there were differences of opinion as to what yardsticks deserved most attention, it would be difficult to formulate explicit instructions.

Mr. Balderston said that his approach to the continuing authority directive was somewhat like that expressed by Mr. Bryan. He viewed this directive as equivalent to a set of by-laws, subject to review once a year and providing the legal basis upon which the Desk operated. For many years after coming to the Board he had felt that the conclusion of the Ad Hoc Subcommittee that it would be desirable to give the dealers the confidence necessary to operate as dealers and not as brokers was important; and he had been among those who had defended the bills preferably doctrine as a philosophy that made for greater depth, breadth, and resiliency in the market and for a healthier market. However, he had come to feel eventually that, although the Committee said it was not doctrinaire in its views, it was considered to be so by many others.

Mr. Balderston said he felt the present continuing authority directive was an advance over the one in effect earlier, and he had not seen any evil effects flowing from it. As to the current directive, he shared the feeling expressed by several others that there often were internal inconsistencies in its language, and he favored giving serious consideration to Mr. Robertson's proposal. He did not know whether the Committee could go much beyond calling for about the same degree of ease, or more or less ease. When the Committee attempted to be more specific, difficulties arose from the differences among the members' general philosophies.

Mr. Hayes said that in his judgment the problem facing the Committee was not primarily one of wording in the directive, which could be solved by having the staff give the Committee a number of alternative drafts. The main problem was one of self-education by the members with respect to the nature of the measures--whether bank reserves, liquidity, the money supply, time deposits or whatever--that were of real importance in the effort to implement the Committee's objectives through the variables that the Committee could affect directly. A continuing flow of studies and memoranda from the Committee's staff and from others would contribute greatly to this general process of education. It seemed to Mr. Hayes that that was the main avenue through which the Committee could get a fruitful discussion of criteria.

Chairman Martin observed that the problem was extremely complicated, and was made even more complicated by the fact that the Treasury was continually operating in the market. The difficulties of meshing the two sets of operations was a source of constant concern to both the Committee and the Desk. He thought the Committee had to keep working on the problem of the directive--all aspects of it--to see what could be pulled together. It would be desirable, he thought, to have Mr. Young and the Secretariat review the matter in the light of today's discussion, and to prepare a memorandum dealing, among other things, with the problem that Mr. Mitchell had noted with respect to inconsistency in the instructions contained in the directive.

The Chairman then called for a vote on Mr. Mills' motion, with the following result:

> Votes for the motion: Messrs. Mills and Robertson. Votes against the motion: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mitchell, Shepardson, Shuford, Swan, and Wayne.

Mr. Robertson observed that he had voted for Mr. Mills' motion not because he thought the previous form of the directive was perfect, but because he considered it better than the present form. He felt that a thorough review of both the continuing authority and current policy directives was desirable.

Chairman Martin said that it was useful to have had this matter raised today; he thought the discussion had been valuable. While he would not like to see the Committee return to its previous procedure with respect to the directive, it was clear from the discussion that the present procedure was not regarded as wholly satisfactory. He would hope that the Committee would continue to work actively on the matter.

Thereupon, upon motion duly made and seconded, it was voted, with Messrs. Mills and Robertson dissenting, to authorize and direct the Federal Reserve Bank of New York, until otherwise directed by the Committee, to execute transactions in the System Open Market Account in accordance with the following continuing authority directive relating to transactions in U. S. Government securities and bankers' acceptances:

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

(a) To buy or sell United States Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing United States Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than $1.5 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting.

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal

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

(c) To buy United States Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (1) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $500 million.

Upon motion duly made and seconded, and by unanimous vote, the Authorization Regarding Open Market Transactions in Foreign Currencies, as reaffirmed March 5, 1963, and the Guidelines for System Foreign Currency Operations, as amended May 28, 1963, were reaffirmed:

AUTHORIZATION REGARDING OPEN MARKET TRANSACTIONS IN FOREIGN CURRENCIES

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

I. Role of Federal Reserve Bank of New York

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

II. Basic Purposes of Operations

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

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

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

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

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

(5) In the long run, to make possible growth in the

liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

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

(1) To offset or compensate, when appropriate, the effects on U. S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement;
(2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;
(3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and
(4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

IV. Arrangements with Foreign Central Banks

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

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

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

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

V. Authorized Currencies

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

VI. Methods of Acquiring and Selling Foreign Currencies

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

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

VII. Participation of Federal Reserve Banks

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

VIII. Administrative Procedures

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

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

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

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

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

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

IX. Special Manager of the System Open Market Account

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

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

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

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

X. Transmittal of Information to Treasury Department

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

XI. Amendment of Authorization

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

GUIDELINES FOR SYSTEM FOREIGN CURRENCY OPERATIONS

1. Holdings of Foreign Currencies

Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence. Holdings of larger amounts will be authorized only when the U. S. balance of international payments attains a sufficient surplus to permit the ready accumulation of holdings of major convertible currencies.

Holdings of a currency shall generally be kept sufficient to meet forward contracts in that currency (exclusive of contracts made under parallel arrangements with foreign monetary authorities which provide their own cover) expected to mature in the following three-week period.

Foreign currency holdings above a certain minimum shall be invested as far as practicable in conformity with Section 14(e) of the Federal Reserve Act.

2. Exchange Transactions

System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destablizing effects 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.

Drawings made by either party under a reciprocal arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

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.

3. Transactions in Spot Exchanges

The guiding principle for transactions in spot exchange shall be that, in general, market movements in exchange rates, within the limits established in the International Monetary

Fund Agreement or by central bank practices, index affirmatively the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public.

Temporary or transitional fluctuations in payments flows may be cushioned or moderated whenever they occasion market anxieties, or undesirable speculative activity in foreign exchange transactions, or excessive leads and lags in international payments.

Special factors making for exchange market instabilities include (i) responses to short-run increases in international political tension, (ii) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, or (iii) market rumors of a character likely to stimulate speculative transactions.

Whenever exchange market instability threatens to produce disorderly conditions, System transactions are appropriate if the Special Manager, in consultation with the Federal Open Market Committee, or in an emergency with the members of the Committee designated for that purpose, reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified, curtailed, or eventually discontinued pending a re-assessment by the Committee of supply and demand forces.

4. Transactions in Forward Exchange

Occasion to engage in forward transactions will arise mainly when forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to a disequilibrating movement of short-term funds, or when it is deemed appropriate to supplement existing market facilities for forward cover as a means of encouraging the retention or accumulation of dollar holdings abroad.

Proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

For such operations, the New York Bank may, where authorized, take over from the Stabilization Fund outstanding contracts for forward sales or purchases of authorized currencies.

The New York Bank may also, where authorized, purchase currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements.

The New York Bank may further, where authorized, purchase and sell currencies through forward as well as spot transactions for the purpose of settling commitments denominated in one currency by means of utilizing the Bank's holdings of another currency.

5. Exchange Rates

Insofar as practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and should lower the rate at which it is prepared to purchase a currency as its holdings of that currency approach the established maximum.

The Bank shall also, where practicable, sell a currency through spot transactions at rates at or above its par value, and should raise the rate at which it is prepared to sell a currency as its holdings of that currency approach zero.

Spot transactions at rates other than those set forth in the preceding paragraphs shall be specially authorized by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies.

Upon motion duly made and seconded, and by unanimous vote, the following continuing authority directive to the Federal Reserve Bank of New York with respect to foreign currency operations was approved:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 3, 1964; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $2.05 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of $150 million equivalent, by means of:

(a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
(b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies; and
(c) purchases through spot transactions and sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U. S. Stabilization Fund, and concurrent sales through forward transactions to the U. S. Stabilization Fund, of any of the foregoing currencies in which the U. S. Treasury has outstanding indebtedness, in accordance with the Guidelines and up to a total of $100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

In presenting for approval the procedures with respect to allocations of the System Open Market Account, Chairman Martin commented that no changes were proposed from the procedures approved on December 3, 1963.

Mr. Mills inquired if that was really the disposition of the Committee. His recollection was that the present allocation formula had been adopted on December 3 as a temporary measure, for a period of two or three months, to carry over the year end. There had been some differences of opinion then, and his own position had been that it would be preferable to follow the law literally and adopt the alternative mentioned in clause (c) of a memorandum prepared by Messrs. Stone and Farrell under date of November 27, 1963: "to choose to let intra-weekly deficiencies occur without attempting remedial adjustments." When deficiencies occurred at Federal Reserve Banks, they would be recorded and appropriate taxes paid. Instead, a formula had been accepted, on a temporary basis as he understood it, under which the allocations were shuffled around to disguise the facts and to avoid the deficiencies that otherwise would have occurred.

Mr. Stone noted that the procedures that had been in effect before December 3, 1963, specified that, to avoid a deficiency at a Reserve Bank on a statement date, a special "as of" adjustment would be undertaken the following morning, before the books for the statement date had been closed. Such procedures did not extend this "as of" adjustment to any other day of the week. It had seemed to the Account Management that intra-weekly deficiencies would be likely to occur in the period between December 3 and the end of the year. If they did occur, that fact would be noted in the Board's Annual Report, scheduled for publication in March 1964. The question put to the Committee then was whether it wanted to have the fact of a Reserve Bank deficiency published in March. There had been extensive discussion of the matter at the joint meeting of the Board and the Reserve Bank Presidents on the afternoon of December 3, following which the meeting of the Open Market Committee had been reconvened and an alternative adopted under which the Account Management was instructed to make "as of" adjustments to avoid deficiencies--whether on a statement date or not. It had been suggested then that sometime during 1964 the question should be reviewed of permitting deficiencies to occur, which would require their publication in the Board's Annual Report covering 1964. The thought was that the public would be made aware by this means that a problem was developing with respect to the reserves of the Federal Reserve Banks, and perhaps a process of discussion would be generated and a fund of understanding built up, so that there would be less adverse reaction if the time came when there simply were not enough reserves in the System to avoid deficiencies on statement dates.

Mr. Scanlon said that he happened to have been one whose view at the December meeting differed from that of the majority, but he had not thought that there was anything temporary about the new allocation procedure. He had accepted it as continuing indefinitely until the Committee chose to make another change.

Mr. Sherman recalled that the allocation procedure had been discussed briefly at the December 3 Open Market meeting and more extensively at meetings of the Board and of the Board jointly with the Presidents. The discussion ran to the question of whether either the Board or the Reserve Banks felt that it was desirable, as a matter of System policy, to permit deficiencies to occur and taxes to be levied on the Reserve Banks and to have the facts published in their respective publications. A rather novel suggestion for a different approach to the question of allocating reserves had been made, Mr. Sherman said, and some thought had been given to this suggestion by the staff. But he believed no memorandum or specific proposal for a change was being prepared at present.

Chairman Martin observed that the discussion pointed up the need for further study of the subject, with a view to consideration at some later time. He thought it would be a mistake to return now to the previous allocation procedure.

After further discussion, upon motion duly made and seconded, with Mr. Mills dissenting, the procedures with respect to allocations of the System Open Market Account as approved December 3, 1963, were reaffirmed. The procedures read as follows:

1. Securities in the System Open Market Account shall be reallocated on the last business day of each statement week and of each month by means of adjustments proportionate to the adjustments that would have been required to equalize approximately the average combined reserve ratios of the 12 Federal Reserve Banks based on the most recent available five business day's reserve ratio figures.

2. The Board's staff shall calculate, in the morning of each business day, the reserve ratios of each Bank after allowing for the indicated effects of the settlement of the Interdistrict Settlement Fund for the preceding day. If these calculations should disclose a deficiency in the reserve ratio of any Bank, the Board's staff shall inform the Manager of the System Open Market Account, who shall make a special adjustment as of the previous day to restore the combined reserve ratio of that Bank to the average of all the Banks or to such higher level as may be necessary to eliminate the deficiency in note or deposit reserves. However, such adjustments shall not be made beyond the point where a deficiency would be created at any other Bank. Such adjustments shall be offset against the participation of the Bank or Banks best able to absorb the additional amount or, at the discretion of the Manager, against the participation of the Federal Reserve Bank of New York. The Board's staff and the Bank or Banks concerned shall then be notified of the amounts involved and the Interdistrict Settlement Fund shall be closed after giving effect to the adjustments as of the preceding business day.

3. Until the next reallocation the Account shall be apportioned on the basis of the ratios determined in paragraph 1, after allowing for any adjustments as provided for in paragraph 2.

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

Mr. Mills said that he dissented from this action because of the matter of principle involved; he did not approve the continuance of procedures that in his judgment were not consistent with either the spirit or the letter of the statute. He had not dissented at the time of the adoption of the present allocation procedure on December 3, 1963, because it had been his belief that the action was temporary, and that the matter would be reviewed after the year end.

Mr. Stone commented that he was not sure that the basic issues had changed much since December, but he would undertake to review the Stone-Farrell memorandum of November 27, 1963, see whether any changes were indicated, and lay the matter before the Committee again.

The authorization for distribution of periodic reports prepared by the Federal Reserve Bank of New York for the Federal Open Market Committee was presented for consideration and approval.

> Thereupon, upon motion duly made and seconded, and by unamimous vote, authorization was given for the following distribution:

1. The Members of the Board of Governors.
2. The Presidents of the twelve Federal Reserve Banks.
3. Officers of the Federal Open Market Committee.

*4. The Secretary and the Under Secretary of the Treasury.
*5. The Under Secretary of the Treasury for Monetary Affairs and the Deputy Under Secretary for Monetary Affairs.
*6. The Assistant to the Secretary of the Treasury working on debt management problems.
*7. The Fiscal Assistant Secretary of the Treasury.

8. The Director of the Division of Bank Operations of the Board of Governors.
9. The officer in charge of research at each of the Federal Reserve Banks not represented by its President on the Federal Open Market Committee.

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*Weekly reports of open market operations only.

10. The alternate member of the Federal Open Market Committee from the Federal Reserve Bank of New York; the Assistant Vice Presidents of the Federal Reserve Bank of New York working under the Manager of the System Account; the Managers of the Securities Department of the New York Bank; the officer in charge and Assistant Vice President of the Research Department of the New York Bank; and the confidential files of the New York Bank as the Bank selected to execute transactions for the Federal Open Market Committee.
11. With the approval of a member of the Federal Open Market Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or of a Federal Reserve Bank.

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

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

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

Such Interim Committee shall consist of seven members, comprising each regular member and regular alternate of the Federal Open Market Committee then available, together with an additional number, sufficient to make a total of seven, which shall be made up in the following order of priority from those available:

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

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

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

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

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

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

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

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

By unanimous vote the Committee reaffirmed the authorization, first given at the meeting on December 16, 1958, providing for System personnel assigned to the Office of Emergency Planning, Special Facilities Branch (formerly, Office of Civil and Defense

Mobilization--Classified Location) on a rotating basis to have access to the resolutions (1) providing for continued operation of the Committee during an emergency and (2) authorizing certain actions by the Federal Reserve Banks during an emergency.

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

Reference was made to the procedure authorized at the meeting of the Committee on March 2, 1955, and most recently reaffirmed on March 5, 1963, whereby, in addition to members and officers of the Committee and Reserve Bank Presidents not currently members of the Committee, minutes and other records could be made available to any other employee of the Board of Governors or of a Federal Reserve Bank with the approval of a member of the Committee or another Reserve Bank President, with notice to the Secretary.

It was stated that lists of currently authorized persons at the Board and at each Federal Reserve Bank (excluding secretaries and records and duplicating personnel) had recently been confirmed by the Secretary of the Committee. The current lists were reported to be in the custody of the Secretary, and it was noted that revisions could be sent to the Secretary at any time.

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

This concluded the consideration of the continuing authorizations of the Open Market Committee, and the Committee turned to a review of operations during the period since the meeting of the Committee on February 11, 1964.

Before this meeting there had been distributed to the members of 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 February 11 through February 26, 1964, and a supplementary report covering the period February 27 through March 2, 1964. Copies of these reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Coombs commented that the gold stock would remain unchanged this week. As of today, he said, the Stabilization Fund had on hand $74 million of gold, including $18 million received in the February distribution of the Gold Pool. Sales of at least $53 million during March were expected. The Russians were still on the sidelines of the London market.

There had been a great deal of activity in the exchange markets during the past three weeks, Mr. Coombs said, with ominous speculative tendencies developing in the markets for both sterling and the German mark. In the case of sterling, publication of some disappointing trade figures for January triggered a strong burst of speculation against sterling beginning about 10 days before the British Bank rate increase and the Bank of England was forced to disburse at least $85 million in intervention operations. While various statements by British official spokesmen explaining the Bank rate increase had stressed the overheating of the domestic economy, Mr. Coombs felt sure they were equally concerned with the drain on their reserve position. In 1961, when a similar speculative drive on sterling developed in March of that year, the British delayed action until August and, in the meanwhile, lost more than $1 billion. On this occasion, the swift and decisive response of the Bank of England in the form of a 1 per cent Bank rate increase had thrown back the speculative drive before it could gather momentum.

Since last Friday, Mr. Coombs said, the Bank of England had recovered nearly half of its previous reserve losses and the sterling rate had moved back up from a low of 2.7945 to approximately 2.7980. On balance, British reserves decreased nearly $48 million in February. Short covering seemed to be the major factor in the rise in the sterling rate with no indication as yet of any movement of short-term investment money from New York to London. Since last Thursday, the covered interest arbitrage differential had been close to zero and this might partly reflect market knowledge both in London and New York that the Bank of England and the Federal Reserve were in a position to squeeze out quickly any sizable differential which might appear.

The counterpart of the speculative attack on sterling, Mr. Coombs continued, was the development of strong buying pressure on the German mark as rumors of a possible revaluation began to flood the market. During the first three weeks of February the Bundesbank took in more than $200 million. During this period, Mr. Coombs said, he had repeatedly suggested to Bundesbank officials the desirability of a resumption of forward operations in order to reassure the market that the mark parity would remain unchanged. Possibly because these Bundesbank officials were not themselves fully persuaded of their government's firmness on this matter, they suggested waiting a while longer. The British Bank rate decision might have helped to stiffen the Bundesbank's position, however, and they concurred last Thursday in a resumption of Federal Reserve spot operations financed by a swap drawing, and, on Friday, in a resumption of forward operations for joint Treasury and Bundesbank account. So far, these operations on both the spot and forward markets seemed to have had some useful results not only in strengthening the dollar rate against the mark but, much more importantly, in providing the market with official reassurances that the mark parity would not be changed. Sales of $7.5 million equivalent of forward marks had brought the forward premium on the mark down to about 0.66 per cent today from 1.05 per cent when the operation was begun, and the whole market had a much better tone. It was expected that these operations would be further reinforced next week, when the Bundesbank would offer forward cover at a cost of 1/2 per cent to German commercial banks placing funds in U. S. Treasury bills. The technical effect of this operation would be to shift dollars from the Bundesbank to the commercial banks, but the willingness of the Bundesbank to assume a short position in marks by thus providing forward cover should help still further to reassure the market that the mark parity would remain unchanged.

The lira continued under pressure, Mr. Coombs said, and the Bank of Italy would show a sizable reserve loss for February. The Italian Government had not yet put together a comprehensive balance of payments program although the Bank of Italy had unobtrusively brought about a considerable measure of credit restraint, and, last month, the Government took several tax measures designed to curtail luxury imports and to strengthen confidence in the security markets.

Mr. Coombs reported that on March 9 the Treasury, in order to pay off a maturing lire bond, would take over $50 million of the lire that the Account had sold forward to the Treasury.

In the Netherlands, he observed, the guilder had continued to weaken and last week the System was able to purchase for Treasury account $17 million of guilders. These guilders would be used to reverse an earlier Treasury swap of marks against guilders and provided, Mr. Coombs thought, another good illustration of the usefulness of the technique of moving through swaps from one European currency to another.

The Swiss franc also showed a weakening tendency, Mr. Coombs reported, partly because of seasonal influences and partly because of the deterioration of the Swiss balance of payments position. The dollar holdings of the Swiss National Bank had now become reduced to their normal level of $175 million and this would mean that any net demand for dollars in Switzerland would now give the System an opportunity to sell dollars for Swiss francs. Mr. Coombs was hopeful of making rapid progress in reducing the System's Swiss franc debt over the next few months.

Mr. Wayne asked what the source was of the gold that the London Pool had distributed in February, and Mr. Coombs replied that he was not entirely sure. He thought there had been some weakening of speculation in gold, and he was hopeful that if there were continued improvement in the U. S balance of payments this tendency toward dishoarding would be reinforced. Also, the South Africans were not doing quite as well as earlier, and they were supplying a larger proportion of their gold output to the market.

In answer to a question by Mr. Daane, Mr. Coombs said that British reserves had increased $28 million immediately after the change in the Bank rate, and there had been some further accruals since. The situation was not yet solid. Their bill rate was left at a very low level in relation to the Bank rate when the latter was raised. If sterling showed any weakening tendencies, the authorities might have to move the bill rate up a bit more.

Mr. Ellis referred to Mr. Coombs' comment that the Bank of England and the System were in a position to squeeze out any sizable covered interest differential between New York and London, and asked Mr. Coombs what his expectations were with respect to the differential.

Mr. Coombs replied that he would not want to see a differential develop of more than 25 basis points in favor of London, and would plan to operate in the spot and forward markets to prevent it. With a larger covered spread there was a risk that funds would flow out. He noted that the same situation existed with respect to the spread between New York and Montreal; it had not exceeded 25 basis points in recent months.

In reply to further questions, Mr. Coombs said he had not heard reports of funds moving abroad on an uncovered basis. The main short-run effect of the increase in British interest rates, he thought, was to make the London market a more expensive source of financing, and to lead to a tendency for borrowers to seek funds in the Euro-dollar market or in New York. There already were indications that Euro-dollar rates were moving up and this possibly would go further.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period February 11 through March 2, 1964, were approved, ratified, and confirmed.

Mr. Coombs recommended renewal of the standby swap arrangement of $100 million with the Netherlands Bank for a further three-month period, and renewal for another three months of a $13 million swap with the Bank for International Settlements of sterling against Swiss francs.

> Renewals for further three-month periods of the standby swap arrangement of $100 million with the Netherlands Bank, and of a $13 million swap with the Bank for International Settlements of sterling against Swiss francs, as recommended by Mr. Coombs, were approved.

Before this meeting there had been distributed to the members of the Committee a report from the Manager of the System Open Market Account covering open market operations in U. S. Government securities and bankers' acceptances for the period February 11 through February 26, 1964, and a supplemental report covering the period February 27 through March 2, 1964. Copies of both reports have been placed in the files of the Committee.

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

> The prices of Government securities have drifted irregularly lower since the last meeting of the Committee, largely in adjustment, first, to discussion of the possibility of a rise in the British Bank rate, and then to the 1 per cent increase in that rate on February 27. The market's reaction to the actual increase in the Bank rate was notably mild, with prices declining generally 6/32 to 8/32 before the week-end and then recovering 1/32 to 2/32 yesterday.
>
> The moderate nature of the adjustment thus far undoubtedly reflects the extent to which the market had already had an opportunity to weigh the implications of a move by the British

for the future course of domestic interest rates. There was no precipitate break in prices such as might have occurred had the rate change caught the markets unaware. By the time the change occurred, the market was in a reasonably good technical position, with dealer holdings of issues maturing in over five years down to $93 million from $280 million at the time of the Committee's last meeting. Dealer's net positions in such issues receded further to $16 million at Friday night's close as a result both of purchases for Treasury investment accounts and some small investment buying. The market at the present time is waiting and watching cautiously to see how the passage of the tax bill and the change in the Bank rate affect the course of the American economy and the pattern of international money flows over the weeks and months ahead.

Treasury bill rates also moved higher over the period since the last meeting in response to the same factors affecting the market for coupon securities. In yesterday's weekly auction a strong demand developed for Treasury bills at the higher levels to which rates had risen after the Bank rate change. While market discussion before the auction had pointed to rates of 3.60-3.62 per cent on the three-month bill and 3.80-3.81 per cent on the six-month bill, the average issuing rates actually established were about 3.59 and 3.78 per cent, respectively.

Prices of outstanding corporate and municipal bonds reached their highest levels of the year at about the time of the Committee's last meeting and then declined irregularly in response to an increased supply of new offerings as well as to the uncertainties stemming from the factors affecting the Government securities market. Offering rates on new issues coming to the market worked irregularly higher over the interval as investors resisted the efforts of underwriters to lead the market toward lower yields. Looking ahead, the calendar of municipal offerings remains near recent high levels while activity in the corporate market is dominated by the offering by the American Telephone and Telegraph Company of rights to subscribe to about $1.2 billion of additional stock.

Turning to open market operations, the System conducted operations in the market on only two days during the first two weeks of the period. Since last Wednesday, however, the System has bought about $650 million Treasury bills, almost all in the market, as market factors have absorbed reserves more rapidly than had been estimated on the basis of past behavior.

Mr. Deming asked whether Mr. Stone would associate a present bill rate of about 3.60 per cent with approximately the same market conditions as obtained three weeks ago, when the bill rate was at 3.53 per cent. In other words, would a higher level of reserve availability be required now than three weeks ago to reduce the bill rate to its earlier level?

Mr. Stone replied that for the immediate future there probably would be sufficient uncertainty in the market to require greater reserve availability than formerly to reduce the bill rate to about 3.53 per cent. But after perhaps another ten days or two weeks the market would have formed a consensus, and if that consensus was that there would be no immediate policy response to the increase in the British Bank rate and the tax cut, the bill rate probably would settle back to its previous neighborhood.

Mr. Mills said that he did not know how it could have been avoided, but last Wednesday the Account had purchased about $200 million in bills on the last day of a reserve week when there were indications that reserves were needed. But previously the Account had operated on a line that yielded free reserves somewhat below $100 million. The $200 million purchase raised the average level of free reserves above $100 million but did not affect the tone of the market, which tone was exhibited in the Federal funds rate and the Treasury bill rate. What concerned him, Mr. Mills said, was the unintentional element of dissimulation in raising free reserve averages for the week in statistical terms but not changing the underlying market conditions.

Mr. Stone said the operation last Wednesday was undertaken primarily to offset what had seemed to the Management to be a sharp tightening of market conditions. Daily figures on member bank borrowing through Tuesday clearly indicated that the market was in process of developing substantial pressure. On Friday, February 21, borrowings were $74 million; on Monday, $244 million; and on Tuesday, $313 million. The performance of the market on Wednesday suggested that these pressures were not only continuing but intensifying, and in the light of the signals coming from the market, the Desk bought $212 million of bills on Wednesday. Member bank borrowings on that day were $574 million. When he saw that figure the next morning, Mr. Stone said, it seemed to him that the Desk's reading of the market had been right. Had the Wednesday purchases not been made, borrowings could have risen to close to $1 billion that day.

In reply to questions by Mr. Ellis, Mr. Stone reported that the Treasury anticipated announcing a cash financing of about $1-1/2 billion sometime during the last full week of March, with payment in the early part of April. The next major financing would be the May refunding, which the Treasury would discuss with its advisory committees during the last week in April. If the cash financing involved fairly short-term securities with a payment date around April 8, the securities probably would be fairly well digested by the payment date. The Committee would then have a "free period" of about three weeks before the May refunding. If the cash financing involved longer term bonds, the free period would be reduced.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period February 11 through March 2, 1964, were approved, ratified, and confirmed.

Chairman Martin then called for the staff economic and financial reports, supplementing the written reports that had been distributed prior to the meeting, copies of which have been placed in the files of the Committee. Mr. Koch commented on economic conditions as follows:

> The two major domestic economic considerations most relevant to the determination of monetary policy are: (1) the existing degree of resource utilization, and (2) the balance and sustainability of recent developments. What are the new facts available relating to these considerations, particularly as to their implications for the future?
>
> As for resource utilization, the unemployment rate in February was probably little changed from January's 5.6 per cent. Thus, it remained in the narrow 5-1/2 to 6 per cent range in which it has fluctuated now for two years. The rate of utilization of manufacturing capacity is estimated to still be at 87 per cent, a level which it reached in the second quarter of 1963 and at which it remained for the rest of the year. For major materials, which have more to do with the beginnings of inflation than manufacturing as a whole, the utilization rate is estimated at 82 per cent. In the past, upward price and cost pressures have tended to develop when major materials output approached 90 per cent of capacity.
>
> Now that the tax cut is a reality, utilization of both labor and capital will no doubt increase over the coming months, but the rise is likely to be gradual and to take place only after some time lag.
>
> Turning to the character of recent economic developments, let me comment briefly now on four strategic areas, namely,

inventories, fixed investment, prices, and wages. Manufacturing inventories decreased moderately in January, after showing a fairly large increase in the fourth quarter. Average stock/sales ratios, which had been running at historically low levels, actually took an appreciable dip in December and January when factory shipments rose substantially after showing little change for some months.

Recent inventory developments suggest that business management is still apparently more interested in economizing on stocks rather than in hedging future price increases. One evidence of this is that stocks of finished goods have been rising, while stocks of raw materials have been declining. Moreover, most purchasing agents report their inventory holdings as at about desired levels, and they indicate little change in future buying commitments.

As for fixed investment, new orders for durable goods picked up sharply in January following two months of decline. The January rise was due mainly to heavier ordering of steel, aircraft, and missiles. This pickup may also have been partly a seasonal development, since the seasonally adjusted series on orders also jumped sharply in January of the two preceding years. New orders for durable goods have shown sharp fluctuations around a fairly stable level since early last year, with the fluctuations due mainly to variations in steel and defense ordering. However, over this period new orders for producers' equipment have shown a fairly steady and large rise. In January, with total new orders up 5 per cent from a year earlier, new orders for nonelectrical machinery were up 13 per cent.

According to a recent NICB survey, new capital appropriations of large manufacturing companies, which generally precede spending by from 6 to 9 months, declined 13 per cent in the fourth quarter of 1963. This decline followed sharp increases in the two preceding quarters. In the past, periods of sharp increase have typically been followed by brief declines.

These new orders and capital appropriations data can still be considered consistent with the conclusion of the recent McGraw-Hill resurvey, namely, that businessmen are showing quiet confidence in their fixed investment spending programs rather than a boom psychology. Lionel D. Edie & Co. estimates a 12 per cent rise in business fixed capital outlays this year, as against the McGraw-Hill 9 per cent, but this, too, does not add up to a capital spending boom.

Price developments continue to raise gnawing concern about their possible cumulative potentialities. Dramatic developments are centered in nonferrous metals. Tin prices first rose sharply and then fell back when sales from the Government's stockpile were stepped up. Copper is up in price in speculative markets and being rationed. Major producers of zinc failed to go along with an attempted price increase, although demand has been strong. There is some hope that price increases in the nonferrous metals area will be limited by the increases in production that are being stimulated.

Recent price developments in the nonferrous metals area raise the question of import quotas that remain in effect for lead and zinc, and Government stockpiles which continue high in the case of most metals. If the price rise continues and remains of particular concern in the nonferrous metals area, specific Government action regarding import quotas and stockpiles would appear more desirable alternatives than general measures to restrain over-all demand.

The most significant wage settlement thus far this year has been in the trucking industry where a 38 month contract has been signed involving a total wage increase, including fringe benefits, amounting to an annual rate of a little under 4 per cent. In general, moreover, wage increases received by the Teamsters in recent years have been somewhat larger than those in most other industries.

This recent settlement in trucking, along with those in glass and apparel, are roughly comparable in amount to the average reached in last year's negotiations. More generally, with labor productivity continuing to rise, wage rate increases equal to those of recent years would result in further stability of unit labor costs. Bargaining in nonferrous metals, autos, farm equipment, and meat packing is still to come. Auto bargaining, in particular, could either confirm or upset the recent stability in labor costs. Recent comments by Walter Reuther and George Meany suggest a further firming of bargaining positions and a disinclination to pay much attention to the wage/price guidelines proposed by the Administration. Recent management comment on the guidelines also has been critical. But all this may be bargaining tactics, and when the participants in the auto industry sit down at the bargaining table, reason is still likely to prevail. The adversaries are strong, sophisticated, and well-informed, and have done business with each other before.

To sum up my reading of the domestic economic information recently becoming available to us, it suggests continuing ample availability of labor and plant capacity, stability in labor costs and in the general price level, and still little evidence of imbalances or excesses developing in key areas of activity. From the point of view of the available evidence on domestic economic developments and despite the tax cut, no change in monetary policy is called for at this time.

Mr. Noyes made the following statement concerning monetary and credit developments:

Preliminary figures for the last half of February suggest that the conventionally defined money supply drifted down a little further from the early January high. Over the same period, time deposits at commercial banks have moved erratically--most recently up again--as the changes have been dominated by the aggressiveness with which banks have marketed negotiable C.D.'s. Passbook savings have tended to rise somewhat less vigorously since the turn of the year.

After a small seasonally adjusted decline in January, bank credit expansion appears to have picked up again in February. This was due in part to the fact that bank holdings of Governments, which usually decline, remained substantially unchanged, while bank investment in municipal and agency issues increased a little.

Among the loan categories, business loans picked up as compared to January, but are still well below the rate of expansion that prevailed in the last half of 1963. Real estate and consumer loans also rose somewhat and security loans showed less than the normal seasonal decline.

All of the measures of aggregate reserves--total nonborrowed, total required, and required reserves behind private deposits--have drifted down since early January. Free reserves have fluctuated rather widely, both from week to week and as between the preliminary and final figures.

The tone in the money market remained steady, however, up to the announcement of the Bank rate change Thursday. After the announcement, 90-day bill rates moved up to 3.60 but the general tone of the money market did not change dramatically. The tone was maintained with System purchases Thursday, Friday and yesterday that were no larger than were needed to meet seasonal reserve needs, and, in fact, the current outlook is for a somewhat lower free reserve figure this week than last. The projections suggest that the System will have to make further purchases to offset market factors next week, and in subsequent weeks through early April, except perhaps for the week ending March 18.

So far, at least, it does not appear that market developments since the Bank rate increase are in any sense forcing the System's hand in the direction of a particular policy change. In other words, there is not, at present, a situation in the market which would in itself dictate either a change in open market policy or in discount rates.

Apart from any change in policy, both the staff and some Committee members have felt concern recently with regard to the present wording of the economic directive. The first paragraph of the directive is in obvious need of revision at this meeting to take account of new information on economic and financial developments. But the concern to which I refer relates more specificially to the second or operational paragraph. It runs in part to the implications of continuing for too long a period a primary target expressed in terms of the "maintenance of the same money market conditions," and in part to the problems associated with the actual or potential conflict between such a target and "accommodating moderate expansion in aggregate bank reserves."

There are certainly times when the words "maintain the same conditions in the money market" express the desires of the Committee as well or better than any other words that might be chosen. But perhaps the dangers involved in a continued use of such a phrase are best illustrated by the fact that it has not seemed appropriate to change it as we move into and out of periods in which an "even keel" is dictated by Treasury financing operations.

Thus, the record could be read to suggest that the Manager has been directed to maintain an "even keel" continuously since early last fall--and the behavior of the market might be interpreted to suggest that he has been reasonably successful in carrying out just such a directive. Yet it seems doubtful that any member of the Committee who has voted to approve the directive would wish to have his position interpreted in this way. From this, I conclude that the phrase "maintain about the same money market conditions" should, if possible. be reserved for those occasions when it is literally the Committee's intention, which would be during periods of Treasury financing and perhaps a few others, and that other words should be employed to direct the continuation of about the same policy from meeting to meeting.

Let me comment briefly on the conflict aspect of the directive. I think everyone who has been exposed to the workings of the Committee has had a try at revising the directive so as to maintain short-run instructions, such as a bill rate, market tone, or free reserve target on the one hand, and at the same time give recognition to a medium-term goal of appropriate change in one or another of the total reserve measures.

Despite the remarks of ill-informed critics, there is no doubt whatever in my mind that the people in this room are as aware as anyone of the relationship between money market conditions and aggregate bank reserve expansion or contraction. It is not ignorance or humility but wisdom which has caused them to avoid locking policy to prescribed rate of growth in one or another of the total reserve measures. Yet, the same wisdom leads them to acknowledge the fact that any given policy posture toward market conditions has implications for the rate of total reserve expansion, difficult as it may be to quantify that relationship for a short period. As I have indicated, I do not believe it is presently feasible to cast a meaningful current operational directive primarily in terms of a rate of growth in some aggregate reserve measure. What is possible is to state the desired policy in terms of a market target or targets, cast in terms of rates, tone and feel, or free reserves, which may be as specific or as broad as the Committee wishes, and then express the expected implications of such a policy for aggregate reserve expansion in the light of anticipated external market conditions. The first two alternative drafts prepared by the staff for your consideration later in the meeting recast the directive along these lines.

Mr. Furth commented on the balance of payments as follows:

Preliminary payments data for the first two months of the year have been surprisingly favorable. The payments deficit for January amounted to $143 million, and the tentative weekly data for February suggest a deficit of only $40 million, after deducting from U. S. receipts $80 million of German military prepayments. If final data confirm these figures, the payments deficit for the first two months would be at an annual rate of only $1.1 billion, as compared with a rate of $1.5 billion in the second half of 1963.

The recent figures are particularly satisfying for three reasons. First, foreign private dollar holdings rose in January by $400 million, offsetting the decline in those holdings during December. Hence, on the basis of "official settlements" January would have shown a substantial surplus rather than a deficit. Second, U. S. bank-reported claims on foreigners rose in January more than $200 million; even if only short-term U. S. claims are taken into consideration, the U. S. liquidity position would on balance show some improvement rather than deterioration. On the basis of the tentative February data, it seems that in February, too, "official settlements" yielded a U. S. surplus, and the rise in U. S. bank-reported claims on foreigners exceeded the amount of the conventional deficit.

Finally, the U. S. trade balance appears to continue to improve. Export figures for January are not yet available but imports reveal welcome stability. And two factors should contribute to the maintenance of our export volume in the current quarter. One is the beginning of U. S. grain shipments to Russia. The other is the improvement in the aggregate payments position of the less developed countries, which should induce these countries to increase their imports, including imports from the United States.

Whether or not the favorable payments trend can be expected to continue in the longer run, however, will largely depend on the effects of the recent tax cut and on the course of monetary policies in foreign developed countries.

The tax cut will presumably raise U. S. imports--I understand that a rise at an annual rate of $1 billion is expected for the rest of this year--but it should also keep capital outflows down, even in the absence of significant changes in U. S. interest-rate levels. First, the increased government deficit will absorb a larger amount of loanable funds. Second, the expected rise in consumption will sooner or later induce an increase in business investment and therefore also lead to an increased absorption of investible funds. And third, the expected rise in economic activity should attract foreign investors. The resulting reduction in the net outflow of capital might well be more than sufficient to offset the effects not only of the rise in imports but also of an increase in foreign bond flotations in New York which may follow the enactment of the interest equalization tax. Incidentally, the civil rights filibuster in the Senate will presumably further delay enactment of the IET and thereby prolong the favorable effect of the prevailing uncertainty on the U. S. payments balance.

The main threat to continued favorable developments in U. S. international payments is posed by the possibility of larger outflows of volatile funds in response to actions of European authorities. The recent increase in the British Bank rate was clearly defensive; nevertheless, a fall in the forward sterling discount could make the covered differential between London and New York large enough to attract a substantial volume of funds from the United States, especially into British hire-purchase paper. And there remains the risk of further restrictive measures in Britain or on the Continent.

The British domestic and international position as such should not warrant anxiety about further basic deterioration which might force Britain to take more drastic action. Temporary outflows of funds from Britain in response to election uncertainties and similar random factors could easily be offset by British drawings on the IMF or on existing bilateral arrangements, including the Federal Reserve swaps.

On the Continent, most countries enjoy not only full employment but, except for Italy, France, and Germany, also reasonable payments equilibrium.

In Italy, further moderate corrective measures, preferably in the field of fiscal policy, may suffice to stop the inflationary spiral and reduce the payments deficit without inducing disruptively large international flows of capital or putting an end to Italy's domestic expansion.

The French payments surplus is definitely declining; recent French accumulations of dollars have been insignificant, a change gratifying, as much for its political as its purely financial connotations.

But the German surplus, far from declining, appears to be rising as fast as, or faster than, the combined surplus of the rest of Europe is shrinking. In view of the combination of domestic full employment and external surplus, simple traditional expansionary or restrictive policies would obviously be as inappropriate in Germany as they are in the opposite case of the United States. The Germans are unwilling to reduce the competitive advantage of their export industries, either by letting wages and prices gradually creep up, or by undertaking another revaluation of the mark. But if they find it impractical to apply new fiscal measures of the kind proposed for dealing with situations like theirs, the payments surplus will inevitably not only accelerate their domestic monetary expansion but also put increased pressure on exchange rates. This pressure would hit first the weaker currencies such as sterling but eventually also the stronger currencies, including the dollar.

This problem may well turn out to be the touchstone for the ability of the present payments mechanism to maintain international equilibrium under fixed exchange rates together with adequate economic growth with the help of mutual consultation and cooperation.

Chairman Martin invited Mr. Young to comment on the recent meeting of the Organization for Economic Cooperation and Development he had attended.

Mr. Young made the following comments:

From the latest discussions in OECD meetings in Paris--namely, of its Economic Policy Committee and Working Party 3 groups--one carried away the impression that Europe no longer worries much about the U. S. payments deficit and its potential threat to the dollar, but is now mainly preoccupied with European inflationary pressures already generated or threatening to be generated by the cumulative payments surpluses or their aftermath. Indeed, one came away with the distinct feeling that 1964 is likely to be a swing year in international payments, with the U. S. deficit and the over-all European surplus against the rest of the world both much reduced, but with varying degrees of developing imbalance among European countries.

The outlook for European balances of payments in 1964 was reported in these discussions about as follows:

<u>U. K.</u> - Expecting a small surplus on current account, but a small-to-moderate over-all deficit because of capital outflow.

<u>France</u> - Expecting a swing from a payments surplus exceeding $1 billion to balance or possibly to a small over-all deficit.

<u>Italy</u> - Expecting a continued over-all deficit of roughly the same magnitude as in 1963--about $1-1/4 billion.

<u>Germany</u> - Expecting a sharp increase in over-all surplus, in all likelihood exceeding $2 billion and stemming from both export trade and capital inflow developments.

<u>Netherlands</u> - Expecting a swing from a payments surplus in 1963 of around $100 million to a deficit in 1964 in the neighborhood of $275 million.

<u>Belgium</u> - Expecting about balance.

<u>Switzerland</u> - Expecting some worsening of current account deficit plus a much smaller capital inflow; hence, a smaller over-all surplus.

<u>Scandinavian countries</u> - Expecting payments to balance roughly.

These expectations do not add up. If European countries other than Germany are either in near balance or have substantial deficits, and only Germany has a large surplus, then the rest of the world should be at least in balance if not in moderate surplus. But all non-European industrial countries and Canada expect a deficit. This leaves the less developed countries as the main surplus areas, which seems unlikely. Apparently economic foresight in the balance of payments sector is little better than in other sectors of the economy.

Comment in the meetings focused especially on Germany and Italy. German representatives asserted that the Federal Government was sifting all possibilities for action to bring down her payments surplus. It had considered and renounced revaluation as a solution. But, as possibilities, it was still considering some kind of unilateral tariff action for non-EEC countries; possible enactment of an interest withholding tax applicable to foreign investors or even of a nondiscriminatory withholding tax; and finally, with a view to stimulating capital exports, elimination of the capital issues tax of 2-1/2 per cent. And, of course, it was emphasized that there were serious obstacles to each of these courses of action.

The official German view was that there was little that monetary policy could do under the circumstances of large payments surplus except to let that surplus have its monetary expansion effects. And so the posture of the Bundesbank would be passive or neutral, even though the monetary effects internally could be strongly inflationary in direction. Operations to lower the long-term interest rate could not help much, because non-interest motivations were playing such a large role in the capital inflow.

The Italian report was an explanation in depth of the additional stabilization measures taken last weekend. As you know, these included a strengthening of tax collection processes; a curb on consumption expenditures on durable goods, with the hope of some redirection of output of these goods to export markets; regulation of key food and pharmaceutical prices; the diversion of additional revenues to the financing of essential public investment expenditures; and institution of a policy of wages-productivity guidelines. The earlier stabilization steps had had the objective of stopping expansion of government expenditures; relieving demand pressures on the construction industry; and setting in motion Bank of Italy curbs on bank credit and monetary expansion. The target for this latter cutback had now been set at 12 per cent, down from a 20 per cent rate of increase in 1963, to be achieved as rapidly as possible, but not so rapidly as to risk a deflationary upset. Whether the Italian stabilization program is adequate to cope with swelling inflationary movement was doubted by a number of European participants in the discussion, but it was generally agreed that it was taking a desirable shape and, that, in its present form, it represented much hard decision-taking by the new coalition government.

The report by the Dutch representative was noteworthy mainly for its frankness in admitting a real breakdown in Dutch stabilization efforts as a result of repressed wage pressures. For an interim period, it was admitted the Netherlands' economy had to go through still more inflationary wage and price adjustment--something above 7 per cent each year. In this process, rising interest rates, both short- and long-term, were to be expected in the months ahead.

The reports of French and Swiss representatives were accounts of their respective anti-inflation efforts, but for neither country did the representatives claim that full containment of inflationary pressures was foreseen for the near-term future. On the contrary, the implication in both cases was that inflationary trends internally were likely to continue, though hopefully a stage of stability might be reached late in 1964. The Swiss, of course, renounced both revaluation of the franc and rising domestic interest rates as alternatives of a national policy.

In conclusion, I should comment briefly on the report of the U. K. representatives. On the whole, their diagnosis of internal and external developments was on the gratified and optimistic side. The only indications of possible early restrictive Bank rate action were incidental references to the recent increases in wage rates in excess of productivity gains, the recent rise in imports and in prices of some important export lines, and some contra-seasonal weakness in sterling, but these were only indications in hindsight. Otherwise, their report exuded confidence that economic trends would work out reasonably satisfactorily for the U. K., with the year 1964 one of impressive gains domestically and of no unmanageable deterioration externally.

Mr. Daane reported that he had attended a meeting of the deputies of the Group of 10 on February 27 and 28, at which they had completed the exploratory phase of their study. They were now heading for the negotiation phase. The first day of the meeting was rather chaotic, but the second day was better and there were grounds for hoping that something useful would be accomplished by the study.

The effort of some countries to line up a European front against the U. S. and in favor of proposals to supplant partially or totally the reserve currency system was not successful. It did not appear that anything immediately affecting the System would come out of this study except in the broader sense. As to the meeting itself, he thought it significant that there was an improvement in atmosphere as the meeting went along from the standpoint of sympathy with the U. S. point of view. There had been a full discussion on the subject of IMF quotas with a wide range of views expressed, variously favoring no increase in quotas, a general increase, and selective increases. Under Secretary Roosa took a stance favorable to a general increase in quotas. Dr. Emminger of the

Bundesbank gave an able summary of the main proposals for improving international liquidity, such as the Triffin, Posthuma, and Stamp plans, that had originated outside the group. It was possible that the text of his paper might be available for study at some point.

Chairman Martin then called for the usual go-around of comments and views on economic conditions and monetary policy beginning with Mr. Hayes, who commented as follows:

> Two major events have occurred since our last meeting which may ultimately have an important bearing on our policies but which at the moment are almost impossible to evaluate. I have in mind the long-awaited enactment of the tax reduction bill last Wednesday and the increase in the British Bank rate from 4 to 5 per cent last Thursday. I should like to consider with you some of the possible repercussions of these actions in the light of the general economic and financial background.
>
> The business situation is still basically favorable. Business sentiment continues to be stronger than a year ago and appears to have avoided the usual winter doldrums. Although a number of statistical series weakened in January, such leading indicators as housing starts and new orders for durables rose substantially. Consumer buying plans remain well above the level of a year ago and expectations of a sizable expansion in business spending in 1964 have received further confirmation. In contrast with many periods in recent years, the uncertainties in the current outlook relate largely not to whether business will be advancing in the coming months, but to the pace of the advance.
>
> There seems to be some evidence that the rate of increase in wholesale industrial prices has slackened off in the last few weeks. Thus we may have some respite, in the immediate future, with respect to our worries over possible revival of inflationary pressures; but for the longer pull we must remain very much on our guard, especially in view of the important wage negotiations this summer and the uncertain impact of the tax cut. The unemployment situation remains virtually the same as it has been for many months.
>
> Widely divergent views may be found on the probable timing and strength of the tax cut's stimulating influence on the economy. It seems to me that perhaps too little attention has been paid to the problem of under-withholding resulting from the very sharp

drop in the withholding rate. This means that the direct stimulus to consumer spending may be concentrated in 1964 even more than the distribution of the reduction in personal tax liabilities between the years 1964 and 1965 would suggest. On the other hand, it probably remains true, as both the C.E.A. and Secretary Dillon have emphasized, that the greatest over-all impact will be felt in 1965 because of the natural lag in secondary effects. It seems probable that, on balance, the tax cut will have sizable beneficial impact both on consumer spending and on business investment. On the Federal expenditure side it is by no means clear how soon the rather drastic control of expenditures will "take hold" and how the timing of such effects will mesh with the tax effects already discussed.

The latest balance of payments statistics are rather encouraging. The January deficit was relatively small after allowing for special factors, and this appears to be true also of the fragmentary February data, despite a sizable increase in United States acquisitions of Canadian and other foreign bonds. Our export and import statistics also make satisfactory reading, with the trade surplus for the fourth quarter of 1963 rising to a seasonally adjusted annual rate of $6.1 billion ($6.8 billion in December). On the other hand, aggregate capital outflows continue substantial, and there is some apprehension abroad as to a possible upsurge in new foreign issues if and when the interest equalization tax is finally passed. As for the British Bank rate move, I am hopeful that this action will not trigger any competitive moves on the European Continent, although it is possible that some central bank or banks might find it necessary at some future date to tighten credit still further to deal with domestic inflationary problems. The large uncovered spread that has now opened up between British and U. S. bill rates is substantially offset by certain risk factors associated with the coming British election. It seems to me that we can only applaud Britain's determination to defend decisively the present sterling exchange rate, since any other course might well in due course have set in motion dangerous speculation against the dollar. The British move has been weathered well so far in the exchange and security markets.

It would be most unwise, however, to assume that our balance of payments problems are behind us. If the recent Administration estimate of a $2 billion over-all payments deficit in 1964 is anywhere near the mark, it raises very serious questions as to how so large a figure is to be financed, coming as it does in the seventh year of heavy American deficits. Moreover, even from a short-term point of view the dollar's position in the exchange markets is by no means assured just because it has survived well the first impact of the British rate action.

For example, the Euro-dollar rate has risen significantly in the last few days, possibly reflecting a shift of borrowing from London to the Euro-dollar market for financing of international trade and payments.

Turning to credit developments, we find a mixed picture with no clear evidence of any pronounced change in the trends observed in the past year or two. The strength in total bank credit and bank loans in the first three weeks of February must be viewed against the background of the unusually sharp fluctuations in the various credit and loan series around the year end, and the very large declines in these series in January. We get the general impression from the New York banks that there has been no major change in the underlying trend of loan demands, which is one of continuing but gradual strengthening.

As we look ahead to prospective Treasury offerings beginning around the end of March and lasting through the middle of May (except perhaps for a relatively short period in April), there might be a natural inclination to take advantage of the "free period" represented by the next three weeks if we see any likelihood of a need for modification of policy in the coming months. Despite this factor, however, I do not think this is a propitious time for action. With the ink scarcely dry on the tax bill, I believe we should act now only if there is a clearly demonstrable need for an immediate policy change; and that need does not exist, either on domestic or international grounds. In view of all the uncertainties I have outlined, it would seem prudent to continue our wait-and-see attitude--recognizing that market or exchange developments may jar us out of that attitude before our next regular meeting--in which case we can deal with conditions as they arise, through a special telephone meeting if necessary. But such a problem seems a possibility rather than a probability.

Clearly the discount rate should not be increased under present circumstances, and the directive should, I believe, be continued in substantially its present form, perhaps with the addition of some reference to the tax cut and the British rate action.

Mr. Shuford reported that economic activity in the Eighth District had expanded moderately in recent months. Metropolitan employment rose in January and was considerably higher than in September. Spending, as reflected in department store sales and bank debits, also was higher than last fall. Total bank deposits had continued to increase, although business loans had declined somewhat since November. Industrial use of electric power had remained virtually unchanged since October. Farm income had continued strong through the fall of 1963, but there had been some weakening in the last few months. District livestock prices, particularly for cattle, had declined substantially.

Mr. Shuford said that the sentiment of District businessmen and bankers was for continued expansion. Generally, businessmen anticipated a strong response to the tax cut, and rapid advances in investment and in personal consumption.

Nationally, the economy seemed to be continuing a rather strong advance, Mr. Shuford said. While retail prices in recent months had shown some upward pressures, wholesale prices had remained stable.

The balance of payments had continued to show improvement, Mr. Shuford noted, but, as discussed this morning, it was too early to appraise definitely the effect of the British Bank rate increase. The pound seemed to have strengthened as a result of the increase in rate, but it was not evident that U. S. monetary policy needed to be changed as a result.

The uncertainties regarding both the balance of payments and the effects of the tax cut called for a period of watchful waiting, Mr. Shuford said, and he would favor no change in monetary policy at present. He noted that the rate of growth in the money supply had moderated from the 7 per cent rate that had prevailed in the latter part of 1963. Since November the rate of increase had been about 3.5 per cent, and from January to February of this year there appeared to have been some decline. In view of the expansion in the economy, of the balance of payments situation, and of recent price developments, Mr. Shuford felt that the rate of monetary expansion since November had been desirable. He believed that a rate in the 3 to 5 per cent range would be appropriate for the near future. He would favor no change in the discount rate and no change in the directive at this time. He felt as Mr. Hayes did with respect to the directive, but would be interested in seeing the drafts the staff had prepared.

Mr. Bryan said that he had been reviewing figures for the Sixth District recently and had noted that in nearly every series the District had shown an excellent advance relative to a year ago, and in most cases had shown a gain relative to the nation over this period. However, in some of the figures for the last few months the position of the District seemed to show up less favorably relative to that of the nation. The District's best figures continued to be in the financial area; expansion continued in bank loans and investments and in demand deposits and currency. However, there had been an increase in borrowing from the Federal Reserve Bank. Although the amount of borrowing was small in comparison to the nation, it was still greater than bank reserves in the District relative to those in the nation would indicate. There were two unfavorable figures--the percentage of insured unemployment in the District was up sharply, and personal income for some reason was tending down.

Mr. Bryan said that the policy recommendations made by Mr. Hayes and Mr. Shuford seemed to him to be essentially correct. He, too, would like to see the alternate drafts of directives prepared by the staff.

Mr. Bopp observed that business conditions in the Third District appeared mediocre. At the time of the last meeting, there had been indications of greater-than-seasonal rises in unemployment in January. These had since been confirmed. Two areas had been reclassified downward, leaving the District without any "areas of labor demand" (areas classified "B" or better). In February, the situation may have improved a little. Department store sales so far in 1964 had been quite sluggish.

Since the Committee's last meeting, Mr. Bopp reported, moderate pressure on bank reserve positions had again become evident and business loans continued to lag relative to last year's performance. Basic reserve positions of reserve city banks changed from surplus to a deficit averaging around $23 million. Reserve city banks had been modest borrowers at the discount window, adjusting their reserve positions primarily through the Federal funds market. Country banks also had been only moderate borrowers.

The two key considerations for current policy were the tax cut and the increase in the British Bank rate, Mr. Bopp continued. With the tax cut now an accomplished fact, the question of the mix between fiscal and monetary policies became more than theoretical speculation. Had the time come to change the second ingredient of the mix by moving toward a still less easy, or actually restrictive, monetary policy? And did the development of higher rates abroad reinforce the argument for such a shift?

There seemed, Mr. Bopp said, to be no question of the direction in which the tax cut and the increase in the Bank rate moved the Committee. The tax cut was certain to have some stimulating effect domestically; the Bank rate increase seemed likely to have some complicating effects on our balance of payments. The uncertainty was over degree. If one took the position that monetary ease had already bordered on the excessive, leading among other things to a deterioration in the quality of credit, these latest developments might be enough to tip the scales, despite the uncertainties involved. He had not taken that position, and so he would favor waiting for further developments.

This was a period of transition on both the domestic and international fronts, Mr. Bopp concluded, and until there was clear evidence that the tax cut was having inflationary effects or that events abroad were worsening the balance of payments, he would favor continuing the present degree of ease.

Mr. Hickman said that with reassuring regularity the business news continued to trickle in on the up side. Housing starts were up appreciably in January. Manufacturers' new orders of durable goods, after previous declines, bounced back in January to a new record position. Retail sales in January and in early February were at approximately the same high level as December, after seasonal adjustment. A substantial gain in personal income in January was due partly, but not altogether, to such special factors as payments of dividends on veterans' policies and the second stage of the pay increase to Federal employees.

The steel mills, Mr. Hickman reported, were extending delivery schedules and steel customers were ordering briskly so as to avoid delays. The steel industry was finding practically all of its major classes of customers in a buying mood--autos, construction, machinery, railroad equipment, and canning. As a matter of fact, it now appeared that the industry might produce as much tonnage in the first half of this year as it had during the first half of last year under the sharp spur of strike hedging. Projections for the entire year were being raised, with some figures mentioned as high as 113 million ingot tons as against 109 million tons last year.

Auto output, too, had been above last year's pace so far this model year. Domestic new car sales had set a record for the month for each month from October 1963 through January 1964, and possibly through February as well. Consideration in the auto industry was being given to the question as to how far the tax cut might stimulate further the already existing trend towards upgrading--that is, the increased preference for the luxury and higher-powered cars. An important background factor to be watched, because of its possible destabilizing effects, was the expiration of the auto-labor contracts in late summer.

The generally bright business atmosphere was confirmed by developments in the Fourth District, Mr. Hickman continued. Steel output continued to increase, unemployment was receding almost uniformly throughout the District, and department store sales were being sustained at record levels. Loan demand at reporting banks had been exceptionally strong in the light of seasonal influences. Only two slightly off-key developments had appeared in the District: a January sag in auto sales, with the February trend not clear, and a January dip in bank debits. Both of these developments were probably associated in large part with weather conditions in the District.

Altogether, balance seemed to be the outstanding feature of the business economy at the moment, Mr. Hickman said. No serious weak spots stood out except the continuing unsatisfactory status of unemployment, and a prospective moderate decline in net farm income. Nor did any industries or any particular facets of the economy show visible signs of becoming leaders in a boom.

It appeared to Mr. Michman that the tone of the money market had improved since the last meeting; that is, the market had tightened somewhat. On average in the three weeks ended February 26, borrowings rose, free reserves declined, and the bill rate edged up a few basis points. He would continue to probe gently towards slightly less ease, but would try to avoid a sharp contraction in reserve availability that might trigger an adjustment in expectations and a discontinuous jump in money rates. He would move more vigorously only if the recent change in the British Bank rate were to disrupt the present rough balance in international capital flows.

Mr. Daane said it seemed to him that the uncertainties regarding the effect of the tax cut and of the British Bank rate increase clearly dictated no change in policy during the next three weeks. He saw nothing to justify rocking the boat at present, and would not favor probing gently toward less ease in the period ahead, as Mr. Hickman had suggested. He would be inclined to take a close look at the operating implications of any change in the wording of the directive, even within the general context of no change in policy, and he probably would resist any language change that even implied gentle probing or any other change in the operational guides for the period immediately ahead.

Mr. Mitchell said that he agreed with Mr. Hayes' analysis of the domestic business and balance of payments situations, and also with his policy prescription.

Mr. Shepardson observed that he continued to have some of the same concern that Mr. Hickman had, but in light of the uncertainties existing at this time he felt that it would probably be better procedure to maintain present policy.

Mr. Robertson said he agreed that monetary policy should continue unchanged for the present. Because the statement he had prepared closely resembled Mr. Bopp's presentation, he would like to insert it in the record but not deliver it orally. As far as the directive was concerned, he shared the concern of Mr. Daane. He would prefer to continue the present directive and to consider the staff proposals at the next meeting.

Note: Mr. Robertson's prepared statement was as follows:

With the tax cut finally an accomplished fact, it seems fair to say that our over-all economic policies are now better balanced than at any other time in recent years. Hopefully, we can now reap the benefit of this improved policy "mix" in a strengthened but sound and sustainable rate of economic growth without inflation.

To be sure, none of us knows exactly what the response of the economy will be. If it should bring on a wave of speculative ebullience and price inflation, I think monetary action should be in the forefront of policy steps taken to resist the upsurge. If, on the other hand, the tax cut falls flat as a stimulative device, then monetary policy, along with other governmental policies, will have to go through an agonizing reappraisal to determine what else can be done to deal with the stubborn underemployment of our resources. Until it is clear what the effects of the tax cut are turning out to be, I think monetary policy ought to continue unchanged.

I think our judgment to "wait and see" should not be shaken by last week's boost in the Bank Rate. The British have their own problems, to which their official rate increase is attuned. Our financial system has in good part been insulated from the arbitrage effects of the higher London rates by the usual offsetting adjustment in the cost of forward exchange cover. In the circumstances, I see no valid reason for compounding both their problems and ours at this juncture by fostering an upward adjustment in U. S. market rates. Considering the fact that our money market still seems to possess some doubts as to whether we will follow the British lead, I would favor a policy of maintaining at least as much reserve availability over the next few weeks as we have had in the last two or three weeks, taking such opportunities as that policy permits for allaying market fears that the Federal Reserve may be tightening the credit reins. I would hope and expect that such action on our part would lead to some reversal of the recent dealer mark-ups in bill rates and provide a calmer financial atmosphere in which the effects of the tax cut can be observed at work both in our domestic economy and in our balance of payments.

Mr. Mills said that the comments he would make would bear on an interpretation of recent movements of statistics relative to the supply of reserves and the interest rate structure, and would have to do with the policy of "no change," or "watchful waiting" as it was now termed. He then made the following statement:

During the month of February movements in short-term interest rates, particularly the yield on 3-month U. S. Treasury bills and the rate on Federal funds, have been insignificant, contrasted to a modest down trend in the supply of reserves and a rise in the average total of member bank borrowings at the Federal Reserve Banks. Excess reserves fell during the period at the same time that member bank borrowings composed a larger part of their total. A greater reduction in total reserves would have occurred if the projections in their movements on which the Manager of the System Open Market Account based his calculations for supplying or withdrawing reserves had materialized. In the event, unforeseen movements in the supply of reserves lifted the average of free reserves over the period to a higher level than had been projected.

This summarized statistical record leads me to the inescapable conclusion that, because of interest rate considerations, recent open market operations were meant to contract the supply of reserves at the disposal of the commercial banking system. The fact that short-term interest rates did not rise above the general averages ruling in recent weeks seems to have been the result of fortuitous circumstances rather than of conscious effort in the handling of open market operations. Matching the statistics referred to against the authorization and directive to the Federal Reserve Bank of New York adopted by the Committee at its recent meetings, it seems to me to be correct to believe that the general directive of "no change" in reality was intended to result in whatever reduction in the supply of reserves would be necessary to produce a predetermined level of short-term interest rates. The over-all result of compliance with the Committee's directive has been a shift toward a more restrictive credit policy at a time when the national economy still needs the nourishing benefits of adequate credit availability. The fact that short-term interest rates have held steady is unimportant as contrasted to the tightening that has taken place in the credit markets. Although the moves toward a more restrictive credit policy will have found favor in the eyes of some members of the Committee and was accomplished in the name of "maintaining about the same conditions in the money market as have prevailed in recent weeks," it cannot be gainsaid that under present conditions a Federal Reserve System policy which has riveted attention on preserving intact an existing structure of short-term interest rates is implicitly a policy of credit restriction.

What might be termed a conflict between a viable credit policy and an interest rate policy fixation may be expected to continue as long as there is adherence to the concept of a pegged U. S. Government securities market and the artificial manipulation of interest rates. In the light of the above, a further extension of the Committee's present directive of "no change" would indicate a definite shift toward a restrictive credit policy which, in my opinion, would be objectionable.

Mr. Hayes said that he would take exception to Mr. Mills' suggestion that the Desk had been deliberately trying to tighten money market conditions rather than to preserve an atmosphere of no change, to which Mr. Mills replied that in introducing his statement he had specified that it was an interpretation of recent statistics.

Mr. Wayne reported that Fifth District business activity had made distinct gains in recent weeks, and business sentiment was more optimistic than it was earlier in the year. In January, factory man-hours declined quite generally, but employment was up in manufacturing, as it was in most other nonfarm categories, and in the Bank's latest survey manufacturers reported increases on balance in employment and hours, together with widespread gains in new orders, backlogs, and shipments. Industry spokesmen reported that shortages of employable labor had contributed to substantial amounts of overtime work in furniture plants and small amounts of idle machine capacity in textile mills. Textile prices remained firm and demand appeared strong, although the flow of orders had slowed again as Congress resumed consideration of the one-price cotton bill. January Internal Revenue collections on cigarette factory shipments in North Carolina and Virginia were 5 per cent lower than a year ago, and most cigarette plants were still on reduced schedules with some still operating on a three-day week. Gross loans of weekly reporting banks had risen more than seasonally in recent weeks, and increases in business and real estate loans had been particularly sharp.

Mr. Wayne said that he found himself in general agreement with the analysis presented by Mr. Hayes, and would add only that consumers might have already anticipated the tax cut. During 1963 total consumer indebtedness, including consumers' real estate debt, had increased nearly 10 per cent while disposable personal income had risen only 5 per cent. He doubted that debt could continue indefinitely to increase twice as fast as income, and he felt that when the trend was reversed it was likely to exert a dampening effect on activity.

As to policy, Mr. Wayne said that he agreed with Mr. Hayes' views. While he would defer comment on the directive until he had seen the staff drafts, he concurred with Messrs. Daane and Robertson as to the need for avoiding any suggestion of change in policy, such as might result from changes in the words used in the directive. He did not favor a change in the discount rate.

Mr. Clay commented that the long-awaited tax cut had been enacted, and the course of events that would flow from that action might prove to be important for the formulation of monetary policy in the months ahead. To what extent and in what specific way monetary policy would be affected by reason of that action could not be judged at this time, however.

It was reasonable, Mr. Clay said, to assume that the tax cut would prove to be a stimulus to the economy, but it was not known what the nature of the stimulus would be. Specifically, the amount, composition, and timing of increases in consumer buying were not known. Moreover, there were important uncertainties relative to the timing and amount of expansion in capital expenditures and inventory investment stemming from increases in consumption and from corporate tax reduction.

The current performance of the economy continued to be one of moderate expansion at a high level of activity, with a satisfactory price situation and inadquate resource utilization. Moreover, in the area of manpower it needed to be recognized that labor force growth would be accelerating in the months ahead. To inject restraint into monetary policy at this time would put the Committee in the position of counteracting the as yet unquantified stimulus provided by the tax cut. Such action would not appear justified, Mr. Clay thought, unless and until the Committee was faced with a different set of circumstances.

The principal new factor injected into the international area in recent days was the increase in the British discount rate. Here, too, it was impossible to know the outline of subsequent events, and a watchful attitude would appear to be the most appropriate course while awaiting further developments.

In the period immediately ahead, Mr. Clay said, reserve availability should be continued about as heretofore, thereby being sufficient to permit moderate bank credit expansion on a seasonally adjusted basis. The Federal funds rate presumably would be at 3-1/2 per cent most of the time, but there should be no effort to push Treasury bill rates up. For policy purposes, the Committee's directive was satisfactory in its present form. However, in view of the developments that had transpired since it was first adopted in essentially its present form, a case could be made for rewriting it. Mr. Clay felt the Federal Reserve Bank discount rate should not be changed.

Mr. Scanlon reported that business and financial leaders in the Seventh District remained optimistic. Output of major District industries, including the auto industry, continued strong.

Since Mr. Koch had commented on the outlook for labor negotiations, Mr. Scanlon said, he would add that the U.A.W. was moving into this year's contract negotiations in the strongest financial position in its 28-year history; its strike fund was substantial.

Available evidence indicated a high level of retail trade in the Seventh District in January and February, Mr. Scanlon continued. At the same time there had been a marked slowing in the growth of savings and time accounts, both at banks and savings and loan associations. Exceptions to this were the Indiana banks, which were able to increase their rates on savings and time accounts above the 3 per cent ceiling previously in force starting January 1. Many did so, and savings and time accounts at these banks rose sharply.

Mr. Scanlon reported that one of the most significant factors in the agricultural economy of the District had been relatively low cattle prices in recent months. In the week ending February 22 prices for choice steers at Chicago were the lowest for the period since 1944 when price controls were in effect. Weak prices reflected very heavy marketings of choice beef--40 per cent more than last year in January. The reduced number of heavy cattle on feed in January suggested a reduction in cattle slaughter and stronger prices in the next few months.

Banking data indicated that credit demand in the first three weeks of February was less strong in the Seventh District than in the U. S. However, over the past year outstanding business loans at District weekly reporting banks rose 12 per cent compared to a rise of 9 per cent for the nation.

Chicago banks had increased purchases of Federal funds and borrowings at the discount window, Mr. Scanlon said. In part this reflected purchases of Government securities during the February refunding. The period was approaching when these banks normally developed a large basic deficit position as they prepared for the April 1 personal property tax assessment date. Their bill inventories were about $150 million below the year-ago level, but they felt they would have no difficulty acquiring the needed bills at a later date, in many instances on a delayed delivery basis. Positions of other District banks showed no unusual reserve pressure

Mr. Scanlon believed it was clear that this was no time to change policy. For reasons advanced by Mr. Daane and others he did not favor a change in the directive and he would continue the current discount rate.

Mr. Deming reported that economic activity in the Ninth District appeared to have advanced moderately since the first of the year. Non-agricultural employment had improved, on a seasonally adjusted basis; the industrial use of electrical power moved up 5 index points in January from December; retail sales and bank debits were up; the backlog of construction projects was high; and January personal incomes were up 2 per cent from December.

As anticipated, cash farm incomes improved substantially after the first of the year as farmers marketed products held over into the new tax year. Cattle inventories on the first of the year were up 8 per cent from a year earlier but the total value was less because of a sharply lower price level. There was concern about this drastic decline in livestock prices with costs continuing to creep up.

Twin City manufacturers currently reporting to the Minneapolis Bank indicated that the rate of production and the volume of back orders was up in most plants. Nevertheless, employment and hours worked had remained about the same with prices received showing no significant change. Generally these manufacturers were moderately optimistic as to their factory output in the second quarter.

The demand for loans had been on the slow side since the first of the year, Mr. Deming said. Commercial and industrial loan demand, particularly, had been moderate. Total deposits at District member banks changed in February at about average rates for the period. Deposit gains in the first three weeks of the month were about equally split between demand and time. District banks continued to be net sellers of Federal funds as they had been since late December with the exception of one week in late January. Only a very few banks borrowed from the Federal Reserve Bank in the last week in February--only two banks were listed at the end of the month.

Mr. Deming said that he agreed with the consensus that seemed to be forming for no change in policy during the next three weeks and no change in the discount rate. He would interpret no change in policy as encompassing a bill rate around the 3.60 per cent level rather than at some lower level, if that was how things turned out. With respect to the directive, Mr. Deming observed, he would be interested in seeing the drafts the staff had prepared but at present he leaned toward the views expressed by Mr. Daane and Mr. Robertson.

Mr. Swan said that in the Twelfth District economic activity apparently rose somewhat further in January and early February. Housing starts in January increased more sharply in the District than in the nation. Conditions continued to be relatively favorable in the lumber, steel, and nonferrous materials industries. However, there was a rise in unemployment in January, following a reduction in December. The unemployment rate for the Pacific Coast States in January was back up to nearly 6 per cent.

A development that might have considerable long-term significance, Mr. Swan continued, was that the major agricultural organizations in California had decided not to press for continuation after 1964 of the 12-year old foreign labor program. The serious unemployment situation in California was the reason given for the decision, although it probably also reflected a feeling that Congress might not be willing to extend the program again, and that there was little use in fighting for it. Only about 75,000 workers would be needed to replace the foreign labor. However, there were many questions involving housing, labor mobility, and wage rates, and he thought the result was likely to be somewhat higher costs for agriculture and more mechanization.

Total credit and demand deposits at District member banks declined less than seasonally in January, Mr. Swan reported. The gains in time and savings deposits were greater than in any other January in the post-war period.

As to policy, Mr. Swan said, he agreed with Mr. Hayes that this was not a time to make a change. In this connection it seemed to Mr. Swan quite important that the Committee not provide the market with any basis for expectation of a policy change. Accordingly, he would hope that "continuation of the same conditions" would encompass no decline in net free reserves and no increase in member bank borrowings, since these tended to be looked at, rightly or wrongly, as signals of policy. Under present circumstances it was likely that the market would watch these figures more closely than ordinarily. He also shared the reluctance that some had expressed about changing the directive.

Mr. Irons reported that as far as the Eleventh District was concerned there had not been any significant changes recently. On the whole, activity continued on a high level, with some more or less seasonal movements. He agreed with Mr. Hayes with respect to policy. As to the directive, while he had not seen the proposed revisions, he was inclined against change.

Mr. Ellis said that he would comment on three aspects of the economic situation in the First District. First, the electronics industry, which had been so important in the area's recovery from the decline in the textile and shoe industries, was itself having difficulty because of inward competition in the markets for private products and because of some lessening of Government contracts going to New England firms. Secondly, a regional survey of manufacturing investment plans indicated that investment outlays in 1964 would be 25 per cent higher than in 1963. The electronics component of the electrical machinery group showed a 20 per cent decline in planned capital investment, but the rest of the group showed an offsetting increase of 18 per cent. Thirdly, consumer credit terms were continuing to loosen. In January, 73 per cent of commercial bank loans on new cars had maturities of 30 months or more--which in effect meant 3 years--as compared with 71 per cent in December and 71 per cent a year ago. On direct loans, the rise from December in three-year contracts was spectacular--from 54 per cent to 61 per cent

Turning to monetary policy, Mr. Ellis said that he felt uncomfortable with the consensus that had developed around the table. With strong and rising effective demands from business, consumers, and government, and with the stimulating effect of the tax cut, conventional wisdom clearly supported the expectation of an expanding economy over the rest of the year. The extent to which there would be excesses requiring correction was not yet clear. But it was reasonable to expect that the prevailing tendency would be for inflationary forces to strengthen and prices to rise. In this context one could not expect credit demand to be less than it had been last year. Thus, the Committee could not logically anticipate any slackening from 1963's 8 per cent rate of increase in bank credit. There had been a pickup in bank credit in late February, Mr. Ellis noted. The bill rate could be expected to remain in the 3.50-3.60 per cent range, he thought, only if the Committee continued to provide the reserves necessary to permit bank credit expansion at an 8 per cent rate. Considering domestic economic factors alone, to suggest that no change should be made in monetary policy before the next Treasury financing was to argue that the present rate of credit expansion was sustainable and was not contributing to a later need for adjustment.

In Mr. Ellis' judgment such a view was not tenable, and he concluded that a reduction of monetary ease--although not a move to tightness--was desirable. If the Committee did not act at this particular meeting, he said, it might be blocked out by Treasury financings for two or three months. It seemed likely to him that covered international interest rate differentials would continue to move against the U. S., and that capital outflows would tend to resume, which would increase the desirability of action by the Committee. He would like to accept the "clear evidence" criterion that Mr. Bopp had suggested, but in his opinion the evidence that action was needed might emerge around the end of March, when Treasury financing activity would call for an even keel. He favored having the Desk pay more attention to the rate of reserve expansion, and adhere more closely to the language of the directive calling for accommodating "moderate" expansion of bank reserves. With respect to Mr. Noyes' proposal for changing the directive, it seemed to him unlikely that there would be a time between now and June when the Committee did not have its present inhibition against changing the language; and later, the desirability of an even keel policy would offer an additional inhibition.

Mr. Balderston noted that three weeks ago Mr. Holland had suggested in his presentation that the Committee might cease trying to iron out every little fluctuation in money market conditions. Mr. Koch recently had made the same suggestion at a meeting of the Board, and had commented as follows:

> Such a revised modus operandi would not only minimize the value judgments the Manager has to make which are often extremely difficult both to justify and to make the market and other outside observers understand (witness Professor Meltzer's recent critical comments), but it would also tend to introduce more short-run variation in money market rates of interest--something that most of us feel would make for a better functioning money market. Of course the transition to a less precise stabilization of money market conditions by the Trading Desk would pose some temporary problems, for in the process the market might interpret a short-run deviation in conditions to be one of longer-run significance.
>
> Incidentally, I am bothered by a much more fundamental criticism of using money market conditions as a short-run guide to policy. Doesn't it mean that we automatically and for a prolonged period of time accommodate any increased demand for money market funds as well as absorb any excess supply of funds, without letting them have an effect on their cost? And, if so, is this really what we want?

Mr. Balderston thought it useful to remind the Committee of these suggestions, now that the bill rate had moved out of its earlier narrow range of fluctuations.

On policy, Mr. Balderston said, he concurred with the views of Mr. Hayes. The immediate task of the Committee was to choose between the risks of delay (in view of the well-known time lags between policy actions and results), on the one hand, and taking overt actions that would unnecessarily vitiate what the Congress sought to accomplish by fiscal methods on the other. One thing was obvious: the Committee did not need to add to the credit ease that existed. What was not so obvious was when it should pull on the reins. He felt that a policy of watchful waiting should be followed in the immediate future, until some word reached the Committee of an increased outflow of funds abroad, or until a number of prices advanced.

Clearly, credit policy must lead the evils that it should prevent, Mr. Balderston observed, but the question was how great the lead must be. He suspected that the lead had to be longer to curb price ebullience than to stem a flow of funds abroad. His conclusion was that the Committee should not wait too long in stemming a price advance if one was in the making.

Mr. Balderston said he understood why so many of the Committee had suggested no change in policy at this moment, but he was unhappy enough with the present economic directive to want to see the staff suggestions. He felt that the events of the past week—the tax cut and the British Bank rate action--would make a revision of the directive at this time understandable and explicable in the record. On the other hand, it was not clear to him how a change in wording or format at the next meeting could be explained in the record, if the decision then was not to change policy.

Mr. Daane remarked that in calling for no change in the directive he had not meant to imply that he was opposed to inserting language in the first paragraph taking note of the tax cut and the British Bank rate action. His concern was with the second, implementing paragraph.

Chairman Martin commented that he did not think the Committee had to fear that every change in the directive, including those intended merely to bring the language up to date, would be taken to imply a change in policy. It seemed to him that if the Committee wished to make some reference to the current tax cut and the Bank rate increase, this was as good a time as any. The Committee should not assume that the Desk would modify its operations as a result.

At this point the Secretary distributed the staff memorandum containing drafts of revised directives, which is appended to these minutes as Attachment A.

In the discussion that followed, several members of the Committee expressed the opinion that both alternatives A and B among the staff drafts were improvements over the Committee's present directive. Mr. Daane commented, with respect to the second paragraphs, that he had some sympathy for the proposed language but did not think that this was the appropriate time to introduce language of this type.

Mr. Hayes said he did not think either of the alternative directives was satisfactory. He objected to the first paragraph of the drafts because they dropped the reference to "the increases in bank credit, money supply, and the reserve base of recent months" and instead mentioned only the lack of growth in aggregate bank reserves since the turn of the year. While bank reserves had indeed shown a downward drift in the recent past, the time period referred to was quite short, and the longer run trends in bank credit, money, and reserves were still strongly upward. Quite a few members had expressed concern about these longer run trends, and he thought this language revision was inappropriate. With respect to the second paragraphs of the drafts, he did not think they were consistent with the consensus for no change in policy. Moreover, they introduced the notion of not offsetting small changes. This suggested a departure in techniques and it involved language that he frankly would not know how to interpret.

Mr. Mitchell said that in his earlier comment about the directive he had sought to make the point that the Committee should specify its intentions more clearly. He thought that in presenting these alternatives the staff was trying to get the Committee to move in the right direction.

He hoped the Committee would not discard the staff proposals hastily, and would return to them at the next meeting.

Chairman Martin said that he shared this hope. However, it seemed clear that some Committee members were worried that any change in language would be taken to mean a change in policy. He personally did not read the language of the drafts as implying a policy change, and he understood that the intent in preparing them was not to suggest a policy change.

Mr. Hayes said that he did not disagree with Mr. Mitchell's objectives, but he doubted that the wording of the drafts would achieve them. It seemed to him that the Committee should distinguish between adding language to the first paragraph to recognize the tax cut and the British Bank rate action, which he favored, and recasting the whole directive.

Mr. Stone said he would like to make a technical observation on the proposed phrase, "without action to offset small changes that reflect market adaptations to forces judged to be temporary." A number of Committee members and staff had commented recently on the narrow fluctuations in the money market. It was important to know why the fluctuations had been narrow. One main factor was the size and efficiency of the market, and its capacity to accommodate fluctuations. The market had grown substantially; a cluster of transactions of a volume that only two or three years ago would have produced rather severe temporary changes in market conditions now could be accommodated without a ripple.

The second major factor, Mr. Stone said, was the current policy posture of the Committee. If free reserves were of the order of $300--$500 million, there would be a large volume of excess reserves moving about in the banking system, causing fluctuations in market conditions as they shifted between country and city banks and into and out of major money market centers. However, free reserves recently had been in the neighborhood of $100 million, and there was no large volume of excess reserves to move about and produce fluctuations in the process. Mr. Stone said he suspected that there would be wider fluctuations in market conditions if the Committee's policy posture was such as to produce net borrowed reserves on the order of $300-$400 million. Then member bank borrowing probably would average about $600-$800 million, and the intra-weekly pattern probably would be quite different, with borrowings rising to $900 million or $1 billion on some days. His guess was that sharp changes in borrowings of perhaps $300-$400 million in one day would produce more changes in the market than occurred now when the Committee's policy posture was more nearly neutral, and there were neither large excess reserves nor large borrowings.

Mr. Stone said he thought it would be quite difficult to implement the phrase he had mentioned, and an effort to do so would require changes that ought to be spelled out carefully in advance, so that the Committee would be aware of the implications. In general, he thought that the question was complicated.

Mr. Mitchell said he felt Mr. Stone was making the matter complicated. It was his understanding that the Desk had not interfered with market expectations recently, and had let the bill rate rise to 3.60 per cent; and that it did not propose to interfere if present expectations were abandoned and the bill rate declined. This was precisely what the language in the second paragraphs of A and B was intended to imply that the Manager should do.

Mr. Stone noted that the clause in question called for not offsetting small changes due to forces "judged to be temporary." Yesterday, to take a recent example, net borrowed reserves averaging $30 million were projected for the current statement week. A free reserve projection had been expected but because of a decline in float and a rise in required reserves over the weekend that projection did not develop. The decline in float was clearly temporary, but he had no way of knowing whether the required reserve increase was temporary or not. If the clause was used, he would be put in the position of having to guess whether such changes were temporary.

After further discussion, it was decided to incorporate references to the tax cut and the Bank rate change in the Committee's directive, but to make no other changes.

> 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 Account in accordance with the following economic directive:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U. S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources, and that it is likely to receive additional stimulus from the recently enacted reduction in Federal income tax rates. This policy also takes into account the fact that the balance of payments position is still adverse, despite a tendency to reduced deficits, and that the effects of increases in money rates in important European countries are as yet uncertain. In addition, it recognizes the increases in bank credit, money supply, and the reserve base of recent months.

To implement this policy, System Open Market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

Mr. Mills said he dissented from the action in light of developments since the beginning of February which indicated to him that under the policy of "no change" the Committee had moved toward restriction.

Chairman Martin reported that in connection with the request of the Subcommittee on Domestic Finance for the Committee's minutes for recent years, he had asked the Secretariat to prepare excerpts from the minutes for 1961, 1962, and 1963, for examination by Secretary Dillon, which were illustrative of the foreign currency discussions and of other material of potential interest to the Treasury. The Secretary had informed him (Chairman Martin) yesterday that he had serious qualms about having certain material in these minutes made public, and that the Treasury probably would object. Further negotiations, in which the Treasury would participate, would therefore be necessary before the Committee was in a position to act on the request for the minutes for the years 1961, 1962, and 1963. On the subject of releasing older minutes generally, the Chairman said, his own thinking was that the Committee might follow the course the majority seemed to favor at the last meeting: to make the minutes through 1960 available to scholars and others, by methods to be worked out by the Secretariat along the lines indicated in the memorandum from Messrs. Sherman and Young dated February 28, 1964. In the meantime, the Committee could continue to consider what course it should follow with respect to the minutes from 1961, 1962, and 1963.

Mr. Hayes asked whether the minutes through 1960 should be examined to determine whether they included sensitive material. The Chairman replied that he thought it would be useful for the members to re-read these older minutes, but on the basis of his reading of the minutes it was his feeling that the qu stion of sensitive material arose in the period after 1960.

Mr. Daane said that he accepted the Chairman's view on this matter, but he had reservations about making the minutes freely available to everyone simultaneously. It would be his preference to give competent scholars first access to them, and to maintain contacts with them as their work proceeded. Messrs. Hayes and Deming expressed agreement.

Mr. Shepardson commented that he thought the Committee should make its records available to all simultaneously, without restrictions, and to take its chances on having good or bad analyses made of them. Mr. Robertson expressed a similar view.

Mr. Young observed that if the Committee made its records available to all there undoubtedly would be some dubious uses made of them, but there also would be studies by mature, competent scholars. Most of the people who analyzed the records would get financing from foundations, and the foundation officials with whom he had talked had made it clear that they would be prepared to give grants only to competent scholars. Of course, some enterprising people might go ahead on their own.

Mr. Hayes asked whether Chairman Martin thought that the release of minutes through 1960 would set a precedent that would make it more difficult to withhold those for later years, and the Chairman replied that this was a matter of judgment. In his opinion, if the Committee established the principle of a moderate time lag before release of the minutes, no undesirable precedent would be set.

Mr. Hayes said that there was some question in his mind as to whether some of the sensitive material in the more recent minutes which the Secretary of the Treasury had noted--particularly that relating to confidential discussions with foreign officials--should ever be made public.

Chairman Martin replied that this subject would be discussed with the Treasury Department and others.

Following this discussion, it was agreed that the Secretariat should proceed along the lines the Chairman had suggested, and keep the Committee informed of its progress.

Mr. Daane said that he thought the Committee should consider the content of its minutes carefully as it went forward, and Chairman Martin agreed noting that there were both advantages and disadvantages to the present form of minutes.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, March 24, 1964.

The meeting then adjourned.

Ralph A. Young

Secretary.

March 2, 1964.

Draft current economic policy directives suggested for consideration by the Federal Open Market Committee at its meeting on March 3, 1964

The Committee's current economic policy directive adopted at the last meeting reads as follows:

> It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U. S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.
>
> To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

In view of the tax cut enactment, the rise in the British bank rate, and the recent reversal of trend in aggregate bank reserves, this directive would appear to need revision, particularly as regards the first paragraph. Several alternative revisions, all consistent with no change in policy, are suggested below:

Alternative A:

The Federal Open Market Committee notes that domestic economic activity continues to expand at a moderate pace with a margin of unutilized resources, but is likely to receive additional strong stimulus over coming months from the recently enacted reduction in Federal income tax rates. The Committee also notes that aggregate bank reserves have not expanded since the turn of the year. It further notes that the U. S. balance of international payments, while still adverse, continues to reflect the improvement that occurred in the second half of 1963, and that the effects on the capital account of the payments balance of recent increases in money rates in important European markets are as yet uncertain.

In the light of these developments, it is the Committee's current policy to facilitate further expansion in domestic activity and to contribute to a more sustainable position in the capital account of U. S. international payments. For the next three weeks, System open market operations shall be conducted with a view to continuing about the same degree of firmness in the money market as has prevailed on average during recent weeks, without action to offset small changes that reflect market adaptations to forces judged to be temporary. The Committee expects that operations so conducted will be consistent with resumption of an upward trend in aggregate bank reserves.

Alternative B:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit and the money supply in order to facilitate the financing of further expansion of domestic economic activity, while maintaining conditions in the money market that would help attain a better position for the capital account of U. S. international payments. This policy takes into consideration the continuing expansion of domestic activity, which is expected to receive additional strong stimulus from the recently enacted tax reduction; the lack of growth in aggregate bank reserves since the turn of the year; the country's improved, though still adverse, international payments position; and the recent rise in money rates in important European markets.

To implement this policy, System open market operations shall be conducted with a view to continuing for the next three weeks about the same degree of firmness in the money market as has prevailed on average during recent weeks, without action to offset small changes that reflect market adaptations to forces judged to be temporary. The Committee expects that operations so conducted will be consistent with resumption of an upward trend in aggregate bank reserves.

Alternative C:

Alternative A with second paragraph of present directive used in place of last two sentences.

Alternative D:

First paragraph from Alternative B, with the second paragraph from present directive.