A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, April 14, 1964, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston
Mr. Daane
Mr. Hickman
Mr. Mills
Mr. Mitchell
Mr. Shepardson
Mr. Shuford
Mr. Swan
Mr. Wayne
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Ellis, 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. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Noyes, Economist
Messrs. Brill, Furth, Garvy, Grove, Holland, Jones, Koch, and Mann, 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
Messrs. Partee and Williams, Advisers, 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

Messrs. Eastburn, Black, Baughman, Parsons, Tow, and Green, Vice Presidents of the Federal Reserve Banks of Philadelphia, Richmond, Chicago, Minneapolis, Kansas City, and Dallas, respectively

Mr. Eisenmenger, Director of Research, Federal Reserve Bank of Boston

Mr. Meek, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 24, 1964, were approved.

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 March 24 through April 8, 1964, and a supplementary report covering the period April 9 through April 13, 1964. Copies of these reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Coombs said that he expected no change in the gold stock this week. Since March 16 the Russians had been heavy sellers in the London gold market, with total sales through April 13 amounting to somewhat more than $450 million. Of this total, the Pool had taken in $443 million and had made not only the regular month-end distribution but also two interim distributions in which the United States' share was $251 million. This inflow had increased the gold holdings of the Stabilization

Fund to the abnormally high level of $300 million. The only gold sales in sight for April were $11 million to the Austrians and possibly another $34 million to the French.

The exchange markets had been reasonably quiet, Mr. Coombs continued, and the Account had been able, as a result of the Italian drawings upon the International Monetary Fund, to pay off completely the System's swap drawings in German marks and Dutch guilders. The Swiss franc debt, which amounted to $220 million on March 4, had subsequently been paid down by $40 million through regular weekly purchases of Swiss francs from the Swiss National Bank. Liquidation of the Swiss franc debt continued to be handicapped by unusually tight money market conditions in Switzerland. It might, however, be possible for the Account to clean up the remaining $180 million of the Swiss franc debt through two operations that were now under negotiation. The first of these was a possible swap between the Swiss National Bank and the Bank of Italy in the amount of $100 million equivalent. If this went through, the Bank of Italy would presumably sell to the U. S. the Swiss franc proceeds against dollars, and the francs could then be applied against the swap debts with the Swiss National Bank and the Bank for International Settlements. Another by-product of such a swap between the Swiss and the Italians would be that the Italians would pay off in full their $150 million drawing on their swap line with the System.

The second operation now being negotiated was a U. S. Treasury issue of a $75 million bond denominated in Swiss francs to the Bank for International Settlements, which would in turn issue short-term money market paper to the Swiss commercial banks. Here again, the Swiss franc proceeds of the Treasury bond issue would be sold to the Federal Reserve. If both operations were to go through, the Account could thus clean up $175 million of the $180 million debt still outstanding. In both cases, there were only a few technical details still to be overcome, and he was hopeful that negotiations might be completed within the near future.

At the last Basle meeting, Mr. Coombs said, a representative of the Bank of Japan indicated to him that the Bank might wish to draw upon its swap line with the System during the course of April. The Japanese were fully aware of the necessity of avoiding repeated renewals of such swap drawings and would expect to draw upon the International Monetary Fund if they could not liquidate the swap through other means. Also, at the last Basle meeting, the Bank of England sought and received informal commitments from a number of the Continental central banks of credit assistance in the event of speculation against sterling arising out of the forthcoming British election. Mr. Coombs thought the Committee should welcome this approach, which would contribute to a reasonably equitable sharing of the burden of assistance to the United Kingdom in the event of another sterling crisis.

Mr. Mills inquired whether the Bank of Italy swap with the Swiss National Bank would be favorably regarded by the European economic community. He noted that there had been some complaint about the U. S. dealing directly with the Bank of Italy in working out the recent package of assistance.

Mr. Coombs said the main concern expressed at the Basle meeting was that the Italians did not seek assistance from other European central banks as well as from the U. S. Had they been approached, he felt that a good deal of money would have been put up on a standby basis. Against this background, bringing additional central banks such as the Swiss National Bank, into the picture would be helpful. The Bank of France also might be prepared to render assistance if asked. It might be recalled that after the French opposed the British entry into the Common Market, the Bank of France extended credit to the British when sterling came under speculative pressure.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period March 24 through April 13, 1964, were approved, ratified, and confirmed.

Mr. Coombs recommended renewal for another three months each of the following reciprocal currency arrangements: (a) Bank of France, $100 million; (b) German Federal Bank, $250 million; and

(c) Bank of Japan, $150 million. There were no drawings presently outstanding under these swap arrangements, which were renewed most recently on February 6, February 6, and January 29, 1964, respectively.

Thereupon, renewal of the swap arrangements with the Bank of France, the German Federal Bank, and the Bank of Japan, as recommended by Mr. Coombs, was authorized by unanimous vote.

Mr. Coombs then pointed out that on April 29, 1964, two Bank of Italy drawings of $50 million each under its swap arrangement with the Federal Reserve would mature. Unless the Bank of Italy was able to execute the swap with the Swiss National Bank that he had mentioned earlier, it might wish to renew such drawings for another three months. One of the drawings had already been renewed once; for the other, this would be the first renewal.

After discussion, renewal on a three-month basis of the two Bank of Italy drawings of $50 million each, if requested, was noted without objection.

Mr. Coombs also referred to certain System swap drawings that would mature later this month; namely, a drawing of $20 million under the swap agreement with the Bank for International Settlements and two drawings of $25 million and $30 million, respectively, under the swap agreement with the Swiss National Bank. If renewed, this would be the second renewal in each of these cases. As he had mentioned earlier, however, it might be possible to liquidate these drawings in the near future.

Renewal of the aforementioned drawings under the swap arrangements with the Bank for International Settlements and the Swiss National Bank, if necessary, was noted without objection.

This concluded the discussion of System foreign currency operations.

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 March 24 through April 8, 1964, and a supplemental report covering the period April 9 through April 13, 1964. Copies of these reports have been placed in the files of the Committee.

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

System open market operations supplied reserves on balance during the past three weeks, offsetting seasonal reserve drains and permitting the market to accommodate smoothly the payments flows associated with the end-of-March bank statement date, the April 1 Cook County tax date, and other sizable financial flows. Free reserves were somewhat higher and member bank borrowings somewhat lower than in the preceding three weeks, but the averages for both periods fell within the recent range of variation. The great bulk of Federal funds trading took place at 3-1/2 per cent although the rate softened temporarily toward the ends of the two-week reserve averaging periods encompassed during the recent interval.

In the securities markets the atmosphere was noticeably brighter during the past few weeks. Treasury bills were in good demand from a variety of sources including corporations, State and local funds, foreign accounts, and some commercial banks. In particular, the

commitment in the short-term area by AT&T of over $1 billion, raised in its recent stock offering, had a pervasive impact on short-term rates. At the same time, supplies of bills fell short of dealers' expectations as the Treasury did not tap the bill area for its April cash borrowing. In this setting, bill rates moved lower, with the quotations for three- and six-month bills declining by 7 and 5 basis points, respectively, over the interval. In yesterday's auction the average issuing rates for three- and six-month bills, at about 3.48 and 3.69 per cent, respectively, compared with rates of 3.55 and 3.74 per cent three weeks earlier. These lower levels have started producing a more cautious atmosphere, for most market participants seem to regard the current levels as rather temporary and as more likely to be followed by an increase than by a further decline in rates. However, given the Treasury's April 15 paydown of $2.5 billion maturing bills, it may be that bill rates will remain for a time around their present levels.

In the Treasury bond market, prices edged irregularly higher during the past three weeks as market participants came to feel that the downward price movement of the preceding several weeks had gone far enough and may have been overdone for the time being. In this developing environment, the Treasury's cash offer of $1.0 billion 16-month notes was very well received. Underlying the change of trend were the favorable reports on the first-quarter balance of payments, together with a feeling that the tax cut may not produce any early upsurge in business activity. Commercial bank selling of intermediate maturities slackened, and this, in combination with modest investor buying, augmented on two days by System purchases, tended to move prices higher over the interval. While underlying market sentiment is less gloomy now than at the time of the last meeting, it remains quite cautious and dealers continue to hold a sizable net short position in the over-5-year area.

The corporate and municipal markets have shared in the improvement in sentiment that has developed recently. The relatively light calendar of new corporate bond issues has contributed to the strength in that market, while the excellent response accorded two large municipal offerings has restored an affirmative outlook in that area.

A more cheerful atmosphere also developed in the bankers' acceptance market during the period. After experiencing a sharp build-up in inventories during the

first half of the interval, dealers raised their rates by 1/8 per cent effective April 2. Subsequently, net investor demand brought these inventories sharply lower again and effective today the dealers have returned their rates to the levels prevailing three weeks ago.

The next major item on the Treasury's financing calendar is the refunding of about $10.6 billion May 15 maturities--of which about $4.2 billion is publicly held. The Treasury plans to meet with its advisory groups on April 27 and 28 and will probably announce the terms of the exchange on April 29 or 30. No other major financing operation is expected until June, when the Treasury may choose to get a start on its heavy cash needs of the second half of the year. I should note that the Treasury plans to continue to put out a new issue of one-year bills each month and that it may choose to raise perhaps $0.5 billion new money in weekly bill auctions between now and the end of June.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period March 24 through April 13, 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. Noyes presented a statement on economic conditions as follows:

We are all weary of the phrase "watchful waiting" and also of the posture it describes. I shall propose that we dispense with both despite the fact that we still find ourselves in the position in which information that is just beyond our reach seems highly important to the System's basic policy responsibilities.

It may be helpful to remind the Committee again that this situation is not abnormal, but is, in fact, characteristic of a free enterprise economy operating in response to market determined prices, which reflect changes both in current conditions and expectations. It is a rare thing indeed when we are able to foresee clearly changes in, say, interest rates or prices of commodities which have not already been fully reflected in current market quotations. Uncertainty is a normal and necessary condition to the effective functioning of our type of free society. With the passage of time, specific uncertainties are resolved, but others spring up immediately to take their place. If this were not the case, we would always be in the midst of either an inflationary or deflationary spiral.

So I will not apologize for the fact that neither the data about what happened in the first quarter of the year, nor my analysis of it, will resolve your doubts as to the future course of the economy.

We are now estimating that GNP in the first quarter will be up about $7 or $8 billion--about a 1-1/4 per cent increase, or an annual rate of 5 per cent--somewhat less than in the fourth quarter of 1963. If we abstract from fluctuations in the rate of inventory accumulation and look just at final purchases of goods and services, the rate of expansion is almost incredibly stable--up in each recent quarter by about $9 or $10 billion, or at an annual rate of around 7 per cent.

The production index went up another 5/10ths of a point in March to 128.2. This makes the cumulative gain for the quarter 1.2 percentage points on the index, or almost exactly 1 per cent--a moderate figure.

Unemployment in March held at 5.4 per cent of the total labor force. However, unemployment among adult males dropped further to 3.9 per cent from 4.1 per cent last month and 4.6 per cent a year ago.

Price movements continue to be the most difficult area to report on satisfactorily. Most of the action in recent weeks has been in nonferrous metals, with copper in the spotlight. The very recent movements can be attributed to the unsettled supply situation, but it must also be borne in mind that the five metals in the BLS daily industrial commodity index are now up 20 per cent, and the entire group is up 8 per cent from a year ago. On the other hand, the over-all wholesale price index was stable during the first quarter, at a level

only 1/2 of 1 per cent above a year ago, and consumer prices have not shown any tendency to depart from the sluggish upward drift that has characterized the behavior of this index in recent years.

Analysis of current performance in relation to capacity is also a frustrating exercise. About all that can be said with any assurance is that in the case of almost everything but steel, we seem to be running closer to capacity than a year ago--and that in the case of steel we have considerably more slack than we did when orders and deliveries were being accelerated by strike expectations a year ago. Taken altogether, this probably means that the price structure is more vulnerable to demand pressures than it was earlier in the expansion, but the fact that there is less pressure on steel capacity today than a year ago provides a very useful anchor to the windward.

It is always possible that either an unmistakable cyclical upsurge or a softening may emerge in the period ahead, but these now seem by far the least likely possibilities. The most likely seems to be that the economy will continue to exhibit, as it has recently, many of the characteristics associated in the past with the expansionary phase of the business cycle. If one feels these should be dampened by some measure of monetary restraint, there is very little to be said for delaying, in the hope of clearer evidence. Similarly, if one feels that the present expansionary movement should be encouraged--that it is, in fact, what governmental policy has been seeking--then present monetary policy should be positively accepted on its merits--not simply carried forward by default through another period of "watchful waiting." As I believe Governor Mitchell pointed out some time ago, if the market senses that the System's posture is one of waiting to pounce, this, in itself, creates a very nervous and unsettled market condition.

By prearrangement with Mr. Koch, I will conclude with a word about the Treasury financing calendar. As it now stands, an even-keel policy would seem to be called for from late April through most of May. There is a good chance that the books on the May 15 refunding will be open at the time of the next FOMC meeting. Whether further Treasury financing in June would or should take precedence over a change in System policy

at that time is a question which can only be settled in the context of the time. All that can be said now is that the Treasury would like to finance some of its second-half cash needs outside the bill area, and/or extend the maturity of the debt through an advance refunding in June.

As a practical matter, the options that are open can be stated fairly simply: Between now and the May refunding the System can either maintain substantially the present policy or move to a slightly less easy policy--say, a somewhat lower free reserve target. Only most urgent considerations, which do not appear to exist, would justify a discount rate change between now and the announcement of the refunding at the end of the month. In either case, the System could pre-empt time for a change in policy in late May or June, if conditions warrant, although a change at that time would undoubtedly reduce the chances of any Treasury financing outside the bill area.

Mr. Koch made the following statement concerning financial developments:

Since it is now possible to make fairly good estimates of financial developments over the first quarter of the year, it strikes me as an appropriate time to step back a pace and see just how a monetary policy designed to keep money market conditions relatively stable over this period, coupled with the changing demands for funds, have been reflected in the course of the basic indicators of policy--namely, bank reserves, the money supply, bank credit, and interest rates. For this purpose I have passed out to you this morning a table we bring up to date periodically here at the Board which summarizes recent developments in selected indicators of monetary policy. This table, as you will note, shows the daily average level of these indicators in March, as well as their seasonally adjusted annual rates of change for the following periods: the first quarter of 1964, the last half of 1963, the year 1963 as a whole, and the first quarter of 1963.

As for the most commonly used measures of aggregate bank reserves, total reserves and required reserves behind private deposits have increased at a slower rate thus far this year than they did in 1963. Nonborrowed reserves have risen at about the same pace.

Tapered growth since the turn of the year has also characterized most measures of the economy's liquidity, one of the two main channels through which monetary policy affects real activity. The money supply narrowly defined, for example, grew at a 3.3 per cent rate from December through March, as compared with a 5.0 per cent rate in the second half of 1963.

Time and savings deposit expansion at commercial banks was at about the same rate in the first quarter as a whole as in the latter part of last year, but the rate slackened markedly over the quarter. Saving and loan association shareholding growth has also been less sharp recently than earlier. Accumulation of savings at mutual savings banks was at a substantially more rapid pace in January, due mainly to higher rates paid by New York mutuals but the pace dropped off considerably in February and even more in March. In view of the tax cut early in March, the reduced rate of growth in liquid saving, coupled with the decline in retail sales, are difficult to reconcile. The explanation may lie in increased consumer purchases of AT&T stock and other nonliquid investments.

The other main channel through which monetary policy affects the economy is through the cost and availability of credit and capital, particularly commercial bank credit. The rate of increase in total loans and investments of banks was 10.9 per cent in the first quarter of 1964 as compared with 8.0 per cent in the whole of 1963. The recent percentage rise in this item has been larger than that in demand and time deposits combined. The difference reflects in large part a substantial increase in Government deposits from December to March. These deposits are being drawn down abruptly in April, and for this reason a more rapid rate of increase in private deposits and the money supply is expected this month than earlier in the year.

An examination of the character of recent bank credit growth suggests that it is due more to banker than to borrower initiative. Thus, business borrowing from banks, the main demand-oriented category of bank credit, has shown only a moderate growth recently, whereas bank acquisitions of financial-type loans and U. S. Government securities, the rates of growth of which are more at the initiative of the banks themselves, have been either stronger or about as strong recently as in late 1963. Aggregate capital market financing is

expected to be very large in April, sparked mainly by the huge AT&T stock issue. For the year to date, however, the volume of publicly-offered bonds has been quite moderate. The calendar of future issues scheduled to date also continues moderate for this time of year, normally a period of relatively heavy capital market financing.

Turning to the cost of credit, most categories of interest rates averaged only a little higher in March than in December. From mid-February to late March, however, rates on intermediate- and long-term securities rose considerably. In the last week or so, rates moved back down a little, mainly in the case of short- and intermediate-term issues.

The relatively moderate demands for both bank credit and bond financing suggest that the recent interest rate rise was due mainly to expectations rather than to stepped-up demands for borrowed funds. Two factors seem to me to have been primarily responsible. First, dealers, counting on rather immediate upward rate pressures, went short in their longer term Government security positions. Secondly, banks and possibly other investors, thinking that rates would no doubt rise sometime this year even if not in the immediate future, tended to shorten up their portfolios. The most recent decrease in rates suggests that more uncertainty about the course of interest rates has now developed, at least as to the near-term future, but a substantial bond rally is unlikely.

What does all this suggest as to the most appropriate posture for monetary policy in the immediate weeks ahead? It is difficult to find in recent domestic financial developments in and of themselves much cause for a change in policy. The seasonally adjusted annual rates of growth of most of the basic indicators of policy have been moderate and strike me as sustainable and appropriate in light of current economic developments. The relatively high recent rate of over-all bank credit expansion, plus the large volume continuing to flow abroad, might give one cause to doubt this judgment. But it should be noted that the sharper over-all rate is likely to prove temporary, having been pushed up partly by bank acquisitions of Treasury securities in recent financings and by an accompanying short-lived build-up in Government deposits. Moreover, the flow of bank credit abroad might more appropriately be curbed by an extension of the interest equalization tax proposal than by adoption

of a less stimulative general monetary policy. Also, one must constantly remind himself that bank credit expansion over the last couple of years has reflected a higher proportion of investment of real savings as compared to demand deposit creation than it did earlier.

Nor should the February and March increase in intermediate- and long-term interest rates be interpreted as justifying, much less dictating, either a less easy open market policy or a higher discount rate. True, some of the expectations for better business and increased credit demands that gave rise to the interest rate rise may come true, but it would seem to be much more appropriate for monetary policy to wait for market validation of such expectations than to attempt to validate them through either open market or discount rate action. Such a course of policy would not only seem to make more economic sense, but it could also be justified more convincingly to our many watchful observers both inside and outside of Washington.

Mr. Furth presented a statement on the balance of payments as follows:

The "flash" report for March indicates a payments surplus for the month of $380 million, after deducting German and Mexican advance payments estimated at $90 million. The surplus for the first quarter (after deducting "special" receipts) was about $225 million before, and perhaps $50 million after, seasonal adjustment. This would be the first quarterly surplus since the fall of 1957, and it would make the cumulative deficits for the past two, three, four, and five quarters the smallest since 1958. The tentative data for the first week of April, adjusted for seasonal movements of volatile funds, suggest maintenance of the first-quarter position.

This favorable result was apparently due to four factors: a high level of exports, attributed mainly to continued full employment in most foreign industrial countries and some improvement in the payments position of some less developed countries; a moderate level of imports, attributed largely to the continued sluggish rise in U. S. industrial production; near-balance in the flows of portfolio capital, attributed mainly to the effects of the proposed interest equalization tax, and probably also in flows of recorded and unrecorded

short-term funds; and a decline in net Government expenditures abroad, attributed in part to some nonrecurrent repayments. The result was achieved in the face of one unfavorable factor, however: a near-record volume of bank lending to foreigners, which in January-February reached an annual rate in excess of $2 billion.

The high level of long-term bank loans to foreigners may be related in part to the cessation of foreign bond issues. But contrary to an opinion reportedly prevalent in the market, the short-term loans are overwhelmingly being made to the usual customers of U. S. banks, mainly Japan, and their size seems to be connected with the large volume of world exports.

Most observers believe that the rest of the year will see a higher deficit rate. In fact, statisticians of the Commerce Department believe that the second half of the year will again produce a deficit at an annual rate of nearly $2-1/2 billion. They assume that exports will not rise further but that imports will increase by more than $2 billion annual rate, or about one-eighth, reflecting both rising demand connected with the expected domestic expansion following the tax cut and the recent increase in nonferrous metal and coffee prices. They also assume that Government expenditures for economic aid will increase again to last year's high level; and that both portfolio investment funds and unrecorded funds will again flow out. But they also believe that this deterioration on Government, portfolio, and short-term funds accounts would be approximately offset by a reduction in the increase in bank lending to foreigners. On balance, therefore, they foresee an over-all deterioration in the U. S. payments position about equal to the rise in U. S. imports.

Some of these assumptions appear doubtful. For instance, I should believe that the Administration would be able to keep the net outflow of aid funds from rising--even if it does not succeed in achieving a further reduction. And I should also believe that the expected rise in U. S. economic activity would not only raise imports but also reduce the net outflow of direct investments; and that the favorable payments results of the first quarter would have a significant confidence effect, leading to a further reflux rather than to a renewed outflow of unrecorded U. S. funds.

Under these assumptions, we might expect that the over-all U. S. payments balance would indeed deteriorate somewhat, but hardly by more than $1 billion annual rate; and we might be so bold as to forecast a total payments deficit for 1964 of less than $1 billion, as compared with the Commerce figure of more than $2 billion.

If foreign private dollar holdings were to rise in 1964 as much as in 1963, a deficit of not more than $1 billion could be entirely financed by that rise, and the "official settlements" balance would then be in equilibrium. While such an expectation would be too optimistic, it might be reasonable to assume some rise in official dollar holdings of less developed countries, which are likely to gain reserves, at least temporarily, because of the expected improvement in their terms of trade. If this were to happen, U. S. gold holdings could remain intact, and industrial countries with a large dollar component in their reserves would not be forced to acquire unwanted further official dollar assets. In other words, even with a conventionally calculated deficit in the neighborhood of $1 billion, the international payments mechanism could remain undisturbed, and confidence in the stability of the system, and in that of its basic currency, the dollar, could continue to increase.

This appraisal seems consistent with the recent behavior of international reserves. U. S. gold reserves have shown a recovery even more remarkable than the improvement in the U. S. payments balance, thanks in part to the large volume of Soviet sales; U. S. gold holdings are again about as large as they were last July. And more important from an economic though not from a psychological point of view, the "chronic" surplus countries, France, Germany, and Switzerland, apparently have, at least temporarily, experienced a significant decline in the rate of their reserve accumulation since the Italian stabilization in mid-March. In contrast, the countries that had currency troubles earlier this year, Britain and Italy, seem to have been adding modest amounts to their reserves.

To sum up: it would be unwarranted to believe that our payments troubles are over--the situation still is far too unsettled. But it would be equally unwarranted at this time to consider all of the recent progress as temporary, analogous to the seeming improvements in early 1961 (when U. S. imports were

at unsustainably low levels on account of the recession) or in early 1962 (when the inflow of funds from Canada disguised a continued large basic deficit). We can't predict that the rest of the year will remain good, but neither can we predict that it will turn bad.

Following discussion based on the staff presentations, principally for the purpose of obtaining clarification and amplification of some of the material contained therein, Chairman Martin called for the usual go-around of comments and views on economic conditions and monetary policy beginning with Mr. Treiber. who presented the following statement:

As the reports so far this morning have indicated, the business situation is essentially the same as it was at the time of the last meeting of the Committee. The advance in business activity continues at a moderate pace. Business sentiment continues optimistic. Conceivably the present buoyancy could become tempered by the current and prospective cuts in defense spending after several years of increases; but the cutbacks in procurement are likely to have more effect, at least initially, on specific communities and regions than on the nation as a whole.

The over-all unemployment rate in March remained unchanged at 5.4 per cent. The unemployment rate for married men edged downward for the fourth month in a row and returned to its recent low of 2.9 per cent. On the other hand, there was a rise in unemployment among teen-agers.

Despite the flurry of announced price increases for individual commodities, the broad price indices have continued to show stability. Purchasing agents apparently expect that the recent firming of prices will continue but that the increases will be held within bounds. The fairly widespread increases in raw industrial commodity prices can be traced, in part, to strong demand in foreign industrialized countries; as yet such increases have not significantly affected our general price indices. The major tests lie ahead. These include (a) labor negotiations in key sectors and their effects on

costs; (b) price policies of business concerns as various industries approach capacity production; and (c) the cumulative impact of the tax cut on consumer demand.

March witnessed an unusually strong expansion of bank credit, even if the adjustment for seasonal influences may be too high. Bank loans rose sharply. There were large demands for funds by securities brokers and dealers and by finance companies. The demands of both were related, in part, to the withdrawal of corporate funds (associated with the March 15 tax date) from repurchase agreements, on the one hand, and finance company paper, on the other. Business loan demand was on the weak side. The fact that corporations in the aggregate did not have to turn, to any considerable extent, to banks to cover their cash needs for the tax dates is indicative of their large liquidity reserves.

The seasonally adjusted money supply showed only a modest increase in March. The slow rise, despite the sharp advances in bank credit, is largely attributable to the large increase in U. S. Government deposits. Time deposits also continued their rise, although at a slower rate than in the preceding 12 months.

The preliminary balance of payments figures for the first quarter of 1964 are very encouraging. We should not, however, let this favorable development make us over-confident, since the improvement may well turn out to be only temporary. Future quarters might well see a decline in the trade surplus and prospective new foreign security issues are already larger than the actual figure for the first quarter.

Sparked by a heavy but probably temporary demand in recent weeks, Treasury bill rates have moved somewhat lower and into a wider range. The market rate on three-month Treasury bills has been below the discount rate for the first time since early December. The Treasury has indicated that it will probably add moderately to the supply of bills by increasing the weekly Treasury bill offerings during the remainder of the year. As the current special demand factors recede and the supply of bills rises, there is reason to believe that Treasury bill rates will rise again. While it is good to see greater flexibility in Treasury bill rates, a continuation of such rates below the discount rate could lead to misinterpretation, especially abroad, of monetary policy. International capital movements are influenced greatly by the confidence and attitudes of foreigners.

It would be unfortunate if foreigners were to come to feel that we are not fully committed to the defense of the dollar in the light of the continuing balance of payments problem and the rising trend of interest rates in leading foreign countries.

Our recent balance of payments experience does not call for movement at this time toward less ease. Yet we must bear in mind that restrictive credit action abroad, including interest rate increases, could make necessary defensive action here at some future time. On the domestic front, the business advance is continuing at a moderate pace, with few concrete signs of immediate inflationary dangers. The domestic situation calls for continuing alertness to developments, but not for immediate action toward less ease. Clearly, neither the international nor the domestic situation calls for more ease.

Thus, it seems to me, it is desirable to continue our current monetary policy and to aim at a firm money market, with the Federal funds rate fairly consistently at 3-1/2 per cent, and with free reserves generally in the $50 million to $150 million (or a slightly wider) range. While flexibility in Treasury bill rates is desirable and there should be no harm in having, from time to time, rates on three-month Treasury bills below the discount rate, I would trust that the rates would also be above the discount rate in the 3.50-3.60 range a good part of the time.

Mr. Treiber felt that the Secretariat's memorandum of April 8, 1964, regarding the form and content of the current economic policy directive had done a good job of setting out the major issues and difficulties involved in formulating such a directive. In particular, there was clear recognition of the difficulty of simultaneously specifying long-term goals and workable short-term targets in a way that was informative to the public after the event without being too inflexible for the Account Management in its day-to-day operations. He concurred in the conclusion that, at

least for the time being, the Account Manager should be instructed in terms of "money market variables" rather than in terms of intermediate or longer range objectives relating to bank reserves, bank credit, and the money supply. Important as these latter quantities were, they were not really workable as short-term targets. Rather, they must be observed and studied as guides or reference points for modification of the objectives set forth in terms of money market conditions.

In issuing an instruction in terms of money market conditions, Mr. Treiber said, it would seem to him unwise to use quantitative targets, whether expressed as levels or ranges. The basic difficulty was that policy must be executed in a dynamic market environment, the elements of which were unpredictable and in the short run often uncontrollable. There was thus no assurance that the Manager could always hit the targets specified by the Committee. Furthermore, given the unpredictable combinations in which money market variables may occur, there was no assurance that it would always be desirable for the Manager to attempt to hit the targets specified by the Committee.

It would seem preferable to defer to the unpredictable, uncontrollable nature of many of the short-term variables with which the Desk dealt, Mr. Treiber continued, and to cast the second paragraph of the current policy directive in language

sufficiently broad to give the Manager flexibility to adapt operations to changing circumstances in accordance with his judgment of the Committee's intent.

As a practical matter, Mr. Treiber could foresee great difficulty for the Committee in getting together on a particular range of free reserves or Treasury bill rates or both. It was hard enough to agree on such words as "slight" or "moderate".

Mr. Treiber then turned to the alternative drafts of possible current economic policy directives that had been distributed by the Secretary for the Committee's consideration under date of April 13, 1964.[1/]

For the first paragraph of the directive, he preferred alternative A which seemed to him to be a more straightforward statement of the Committee's policy position than alternative B, but he presented certain specific language suggestions. Also, he questioned the reference to the "slower growth of aggregate bank reserves and the money supply." As for the second paragraph, Mr. Treiber preferred alternative B for the reasons he had mentioned previously. He questioned, however, the inclusion of the second

1/ These alternative drafts of paragraphs one and two of the directive had been developed by the Secretariat in the light of the staff memorandum with regard to the problems presented by the form of the directive, distributed under date of April 8, 1964. Copies of the alternative drafts of suggested directives are appended to these minutes as Attachment A.

sentence. If the first paragraph stated that it was the Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply, the second sentence of alternative B for the second paragraph would seem redundant; at the same time it would seem incomplete because of failure to refer to the other factors mentioned in the first paragraph.

Mr. Shuford said that in recent months economic activity in the Eighth District had continued to expand. Employment in the District's major labor markets had risen significantly, with the largest gains in the construction field. Total bank deposits rose at about an 8 per cent annual rate from December to March. On the other hand, industrial use of electric power and business loans of reporting banks were about unchanged.

As indicated by the reports this morning, Mr. Shuford continued, national economic conditions continued to be quite favorable. Activity had been at a high level without creating thus far any obvious imbalances in production, employment, and incomes. The economy was operating in a framework of relative price stability, and the U. S. payments balance had continued to improve.

As to policy, Mr. Shuford said his position was quite similar to that outlined by Mr. Treiber as far as the immediate posture was concerned. Certainly he would not want to see any more ease, and he had an underlying inclination toward less ease. At

the same time he would not favor any overt tightening as of today. The recent decline in interest rates appeared to have resulted from a temporary falling off in the demand for funds relative to the supply. Thus, it seemed to him that the rate fluctuation had been appropriate. However, he would not want to see rates decline further and, as Mr. Treiber had indicated, it appeared that they probably would not remain at the lower levels for any appreciable time. His preference would be for a bill rate between 3.50 and 3.60 per cent. With respect to the money supply, he would favor a continuation of the rate of increase that had prevailed during the past quarter, or possibly a little less; he was inclined to believe, on the basis of the seasonal pattern that had prevailed since 1960, that the money supply perhaps had increased at somewhat more than the indicated 2.7 or 3.0 per cent rate, but a continued rate of increase of about this order would, it seemed to him, be appropriate for the time being.

With respect to the form of the directive, Mr. Shuford said he was glad to receive the document sent out by the Secretariat but had not had time to study it adequately. Neither had he had time to relate fully the points discussed in the document to the alternative draft directives. The present directive would seem quite satisfactory for the moment, and he would be willing to renew it for the time being, eliminating the reference to Treasury

financing. However, he would be willing to accept alternative draft A for the first paragraph. While he would have selected alternative A for the second paragraph, he would not object to the broader alternative B for that paragraph if the majority sentiment was in that direction.

Mr. Bopp reported that although the pace of economic activity in the Third District had not accelerated greatly, there had been discernible improvement. Nonresidential construction awards had spurted ahead. Unemployment was declining slowly but rather steadily; in each recent month a majority of the District's labor markets had reported decreases. Store sales, however, showed no exceptional advances. The Reserve Bank's capital spending survey showed substantial upward revisions of the estimates for 1964 that were reported last fall.

Basic reserve positions of reserve city banks registered a deficit averaging around $40 million for the three weeks ended April 1. This represented the tightest three-week period so far this year. The deficit was financed almost entirely through the Federal funds market. Borrowing at the discount window by both reserve city and country banks continued to be relatively light.

As for policy, Mr. Bopp felt that this was a strategic period in which it would be important not to give misleading signals. Economic analysts were groping for clues as to the

effects of the tax cut, and they would continue to do so in the period ahead. Despite some improvement recently, the Government securities market seemed poised for a general increase in interest rates.

Perhaps the tax cut would prove to be the very strong stimulus that many expected, Mr. Bopp said, and perhaps a vigorous upswing in activity would bring on higher interest rates. It was by no means certain right now that this would happen, however. In the present situation, the System should do nothing either to confirm or deny the validity of current expectations. Until there was more conclusive evidence of their validity, policy should aim for about the same conditions of reserve availability and about the same levels of interest rates as had prevailed recently. He would make no change in the discount rate.

The directive should be written in terms of money market conditions, Mr. Bopp believed. Of the draft alternatives that had been distributed for consideration at this meeting, he would prefer alternative B for both paragraphs.

Mr. Hickman observed that business continued to move ahead. The Cleveland Bank's directors and other businessmen with whom he and his associates were in contact were increasingly optimistic about the outlook. Further evidence to this effect was provided by reports from 21 Fourth District business economists who met at the Reserve Bank early this month. Almost without exception, they

emphasized current high rates of activity, the forward movement of the individual industries they represented, and the generally favorable outlook. On the industrial production index, the median forecast of the group was for a two-point increase for the second quarter and a one-point increase for each of the third and fourth quarters. Only two of the entire group predicted any decline this year.

Representatives of the automobile industry and its suppliers expected domestic production and sales of cars in the neighborhood of 7.6 to 7.8 million in 1964, barring a strike. If a strike should occur, there would be a serious shortage of cars, which probably could not be made up this year. There was general agreement in the group that labor demands would be heavy and negotiations tough.

Representatives of the steel industry felt that inventories were in reasonable balance with orders and shipments, and that the outlook for steel was good. Their forecasts of ingot tons were similar to the one he had reported at the preceding meeting of this Committee, namely, 60 million ingot tons for the first half and about 55 million tons for the second half, for a total of 115 million tons for the year. The decline in steel output during the second half would probably be seasonal; it was not expected to have any material effect on the Board's index of industrial production.

Among representatives of the machinery industries, there was general agreement that the impact of the projected rise in capital expenditures was already being felt in new orders for machinery. At the Cleveland Bank's Board meeting on Thursday, one of the directors, who heads a major machine tool firm, indicated that new orders were beginning to reflect increased emphasis on plant expansion. He also pointed out that although shipments had expanded considerably, the pace of new orders had caused the backlog to build up and delivery dates to be stretched out.

Also present at the economists' meeting were representatives of the rubber, nonferrous metals, glass, paper, utilities, railroad, and petroleum industries. Almost without exception, they expressed satisfaction with the present state of demand and the business outlook. While there was evidence of price firming in a number of lines, particularly in nonferrous metals and chemicals, the group seemed to feel that most increases represented partial recovery from previous softness, and were not as yet inflationary.

So far as open market operations were concerned, Mr. Hickman thought that the tone of the market had been too easy in the past three weeks, and that the level of free reserves had been consistently above what he considered to be the System's objectives. Although part of this was due to misses in reserve projections, he could not escape the feeling that errors were permitted to fall

predominantly on the side of ease. Earlier this year the Committee appeared to be operating with a free reserve target of $100 million, plus or minus $50 million (or at least the statistics were consistent with that assumption). Now the Desk appeared to have shifted into a position where small differences below $100 million were resisted vigorously, while on the other side free reserves had been allowed to drift as high as $240 million. This implied to Mr. Hickman a shift in the target from about $100 million to somewhere around $150 million. In view of current business optimism, the burgeoning reserves of the banking system, and the ever present threat of adverse capital flows to other countries, he thought that this easing was inconsistent with the best interests of the U. S. economy.

So far as techniques of open market operations were concerned, Mr. Hickman continued to feel that the Account should operate mainly in short-term securities, with occasional ventures into the long-term area when it could be done without altering the yield curve or generating suspicions that the System was influencing the market for the purpose of aiding Treasury financing. The purchase of coupon issues for System account last week reinforced an upward drift in bond prices that had begun earlier. This was done at a time when dealers had a substantial short position in long bonds. Observers were led to believe that the System was

preparing the market for the next Treasury refunding operation. Evidence of this, Mr. Hickman said, was provided by the following comment that appeared in a leading New York newspaper: "Because the advance was caused primarily by Federal Reserve buying, several dealers described the Treasury market as 'artificially strong.' One noted that, if prices remained at improved levels, the Government would have a more attractive market in which to offer new securities. . .in two or three weeks."

In summary, Mr. Hickman thought that the Committee should shoot for a free reserve target of $100 million, with minor, but equally likely, variations on either side of the target. In addition, he thought the Desk should restrict its operations to the short-term end of the market whenever the time was sufficiently close to a major Treasury financing to raise doubts as to System intentions. In his opinion, monetary policy in the past three weeks had accommodated more than a "moderate growth" in the reserve base and had failed to maintain "conditions in the money market that would contribute to continued improvement in the capital account of the U. S. balance of payments." It also, in his opinion, did not give adequate weight to the possible effects of the tax cut and to the effects of recent increases in money rates abroad on international capital flows. In short, he considered that monetary policy since the last Committee meeting had been

inconsistent with the directive; that either the directive should be changed or open market operations should be revised to provide for less ease.

Mr. Hickman said he thought the staff memorandum on the directive was excellent. He also liked the efforts that had been made on the drafting of a current economic policy directive for this meeting. He would choose alternative A for the first paragraph and B for the second, but with certain revisions. In the first paragraph, he would delete the word "progressive" before "stimulus," since he was not sure that the tax cut would have a progressively stimulative effect. He also felt that the Committee should look at more current data than changes over the first quarter of the year in formulating monetary policy for the next three weeks; in particular, he was concerned about the gearing of near-term policy to a slower growth of aggregate bank reserves in the first quarter when, in fact, bank reserves had increased sharply during the past few weeks. He also thought the money supply reference should be deleted. In alternative B for the second paragraph he would delete the sentence having to do with aggregate measures because he did not believe they were within the control of the Desk over periods as short as three weeks. Also, as he had indicated previously, he felt that conditions in the money market since the last meeting reflected excessive ease.

Mr. Daane said he would recommend "no change" in policy at this time, for the reasons given by Mr. Treiber and others. With reference to the posture of the System as reflected in the operations of the Desk, he felt that the Account Management had succeeded in being helpful in a difficult period, and that the Desk's operations clearly reflected the consensus of the Committee at the March 24 meeting. He would hope that this consensus continued. He shared the opinion that the balance of payments situation should still be viewed with some degree of caution; the first-quarter figures seemed almost too good to be true. They gave the Committee some opportunity, perhaps, to reassure the market again that the System was not sitting right on the verge of a pouncing operation and did not call for any change in policy on either side of the fence.

As to the directive, Mr. Daane said that he, too, was impressed with the staff memorandum, but he had not had an opportunity to study it fully. On the specific directive for this meeting he doubted, like Mr. Shuford, that a great deal would be gained by changing the directive. If it were to be changed, he would go along with alternative A for the first paragraph, with the changes suggested, and with alternative B for the second paragraph, subscribing fully to Mr. Treiber's comment that it was unwise to try to pinpoint targets in view of the difficulties that enter into the Manager's operations.

Mr. Mitchell said that he agreed substantially with what Mr. Bopp had said about appropriate Committee policy. On the question whether the Desk's operations in the past three weeks had departed from the Committee's objectives, he thought they had not. He agreed with Mr. Daane that the developments that had occurred were needed to correct erroneous impressions that had been growing earlier. A situation had been achieved that gave the Committee a much better posture from which to move.

On the directive, Mr. Mitchell liked alternative B for the first paragraph, except for the sentence having to do with interest rate advances abroad and their possibly adverse effects on the capital account of the payments balance. This sentence seemed to him to be included in the draft directive without sufficient background of fact. Also, he did not think the draft directive reflected the full extent of the balance of payments improvement that was taking place. But he would like alternative B with that deletion, and he liked alternative A for the second paragraph. He thought the Committee must take a more responsible position in the directions that it gave to the Manager. The Manager did hear the discussions, and he knew what the Committee was thinking about, but if the impression should grow, because of the wording of the directive, that the Manager dictated policy, a real public relations problem would be involved. Actually, in many cases the Manager was,

in effect, told by the Committee to start conditioning the market for a policy change, but this did not show in the directive. He did not believe it was the best course for the Committee to seem to be giving the Manager too much leeway. Moreover, it was the Committee's responsibility to give the Manager an unequivocal directive that was internally consistent. This particular draft at least recognized the possibility of giving the Manager definite, consistent instructions.

Mr. Shepardson commented that the apparent improvement in the balance of payments naturally was encouraging. Of course, as others had indicated, the improvement might not be too solid. He felt quite sure that the recent gain in exports of agricultural commodities would not be repeated continually. Further, there was quite an outflow of funds through bank loans, which was indicative of excessive funds seeking a profitable outlet. In short, he was not quite as optimistic about the balance of payments as some others appeared to be.

Domestically, Mr. Shepardson said, everyone recognized that there had not been much indication thus far as to the effects of the tax cut. On the other hand, there were indications of some price movements in commodities. As far as consumer prices were concerned, there had been a continuing upward crawl. Some segments of production were approaching capacity; generally speaking, the

margin of excess capacity had been reduced significantly. Thus, it seemed to him the economy was close to a point where there could be significant price pressures. The difficulty the Committee faced was the timing and the extent of price movements. There had been admonitions on the side of waiting until everything was on the board for one to see. In his opinion, however, that would be too late; the damage would have been done. Drastic efforts would then have to be made to curb the excesses or they would get out of hand. He knew there was Governmental talk of keeping wage and price advances within bounds, but he questioned just how much pressure actually would be exerted if increases began to manifest themselves.

It seemed to Mr. Shepardson there already were enough upward pressures on prices or threat of such pressures that it would be appropriate for the Committee to make some move toward less ease at this time; certainly not a drastic move, but one that would put it in a better position--a more flexible position--to meet such developments as might occur in the next few months and to control the situation that he felt lay ahead. If such developments did not occur, the Committee would not be in a position from which it could not back off. In summary, he would favor moving toward somewhat less ease than had prevailed with a view to restraining some of the excesses that he thought were developing already.

As to the directive alternatives, Mr. Shepardson said he had no comment pending further study.

Mr. Mills said that although he was encouraged by the Committee's efforts to develop an improved form of directive, he deplored the fact that it engaged so much in a battle of words about form rather than substance. The difficulty would be surmounted, in his opinion, if the Committee would fasten its directive to the statutory instructions under which open market operations must be administered. The problems of the directive were susceptible of solution through adherence to such instructions, by virtue of which appropriate monetary and credit policies would be adopted. In amplification of this view, Mr. Mills presented the following statement:

> Subsection 3 of section 12(a) of the Federal Reserve Act prescribes that the time, character, and volume of all purchases and sales of U. S. Government and other securities eligible for engagement by the Federal Open Market Committee shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. Although some latitude in interpreting the statute is permissible, the conduct of open market operations for many months past has tended to overstep the statutory directive under which it functions. That fact is revealed in the second paragraph of the current economic policy directive issued to the Federal Reserve Bank of New York in which it is set out that,
>
> > ". . .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 effect, the directive is primarily an interest rate directive, with the accommodation of commerce and business relegated to a secondary position. That is clearly so inasmuch as the maintenance of about the same conditions in the money market implies that policy actions should be designed to preserve the existing interest rate structure, with the accommodation of expansion in aggregate bank reserves to be permitted only if accomplished without unsettling the level of interest rates. In effect, a literal interpretation of the present directive sacrifices the propriety of fostering a reasonable expansion in bank credit to an interest rate objective. But conceding that the level of interest rates has a bearing upon the general credit situation of the country, open market policies directed at encouraging or discouraging the expansion of commercial bank credit can naturally produce an interest rate structure capable of influencing national credit conditions in the constructive direction intended by open market policy actions without having given precedence to a strictly interest rate policy objective. Viewed in this way, the Committee should revamp its reasoning and henceforth give first place to credit rather than interest rate considerations when issuing instructions to the Manager of the System Open Market Account. A change such as this in the Committee's policy instructions would comply with the statutory directive governing its activities and would also have the ultimately beneficial result of freeing the U. S. Government securities market from artificial manipulations and the domination of official control, all to the end that the financial markets would again respond freely to natural factors.

The tangible difficulty of attempting to artificially control the U. S. Government securities market clearly is revealed in the Tax and Loan Account privileges accorded by the Treasury in its recent offerings of 3-7/8 per cent notes and one-year Treasury bills, and which involved the necessity of supplying additional reserves in support of commercial bank acquisitions of these securities. This provision of reserves is somewhat in contradiction to the theory of maintaining existing conditions in the money market, at least if the reserves so injected are permitted to remain at the disposal of the commercial banks following securities divestments subsequent to their original underwriting transactions. The reserves supplied to assist

> the Treasury's financing operation can, of course, be withdrawn at a later date in order to maintain conditions in the money market in their original posture. However, the over-all effect of first supplying and then withdrawing reserves for purposes unrelated to general credit conditions in the economy would further confirm the investor community in its belief that the Federal authorities were unalterably won over to a policy of artificially controlling the U. S. Government securities market through an interest rate pegging program.

As to the Committee's current position, Mr. Mills said the statistical record of the past three weeks on the supply of reserves and interest rate movements, and the market reactions thereto, reflected what he regarded as evidence of a monetary and credit policy consistent with current economic conditions. He would hope for a relative continuance of similar financial factors during the time until the next meeting of the Committee. He had no comment on the draft directives; as he had indicated, he thought they were off on the wrong foot.

Mr. Wayne reported that further gains continued to characterize Fifth District business activity. The broad statistical indicators were all at or near record levels. Bank debits for March showed quite a sharp rise. Insured unemployment had continued to decline more than seasonally, optimism remained high among the Reserve Bank's business contacts, and durable goods manufacturers responding to the Bank's recent survey reported increases in new orders, shipments, employment, and average weekly hours.

Uncertainties, however, continued to mark some sectors of nondurables that were especially important to the Fifth District. Federal cigarette tax collections in March were 9 per cent lower than a year ago despite a 10 per cent rise from February, but most cigarette plants were again operating full time, with a few on overtime.

The one-price cotton bill, now enacted into law, came up for discussion at the joint directors' meeting held last week at the Charlotte Branch. Several directors speaking from first-hand knowledge said that the uncertainties of recent weeks had completely disrupted some sectors of the market for cotton goods, even to the point of causing temporary shutdowns of finishing operations, and that these uncertainties, now stemming from the discretionary powers of the Department of Agriculture as well as from the unpredictable behavior of buyers and sellers, were still a long way from being resolved.

The District's already disappointing agricultural prospects suffered another blow when freezing weather extensively damaged fruit and vegetable crops, particularly in the Carolinas.

As Mr. Wayne interpreted the national situation, it was fully as good and perhaps even stronger than the Fifth District picture. Evidence of increasing strength in capital outlays continued to mount. The profit picture remained good, cash flow

was running at record levels, the various capital spending surveys were quite encouraging, machine tool orders were setting a furious pace, and manufacturers' inventories remained at a low level in relation to sales. Construction activity was at a record level, with a large backlog of contract awards. Both the level of construction activity and the big upsurge in capital outlays were almost, if not entirely, unprecedented at this stage of the cycle. Employment continued to rise, and the country might now be making some dent in the ranks of the unemployed. Most other indicators were also on the plus side. The disappointing pace of retail sales following the tax cut did pose some questions, but even that might be a statistical quirk.

Mr. Wayne concluded that these signs added up simply to strength and not to inflation. Wholesale prices still showed no upward pressure at all. There had been scattered price rises but also some reductions, as in the case of automobile tires and stainless steel. Even the prices of sensitive industrial materials, frequently a good leading indicator, had shown a scant 0.5 per cent rise since December--quite a small movement for this index. Further evidence of a stable price situation was provided by the recent conclusion of the National Association of Purchasing Agents that "Business is good and volume is high, but capacity is ample and a buyers' market prevails." Upward price pressures might

develop at any time, especially if there were significant wage increases following the bargaining rounds this summer, but this possibility should not be a factor in Committee policy at the moment. In view of the present price situation and the improving balance of payments situation, he saw no reason for changing the posture of Committee policy from what had prevailed for the past several weeks.

With regard to the directive, Mr. Wayne concurred with the views of Mr. Treiber as to the measures it would be appropriate to employ in giving instructions to the Account Manager. He considered the memorandum prepared by the staff timely and well done. As to the draft directives suggested for consideration at this meeting, he would prefer alternative A for the first paragraph and alternative B for the second paragraph. He would not change the discount rate at this time.

Mr. Clay observed that economic activity appeared to continue in the same general pattern that had prevailed throughout much of this business upswing. The trend was moderately upward, most resources were in ample supply, and the over-all price situation was essentially stable.

The appropriate monetary policy, Mr. Clay suggested, had to be found in the record of economic developments and not in the knowledge that income taxes had been cut. Considering what was

known about the economy, monetary policy should continue in a manner that conformed to the Committee's objectives in recent months. This was basically a policy of credit expansion with a view to facilitating employment and economic growth. More specifically, it should be the Committee's aim to provide reserve availability so that commercial bank credit could show a moderate rate of growth on a seasonally adjusted basis. Money market conditions of recent weeks presumably would be consistent with such a goal, and the international payments situation should permit a continuation of the greater degree of flexibility in short-term interest rates that had prevailed recently.

Some change would need to be made in the first paragraph of the current economic policy directive, Mr. Clay said, at least to delete the reference to Treasury financing. If a new wording was adopted, alternative B of the staff drafts for both the first and second paragraphs appeared satisfactory. There was some attraction to the idea of more definite guidelines, as provided in alternative A of the second paragraph, and it was probable that this alternative would be usable for the three-week period ahead. However, when he considered the concern in past years over the market's strong reliance on free reserve figures as an indicator of the Committee's monetary policy, he would be reluctant to see any steps taken to establish a public record of a free reserve

guideline for instructions to the Manager, quite apart from the more basic question of the use of free reserves as a yardstick. The discount rate should remain unchanged.

Mr. Scanlon reported that economic prospects in the Seventh District continued to be favorable except for the possibility of a serious disruption if the railroad negotiations should not be successful. Representatives of large business enterprises in the Midwest continued to report that current orders and shipments were exceeding earlier projections that had been considered optimistic at the time they were made. There had been some further tendency for order backlogs for manufactured goods to rise and for delivery lead-times to lengthen. But these developments had not been accompanied by any substantial increase in upward price pressures.

At the beginning of April inventories of domestically-produced autos were equal to 46 days of sales at the March rate, compared with a 40-day supply a year earlier. Because of the possibility of a strike on August 31, production was somewhat higher than would be the case otherwise. Used car prices remained steady, and stocks were at a "comfortable" level. Shutdowns for model changeover would take place in July, a week or so earlier than last year. Changes in 1965 cars were to be much more extensive than in the 1964 models.

Higher borrowings by finance companies and recent strength in "other" loans probably reflected continued expansion of consumer credit, Mr. Scanlon said. Increases in business and consumer loans had been accompanied by liquidation of U. S. Government securities and a slowdown in acquisitions of mortgages and municipals. Effective rates on new conventional residential mortgages in the Chicago metropolitan area had continued "soft," averaging 5.76 per cent in the first quarter compared with 5.82 per cent in the fourth quarter of 1963. The March interest rate survey of business loans showed no general change in the average rate charged. In the smallest loan category, however, there was a sharp increase in the proportion of loans made at rates over 6 per cent.

The large Chicago banks had reduced their borrowings now that the pressures connected with the April 1 personal property tax date had abated. Government securities held by these banks had declined sharply, mainly because of a $500 million reduction in holdings of bills. Bill portfolios now totaled only $350 million. Two large banks reported sales of 6 to 9-month CDs at 4 per cent during the past three weeks.

Mr. Scanlon said it seemed to him that the current situation called for no change in monetary policy at this time. On the directive, he thought the Secretariat was moving in the right direction in trying to formulate a directive stated in quantitative

terms, if this could be done without endangering the effectiveness of the Manager's operations. He had been intending to say that there were good ideas in Mr. Young's April 8 memorandum, but as the discussion moved around the table he was not sure how a group the size of the Committee could ever select from the number of alternatives included in the memorandum. Whenever the Committee departed from broad, general instructions, it had to assign priorities to various considerations, and this was the area where it had been difficult to come to agreement in the past.

With respect to the alternate drafts suggested for consideration today, Mr. Scanlon noted that alternative A for the second paragraph made it clear that the free reserve figure would take precedence over short-term interest rates. He did not know whether the Committee was ready to face up to making this decision. The Committee seemed to be able to agree only on directives stated in broad general terms that did not weigh one objective against the other and simply indicated that the Committee was taking all factors into account. While he thought that the Committee most likely should continue to work on the form of the directive and try to get something a little more specific, he would settle today for alternative B of both paragraphs if he had to choose between the alternatives, and he would be willing to delete the second sentence of the second paragraph.

Mr. Deming reported that most indicators of commerce and production for the Ninth District were up and looked fairly strong. There was strength in construction activity and prospects. Income figures for the District were not as favorable relative to a year ago as for the country as a whole, reflecting essentially the decline in livestock prices. Otherwise, the farm situation looked reasonably good. It appeared as though the income from wheat this year, assuming normal yields, would be about the same as in 1963 now that the new legislation had passed.

Mr. Deming noted that the Minneapolis Reserve Bank surveyed from time to time some of the large District manufacturing concerns, located principally in the Twin Cities, that do a national and international business, asking them about prospects in the quarters ahead for prices, employment, etc. The most recent reports indicated a rather general further increase in activity. Two of the respondents were thinking of increasing prices modestly. One firm reported that it had in fact increased prices modestly, but had not been able to make the higher prices stick.

Loan demand at city banks in the District showed significantly less strength than last year. Demand seemed to have picked up somewhat in the past couple of weeks, but not sifnificantly. Country banks remained about on track with typical behavior, with loan demand little weaker than last year. Loan-deposit ratios did

not show anything significant; city bank ratios were well below their peaks, while country bank ratios had crawled up a little.

With respect to policy, Mr. Deming thought the Committee should stay about where it was for the next three weeks. If he were not required to choose between directive alternatives A and B at this time, he would be happy with the present directive, with deletion of the reference to Treasury financing. If he had to choose, he would take alternative A for the first paragraph and alternative B for the second.

Speaking more generally concerning the directive, Mr. Deming did not feel prepared at this time to go much further than a selection between alternatives A and B. He would not want to quantify. Perhaps free reserves and short-term interest rates might be mentioned from time to time, when the Committee so desired, as goals of short-run policy. But he doubted the likelihood of success in attempting to make the instruction to the Manager serve at the same time as a public relations document. He would be inclined to move toward simplifying the directive rather than toward making it more complex.

Mr. Swan said the general business situation in the Twelfth District appeared to be about the same as reported three weeks ago. Some caution in connection with defense contracts, which were concentrated in the Northwest and in California, tempered the

prevailing optimism a little. There had been, of course, the unfortunate earthquake disaster in Alaska, and the full extent of the damage could not yet be assessed. While this posed serious problems for the area concerned, he doubted, however, that there would be major indirect effects on other areas and other parts of the economy.

The March figures for employment and unemployment in the Twelfth District were available only for California; they showed a slight increase in total nonfarm employment, with the rate of unemployment holding at the February level of 5.7 per cent. Retail sales continued satisfactory in one sense, but they were somewhat disappointing in another sense because there did not seem to be any particular reflection as yet of a substantial increase in consumer spending.

In the three weeks ended April 1, loans at District weekly reporting banks increased somewhat more than last year but at less than the national rate of increase. The reporting banks in the District were able to increase their security holdings somewhat, contrary to the decline in securities holdings on a national basis as well as to increase their loans. There was again some slowing down in the rate of gain of funds moving into savings and loan associations since the first of the year. For the second quarter, a few of the smaller associations had announced increases of 5 to 10 basis points in dividend rates, but this was not widespread.

In terms of policy, Mr. Swan agreed with those who saw no reason for any change at this point. He saw nothing in the domestic or international picture that would call for any tightening, and he saw no reason, obviously, for any increase in the discount rate.

As to the directive, Mr. Swan seconded the favorable comments about the work done by the Secretariat, even though he felt sure the Committee was not going to resolve the whole question immediately. In terms of the first paragraph of the alternate draft directives, Mr. Swan did not feel strongly one way or the other. He thought he preferred alternative B in terms of logic and description of general policy leading into the second paragraph. He doubted that this was too important one way or the other, however, or that the draft was too different in effect from the first paragraph of the existing directive.

The critical question of approach is in the second paragraph, Mr. Swan continued. He wanted to align himself with Mr. Mitchell in this regard. With due respect to all of the questions of unpredictability and flexibility mentioned not only this morning but many times before, it did seem to him that the Committee should move in the direction of a more specific directive. If the Committee had problems of inconsistencies or choices, it should face up to them and work on them. Choices among objectives

would be necessary, and the Committee probably would have a hard time reaching agreement, but the Manager had to choose among objectives in order to operate and it seemed preferable for the Committee to make that choice. The public relations problem is of a secondary nature, but he would rather explain why the Desk had not hit a target (stated in terms of a range) than to continue to try to explain on a defensive basis, why the Committee's directives remain indefinite. Subject to one minor change, he would therefore prefer alternative A for the second paragraph.

Mr. Irons reported that Eleventh District conditions were generally quite favorable, with the economy moving along at a high level. There continued to be moderate, though not spectacular, gains. Industrial production was at a record level, nonagricultural employment was up fractionally, and unemployment was down just a shade. In the oil industry there had been a little easing with respect to both crude oil and refining. Department store sales continued to set new records month by month and new car registrations were strong. Agricultural activity had made quite a good record so far this year, although there was concern about the weakness of cattle prices.

Loans, investments, and deposits were up in the District during the past three-week period, Mr. Irons said, and loan demand seemed strong. Some banks regarded it as very strong. A few of

the District's larger banks were using up some of their liquidity, but they were still seeking loans actively. They were dropping out of Governments, particularly those with maturities under one year, and shifting to non-Governments. Federal funds purchases had been running about $500 million, and sales somewhere around $300 million to $325 million. Borrowing from the Reserve Bank had not been very heavy. A few large banks were coming in when Federal funds were not readily available; they were becoming accustomed to living on borrowed funds, obtained either through the Federal funds market or the discount window.

Nationally, Mr. Irons said, the picture seemed to be one of moderate expansion without excesses or significant imbalances. In summary, the domestic situation appeared very favorable. Looking at the domestic situation and balance of payments developments, and considering that the Treasury would soon be in the market with a refunding, he believed that the present policy with respect to availability of reserves and money market conditions should be continued without change. He would not change the discount rate, obviously, and he felt the bill rate should be around 3.45 to 3.55 per cent, with Federal Funds most of the time at the discount rate.

Turning to the directive, Mr. Irons said he was not disturbed too much about the present directive. He thought it was

reasonably clear and gave the Manager of the Account a reasonable statement to follow, particularly in view of the fact that the Manager attended the Committee meetings, heard what went on, and was in contact with Board and Bank staff people every morning. He agreed with Mr. Deming that it might be dangerous to try to quantify the directive. The Committee, he thought, permitted itself to get lost in semantics, inserting a word here and taking out a comma there. He also thought the Committee should be cautious regarding the tendency to place emphasis on the directive as a public relations document. Personally, he was not sure the general public could be expected to understand the directive, and he doubted whether the Committee should put too much emphasis on pleasing the academic economists. No matter what the directive said, there would be economists who would be critical and outspoken. He did not want to leave the impression that this was not something worth working on, but the Committee tended to go over and over the same ground. In summary, he came out at about the same place as Mr. Deming. For this meeting, he would be quite satisfied with the present directive, deleting the last sentence in the first paragraph. It described current policy, and the Manager should be able to carry out operations satisfactorily. As between draft alternatives A and B, he had no particular preference. The differences appeared to him to involve mainly questions of semantics.

Mr. Ellis summarized the picture in the First District by saying that the regional economy was tracking the national pattern quite closely. There had been some slowness in manufacturing activity, but recently even manufacturing output seemed to be following the national pattern fairly well.

The Boston Bank had held two regional meetings since the last meeting of the Open Market Committee. The central banking seminar, which brought together a group of 35 economists and bankers, proved especially interesting to him, Mr. Ellis said, because it focused attention on a restatement of the longer range objectives of monetary policy. A meeting yesterday of 20 business economists focused on the present and prospective strength of the economy and of credit demands. In particular, he found reassuring the discussion of retail trade. The economists did not show any dissatisfaction or unhappiness with one month's figures, in terms of being disappointed about the results of the tax cut. They pointed out that the basic pattern of consumer spending changes slowly.

Mr. Ellis said he emerged from these conferences with the view that the price structure was vulnerable to demand pressures. According to his analysis, capital spending, consumer spending, and Government spending all were likely to expand throughout the year. All these borrowing groups, plus foreign borrowers, would exert

increasing pressure on the credit market, intensified by seasonal expansion later in the year. Measuring against those expectations the 11 per cent annual rate of growth of bank credit in the first quarter, he could not view the situation with complacency. Knowing that monetary policy lags in its impact, he found himself intellectually committed to the view that the System should be moving to a posture of less ease to reduce the abruptness and sharpness of delayed action. Like Mr. Shepardson, he was concerned that the Committee consider now what its posture should be when and if a price break-out occurred.

Turning to the directive, Mr. Ellis felt that the Secretariat, in its memorandum, had done a service in calling again to the Committee's attention the objectives of completeness, reasonableness, clarity, and informativeness. The Committee went through a review of the form of the directive every so often, and he liked to think that the Committee took a step forward in improving the directive each time this was done. It was his observation that every time the Committee changed the format of the directive it made an improvement, but that thereafter the Committee tended to whittle the directive down by taking out words, phrases, and adjectives. As the Committee studied the directive this time, he hoped it could make another step toward improvement in the direction suggested by Mr. Mitchell. Choices

had to be made; if they were not made by the Committee, then they had to be made by the Manager. If they were not made by the Manager, then it was a process of muddling through. The Committee should continually strive for more accuracy in its directives.

As to the alternative draft directives, Mr. Ellis said he preferred alternative A for both the first and second paragraphs. He would accept Mr. Treiber's amendments to the first paragraph. The second paragraph suggested that open market operations should be conducted for the next three weeks as they had on average for the past three weeks. As he looked at the past three weeks, though, free reserves had averaged $100 million higher, while member bank borrowings averaged $100 million lower and the bill rate dropped 7 basis points. Federal funds traded frequently at less than the discount rate. He would be unhappy if the Manager interpreted a continuation of these results as constituting his objective for the next three weeks. He (Mr. Ellis) would be willing to accept the averages of the past 6 or 9 weeks, however, and he would modify the draft directive accordingly.

Mr. Balderston said he shared the concern about policy expressed by Messrs. Ellis, Shepardson, and Hickman. He had the feeling that things had gotten a little out of hand during the past two or three weeks, and he was unhappy that the free reserve average for the past four weeks was $130 million. The Desk had

missed, on the high side, what he assumed to have been the Committee's target.

In discussing that situation, Mr. Balderston continued, he would like to point out what he thought was the key to some of the departure from the line toward the desired policy goal, using as his basis comments made recently by Mr. Eckert of the Board's staff concerning excess reserves and their long-run trend downward. Despite the oft-repeated admonitions of Committee members about the tendency for continuing use of a given level of free reserves to pull policy off the line toward the goal actually desired, it was his (Mr. Balderston's) belief that the Committee had been deceiving itself recently. His conclusion stemmed from the steady reduction of excess reserves of member banks. In 1962 the decline from the previous year was 13.5 per cent; in 1963 the decline was 14.2 per cent. In the first quarter of the current year, excess reserves were 14.3 per cent below the year-ago figure. Putting it another way, each recent year's level of excess reserves had been from 88.7 to 89.9 per cent of the previous year. By the first quarter of this year the figure had fallen one-third from the 1961 level. With the relatively stable free reserve objective in recent times, it was no wonder that the steady decline of excess reserves should be associated with lower member bank borrowings. During the first quarter of this year

borrowings averaged about $60 million less than the borrowing level of the five months following the change in policy last July. Free reserves averaged $119 million, as compared with $113 million for the preceding five months. On the one side, the Committee had been pulled off the line of what Mr. Balderston thought was the desired policy direction by the technical deficiency of $60 million in excess reserves. Then in the past four weeks free reserves had averaged on the high side of $100 million by $30 million. In short, he concluded that monetary policy had been easier than intended. He would suggest, therefore, a target for free reserves of around $50 million.

Coming to the directive, Mr. Balderston said he had little choice, for the first paragraph, as between alternatives A and B, though perhaps a slight preference for B. As to the second paragraph, he had a distinct preference, for the reasons set forth by Mr. Mitchell, for alternative A. The proposed alternative B said little except more of the same. If the Committee was going to dispense with the thought of any quantitative means of communicating with the Desk, then it seemed to him the Committee was committed, in essence, to the use of three phrases: more ease, less ease, or about the same degree of ease. On the other hand, if, as in alternative A, the Committee at least mentioned some targets in tangible form, he thought it

communicated more effectively. Although there were problems in using free reserves as a goal of policy for the Committee, for the reason that the target gets cumulatively more deceptive the longer it remains unchanged, he nevertheless thought that free reserves remained one of the best means discovered to date for communicating with the Desk at three-week intervals. If the Committee was to get away from the words "more, less, and about the same" and put down something the Desk could see, it would have to say something about free reserves from time to time, and also something about rates.

Chairman Martin commented that he associated himself intellectually with those who felt that monetary policy had been slightly too easy and that if the Committee could move slightly toward less ease it would be in a stronger position. Timing was the problem, however, and he did not know the best way out of the dilemma. Everyone outside the System was trying to make System policy, and the Committee should not take action that would play into the hands either of those who said it was a foregone conclusion that there would be higher interest rates or those who thought that the Committee was pursuing an easier monetary policy. It was a period of balancing these pressures, and also the problem of the Treasury, which would have an almost impossible job of financing within the 4-1/4 per cent limit if the expectations

that he was inclined to share actually developed in the market. The Committee should not, at this juncture, make the Treasury's problem any more difficult than it was likely to become through the natural forces of the market. Therefore, he leaned to the view that it would be desirable to have slightly less ease, but only when the Committee could make this move without undue complications.

The Desk, Chairman Martin continued, may have erred on the side of over-correcting the imbalance that some people thought existed when free reserves were averaging around $50 million, but the Desk had been dealing with a difficult problem, and in his opinion quite well on the whole. It was almost impossible in this type of market to keep any sort of balance.

The Chairman thought the Treasury had a clear right to expect that the System would not make the Treasury's task harder than it was going to be anyhow until it became clear what the decisions in the market were going to be. Therefore, he came out with the view, generally speaking, that no change in policy for the next three weeks would be the best course.

On the form of the directive, Chairman Martin said that the more he worked on the directives the less confidence he had that the Committee could find words that would be completely satisfactory to 12 voting members. Everyone had a word or phrase

that meant something to him different from what it meant to the next person. The Committee should continue to write sample directives and to work on them. However, the Committee ought to make clear that when it made some change in the directive, that change was made for a good reason. He did not think it made much sense just to change a little phrase here and there.

Chairman Martin said that he hesitated to put the draft directives to a vote today. There did not seem to him to be enough meeting of the minds to make it worth while. He felt that the Committee perhaps ought to set up a meeting that would be devoted solely to discussing the formulation of the directive.

Mr. Mitchell commented that there was a real issue involved: how the Committee could be sure that the directive was not internally inconsistent. While this was a difficult problem, the Committee should not shy away from the problem because of its difficulty. This might all be just a matter of semantics, but he did not think so.

Chairman Martin replied that he thought the way to handle the matter was to set up a meeting at which the Committee would do nothing but debate the form of the directive. It could not do this when trying to deal with policy, as, for example, this morning. Instead, the Committee should sit down and try to hammer out points of view.

After further discussion along these lines, Mr. Daane suggested, in view of the indication that the Committee apparently intended to make no change in policy today, that it renew the existing directive, with only minor change, and arrange another meeting for a full-scale debate concerning the form of the directives and the possibility of quantifying instructions, a point on which he had reservations.

Chairman Martin recalled that Mr. Deming's suggestion was simply to strike the last sentence of the first paragraph of the existing directive. However, the Committee had not come as yet to the question whether it was in fact going to make no change in policy. That should be determined first.

The Chairman added that he was sympathetic with the view of those who would like to see slightly less ease as a prelude to price changes that might occur, and while he subscribed to Mr. Ellis's intellectual commitment on the basis of the facts as he (Mr. Martin) saw them, he had not yet reached a point where he would want to see the System compound the problems of financing that the Treasury was going to have for the next few weeks by even a modest adjustment of policy. Again, he thought the Desk had a difficult problem because free reserves had swung from $20 million to $230 million; but that had been the sort of swing that was likely to occur when someone said that the free reserve

target should be a little above or a little below $100 million. To sum up, however sympathetic he would be, were the Treasury not in the market, to the idea of moving slightly in line with what he conceived to be the over-all trend rather than against it, in his view the wisest course for the next three weeks for the Committee would be to have the Desk continue to do what it had been doing for the past three or six weeks and not make a conscious change in policy no matter how the free reserve figures turned out.

Chairman Martin then proposed a vote on no change in policy to see how that came out. Those opposed could vote against it and record their reasons.

Mr. Mitchell inquired whether this meant no change from the past three weeks or the past six weeks, and Chairman Martin replied that this meant no change from the directive as carried out by the Desk. He did not think that the Desk had deliberately tried to change policy in arriving at the recent figures.

Mr. Stone commented that the Desk most assuredly had not undertaken to make any change in policy in one direction or the other. He would like to mention a circumstance that gave rise to the free reserve figure of $230 million for the statement week ended March 25. When the Committee sat around the table on March 24, there was some discussion about the free reserve figure

then thought to be developing--about $130 million. As it turned out, free reserves for the preceding day were about $350 million above the projections, so that his associates were looking at a free reserve figure of $220 million for the current week and net borrowed reserves of about $250 million for the week beginning that Thursday. The Desk had the choice of selling about $250-$300 million of Treasury bills in the market to bring the figure down, but this would have meant repurchasing the same quantity and more two days thereafter. The alternative was to ride through for a couple of days. The choice of the latter course seemed to him to reflect the intent of the Committee in those circumstances.

Mr. Wayne commented that it seemed to him the daily wire had said precisely that. If there were objections, he felt that they should have been made known at the time.

Mr. Hickman, who had been on the morning telephone call, said he had the same recollection of the incident as Mr. Stone. There also was the thought that the high free reserve figure would offset the low figure of the preceding statement week. But the Manager did ride along week after week with free reserves on the high side of $100 million and with borrowings quite low. Mr. Hickman thought the market had been overly easy. He would like to go back to the figures of the previous three-week period.

In reply to a question, Mr. Stone said there had been no difference between the past three and the past six weeks so far as the objectives of Desk operations in implementing the policy directive were concerned, and Chairman Martin commented that it seemed clear that the Manager had no misunderstanding as to what was involved.

The Committee was then polled on the basis of no change, for the next three weeks, in policy as now being carried out. This developed to be the consensus, Messrs. Balderston, Hickman, and Shepardson dissenting.

Mr. Daane, in voting for no change in policy as reflected in the current directive, said that he sympathized with the Chairman's reference to the chore of the Treasury that lay ahead. He would not, however, subscribe to the idea that the Committee should at any point in time simply validate market developments or take them as its cue to action. There was a real opportunity for the Committee to show continuing leadership rather than passive acquiescence in market developments.

Mr. Hickman stated that he voted against no change in policy because he thought that the market had been overly easy in the past three or four weeks and that an excessive expansion of bank reserves had been accommodated.

Mr. Mills said that he voted for no change in policy on the basis that the experience of the past three weeks was in accord with his thinking about appropriate monetary policy.

Chairman Martin then said he understood it was agreeable to the majority of the Committee to continue the present directive, with the deletion of the last sentence of the first paragraph, which contained reference to the imminence of new cash borrowing by the Treasury.

> 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 current economic directive:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, money supply, and the reserve base, 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 facts that the balance of payments position, while improved, may still be adverse, and that the effects of increases in money rates in important countries abroad are as yet uncertain.

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, Daane, Mills, Mitchell, Shuford, Wayne, Swan, and Treiber. Votes against this action: Messrs. Balderston, Hickman, and Shepardson.

Chairman Martin suggested that the afternoon of May 5 might be set aside for a session at which the Committee would devote its entire time to the matter of the formulation of the directive, and there was agreement with this suggestion.

Chairman Martin then referred to a draft of letter to Chairman Patman with reference to the request of the Subcommittee on Domestic Finance of the House Banking and Currency Committee for copies of the minutes of the meetings of the Open Market Committee held during the years 1960-1963, inclusive. When Chairman Martin appeared before the Subcommittee on January 22, 1964, he had agreed to transmit the request to the Open Market Committee, and the request had been discussed by the Committee at several meetings since that time. The draft of letter to Chairman Patman had been prepared in the light of those discussions.

Upon question by Chairman Martin, it developed that there was general agreement on the part of the Committee with the position taken in the draft letter. Certain changes of an editorial character were suggested, however.

The following letter to Chairman Patman, for the signature of Chairman Martin, was then approved unanimously and was transmitted later in the day:

During the hearings on January 22, 1964 of the Subcommittee on Domestic Finance of the House Banking and Currency Committee, I agreed to transmit to the Federal Open Market Committee the Subcommittee's request for copies of the minutes of its meetings held during the years 1960-1963, inclusive. The Federal Open Market Committee has considered this request at several meetings since that time, and it has concluded that it would be in the public interest to make its minutes available only after the lapse of a considerable period of time. Accordingly, the Committee has authorized transmittal to the Subcommittee of its minutes for the calendar year 1960.

The official records of the Federal Open Market Committee are maintained in the Board's offices, where the original signed copy of the minutes for 1960 is available for examination by representatives of the Subcommittee. If it would be more convenient, a duplicate original signed copy of these minutes will be delivered to the custody of the Subcommittee for its perusal.

As you know, a complete record of all policy actions taken by the Federal Open Market Committee and by the Board of Governors is maintained by the Board and is set out in full each year in the Board's Annual Report to the Congress, as required by the Federal Reserve Act. Included in the report of policy actions taken by the Federal Open Market Committee are: (1) a summary of the economic and financial information which the Committee has taken into account in arriving at its policy decisions; (2) a summary of the main lines of the Committee's discussions and the differing views expressed in their course; (3) a statement of the reasons underlying policy decisions; (4) a record, by name of Committee member, of all votes cast in connection with the determination of policy; and (5) statements of the reasons underlying dissents from particular actions, when there are such dissents. In the Board's Annual Report for 1963 the Record of Policy Actions of the Federal Open Market Committee covers 79 printed pages. In addition, 42 pages of the Report are devoted to a review of the System's open market operations in domestic securities and 20 pages to a review of its operations in foreign exchange.

The minutes contain more detailed reports on economic and financial developments and conditions, including references to information obtained on a confidential basis. Apart from these more detailed reports, the additional material included in the minutes consists principally of the discussions and debates prior to final determinations of policy actions. The Committee believes that premature disclosure of such discussions would impair the give and take of candid debate so important to decision making. In some cases it could lead to market reactions that might seriously handicap the execution of current decisions and that might redound to the special advantage of individuals or groups sophisticated in these matters.

In connection with discussions that began in 1961 of foreign currency operations, the minutes for recent years also contain confidential reports to the Committee concerning the internal affairs, plans, and attitudes of foreign monetary authorities and governments. Moreover, they contain frank expressions of opinion regarding the financial policies of foreign countries, in support of positions taken as to the desirability, from the point of view of the interest of the United States, of entering into various types of transactions with them. You will recall that when Secretary Dillon appeared before your Subcommittee on March 5, 1964, he expressed the view that it would be damaging to our international relations if these materials were given any publicity at all.

To provide a broad historical perspective, the Federal Open Market Committee and the Board of Governors have instructed their staffs to explore means for making their records relating to monetary policy decisions through the year 1960 available for the use of scholars and other interested persons. It is expected that procedures for accomplishing this end will be decided upon shortly.

It was agreed that the next meeting of the Open Market Committee would be held on Tuesday, May 5, 1964, at 9:30 a.m., with an afternoon session contemplated to discuss the form and

content of the current economic policy directive. It was also agreed that the meeting tentatively scheduled for Tuesday, June 16, 1964, would be held instead on Wednesday, June 17. There would be a meeting of the Presidents' Conference on June 15 and a meeting of the Board of Trustees of the Retirement System of the Federal Reserve Banks on June 16.

In a discussion of the proposed publication of the Manager's report to the Committee on Account operations in 1963, Mr. Treiber suggested that publication of the report in full would be advantageous for several reasons, as follows:

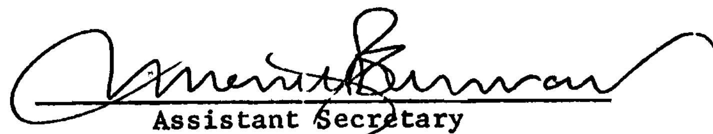
> It would broaden public understanding of the process by which the Committee's open market policy decisions are implemented. Publication of the chronology is useful in this regard, but it is also highly desirable to publish the general review in which the Manager presents the insights into operational techniques, into the changing money market environment in which policy is carried out, and into the behavior of the credit market that derive from his particular point of contact with the financial markets. Following publication last year of the report for 1962, the general review was the focal point of considerable favorable comment from teachers, bankers, and participants in the financial markets. Parenthetically, it should be noted that publication in the Federal Reserve Bulletin with a reprinting in our Monthly Review is likely to reach a considerably larger audience than the Board's Annual Report alone.
>
> Broader understanding of the criteria presently guiding day-to-day open market operations may enable outsiders to make useful contributions to a better understanding of the relationship between short-run money market variables on the one hand and intermediate and longer term variables on the other. The academic community has given little careful attention to the role of the money market in the financial process. Indeed, some members of the community have little or no

understanding of the reasons for the Committee's day-to-day concern with the market. The Manager's report, which is focused on the money market, may stimulate some constructive academic interest in the field.

During further consideration of the matter, it was noted that there had been included in the Board's Annual Report for 1963 the section of the Manager's report constituting a chronological review of operations. Question was raised whether publication of the same material in the Federal Reserve Bulletin would therefore be warranted. As to the remainder of the Manager's report, some question as to the desirability of publication, as a supplement to the New York Bank's Monthly Review or otherwise also was raised.

After further discussion, Chairman Martin suggested that the matter be held over until the next Committee meeting for decision.

Thereupon the meeting adjourned.



Assistant Secretary

Attachment A

CONFIDENTIAL (FR) April 13, 1964

Draft current economic policy directives suggested for consideration by the Federal Open Market Committee at its meeting on April 14, 1964

Alternatives for First Paragraph

Alternative A:

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 the economy and to foster further improvement for the capital account of U. S. international payments, while seeking to avoid the emergence of inflationary pressures. This policy takes into account the expected progressive stimulus to domestic activity from the recent Federal income tax reduction and the increases projected for the year in business capital expenditures. It also gives consideration to the slower growth of aggregate bank reserves and the money supply in the first quarter of this year as compared with the fourth quarter of last year; the continued relative stability in average prices; the country's improved, though still unsettled, international payments position; and the advances in interest rates over past months in important markets abroad.

Alternative B:

The Federal Open Market Committee notes that domestic economic activity continues to expand at a moderate pace with relative stability in average prices, and that the existing margin of unutilized resources will permit further expansion. It also notes that progressive stimulus to activity will be exerted over coming months by the recent reduction in Federal income tax rates and by the increases projected for the year in business capital expenditures. In addition, the Committee has taken account of the slower growth in aggregate bank reserves and the money supply in the first quarter of this year as compared with the fourth quarter of last year; the further improvement in the economy's payments balance internationally; and the possibly adverse effects on the capital account of the payments balance arising from interest rate advances over past months in important markets abroad. In the light of these developments, it is the 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 the economy and to help sustain the improved position for the capital account of U. S. international payments, while seeking to avoid the emergence of inflationary pressures.

Alternatives for Second Paragraph

Alternative A:

To implement this policy, System open market operations for the next three weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed on average since the Committee's last meeting, with weekly average free reserves generally in the range of $50 to $150 million, and Treasury bill rates adjusting daily to shifts in money market forces. However, money market conditions shall be permitted to ease or tighten, as necessary, to cushion any substantial and persistent change in the rate on three-month Treasury bills. The Committee believes that operations so conducted will be consistent with moderate upward trends in aggregate bank reserves, total bank credit, and the money supply.

Alternative B:

In the context of this general policy, System open market operations for the next three weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed since the Committee's last meeting. The Committee expects that the operations so conducted will be consistent with moderate upward trends in aggregate bank reserves, total bank credit, and the money supply.