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, September 8, 1964, at 9:30 a.m.

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

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

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

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

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

Mr. Coldwell, First Vice President of the Federal Reserve Bank of Dallas
Messrs. Sanford, Baughman, Tow, and Green, Vice Presidents of the Federal Reserve Banks of New York, Chicago, Kansas City, and Dallas, respectively
Mr. Brandt, Assistant Vice President, Federal Reserve Bank of Atlanta
Mr. Eisenmenger, Director of Research, Federal Reserve Bank of Boston
Mr. Meek, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Kareken, Economic Consultant, Federal Reserve Bank of Minneapolis
Mr. Rothwell, Economist, Federal Reserve Bank of Philadelphia

Upon motion duly made and seconded, and by unanimous vote, Mr. Balderston was elected Acting Chairman for this meeting.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on August 18, 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 August 18 through September 2, 1964, and a supplementary report for the period September 3 and 4, 1964. Copies of these reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Sanford said the weekly published gold stock figure would remain unchanged again this week as it had since mid-February. The Stabilization Fund now had $214

million on hand as the Pool picked up gold in London fairly rapidly toward the end of August—the U.S. share of the monthly distribution was $21 million--and the Bank of England sold the U.S. $50 million of gold to replenish its dollar balances. There had been a modest increase in demand for gold in London in the past week, but supplies had been more than adequate and the Pool had continued to receive small accretions.

On the exchange markets, Mr. Sanford commented, the selling pressure on sterling that reappeared prior to the last meeting of the Committee continued through most of the past three weeks. The selling, mainly of French and German origin, tended to come in waves and reached a peak just prior to the end of August. The British stayed with the tactic of letting the rate take the brunt of the pressure until sterling reached a seven-year low of about $2.7840. At that point, they resisted rather more forcefully than they had earlier in the summer and effectively prevented a further decline in sterling. United Kingdom reserves declined some $92 million in August, which included debt payments of $39 million. The loss would have been $15 million greater except for a $15 million month-end drawing by the Bank of England on the swap arrangement with the System.

With the spot rate for sterling so low, Mr. Sanford said, the three-month forwards were selling below the $2.78 spot floor and there began to be some interest in forward sterling. Since the U.S. bill

rates were easing a few basis point at about the same time, any tendency for the forward discount to shrink could have opened up the arbitrage incentive in favor of London sufficiently to attract funds. Consequently, on August 27, the New York Bank entered the market, as it had in July, to sell forward sterling on a swap basis against spot purchases. With the forward rate already below the spot floor, the Bank had to be very careful in operating so as not to touch off speculation against sterling. In all, over three days the Bank purchased another $26 million of spot sterling and sold an equal amount of forward sterling, just slightly less than in July. The operations seemed to have accomplished the immediate objective of preventing any narrowing of the forward discount and thus of discouraging any further arbitrage flows. At the same time, of course, they provided some support for spot sterling as well. So far in September the sterling market had been fairly quiet.

The other major activity in the New York market, Mr. Sanford continued, had been in the Canadian dollar. The liquidity squeeze in Canada eased sufficiently for interest rates to stop rising, but the demand for Canadian dollars had continued and the rate rose to a new high for the year. The demand seemed to have been a result in good part of a shift in leads and lags induced by reports of prospective Canadian borrowing in this country. There were indications of a fairly substantial amount of borrowing in the works--as much as

$220 million--although in the past week two additional large issues had been dropped, one of which was being placed in Canada. Meanwhile, however, the ruling discount on the forward Canadian dollar seemed to have braked the short-term outflow to Canada to the extent that in the past few weeks new placements and repatriation of funds had been about in balance.

Mr. Sanford reported that the Continental exchanges were very quiet for a number of weeks, but there had been a pickup in activity in the past few days. Some tightness had developed in the Dutch money market resulting largely from Dutch banks' subscriptions to a new issue of Treasury bills. The Netherlands Bank had been taking in dollars in excess of its usual limit. Consequently, the New York Bank used $3 million of guilders from an earlier swap drawing to acquire excess dollars from the Netherlands Bank, and tomorrow (September 9) it would draw an additional $30 million on the swap to absorb dollars taken in by the Dutch at the end of last week. This would bring total drawings on that arrangement to $60 million. In addition, the New York Bank used $30 million of Belgian francs held under the swap with the Belgian National Bank to absorb excess dollars from that Bank. Part of the increase in Belgian holdings of dollars resulted from a Belgian Government borrowing from a U.S. bank. A total of $37.5 million of the $50 million of Belgian francs held under the swap drawing now had been used. On the other hand, Mr. Sanford noted,

there was a heavy demand for dollars in Germany last Friday (September 4) and the Bundesbank sold $40 million; and today the dollar rate had risen a bit. This brought to $60 million the Bundesbank's sales of dollars since the last meeting of the Committee.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market transactions in foreign currencies during the period August 18 through September 4, 1964, were approved, ratified, and confirmed.

Mr. Sanford noted that on September 15 the $100 million swap arrangement with the Netherlands Bank would mature. The Dutch had indicated that they wished to renew the arrangement again for a three-month period, and he requested Committee approval of a three-month renewal of that swap facility.

Mr. Shepardson remarked that the Committee had been gradually lengthening the terms of its swap arrangements, and he asked if this was the only arrangement still on the three-month basis. Mr. Sanford replied that the arrangement with the Bank of France also was on a three-month basis. He added that in discussions with officials of the Netherlands Bank it had been fairly evident that they preferred to retain a three-month term for their arrangement with the System, and therefore no suggestion of a longer term had been made by the New York Bank. Accordingly, he was recommending renewal with no lengthening of term.

Renewal of the swap arrangement with the Netherlands Bank for a further period of three months, as recommended by Mr. Sanford, was approved.

Before this meeting there had been distributed to the members of the Committee a report from the Manager of the System Open Market Account covering open market operations in U.S. Government securities and bankers' acceptances for the period August 18 through September 4, 1964. A copy of this report has been placed in the files of the Committee.

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

The past three weeks have been particularly interesting ones. We interpreted the Committee's decision at the last meeting as instructing us to undertake a moderate shift in policy but with the qualification that the shift be executed in such a way as to avoid upsetting the market. Given this qualification, and given also the fact that around the time of the last meeting the bond market--on its own and quite independently of the Committee's decision--began to weaken, it was clear that the shift could not be fully achieved by the time of this meeting. Rather it was necessary to set in motion a gradual process, the aim of which would be to convey to the public that a decision to shift policy had been made but that the shift was to be a gentle one. This meant that the results the Committee wished to achieve with respect to such market indicators as free reserves, borrowings, and bill rates could not all be achieved quickly and decisively. Progress has been made in raising the level of member bank borrowings, and progress has also been made in reducing free reserves--although large after-the-fact revisions in the free reserve figures have tended to blunt the effectiveness of our efforts in that regard.

The bill rate has posed particularly difficult problems. We recently moved into a period in which the three-month bills carry December maturity dates. December bills typically sell

at rates several basis points below rates on surrounding issues, since the demand for them is relatively strong. At the time of the last meeting, for example, rates on two or three issues of December bills were in the low 3.40's, while surrounding issues were close to 3.50 per cent. While we were, of course, aware of the Committee's wish to see the bill rate rise, the immediate problem we faced--given the aberration in rates on December maturities and given also some contra-seasonal strength in demand for bills throughout much of the period--was to prevent the rate from falling.

The Treasury's decision to increase by $100 million each of the bills maturing from December 10 through December 31 was helpful in this respect. That action, together with the slightly firmer market atmosphere that has begun to emerge and the opportunity afforded us recently to supply a good many reserves away from the bill market, has succeeded in holding the rate in check until the fuller effects of the Committee's policy shift take hold.

I should note that those effects are already in process of being felt, for the market is coming to feel that a policy shift is under way. The problem, to repeat, is to convey to the public that a change in policy has been made but to convey also that that change is a gentle and not a sharp one. Two or three more weeks should suffice to complete the job of conveying these ideas.

I am hopeful that the reserve figures--which are still distressingly erratic--will behave well over the next few weeks, since the market situation remains rather sensitive. The market is paying a good deal of attention to the auto wage negotiations and to the approach of the fall season of rising credit demands, against the background of further gains in the economy generally; it is also paying close attention to the balance of payments problem, waiting to see if the third quarter figures show any further deterioration from the second quarter results. Dealers continue their efforts to reduce inventories, and while they have had some success in doing so, they still have a distance to go. Finally, the calendar of new corporate and municipal security offerings ahead is building up to sizeable proportions. It is against such a market background that the process of executing the Committee's policy shift will have to be completed. I am confident that it can be done, but the job will continue to require caution and delicacy.

In reply to a question by Mr. Mitchell concerning the reasons for the sensitive situation in the bond market, Mr. Stone noted that a substantial volume of investment funds had appeared in the market in July, of which the Treasury had been able to take advantage in its advance refunding. Concurrently, there had been a surge of activity in the bond market, in the course of which many investors changed the composition of their portfolios. This bulge in activity receded in August, and at the same time the market began to react to the factors he had mentioned in his statement--including the gains in the economy, the auto wage negotiations, balance of payments developments, and rising credit demands. These factors led to a desire on the part of dealers to increase the rate at which they were reducing their inventories.

Mr. Stone added that when he had described the current market situation as "sensitive" he had used the word advisedly. He did not think the market was in any danger of collapse. The market had the job of continuing to digest the rather large volume of coupon issues still in dealers" hands. So far the process had been orderly. While it seemed likely that prices would have to go down before they could go up, the market was not weak; it was performing rather well.

Mr. Mitchell commented that the Committee's policy decision at the last meeting had been aimed at strengthening the bill rate and had not been directed at affecting bond prices. He asked about the volume of the Desk's recent purchases of securities with maturities of one year and more.

Mr. Stone replied that there had been a substantial increase in such purchases in August and early September. Since the last meeting the Desk had bought a little over $400 million of securities with a maturity of one year or more. He agreed with Mr. Mitchell's comment that the Desk had been lending a considerable amount of support to the bond market in this period. The Desk's purchases, in his judgment, had been instrumental in making the price decline gentle; without them the decline would have been more precipitous. However, he said, the purchases had been addressed to the problem of the bill rate. There had been powerful forces tending to push the three-month bill rate down, including the advance refunding, strong private demand for bills, and the fact that bills maturing in December were especially attractive. It had been necessary for the System to provide a substantial volume of reserves before Labor Day, and the operations in coupon issues had been undertaken to avoid adding to these strong downward pressures.

In reply to a further question by Mr. Mitchell concerning dealer inventories of coupon issues, Mr. Stone supplied the following figures relating to dealer holdings in trading accounts as of the date of the previous meeting (August 18) and as of September 3, respectively: bonds maturing in 20 years or more, $283 million and $232 million; bonds maturing in 5-10 years, $418 million and $168 million; notes maturing in 1-5 years, $460 million and $426 million; and bonds

maturing in 1-5 years, $16 million (net long position) and $64 million (net short position). (Figures for the 10-20 year maturities were omitted because dealer holdings in that area were quite small.) He noted that there had been some reduction in each of these maturity areas, and a substantial reduction in the 5-10 year area.

Mr. Mitchell then remarked that while dealers evidently were gradually reducing their position in longer term issues, commercial banks still held a large volume of such issues. He was concerned that banks might be in an uneasy frame of mind with respect to the size of their holdings, and asked whether they might not attempt to reduce their holdings if they concluded that longer rates were going to rise, and thus produce a substantial yield adjustment.

Mr. Stone said he would not necessarily expect such a development. Many of the bonds in bank portfolios were high-coupon issues acquired in the last refunding which, he thought, were likely to be held for an extended period. He then cited figures reflecting gross dealer purchases from and sales to banks in the latter part of August. The figures indicated that banks had increased their holdings of securities maturing in 5-10 years; in his opinion, they were taking advantage of the gently declining prices to build up their portfolios in this area. Over the same period they had reduced their holdings in the 1-5 year area, and slightly increased those in the over 10-year maturity range.

Mr. Mitchell said he was disturbed by the operation the Desk had underway in accordance with the policy decision taken at the previous meeting; he thought it was extremely hazardous. Underwriters still had not completed distribution of the securities issued in the advance refunding. If the message the Desk was trying to convey got through while the distribution was still in process, there was apt to be either a sharp price reaction or a need for the Desk to buy coupon issues in substantial volume.

Mr. Stone replied that he would not expect this outcome if the Desk was successful in conveying to the public the fact that the policy adjustment was a gentle one. In this connection, he noted that publication in the preceding week of a free reserve figure of $44 million had led to considerable discussion of the possibility that the System was shifting policy. Prices had been marked down as a consequence, but only very moderately--by 1/32-2/32. Given the continued heavy flow of savings, he saw no reason for prices to fall much below recent levels; indeed, before the year was out they might be back above present levels. The market looked for general stability in interest rates, although it understood that there were apt to be small price swings within a generally stable pattern. The principal factor behind this confidence was the commitment by the Treasury to stay out of the longer term market for the rest of the year. Barring some extraordinary event,

Mr. Stone thought the Account could complete the job with very little impact on the longer term market if the reserve estimates turned out to be reasonably accurate.

Mr. Mitchell asked if the market was aware of the magnitude of the System operations in coupon issues, and Mr. Stone replied in the affirmative. He said he would like to emphasize that while on some days the System had been the largest buyer, it was not the only buyer by any means. For example, in the period August 17-28, official Account purchases of securities in the 1-5 year area were $160 million out of gross dealer sales of $487 million; and in the over 5 year area they were $200 million out of gross dealer sales of $660 million. Purchases on individual days were relatively small compared with the volume of offerings made to the Account Management. The Desk was not dominating the market; rather, it was just nibbling away at the edges of the offerings made to it. And the fact that prices had declined indicated that the market was not pegged.

In response to a question by Mr. Deming, Mr. Stone said that he thought the market understood that the Desk's operations in coupon issues were addressed to the bill rate. The Account Management deliberately had not operated in the bond market at times when private demand was pushing prices up; it had been buying only in a declining market and on a declining scale in order to permit bond prices primarily to reflect private decisions.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period August 18 through September 4, 1964, were approved, ratified, and confirmed.

Mr. Balderston then called for the staff economic and financial reports, supplementing the written reports that had been distributed prior to the meeting, copies of which have been placed in the files of the Committee.

Mr. Koch presented the following statement on economic conditions:

Basically, I find the recent course of the economy little different from what I had expected earlier in the summer. The business expansion has continued its moderately vigorous pace in an atmosphere of confidence but not ebullience. Some elements of demand have been less expansionary than earlier but others have developed to take their place. Few excesses are apparent. The expansion still appears sustainable under conditions of general price stability. Some welcome increases have been made in utilization of labor and capital, but such resources still appear to be adequate for further expansion of production without causing widespread or cumulative upward wage or price pressures.

Spending by both consumers and businesses has continued to rise, reflecting in part the cumulative effects of the tax cut, now six months old, as well as steady improvement in before-tax personal incomes and corporate profits. As expected, the effects of the tax cut on spending have been gradual. They can be expected to continue to spread in the months ahead as the so-called multiplier effects take hold.

For consumers, spending on nondurable goods continues to highlight the upswing. Such spending has had an uninterrupted rise now for nine months. Perhaps this was to be expected--and it was in the Administration's January model--as the first effect of the tax cut was, in general, to raise weekly take-home pay by a dollar or two.

Durable goods purchases by consumers have been less expansionary, though continuing at a high level. Most recently, auto sales have been stronger again, partly due to the transportation strike in the East in July which caused the postponement of some auto purchases until August, a month during which sales are usually low because of the imminence of model changes. On the other hand, sales of other durable goods, like household furniture and appliances, have leveled off. The housing market, as represented by starts and building permit figures, has been drifting downward since late last fall. Continuation of this downdrift would be of considerable significance for the near-term economic outlook, employment opportunities, and long-term interest rates.

As for business demands, inventory accumulation at manufacturers in July as in earlier months was small. Business spending for plant and equipment, as revealed by data on new orders for durable manufactures and by the recently released August Commerce-SEC survey, continues to increase steadily. The upward revisions over the May survey, though, are quite modest and reflect not only the confidence of businessmen for continued growth in aggregate demand but also caution not to repeat the over-expansion of capacity that occurred in 1956-57.

The State and local government contribution to the economic expansion continues to grow steadily and substantially. That of the Federal Government took a significant jump this past spring as a result of both the tax cut and a rise in spending. For some time ahead, however, the Federal Government, except for the continuing effects of the tax cut, can be thought of as going more or less into neutral with respect to its contribution to further economic expansion.

But what about the ability of the economy to support further sizeable expansion without speculative excesses or inflation? Here, too, I think the situation continues to look reasonably favorable. The unemployment rate has drifted down irregularly a half point since the beginning of the year, but at 5.1 per cent in August it is still uncomfortably high, particularly since the total conceals the much higher rates among teenagers, nonwhites, and those unemployed for long periods. Of course, the more the unemployment problem becomes a structural one, the greater become the chances for inflationary wage bidding for skilled workers.

Rates of utilization of materials producing and manufacturing capacity have been drifting up some. While there is a considerable range of capacity utilization rates among the various industries--and some rates are quite high--on the whole, capacity appears sufficient to support a further increase in output without contributing significantly to strong, general upward price pressures. I may add that manufacturing capacity is showing a larger increase in 1964 than for some years past.

The wholesale price index for industrial commodities showed little change in August, and the small July rise in the consumer index reflected mainly seasonal influences. In general, price pressures continue to be concentrated in the nonferrous metals area and to be a reflection of special industry factors as well as the general economic situation. In manufacturing, unit labor costs continue steady or slightly down.

Although it is too early to speak with any assurance about the likely auto settlement, prospects are favorable that it will not involve more than, say, a 3.5 per cent or so increase in hourly labor costs on an annual rate basis. With the rise in money wages perhaps amounting to about 2-1/2 per cent a year, the same rate increase that has occurred annually since 1955, it is also unlikely that such a settlement would be a precedent for unsound settlements in steel and other industries later. This type of auto settlement would still be more or less in line with the Administration's wage guidelines and with the maintenance of stable labor costs per unit of output.

All in all, therefore, I conclude that the domestic economic situation continues to behave very well, responding in a salutary fashion to an appropriate mix of monetary and fiscal policies. To my mind, the domestic economic situation does not now call for any lessening in the degree of monetary stimulation.

Mr. Noyes made the following statement concerning financial developments:

It seemed to me, as I reviewed the most recent financial data, that I might be most helpful to the Committee if I made some attempt to interpret these data in the perspective of the last several months. Doubtless, when we are able to look back on what happened in the late summer of 1964 with

the benefit of more hindsight, a reasonable pattern will emerge, but for the time being many uncertainties and apparent inconsistencies bedevil the analyst.

One explanation of part of what has happened may be that we (and by "we" here I do not mean the Committee, or its staff, but the whole official and private financial community) have given less weight than it deserves to the Treasury's refunding operation in mid-July.

In academic discussion of the tools of policy, debt management has always been a stepchild--subordinated to monetary and fiscal policy, and often dismissed as of very little significance; both because of the limited room for maneuver available to the Treasury in conventional refunding and borrowing operations, and because of the value judgment that moderate changes in the term structure of the publicly-held debt were of limited over-all economic significance. Hence, we--and again I am using "we" in the broadest sense--have tended to breathe a sigh of relief when a major financing operation was successfully completed and then to forget about it. The Treasury pre-refunding in July of this year, in which over $9 billion of public holdings were pushed out into longer maturity areas, and the average maturity of the entire marketable debt extended by almost 5 months, may well prove one to be remembered.

All of our theories of the role that the total liquidity of the public plays in the pace of economic activity are rudimentary. We are not even agreed as to how we should define such liquidity, much less measure it. But, however defined and however measured, there was a profound change in the liquidity of the public as a result of the July financing, and I suspect that many of the developments of recent weeks are importantly related to and in part explained by it. The failure of the 90-day bill rate to move up much, in the face of generally firmer conditions in money and credit markets, is but one example. Another is the dramatic drop in bank liquidity, coming on top of a long declining trend, which is analyzed in some detail in the first appendix of the staff memorandum.

But probably the most significant development in the last few weeks has been the change in long-term rates. In what might be characterized as an orderly but thin and nervous--or, accepting Mr. Stone's term, sensitive--market, yields on long-term Government bonds have edged up about 5 basic points, as dealers have sold $750 million of their unusually large holdings of over 5-year issues, built up

during the refunding. In the same period one commercial bank is reported to have sold in the neighborhood of $100 million of coupon issues, about half of which were over 5 years. On the other side, the System and Treasury accounts acquired about $400 million bonds in the over 5-year range. To partly offset the perverse twist, in terms of official policy, imparted to the rate structure by the refunding, the Treasury has added to its bill offerings more rapidly than its immediate cash needs would have dictated, with the result that its balances at commercial banks have been maintained at a higher level than might otherwise have been the case. Furthermore, as indicated above, the desk has concentrated its operations outside the bill area. Even so, 90-day rates have not moved much above 3.5 per cent.

This leads us directly to recent money supply behavior and suggests, at the outset, that it would be unwise to read too much significance into the change in the pace of money supply expansion after mid-July. This may also turn out to be related to the Treasury's financing activities and the time span of their influence is hard to judge. In fact, there are already some signs of a resumption of more vigorous expansion in the aggregate reserve figures for the week ending September 2.

Bank credit figures are also hard to put in perspective. The regular monthly series, based on "last Wednesday" figures, declined in July and then rose sharply in August. This erratic behavior is again partly a reflection of the response of the banks to the Treasury's financing activity, and it is not clear that even the average of the two months taken together accurately reflects the underlying trend of credit demand in the private sector. Perhaps the business loan figures, which have moved up at an annual rate of about 11 per cent since April, provide the best clue to the strength of private credit demand.

Thus far, I have intentionally avoided any reference to monetary policy and the possible effects of the changes that have occurred. One reason is that this period illustrates as well as, if not better than, any other the difficulty of identifying the impact of slight changes in policy in the short-run. If one takes the point of view that the System's policy is reflected in the tone and feel of the market and in the various indicators of ease or firmness in the money market, including such marginal reserve-availability measures as free reserves or member bank borrowing, then one can observe, over the past several

months--using hindsight for all it is worth--some slight but distinct variations. The market was relatively firm in June; a little easier in July, especially after mid-month; and then slightly firmer again in the last six weeks or so. There undoubtedly was a change in tone from the three weeks just preceding the last meeting of the Committee to the three weeks just ended, but it is almost impossible to see in the figures.

For those who prefer to think of policy in terms of aggregate reserve provision, over and above normal seasonal changes, it is difficult to see any change in trend behind the wide week-to-week and month-to-month fluctuations that have occurred in recent months. Taking the figures at their face value, most of the growth in either total or nonborrowed reserves occurred in two months--March and June; there were minor variations, in both directions, in other months.

Let me conclude briefly, because I think the conclusion is evident. The changes in monetary policy in recent months--either intentional or inadvertent--have been so slight that it is virtually impossible to discern them or their subsequent effects in the data now available. However, the Treasury refunding in July has had a sizeable effect on public liquidity and on financial markets, the full impact of which may not yet be apparent. Hence, the posture of monetary and debt management policy combined is somewhat less stimulative than it was at midyear. Even those who feel that a less stimulative financial policy is called for might well wish to observe a little more of the combined effect of recent monetary and debt management policies before taking further action.

Mr. Mills said he gathered from the comments of Messrs. Koch and Noyes that both would like to see the Committee retreat from the policy shift it had made at the last meeting. Mr. Noyes replied that, speaking for himself, that was not the case. The thought he had tried to convey was that there had been some firming in financial markets during the past few weeks. It was not clear to what extent this was the result of Treasury operations, of Federal

Reserve operations, or of outside influences; nor could one say how far the firming would carry. In these circumstances he would advise caution with respect to any further firming action by the Committee.

Mr. Furth presented the following statement on the balance of payments:

> The U.S. payments position remains unsatisfactory. Complete data reveal for July an even higher deficit--nearly $700 million--than had preliminary reports; and the latest weekly figures suggest a deficit for August only slightly lower than that suggested by the figures for the first two weeks of the month. Even allowing for the adverse seasonality of July and August, the aggregate deficit in the two months could hardly have been less than at a seasonally adjusted annual rate of $4 billion, as compared with the $3 billion rate of the second quarter.
>
> No information concerning the underlying payments items is available as yet for August. And the fragmentary information available for July is puzzling rather than enlightening.
>
> Both exports and imports rose in July. In absolute terms, the increase in exports was somewhat larger, and the trade surplus rose to a seasonally adjusted annual rate of $6.2 billion, $200 million more than for the second quarter.
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> The improvement in flows of financial capital was even more startling. Expansion of long-term bank credit to foreigners remained modest. The expansion of short-term bank credit to foreigners ceased completely, with repayments virtually offsetting new credits. And banks reported a heavy reflux of money-market funds, offsetting the equally large outflow of June. Nonfinancial concerns apparently placed money-market funds abroad, offsetting the repatriation of such funds that occurred in June. But unless these placements were abnormally large--and there is so far no indication that they were--it seems that the net outflow of short-term funds, which averaged $170 million per month in the second quarter, was reduced to nearly zero.

Hence, the two important items on which information for July is available indicate an improvement in the payments balance over the second quarter at an annual rate of $2 billion. Since the over-all balance probably deteriorated by $1 billion (annual rate), a deterioration by $3 billion must have occurred in the aggregate of the following items:

(1) Travel abroad--which, however, was reported to have been unusually large as early as May and June--must have further risen more than seasonally. In this respect, the price increases in Europe, which help our trade balance, may have hurt our travel balance; as long as travel to Europe is a status symbol, it probably has a perverse price elasticity so that the increased cost may actually have encouraged rather than discouraged travel--as well as having raised the amounts spent by U.S. travellers abroad.

(2) Continued prosperity at home and a leveling off in the boom in some European countries probably have reduced our net capital income for foreign investments. But it would be astonishing indeed if such a reduction had been large enough to affect significantly a month-to-month comparison.

(3) Government expenditures abroad may have increased, perhaps in connection with the troubles in Southeast Asia and Central Africa.

(4) As repeatedly stated in these presentations, the reports of new acquisitions of European firms by U.S. concerns strongly suggest that direct investments abroad have risen.

(5) Nonrecorded transactions--the so-called errors and omissions--may have resulted in an increased deficit, with funds being covertly shifted abroad because of political uncertainties and to avoid the interest equalization tax.

In a sense it is heartening that items which are usually taken as indicating the commercial and financial health of a community--merchandise trade and flows of financial capital--have been developing favorably. But from the point of view of practical policies, this very fact seems discouraging.

If a rise in domestic costs and prices hampers the competitiveness of domestic industry and results in a deterioration in the trade balance; or if imbalances in interest rates, or even worse, distrust in the maintenance of exchange rates, lead to excessive financial flows abroad;

or finally, if stagnation at home and boom abroad lead to excessive outflows of equity capital--in all these cases the underlying conditions are deplorable indeed but the policy implications are clear.

However, if a payments deficit increases in spite of favorable developments in cost and price relationships and a rising trade surplus; in spite of equilibrium in financial accounts; and in spite of an unprecedented rise in domestic profits at a time of faltering profits in many foreign countries--what are the monetary authorities to do? Ask the Congress for interference with foreign travel? Ask for an extension of the interest equalization tax to direct investments? Urge utmost economy in Government expenditures abroad even more seriously but probably not more effectively than hitherto? Or just wait for foreign diplomatic and military troubles, and domestic political uncertainties, to disappear--which the latter presumably will but the former presumably won't?

Developments abroad on the whole do not help either to explain the rise in our payments deficit. Britain's payments balance is obviously in trouble, with an August deficit that, in relation to the size of the British economy, is even larger than our own. These difficulties may be partly cyclical and partly due to the disturbing effect of the impending British elections; but many observers--though not British official sources--believe that their basic cause is a continual deterioration in Britain's competitive position in world trade.

Continental Europe has shown little change. Italy's payments position is rapidly improving, in August, its payments surplus rose to $150 million, partly on account of seasonal travel receipts and of capital inflows, but also reflecting an improvement in its trade situation. Recent fiscal measures should further stimulate exports and decrease imports, and at the same time halt the decline in the country's industrial production which has accompanied the improvement in its international payments position.

No other European country reported large official reserve increases in August; Germany and Switzerland even reported sizable declines. But Belgium and Netherlands took further measures resulting in the inflow of funds from abroad: Belgium by floating a loan with U.S. commercial banks, and the Netherlands by further

tightening its money market. While there is no evidence of significant direct flows from the United States to the Netherlands, there is evidence of a substantial flow of Euro-dollars from Germany to that country. Since Germany holds large dollar balances while Netherlands holds only very modest ones, this flow, although it does not increase the U.S. payments deficit, makes its financing by means other than gold sales more difficult. In fact, as Belgium and the Netherlands experienced increases in their dollar holdings, they requested the System (as Mr. Sanford reported) to draw once more on its swaps with these countries, in an aggregate amount of $60 million.

To sum up, perhaps for the first time in recent history, the United States had an unusually large payments deficit at a time when Britain also had a large deficit and Continental Europe as a whole had only a moderate surplus From the point of view of an equitable distribution of world liquidity, it is preferable if U.S. and U.K. reserves flow to relatively weak countries such as Italy, Canada, Japan, the smaller European countries, and the less developed nations in other continents, rather than, as usually happened in previous years, to the leading financial powers of Continental Europe. But the distribution of the payments surpluses corresponding to our deficit seems to be as puzzling as the factors underlying that deficit itself.

Mr. Balderston then 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:

Domestic economic activity continues to move ahead on a solid base. Business prospects are good. Business optimism is supported by the Census Bureau's July survey of consumer buying intentions, the Commerce-SEC August survey of plant and equipment spending plans, and the various order series.

It is good to see the recent unemployment rate range about 1/2 per cent lower than the range of several months ago. It is unlikely, however, that increased business activity will substantially reduce the rate of unemployment quickly.

The price situation deserves close attention. While over-all prices continue stable, individual price and wage increases are being reported with increased frequency. The results of the intensified wage negotiations now in process in the automobile industry could have an important effect on the cost of doing business in general and on prices.

There was a strong expansion of bank credit in August. Loan officers of the principal New York City banks expect a further, but not dramatic, increase in loan demand.

Our balance of payments deficit continues to be the most disturbing policy problem confronting us. While a variety of reasons may be advanced to explain away part of the bad showing in July and August the plain fact remains that the size and persistency of the deficit are highly disturbing. The balance of payments figures for the first half of 1964 were encouraging to our friends abroad. Unless the figures for September are extraordinarily favorable, the publication of the third quarter figures will reveal dramatically our lack of progress in moving our international accounts into balance. Foreign monetary authorities might be less willing to accumulate more dollars; and there could be a resumption of gold losses.

Since the last meeting of the Committee, there has been a gradual and undramatic move toward slightly firmer conditions in the money market. Member bank borrowings have been somewhat greater, free reserves have been somewhat lower and there has been a small rise in yields of most issues of Treasury securities. The operation has been initiated smoothly, without upsetting any segment of the market.

As the demand for credit rises in the fall period against the background of a strong and expanding economy, there should be some natural tightening effect on money markets and short-term rates. In this setting it should not be difficult for the Federal Reserve to achieve a further firming of short-term money market conditions and interest rates. The rate of progress in attaining such a goal would continue, of course, to be influenced by the need to give due regard to the impact of such operations on the longer term capital markets. I would look forward toward a further increase in member bank borrowing, a further decline in free reserves to a range fluctuating around or somewhat below zero, and, in due course, January Treasury bills in a rate range of 3-5/8 to 3-3/4 per cent. After such a change has occurred, an increase in the discount rate would probably be advisable.

I would suggest a modification of the first paragraph of the directive to reflect the latest information available. The first paragraph of the September 4 draft of directive prepared by the staff would be acceptable provided there were deleted the reference to the slackening in the rate of money supply expansion in recent weeks; such a reference overemphasizes the significance of the slackening following large gains in July. I see no need for any change in the second paragraph, for there is still more to be done to carry out the modest shift in policy voted at the last meeting. Thus I favor alternative A of the draft directive.1/

In the closing months of the year the banking system will need a large amount of reserves to meet seasonal and longer term growth needs. I endorse Governor Balderston's suggestion at the last meeting of the Committee that some reduction in reserve requirements would be an appropriate way to meet part of such needs. Such a reduction would also provide for the Federal Reserve Banks a greater cushion in the future in meeting the 25 per cent gold reserve requirement in respect of the notes and deposits of the Federal Reserve Banks. Member bank reserve requirements were reduced in 1962. At that time the Board explained that this method of supplying reserves would minimize downward pressures from System purchases upon short-term market rates, which was desirable to keep incentives for short-term capital flows abroad from becoming stronger. With such a precedent and an appropriate explanation the sophisticated public would understand that a reduction in reserve requirements in the fall of 1964 would not be an act of monetary ease but, rather, an act to avoid a downward pressure on short-term rates.

Mr. Ellis observed that the New England economy was sailing smoothly, under no apparent strains. Perhaps the most significant development that had come to light in the past 3 weeks was the slowing down in July in the rate of construction contract awards. But the

1/ The draft directive referred to by Mr. Treiber, and subsequently by others, is appended to these minutes as Attachment A.

decline had been from an inflated level that could hardly have been sustained. For the first time this year, residential contract awards in July were below year-ago levels--by one per cent. For the first seven months as a whole, however, they were running 19 per cent above a year ago. Manufacturing output and factory manhours turned up slightly in July.

Growth was more evident in the banking field, Mr. Ellis continued. Commercial and industrial loans were accounting for somewhat more strength in bank asset growth in the District than in the nation. Deposit growth also was strong, with the accent on time deposits; over the past year, deposits had grown at twice the national rate. Since the first of the year, certificates of deposit had grown 50 per cent in the District, compared with 28 per cent in the nation. Even nonnegotiable time deposits had grown since the first of the year by 27 per cent, three times the national rate. Savings banks had continued to experience substantial inflows of funds. Since April, about 10 per cent of the regularly reporting mutual savings banks had lowered their rates on mortgages by one-quarter of one per cent.

Mr. Ellis said he had studied recent money market indicators closely, looking for evidence of the slight change that the Committee had been wanting to see, and it was hard to find such evidence in the figures. However, he was willing to accept the Manager's judgment

that a beginning had been made on the policy shift, that it had not been possible to complete it by now, and that it could be completed with due caution and delicacy. In light of the bad news on the balance of payments reported by Mr. Furth, he thought that the Committee should not reverse the decision made at the last meeting, but should continue the gradual shift.

With respect to the directive, Mr. Ellis said, the choice between alternatives A and B in the staff draft depended on how much of a change had materialized since the last meeting. He was inclined toward alternative A. His targets were rather more modest than Mr. Treiber's, however. He would like to see free reserves in the zero to $50 million range, the Federal funds rate consistently at 3.50 per cent, member bank borrowings above $300 million, and the bill rate move up gradually to 3.55 or 3.60 per cent during the next few weeks--but not to 3.75 per cent. He did not favor a change in the discount rate at this time. He was attracted to the id[illegible] supplying reserves this fall through a reserve requirement decrease.

Mr. Coldwell reported that economic conditions in the Eleventh District had shown little change in the past month. Industrial production was up slightly in July, but it probably [illegible] down a little in August. The principal change had been in the [illegible]tor of the crude oil production and refining industry. Crude oil output was now scheduled to be higher in September despite heavy

inventories of some refined products and price weakness early in the spring. The production increase was largely due to interstate competition, especially among Texas, Louisiana, and New Mexico, and might result in over-supply and a new round of price cutting. The level of refinery runs already was at a high point.

Construction activity was still providing strong support for the District's economy, especially construction for roads and other municipal services. Retail trade continued strong, although perhaps not quite so ebullient as in July. Agricultural production varied widely; rice production was at a record high, while cotton and grain sorghum yields were expected to be down 5 and 17 per cent, respectively, from a year ago. Recent rains had improved pasture conditions, but heavy cattle marketings continued. Only strong consumer demand prevented additional price declines.

Mr. Coldwell commented that financial conditions in the District continued about as before. Loans had expanded moderately and investments and deposits had declined. Loan pressure on reserves and an apparently reduced availability of Federal funds had brought increased activity at the Reserve Bank's discount window. Thus, the margin of unutilized reserves to meet a further loan demand, even of seasonal proportions, had narrowed considerably. Loan-deposit ratios were up considerably, and some excesses were appearing, especially among the newer national banks. A sizable proportion of

banks chartered during the past two years had loan-deposit ratios in excess of 70 per cent, and some had ratios above 90 per cent. Newly-chartered banks continued to open at a fast pace.

Mr. Swan said little August data were available as yet for the Twelfth District, but the situation seemed to be continuing about as he had indicated at the last meeting of the Committee. As early figures for July had indicated then, there was a sharp increase for the District as a whole in agricultural employment, accompanied by a slight increase in nonagricultural employment, but the unemployment rate still rose by about one-tenth of one per cent. In contrast with the rest of the country, District housing starts rose in July but for the year to date they were still well below the 1963 level. Department store sales continued to run well above a year ago. Loan demand seemed to be continuing at relatively high levels, and in August District banks were under substantial reserve pressure. Borrowings from the Reserve Bank had been considerably larger in the last several weeks than in recent months. Another District bank had borrowed under section 10(b) of the Federal Reserve Act, with its problems relating in part to certificates of deposit.

On the subject of policy, Mr. Swan noted that the Committee had acted at the last meeting to move toward slightly firmer money market conditions. He was not advocating a retreat from that decision,

but in light of the domestic business situation and in light of what was known--or rather, not known--about the increase in the balance of payments deficit, he certainly would not advocate any further lessening of ease. In his judgment the Committee should wait to see what further market reactions occurred to the step already taken before considering a further change.

In this connection, Mr. Swan said, he was concerned about the point that had been made regarding the effect on the three-month bill rate of the attractiveness to investors of a December maturity. As Mr. Stone had indicated, surrounding maturities had somewhat higher rates. Mr. Swan wondered if the Committee had not accomplished a little more than it thought it had with respect to putting upward pressure on bill rates--as might be evident if the rates were seasonally adjusted, and as might appear in the actual three-month rate as its maturity date moved past December. The Committee might find that it was underestimating the rate effect that had already occurred. This possibility reinforced Mr. Swan's feeling that it was undesirable to tighten by more than was envisaged at the previous meeting. His impression had been that the policy shift agreed to was to be a gentle one and not very marked.

With respect to the draft directive, Mr. Swan said he would accept the first paragraph of the staff draft, except for the statement that the balance of payments deficit "was disturbingly large

in July and August." He did not necessarily disagree with the statement, but he would avoid using an adverb such as "disturbingly" in the directive, particularly since it was not yet known what factors underlay the recent deficit and therefore what its implications for policy were. He would prefer to make the reference factual, perhaps by saying the deficit "increased significantly" in July and August.

With respect to the two alternatives for the second paragraph Mr. Swan thought it was desirable to avoid the possible implication of alternative A that the Committee was moving to a still firmer policy than it had adopted at the previous meeting. Accordingly, he would much prefer alternative B. He would not change the discount rate at this time, and he thought the question of a reduction in reserve requirements later in the year should be given serious consideration.

Mr. Deming reported that the business statistics available for the Ninth District since mid-year--on employment, industria production, department store sales, bank debits, shipments of materials, personal incomes, and so forth--indicated moderate economic expansion in the nonagricultural area. The agricultural performance however, had been somewhat difficult to measure because of unusual drought patterns this summer and because one of the farmer groups had been acting to withhold cattle from the market. In the west,

the important wheat crop probably would be even better than estimated at mid-year. In the eastern district, where corn and late feed crops were particularly important, output might be sharply lower than last year. The total District agricultural output might not quite equal last year's near record level. If this assumption was correct, over the rest of 1964 the District's over-all rate of economic expansion might be less than that of the country as a whole.

Nevertheless, Mr. Deming said, the Reserve Bank's early September survey of business opinion among District bankers and businessmen indicated that optimism prevailed. Almost all reporters in the larger commercial centers were expecting higher business activity this month. Optimism was much more subdued in the smaller centers serving agriculture.

In general, Mr. Deming said, he believed that nonagricultural employment, industrial output, sales, over-all construction activity, and personal incomes would continue to expand moderately in the District during the balance of 1964. He would be happy but a little surprised if the District's rate of expansion over the next few months matched that of the U.S.

District banking developments in August did not parallel those of the nation, Mr. Deming continued. The rate of bank credit expansion was about the same as last year, and not as strong as in the nation as a whole. The liquidity position of banks in the

District seemed to have improved in August. Deposits rose, and loan-deposit ratios improved. However, there still were some signs of low liquidity; the level of Federal funds purchases had expanded since July, and member bank borrowings since the spring had been significantly higher than a year ago.

As to policy, Mr. Deming said he thought it desirable to make no change, waiting to see what reactions developed to the shift decided on at the previous meeting. He would interpret "no change in policy" as leaving room for the continued implementation of that decision. Accordingly, he preferred alternative A of the staff draft for the second paragraph of the directive. As to the first paragraph, he had some sympathy both with Mr. Treiber's suggestion for striking the reference to the slackening in the rate of money supply expansion and with Mr. Swan's objection to use of the phrase "disturbingly large" in describing the recent payments deficit. On the latter point, he suggested saying that the deficit "was appreciably larger in July and August than in the preceding quarter."

Mr. Deming said he did not favor a change in the discount rate during the next three weeks. And, as both he and Mr. Balderston had suggested at the previous meeting, a reserve requirement reduction might be an appropriate means for meeting at least part of the reserve needs for the balance of the year.

Mr. Scanlon reported that economic activity had continued to increase in the Seventh District. Personal income apparently had continued a strong rise; retail sales continued to show gains; consumer loans at District banks had been rising at a moderate pace; and in recent months increases in savings at commercial banks and savings associations had exceeded last year's gains.

A recent spot check of some major Midwest firms indicated that there was capacity available for further increases in output in the major industries in the District, although there was pressure on capacity for some individual products such as steel plates and wide sheets. Even for plates and sheets, there still was little evidence of inventory building by customers, although buying for inventory could become a problem if expectations of substantial price increases became widespread, or if speculation should begin that a strike would occur next May 1. Customers continued to hold to rigid quality standards.

Employment prospects continued to improve in most District centers, Mr. Scanlon noted, and unemployment in the District continued to decline. Upward price pressures appeared to be significant largely in the case of nonferrous metals, as indicated in the staff report. In July, 15 per cent of the purchasing agents of Chicago reported paying higher prices than the month before, about the same

proportion as a year earlier. Only a small percentage of the purchasing agents reported longer lead times on new orders than a year earlier.

Homebuilding activity had been relatively stronger in the District than in the U.S. thus far in 1964, Mr. Scanlon said. In the first six months, permits were 18 per cent above last year compared to a rise of 2 per cent for the nation. In recent months, however, the picture in this area appeared to have weakened considerably. Effective rates on mortgages eased slightly in recent months in Chicago and Detroit.

Major District banks reported a very strong rise in loans during August and accounted for three-fourths of the national increase, Mr. Scanlon observed. Business loan expansion in the District matched that for last year and was broadly based among industry groups. Net paydowns by retail firms were large, offsetting the sharp rise in July. A large part of the August loan increase was to securities dealers and finance companies. Real estate loans also rose substantially. Despite loan increases, reserve positions of Chicago banks remained fairly comfortable with moderate net purchases of Federal funds and little borrowing. These banks reported a small further net sell-off of Governments--in contrast to an increase in holdings elsewhere in the U.S.--but they acquired a substantial amount of municipal and agency securities.

As to a directive, Mr. Scanlon said, the draft of September 4 prepared by the staff was acceptable to him. Like Mr. Ellis and others, he had difficulty finding in the figures evidence of the change in policy adopted at the last meeting. He would not favor retreating from the position previously taken, and he assumed the adoption of alternative B as a second paragraph would not imply this. Therefore, he favored alternative B. Mr. Seanlon would continue the current discount rate.

Mr. Clay commented that the domestic economy was performing essentially in line with the goals of public policy. The most recent data in any one month might give a somewhat more sober or a somewhat more ebullient view, he noted. In the longer perspective, however, there had been a rather steady advance involving some shifting in the components of greatest forward thrust. Significant inroads had been made this year on the sticky problem of the utilization of manpower and other resources. Nevertheless, the expanding resource base permitted further growth in an orderly and sustainable manner. In fact, continued advancement in economic activity was necessary in order to maintain the manpower utilization problem within tolerable proportions, to say nothing of attaining the goal of further improvement.

While there had been an increase in some prices, Mr. Clay said, the broad averages had demonstrated an impressive degree of

stability. One expected prices to be more sensitive on the upside as the business upswing progressed, but special situations rather than general demand forces appeared to be the explanation for most price increases thus far. In considering the future role of monetary policy relative to prices, it also was necessary to recognize special institutional forces that were not readily dealt with through the broad impact of monetary policy and which required other solutions. Notable among these were the industrial wage negotiations with their potential effect upon prices. The terms of these settlements in major industries were of the utmost importance to price developments and to the economy generally, both domestic and international. It was to be hoped, Mr. Clay said, that some way would be found to give the national economy the benefit of non-inflationary wage settlements.

In Mr. Clay's opinion, the domestic economy continued to require the pursuit of an expansive monetary policy In terms of intermediate financial targets, it appeared logical to provide reserves in sufficient volume to permit commercial bank credit expansion in line with the average increase thus far this year. At the last meeting of the Committee, he noted, it was decided to make a slight shift in the short-run policy targets in view of recent developments in the international balance of payments. In his judgment the small change decided upon, if contained within those limits, would not

likely be a deterrent to the domestic economy. One of the principal issues at the last meeting, however, was the risk that the small change in the short-run targets might trigger further developments in the money and capital markets with repercussions upon domestic economic activity. That issue still remained, Mr. Clay remarked, as the market might come to recognize that some shift in policy objectives had taken place without knowing the degree of the shift. It would appear logical to continue the monetary policy decision made only three weeks ago, within the limits determined at the last meeting, but the situation called for the same cautious handling as was underscored at that session.

Mr. Clay considered the staff draft of the first paragraph of the economic policy directive to be quite satisfactory. He thought alternative A of the second paragraph drafts would be suitable providing its reference to "slightly firmer conditions in the money market" was limited to the change voted at the last meeting. To make that crystal clear, he would prefer to see alternative A amended to read as follows: add "the" after "maintaining," and add "agreed upon at the last meeting" after "market." Moreover, he continued, it should be recognized that there were special circumstances affecting yields of the December Treasury bills and that the somewhat higher yields of the adjacent maturities might have been a better measure of the degree

of accomplishment of the change sought. Mr. Clay added that no change should be made in the Federal Reserve Bank discount rate.

Mr. Wayne said that substantial strength was reflected in both the latest Fifth District statistics and the Reserve Bank's most recent survey. July activity broke a number of previous records with new highs in bank debits, nonfarm employment, building permits, department store sales, and cigarette production. Contract awards rose sharply for the second month in a row, nearly matching the previous high, and factory man-hours gained as manufacturing industries continued to experience strong demand. Prices were strong in both textiles and furniture, and leading firms in both industries had announced wage increases, expected to average around 5 per cent, effective immediately or in the near future. Reports that furniture makers would raise prices in time for the fall markets had received wide circulation. Opinions expressed in the Bank's latest survey were divided about [illegible] between further improvement and stability at present high levels. Returns from manufacturers indicated generally stable conditions except in the textile industry where increases in new and unfilled orders were widely reported along with more limited evidence of further [illegible] in employment and hours. Respondents in construction and retail trade reported further advances in already high levels of activity. Flue-cured tobacco markets had made a fast start, well ahead of last

year on both price and quantity, but prices had wavered recently as farmers flooded the market with early offerings so that comparisons made at this early stage might not prove representative.

The national economy seemed to be continuing its moderate upward course, Mr. Wayne said, with no setback or interruption visible on the horizon. Retail sales apparently rose moderately in August and automobile dealers seemed to be doing an excellent job of moving their large inventories of 1964 model cars. The latest survey of consumers' buying intentions afforded a reasonable basis for expecting continued strong consumer demand. Barring a strike, automobile production would be high in the coming weeks, and steel production seemed headed for a record year. Expenditures for new plant and equipment still were providing much of the impetus for the present high rate of activity. Conflicting movements among various components of the construction industry had produced fairly stable totals since last October, a condition worthy of note, coming after 18 years of strong and almost uninterrupted growth. The behavior of prices and uncertainty as to the outcome of current wage negotiations were two possible disturbing elements in this generally favorable situation. Wholesale prices generally were not appreciably higher than they were six months ago or a year ago, but in the past three weeks certain commodity groups had shown rather sharp price rises. These had been principally foods, especially

meats, and to a less extent raw materials. The large jump in meat prices was very largely the result of the farmers' program of withholding livestock from the markets and it was doubtful whether that would have any permanent effect on prices.

Mr. Wayne commended the Desk for its skillful job in the past three weeks in walking the tightrope erected at the Committee's last meeting. Thus far, the slight move toward less ease which was then made apparently had registered in the markets only in the form of lower free reserves last week and a slight softening in bond prices at the week end. This might well have been because of an unusually strong but temporary nonbank demand for short bills. Domestically, the recent behavior of commodity prices might suggest increased inflationary pressures, but to a large extent recent price rises had been confined to limited segments of the economy and appeared to be related to factors other than basic money and credit conditions. Early resolution of the present situation in livestock markets and of current labor negotiations in the metals and automotive industries could change the picture significantly.

In the international area, Mr. Wayne continued, a substantial covered spread in favor of London persisted, but there was no evidence of any significant movement of short-term funds abroad. In fact, there seemed to have been some small return flows recently. For these reasons, he felt that the Committee should allow more time

for the effects of its latest policy change to work themselves out. Free reserves were now about as close to zero as they could get without a serious risk of showing net borrowed reserves fairly frequently, and Mr. Wayne did not believe that such a risk was warranted at this juncture. He remained concerned over the possibility of short-term outflows, however, and he agreed with the reasoning that the large seasonal increase in reserves just ahead could best be provided by reducing reserve requirements rather than through the open market. For the present, he favored no change in policy and would leave the discount rate at the present level.

The draft directive was acceptable to Mr. Wayne, except that he shared Mr. Swan's concern about the words "disturbingly large" in the last sentence of the first paragraph. He preferred alternative B for the second paragraph.

Mr. Mills commented that Mr. Stone's report of the operations of the System Open Market Account recorded results that were consistent with the Committee's directive of moving toward a slightly firmer market on an experimental and cautious basis. There seemed to be as good reasons today as there were at the previous meeting for continuing the policy that had been adopted. This policy seemed to have had the advantage of tending to jar the market out of its apathy, and out of its belief that the System was prepared to so control and manipulate the interest rate structure that operators

in the market were free to over-position themselves with confidence that there would be no change. He thought the results of the minor change in policy had already been helpful in altering that attitude, and in bringing about responses and attitudes that were more in keeping with the kind of market that the System historically had attempted to foster.

Mr. Mills said he found the growing discussion of the possibility of reducing reserve requirements to be disconcerting. If he read the staff report correctly, it would be necessary to provide about $1.2 billion in reserves during the fall months, but then to withdraw about $1.1 billion by the end of January. In his opinion it might be difficult to accomplish successfully an operation in which reserves were supplied in volume by a reduction in requirements and then withdrawn by open market operations. Moreover, if the balance of payments problem worsened rapidly, and it was necessary to increase the discount rate and make the higher rate effective by withholding reserves, the operation would be more difficult if reserve requirements had been reduced. It seemed to Mr. Mills that this discussion was premature, at the least, and that the Board should be wary about moving in this direction ... .

Mr. Mills commented that the Treasury approach to the balance of payments problem through the interest equalization tax seemed likely to prove ineffective, and the Treasury had not seen fit to

move toward fiscal controls. Thus, it might be that the System ultimately would have to be the chosen instrument for dealing with the balance of payments problem through restrictive monetary policy. The discipline of such a policy might be helpful, Mr. Mills said, but, as Mr. Furth had explained, interest rate considerations were not the principal reason for the losses of gold and the movement of dollars abroad. It seemed quixotic that the System might have to use an interest rate approach to correct a situation whose origin was not based on interest rate factors. Mr. Mills concluded by saying he would prefer alternative B for the directive.

Mr. Robertson made the following statement:

> Over the past three weeks, the performance of the financial markets in general, and of the System Account Manager in particular, has reminded me very much of a man balancing on a tightrope. There he has been, poised in a precarious balance of natural forces, with a sharp drop awaiting him if he makes the slightest misstep; and the majority of the Open Market Committee, at our last meeting, urged him to lean just slightly further. I hate to think what would have happened if he had leaned far enough to push the bill rate to the levels some members of the Committee wished him to attain.
>
> Now there is a limit to what any acrobat (even the most adept) can do. I think we have been very lucky to be able to maintain the posture we have over the last three weeks, and nothing that has been said around this table leads me to believe that either the Manager or the market can lean over any further without danger of toppling. That risk is simply not worth taking at this time.
>
> I do not believe any of the broader measures of significance for policy have moved in a direction that would call for further monetary tightening at this time. Indeed, the latest figures give a more moderate cast to recent domestic developments. The unemployment uptick

in August confirms the view that improvement in this vital area is still a painfully slow process, with plenty of distance yet to go. Prices are still bubbling in the nonferrous metals area. This particular kind of price action, however, is not unusual in an expansion, and the sectors of the economy directly involved are so small as to have little significance by themselves. The striking thing about these nonferrous price advances is that they do not seem to be spreading into other and more important lines of business. By any general standard, we are still in the midst of a noninflationary business expansion.

On the monetary side, the money supply in August expanded at barely a 3 per cent annual rate, well below the rapid 8 per cent rate posted in June and July. Thus, no tauter rein on reserves seems to be called for at this time in order to moderate monetary growth.

The one bad set of numbers continues to be the balance of payments accounts. Here we may be approaching the time when new policy steps to staunch the capital outflow will be needed. We must be careful, however, to choose steps that are appropriate to the kinds of drains being experienced. For example, bankers' actions seem to be an important contributor to these drains, but clearly the significant actions are confined to a very small handful of banks, concentrated largely in New York City. Those actions consist not only of lending abroad in response to established customer needs, but also, we hear, of shifts of loanable funds abroad and other anticipatory actions designed to avoid the impact of any subsequent Presidential invocation of the Gore amendment extending the scope of the interest equalization tax to banks. It is a cruel irony that a measure designed to help the balance of payments may be hurting it seriously. To stop this kind of banker action, the Open Market Committee may need to consider recommending to the President that he proceed to invoke the Gore amendment forthwith. Whether or not we like that law or its implications, it is there and its consequences must be dealt with accordingly. One thing I am sure of: it would be ridiculous to blame general monetary conditions for such a specific development, and to try to offset it by a tighter general monetary policy with its attendant risk of impairing our domestic economic strength and lessening our ability to achieve fuller employment and greater utilization of resources.

I think the proper policy prescription for the next three weeks is to hold conditions just about as they have been on the average over the last three weeks. A degree of snugness has returned to the money market, and I would be willing to see it continued rather than reversed so soon after a change in policy. But I would be opposed to any further move toward tightness during this period. Therefore, I would favor the second of the two alternative wordings of the current directive submitted by the staff.

Mr. Robertson added that he shared the reservations that had been expressed about the phrase "disturbingly large" in the proposed directive. On the other hand, he would not take out the reference to "some slackening in the rate of money supply expansion in recent weeks." As to the comments that had been made with respect to lowering reserve requirements, he had prepared a statement on this subject before the previous meeting but had decided to withhold it for the time being. He would like it to be known, however, that he was not persuaded that such an action would be desirable.

Mr. Shepardson commented that all of the reports seemed to indicate that the economy was experiencing a healthy and consistent advance. There were upward pressures, or potential pressures, on prices, including the current wage negotiations whose outcome could not be foretold at present. There also were reports from a number of sources of shortages of available competent labor, nothwithstanding the unemployment rate. In some industries operations were approaching plant capacity. All of these factors, together with recent balance of payments developments, seemed to

him to justify fully the action the Committee had taken at its previous meeting. He would have voted in favor of that action if he had been present.

Mr. Shepardson said that current reports seemed to indicate that there was still some distance to go in implementing the policy change that had been decided on. Accordingly, he favored alternative A for the second paragraph of the directive, since it indicated an intent to move toward what had been contemplated but not yet attained. He thought the reference to the money supply in the first paragraph was inappropriate and should be deleted. From time to time there had been substantial swings in the money supply in both directions, and calling attention to the fact that the growth rate recently had slackened would give this change more emphasis than he thought was justified. He also agreed with the comment that the word "disturbingly" in the last line of the first paragraph might be over-severe, and he approved of the change in wording that had been suggested.

Mr. Mitchell said that the reason for the shift in policy agreed upon at the previous meeting had to be the fact of some deterioration in the balance of payment; he did not think that the domestic economy would derive any benefit from the moderate firming of conditions in the past few weeks. If the Committee concurred in Mr. Furth's analyses at this meeting and the previous

one, he felt it would have to conclude that monetary tightening was not going to help the balance of payments in any respect. At the previous meeting Mr. Furth had pointed out that the reported deficits were in part illusory, and at this meeting he had noted that the worsening of the deficit was not due to capital outflows. It was hard to understand how the Committee could use the payments deficit as an excuse for tightening when its own analysts indicated that any action it might take would have no effect on the deficit.

At the previous meeting, Mr. Mitchell continued, Chairman Martin had expressed the view that the probing action decided on was of a somewhat hazardous nature and should be carried out with great care. This certainly was the way in which the Desk had been implementing the decision. The movement the Committee had contemplated was quite modest; yet three weeks already had passed, and the Manager estimated that it would take three more weeks to carry out his instructions. Mr. Mitchell submitted that if it took six weeks to put a modest change into effect, that change must involve considerable hazards. The Account Management might have been successful in tranquilizing the bond market, but he did not think the Committee should be tranquilized; the situation was explosive. In his judgment, in

the absence of some strong and compelling reason the Committee should not change its course at all.

Mr. Mitchell said he preferred alternative B for the second paragraph of the directive. With respect to the money supply reference in the first paragraph, he noted that on an earlier occasion he had questioned the desirability of referring in the directive to a sharp increase in the money supply until it was known whether that change would persist. Others had commented then that the increase up to that point was a fact, and accordingly deserved mention; and he had withdrawn his objection. He agreed that the recent slackening was likely to be reversed later, but as of this date it was a fact, and he thought the reference should be retained.

Mr. Mitchell then suggested the following alternative wording for the balance of payments reference in the first paragraph: "It also gives consideration to the fact that although the deficit in the balance of payments appears to have been significantly larger in July and August, the worsening does not seem to have been related to interest rate differentials."

Mr. Hickman commented that aggregate measures of economic activity were still showing strength in late summer, with the near-term outlook generally favorable. Retail sales moved up again in August, and perhaps more important, the latest survey of plant

and equipment spending indicated another slight upward revision. On the other hand, there were a few signs of possible imbalance in the economy, which might become more important later on.

The steel industry had again revised upward its estimates for ingot output in 1964. Latest indications were that output this year might approach 125 million ingot tons, with "economical" capacity (as distinct from "physical" capacity) being a possible constraint on future output. In the Fourth District, as well as elsewhere, there were instances of steel mills, formerly regarded as obsolete, now being reactivated. Steel customers now seemed to be attempting to re-establish more comfortable ratios of inventories to consumption. Such rebuilding of customer stocks, if it became excessive, would result in the kind of undesirable inventory cycle that had unbalanced the economy in the past. Further distortions might result from a possible reopening of the steel labor contract next January, and from a developing shortage of freight cars.

Mr. Hickman said plans of the auto industry for production in September indicated a phenomenally high output for the month, unless serious strike interruptions occurred. Domestic new car sales for August were 18 per cent above a year earlier, and were the highest for that month since 1955.

Recent developments in the Fourth District confirmed the moderate advances in business activity, Mr. Hickman remarked. In the most recent three weeks, steel production had moved upward in all District centers. Department store sales had been maintained at a near-record level. Insured unemployment in most labor market centers was again performing favorably, after a spotty showing in midsummer.

The revised balance of payments figures for July and the preliminary estimates for August confirmed the appropriateness of the modest policy shift adopted by the Committee three weeks ago, Mr. Hickman said. On the other hand, little progress seemed to have been made in achieving the Committee's new policy objective. The bid price on 91-day Treasury bills had held at about 3.50 per cent. Differentials between Euro-dollar rates and yields on three-month CD's, as well as between yields on U.S. and British bills, had widened slightly since the last meeting, while the covered differential between Montreal and New York had turned slightly in favor of the U.S. The absence of weekly balance of payments figures made it impossible to evaluate these relationships, although a century of British monetary history suggests that existing differentials were hardly likely to attract funds to the U.S. The fact that the recent worsening of the deficit did not reflect an increase in capital outflows did not mean

that such flows had no effect; capital flows had been adverse to the U.S. for many months.

Mr. Hickman remarked that the difficulty experienced by the Desk in executing the Committee's policy in the past three weeks illustrated once again the handicap of operating with incomplete and inaccurate figures on reserve availability. Time and again, one found the Desk operating on the basis of preliminary figures that were virtually on target, only to find later on that there were major revisions out of the target range. In the recent dialogue on the desirability of a new directive and the need for research on various aspects of monetary theory, the Committee might have lost sight of the fact that its most pressing problem was the ability to forecast accurately the factors affecting bank reserves. One part of the problem was the lack of a system of daily reporting of reserve positions by all member banks. This information was now collected in four of the Federal Reserve Districts and, in his opinion, should be collected nationwide.

Turning to the directive, Mr. Hickman commented that the fact that the recent change in the money supply growth rate had been of brief duration was reason enough to delete the reference to "some slackening" in that rate. He also would delete the words "disturbingly large" in the reference to the balance of payments deficit, as Mr. Swan had suggested. He favored

alternative A for the second paragraph on the ground that only minor progress had been made as yet in achieving the objective decided upon at the previous meeting. On the other hand, the aim should be to achieve only a modest change in conditions. The targets he had in mind included a three-month bill rate of about 3.60 per cent when the maturity date of three-month bills moved past December, and free reserves ranging around $50 million. He thought that a reduction in free reserves to zero would trigger undesirable changes in expectations. He was in sympathy with the view Mr. Balderston had expressed at the previous meeting that a change in reserve requirements was desirable, and that it be scheduled for the latter part of October. If such an action were to be taken it would probably be most appropriate then. On the other hand, if the Committee should find it necessary to shift to a firmer policy in the interim, a reduction in requirements might be unnecessary.

Mr. Bopp commented business was good in the Third District. Unemployment continued to decline; construction contract awards an electric power consumption showed gains over 1963; and, while not matching national increases, department store sales remained ahead of last year.

In July, unemployment rates (seasonally adjusted) decreased moderately in most labor market areas. Preliminary insured rates indicated that this moderate decline continued in August.

Construction contract awards gained in July both nationally and in the District. Electric power consumption by Third District manufacturers continued to increase steadily. Steel production in the Northeast Coast district had remained at the national level in recent weeks.

Mr. Bopp reported that reserve pressures on District member banks had increased slightly since August 12. The average deficit in the basic reserve position of reserve city banks increased to $60 million from $49 million in the previous three-week period. On Friday, two reserve city banks borrowed at the discount window; the activity of the country banks was light and declining.

As the fall of the year approached, business activity continued to expand at a brisk pace when compared with historical growth rates, Mr. Bopp said. Nevertheless, employment, prices, and anticipations continued to reflect moderation. Business was good enough to support a near-record level of employment but not good enough to reduce unemployment to an acceptable level. Business was good enough to send corporate profits to record levels and production closer to the preferred rate of capacity but not sufficiently heated to push wage rates and unit costs into a spiral of price inflation. Indeed, unemployment remained uncomfortably high while unit costs and the broad indexes of prices remained stable.

As for the future, Mr. Bopp continued, the immediate outlook provided little evidence that the business expansion was getting out of hand. Production and distribution of goods remained orderly and inventories stable. In his opinion, moreover, the policies followed by the Federal Reserve System since the spring of 1961 had resulted in a rate of increase in money and credit that had been appropriate to the increase in real output which had occurred.

On the international front, the disappointing second quarter deficit in the balance of payments had been followed by further sizable deficits in the months of July and August. Part of the problem seemed to be a cyclical increase in imports; part of it seemed to stem from continuing flows of short-term money and capital abroad.

A generally tighter monetary policy, it seemed to Mr. Bopp, would not be a suitable remedy for these problems. The rise in imports was related more to a rise in incomes than to a rise in prices. Capital flows abroad were related in large measure to the breadth and depth of the capital markets. Moreover, while short-term money movements might respond favorably to higher domestic rates, such higher rates were not justified in view of domestic economic conditions. On balance, Mr. Bopp felt that the existing monetary posture was appropriate to the current

environment, and he would recommend that further provision of reserves to the banking system continue to be made with a minimum impact on short-term interest rates.

Mr. Bopp thought the draft directive proposed by the staff was appropriate, with alternative B used for the second paragraph. He would leave in the reference to the money supply, primarily because it was well to indicate that its growth rate fluctuated, for the benefit of those critics who had been concerned about the recently high growth rate. He did not favor using the phrase "disturbingly large" in referring to the payments deficit.

Mr. Bryan said that nearly all of the new figures for the Sixth District were up sharply, including nonfarm and manufacturing employment, construction contract awards, personal income, manufacturing payrolls, and average hours worked. Insured unemployment was now almost negligible--the figure for the entire District was only 110,000.

As to national policy, Mr. Bryan said that at the previous meeting he had felt that the Committee could snug up the situation slightly, largely on the ground that the economy was in a healthy trend, by allowing the expected fall credit demands to do the tightening. As he understood it, the Committee's decision had been to snug up policy, but so slightly as to be almost imperceptible. It seemed to Mr. Bryan that this had been accomplished,

and at present he would not advocate any further overt moves in the direction of a less easy policy.

Mr. Bryan remarked that he would repeat a comment he had made on an earlier occasion: he did not believe the price situation was nearly as reassuring as many of his colleagues and staff seemed to feel. Consumer prices continued to creep up at an annual rate that he thought would satisfy those who advocated creeping inflation.

Mr. Bryan did not favor an increase in the discount rate at this time, and he withheld judgment on the subject of a possible reduction in reserve requirements.

Mr. Bryan was inclined to retain the reference to the money supply in the directive for the reason that Mr. Bopp had mentioned. As for the words "disturbingly large" in reference to the balance of payments deficit, he would have preferred "frighteningly large" were it not for the argument that had been advanced by Mr. Mitchell to the effect that the Committee did not know what was causing the recent worsening.

Mr. Shuford reported that economic activity in the Eighth District had shown little change since January on the whole, but there had been some gains in the latest figures. Payroll employment in major labor markets had risen at a 2.6 per cent annual rate since April. Check payments and business loans had risen

markedly since April and had more than offset declines earlier in the year. However, manufacturing employment and output had shown only slight gains since spring.

Deposits of District banks had risen at an 8 per cent annual rate since April, and total loans had increased at a 17 per cent rate. Investments had been reduced, and the District's large banks had been net purchasers of Federal funds. Borrowings from the Reserve Bank had increased substantially; daily average outstanding advances were $10 million in August, nearly double the average for the three previous months, although slightly less than the average for the past five years.

Mr. Shuford commented that at the previous meeting he had mentioned inquiries from two of the larger District banks with respect to methods of borrowing on the security of customer paper. One of those banks subsequently had borrowed in this manner, the first instance of such borrowing in the District for some time.

Nationally, Mr. Shuford said, economic activity had continued to advance in the summer, with strength in all areas except construction. In addition to the underlying business strength, both monetary and fiscal policy had been stimulative since spring.

Mr. Shuford thought the policy action taken by the Committee at the previous meeting had been appropriate. The change was intended to be slight and gradual, and it seemed to him that the

decision had been implemented in this manner. He felt the Desk had performed its delicate assignment well. He favored no change in policy now, and he would not want to see any more tightening than had been contemplated at the previous meeting. In his opinion it was desirable to hold the ground that had been won, and to firm up conditions to complete the shift that had been envisaged.

Mr. Shuford leaned toward deleting the reference to the money supply in the draft directive in view of the short time period during which growth had slackened, although he did not feel strongly on the point. As to "disturbingly," he thought a more appropriate word probably could be found but again he was not inclined to press the point. The choice between the alternatives proposed for the second paragraph turned on what the Committee had in mind with respect to policy. If the intent was to indicate that the Committee was simply firming up the move it already had made, as he recommended, this could be accomplished best by alternative A. Mr. Shuford did not favor a change in the discount rate.

Mr. Balderston noted that a majority of the voting members of the Committee seemed inclined to revise the statement referring to the payments deficit in the draft directive. Those advocating deletion of the money supply reference seemed to be in a minority. As to the choice between the alternatives for the second paragraph, four members favored A and five favored B. His own preference,

Mr. Balderston said, was mildly in favor of A, but he did not consider the matter of great moment and he would be prepared to accept B.

Mr. Treiber remarked that he thought the phrase "disturbingly large" had been well chosen, and unlike others who had commented on it he would have found it acceptable for the directive. With respect to the proposed adoption of alternative B for the second paragraph, he was unclear what significance this choice would have for the Manager's operations. Did the Committee contemplate that the Manager should continue to carry out the policy shift envisaged at the last meeting or that he should stop short?

Mr. Balderston said that he understood the consensus to favor continuing the prior policy, not retreating from the decision taken at the previous meeting.

Mr. Stone commented that the question in his mind did not involve the alternatives of continuing or retreating, but rather those of continuing and stopping the operation in midpassage. As he understood the intent of the Committee, it was not to stop the operation.

Mr. Mitchell asked what quantitative targets the Manager would consider consistent with an instruction to continue the policy shift agreed upon at the previous meeting. Mr. Stone replied that it was useful to distinguish two senses in which the

operation thus far was incomplete. First, the fact that the Committee had made a modest change in policy had not yet been conveyed fully to the public; and second, the shift had not yet been reflected fully in the figures. In his judgment a completed operation would involve a continuation of free reserves close to the $44 million level of the previous week--in the narrow range of $40-$60 million, if possible. Several weeks of figures in this range would convey effectively to the public the fact that a gentle shift had occurred, after which the range might be broadened--perhaps to $25-$75 million, and later to $0-$100 million. With respect to the bill rate, he did not think the Committee favored a rate as high as 3.60 per cent for three-month bills maturing in December because of the seasonal factors tending to depress that particular rate. However, he noted, yields on bills maturing in January currently were in the 3.53-3.60 per cent range. If the policy shift was continued, he would contemplate that when three-month bills with January maturities were issued--i.e., when bills were auctioned early in October, following the Committee's next meeting--their yield would be in the neighborhood of 3.60 per cent.

Mr. Shuford commented that on the basis of Mr. Stone's statement he would be prepared to vote in favor of alternative B.

Mr. Balderston suggested that the Committee vote on a directive composed of the staff draft for the first paragraph,

except that the balance of payments reference would be amended in the manner Mr. Deming had suggested; and with alternative B for the second paragraph.

Thereupon, upon motion duly made and seconded, and by unanimous vote, 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 policy directive:

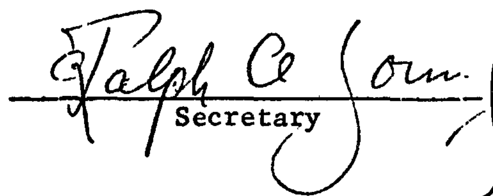
It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, some slackening in the rate of money supply expansion in recent weeks, and relative stability in broad commodity price averages. It also gives consideration to indications that the deficit in the U.S. balance of payments was appreciably larger in July and August than in the preceding quarter.

To implement this policy, System open market operations shall be conducted with a view to maintaining the slightly firmer conditions in the money market that have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Mr. Stone referred to Mr. Hickman's remarks on the problems posed by inaccuracies in reserve estimates and the desirability of extending the daily reporting of reserve positions to all Districts. He commented that System-wide daily reporting would be most helpful to the operations of the Desk.

It was agreed the next meeting of the Committee would be held on Tuesday, September 29, 1964, at 9:30 a.m.

Thereupon the meeting adjourned.



Secretary

Attachment A

CONFIDENTIAL (FR)

September 4, 1964.

Draft current economic policy directives for consideration by the Federal Open Market Committee at its meeting on September 8, 1964

First Paragraph

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, some slackening in the rate of money supply expansion in recent weeks, and relative stability in broad commodity price averages. It also gives consideration to indications that the deficit in the U.S. balance of payments was disturbingly large in July and August.

Second Paragraph

Alternative A:

To implement this policy, System open market operations shall be conducted with a view to maintaining slightly firmer conditions in the money market, while accommodating moderate expansion in aggregate bank reserves.

Alternative B:

To implement this policy, System open market operations shall be conducted with a view to maintaining the slightly firmer conditions in the money market that have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.