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, D. C., on Tuesday, November 2, 1965, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Daane
Mr. Ellis
Mr. Galusha
Mr. Maisel
Mr. Mitchell
Mr. Patterson
Mr. Robertson
Mr. Scanlon
Mr. Shepardson

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

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

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Brill, Economist
Messrs. Baughman, Garvy, Holland, and Taylor, Associate Economists
Mr. Holmes, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

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

Messrs. Eisenmenger, Eastburn, Mann, Ratchford, Jones, Tow, Billington, and Green, Vice Presidents of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, St. Louis, Kansas City, Kansas City, and Dallas, respectively
Mr. Lynn, Director of Research, Federal Reserve Bank of San Francisco
Mr. Meek, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Kareken, Consultant, Federal Reserve Bank of Minneapolis

The Chairman reported that the Secretary had received advice of the election by the Federal Reserve Banks of Atlanta, St. Louis, and Dallas of Mr. Patterson, President of the Federal Reserve Bank of Atlanta, as a member of the Federal Open Market Committee to fill the unexpired portion of the term beginning March 1, 1965, and that Mr. Patterson had executed the oath of office prior to this meeting of the Committee.

Upon motion duly made and seconded, and by unanimous vote, Daniel H. Brill was elected to serve as Economist of the Committee until the first meeting of the Committee after February 28, 1966, with the understanding that in the event of the discontinuance of his official connection with the Board of Governors he would cease to have any official connection with the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on September 28 and October 12, 1965, 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

October 12 through October 27, 1965, and a supplemental report for October 28 through November 1, 1965. Copies of these reports have been placed in the files of the Committee.

In comments supplementing the written reports, Mr. Coombs said that the gold stock would remain unchanged again this week. This was something more than three months without a change. The Stabilization Fund still had nearly $80 million of gold on hand, which should suffice to see the U.S. through the rest of the month unless unexpected new orders appeared. He expected the French would be in for no more than their minimum monthly order of 30 tons; the Bank of France seemed to have taken in no dollars during October and might in fact have experienced some reserve losses. On the London gold market, Russian sales had enabled the Pool to pay off the heavy deficits incurred in earlier months, and the Pool account was now just about even. Between now and next spring it seemed quite possible that the Russians might have to sell another $250 million or so of gold. Demand on the London market continued to run at high levels, however, with recurrent upward pressure on the price, and it was questionable how much of the prospective Russian sales would be retained by the Pool for distribution to the member central banks.

On the exchanges, Mr. Coombs continued, sterling had remained firm with no need for intervention either by the Bank of England or the Federal Reserve Bank of New York to support the rate. From time to time the Bank of England had been able to take in sizable amounts of dollars. Judging from the movement of the Bank's account with the

Federal Reserve Bank of New York, it would appear that during September and October the Bank of England took in a total of nearly $600 million, of which $190 million was used to repay short-term debt to the Federal Reserve and U.S. Treasury. In addition to this net inflow of dollars, the Bank of England had probably managed to pay off more than $300 million of maturing forward contracts. Yesterday and today, partly reflecting a special gold transaction, the Bank had taken in a further $260 million, of which $100 million was used for a further repayment on the swap line with the System, thus reducing Bank of England drawings outstanding to $600 million.

On the other European exchanges the markets had been remarkably well balanced, with outflows to the U.K. probably serving to offset surpluses that might otherwise have appeared. In the case of Switzerland, further progress had been made in paying down the System's swap debt, which would be reduced by Friday, November 5. to no more than $31 million.

There was some expectation in the market, Mr. Coombs noted, that the year end might see an unusually severe squeeze in the Euro-dollar market. The risk had been heightened by the recent appeal of the Commerce Department to U.S. corporations to pull back the bulk of their short-term balances abroad. As the Committee would recall, the heavy reflux of such balances following the inauguration of the voluntary restraint program last February was largely offset, so far as the Euro-dollar market was concerned, by a compensating inflow of short-term funds from Italy. If a new squeeze on the Euro-dollar market should

now develop, it would be hard to find a similar source of a new funds to help keep the market in balance.

There followed discussion, at the instance of a Committee member, concerning the record of French gold acquisitions and indications of the recent trend in the French payments position.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the System open market transactions in foreign currencies during the period October 12 through November 1, 1965, were approved, ratified, and confirmed.

Mr. Coombs then presented several recommendations for the consideration of the Committee. First, a System drawing of $100 million under the swap line with the Bank of Italy would mature for the first time on November 26, 1965, and he recommended its renewal if necessary, which as of the moment seemed likely.

> Renewal of the $100 million drawing, if necessary, was approved.

Second, Mr. Coombs recommended renewal of a drawing of $125 million by the Bank of England under its swap line, which drawing would mature on November 26, 1965, if the Bank of England should so request. This would be a first renewal.

> Renewal of the drawing of $125 million, if the Bank of England should so request, was approved.

Finally, Mr. Coombs noted that a $5 million equivalent swap of German marks for Dutch guilders would mature on November 30, 1965. He recommended its renewal for another three months in the likely event

that the System was unable to acquire sufficient guilders in the meanwhile to liquidate the transaction.

Renewal of the $5 million equivalent swap of German marks for Dutch guilders, if necessary, 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 October 12 through October 27, 1965, and a supplemental report for October 28 through November 1, 1965. Copies of both reports have been placed in the files of the Committee.

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

> System open market operations have been conducted since the last Committee meeting against the background of a gradual but persistent erosion in the prices of Government securities. In this environment the System has sought to maintain an even keel in the money market as the Treasury priced and offered for sale the 4-1/4 per cent note on which the subscription books closed yesterday.
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> In fact, conditions have been somewhat more comfortable in the money market in the past two weeks than prevailed earlier, as the Desk paid increased attention to the cautious atmosphere in which short-term rates tended to edge higher. Federal funds have traded mainly at 4-1/8 per cent, but they also traded at 4 per cent or below on several days. Pre-week end trading at 4-1/4 per cent has been rare and member bank borrowing from the Reserve Banks has been more moderate than in a number of months. Dealers have generally been able to finance their portfolios at lower rates than have prevailed for some time.
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> The System's role during most of the recent interval was, of course, conditioned by the usual need to absorb reserves over mid-month. Thus, open market operations withdrew $355 million in the period from October 12 through last Wednesday. Since then, we have supplied $1,067 million reserves on a commitment basis--and $891 million of this has taken the form of purchases of Treasury bills in the market.

The Treasury's offering of a 4-1/4 per cent 18-month note yesterday for cash subscription was intended to be as routine as possible. However, while the new issue was generally regarded as fairly priced, no real enthusiasm developed for the issue--partly because the larger banks and corporations are reluctant to commit for 18 months in the face of expected cash demands upon them. Smaller banks and public funds are reported to have had a fairly good interest in the issue, but the Treasury will not have a good idea of the size of the subscriptions until later today. Market ideas of the allotment percentage on large subscriptions have been scattered over an unusually wide range of from 25 to 40 per cent, with the weight of sentiment probably toward the upper end of this range.

It is not easy to put one's finger on the forces behind the erosion of Treasury note and bond prices since mid-October. There has been no extensive dealer liquidation or investor selling such as occurred in September. The decline has taken place in spite of an apparent subsidence of the fears of an imminent shift in monetary policy that contributed to the accelerated price decline of later September--although some concern on this score may linger on. Market participants seem to be impressed instead with the other demands falling on their bank and nonbank customers and the very limited investor appetite they foresee for Government issues as the economy continues to expand. There is as well considerable market talk that the volume of corporate bond issues in the discussion stage for either public offering or private placement is mounting. With a near record volume of bond proposals going before the voters today, the municipal market also exhibits an air of caution. Thus, the Treasury's new 4-1/4's will have to be distributed in an environment where underlying expectations are for bond yields to work higher over the months ahead. In general, the markets continue sensitive to new economic, financial, or other developments.

In the Treasury bill market the redistribution of the March and June tax anticipation bills from the banks that bought them to dealers and corporations has proceeded far more smoothly than had been generally expected a month ago. Corporate demand for the March bills was particularly good. At the moment, however, a cautious atmosphere prevails in the bill market. In part, this reflects some dealer disappointment that the Treasury's refinancing was on a cash rather than an exchange basis so that there has been no reinvestment demand for bills stemming from the sale of rights. System purchases in the market of almost $900 million Treasury bills during the past three days have served to moderate, but not offset fully, the upward pressure

on rates. Yesterday's auction resulted in average issuing rates of about 4.08 and 4.22 per cent on the 3- and 6-month issues, the highest levels since early 1960.

Some mention should also be made of a slight stiffening in other short-term rates. Certificates of deposit are sporadically available at major New York City banks at 4-1/2 per cent for 3-month maturities, and the 3-month CDs of prime name banks are trading at rates just under 4-1/2 per cent in the secondary market. The major sales finance companies have also been adjusting their rate schedules higher so that they are now generally offering 4-3/8 per cent on paper maturing in over 60 days, up 1/8 per cent from the rates prevailing in late September.

The timing of the next instalment of the Treasury's financing program--an offering of $2 to $2-1/2 billion June tax anticipation bills--has not been finally determined. The bills will probably be auctioned in two to three weeks and paid for a week later. Thereafter, the Treasury should be out of the market until early next year.

Mr. Balderston asked whether Mr. Holmes felt that the degree of restraint intended by the Committee's directive had been lessened recently, and Mr. Holmes replied that it was hard to make an overall statement. Interest rates had risen gradually and in an orderly way to a higher level, reflecting the pressure of demand on the supplies of funds. At the same time, statistical measures of bank reserve positions, including net borrowed reserves and Federal funds, had reflected a comfortable, though certainly not an easy, situation.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period October 12 through November 1, 1965, were approved, ratified, and confirmed.

Chairman Martin called at this point 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. Brill made the following statement on economic conditions:

Little in the way of hard new economic facts has become available since the last meeting of the Committee. What fragments one can come by, however, might be read to suggest even greater current strength and stability in the economy than were apparent earlier. Partial data on industrial production lend hope that the production index for October may hold at the slightly reduced September level, even with steel output down an additional 10 per cent, and preliminary clues on the unemployment picture are encouraging.

On the demand side, the well-timed moderate fiscal stimulus of retroactive and higher social insurance payments is being reflected in a resumption of the rise in retail sales, after a slight sales decline in August and September. And despite continued scattered press reports of price boosts for individual commodities, the official indexes have shown little change in average industrial prices in recent months.

This is entirely too comforting a picture, and I have been looking for gremlins under the tables and behind the charts. One can easily find many. For example, the Bureau of Labor Statistics may be deluding us with numbers suggesting that prices have stabilized. I don't have to advise this Committee to take the official price measures with some skepticism, or to suggest that the indexes may have been understating the price advance over the past year, as they undoubtedly understated the actual price declines of the early '60's. The official measures may very well again be concealing further advances, and in this connection one must note that purchasing agents are reporting higher prices with increased frequency.

But these measures could also be concealing signs of price weakness in areas where over-capacity is beginning to emerge. Given the mores of industrial pricing practice, which encourage publicity about price advances but tend to conceal concessions and reductions, and given some known biases in the official data collection and manipulation techniques, we can't look to measures based on quoted prices alone to provide early warning of impending weakening of demands. On balance, and taking into account the most recent increases in copper and aluminum, my impression is that the general level of prices is continuing to creep up--uneven and moderately, but nevertheless up.

Another gremlin threatening to derail the economy from the sustainable growth track is the increasing imbalance in the structure of production. This imbalance is evident from a number of perspectives. For example, over the past twelve

months production of business equipment has increased more than twice as rapidly as production of consumer goods, even including automobiles. Again, manufacturing industries' spending for new plant has consistently outpaced shipments of products since 1963, and by a steadily widening margin. Again, as best as we can estimate, industrial capacity appears to have grown by between 5 and 6 per cent this year, as against a growth in real final demand for goods of between 4 and 5 per cent.

Have we reached the point where businesses are beginning to doubt the capacity of markets for their expanded and modernized plants? Evidently not yet. The latest survey of business capital spending plans will predict capital outlays to rise next year about as rapidly as they did this year.

Such business optimism poses policy makers with a two-edged problem. In the short run, the continued rapid pace of spending for plant and equipment will tend to sustain order backlogs, and maintain upward pressure on machinery and metals prices and on wage rates for scarce skilled labor. But over the longer run--and I speak here of months, not years--one must wonder whether this business optimism will be validated by the rest of the economy's performance. The experience of 1956-57, when plant spending accelerated while final demands were slipping, should serve as warning of the dangers of business overoptimism. Moreover, even during the rapid expansion in activity earlier this year, capacity utilization didn't reach the peaks of earlier booms, and with growth in industrial output temporarily stalled by steel inventory liquidation, the overall utilization ratio has edged down a little. We calculate, roughly, that it will take continued gains in GNP of $10 and $12 billion a quarter to keep the utilization ratio from slipping further.

I have probably succeeded in finding enough gremlines. They shouldn't detract from the very fine performance the economy is turning in at the moment, but we do have to anticipate the challenges to policy that are developing. As I see it, the complex of future problems includes the following: (1) a need to put final demands--housing and State and local outlays, as well as consumer spending--on a faster growth track than has been the case recently, in order to avoid increasing the imbalance in output; (2) a need to moderate the stimuli now operating on business investment plans, so that real as well as financial resources will be available for increases in other types of spending; (3) a need to repress inflationary expectations, which I suspect tend to stimulate business capital spending more and sooner than they affect consumption habits; and (4) a need to keep total demands, for both investment and consumption, moving up at a $10 to $12 billion per quarter rate in order to keep resource utilization rates from slipping.

For monetary policy, the problem is aggravated by the likelihood that fiscal policy will become somewhat less stimulative over the first half of next year. Moveover, fiscal changes will bite directly into the kinds of final demands that need stimulation; the social security tax increase will be offset only in part by the second stage of the excise tax cut.

Frankly, it is difficult to conceive of the monetary policy that would reconcile all of these potential aggregative and compositional problems. Higher interest rates, particularly at the long end, are likely to fall as heavily on final demands as they are likely to restrain business fixed investment. The consequent slowing in aggregate demand might kill any budding inflationary expectations, but I see no assurance that it would tend to restore balance in the composition of output or keep resource utilization rates high. Alternatively, rolling back interest rates at this juncture might serve to encourage even more expansive business investment plans, which in turn would lend aid and comfort to factors making for upward price and wage pressures, particularly in the sensitive commodity and machinery areas.

It is probably fortunate, therefore, that at this time even keel considerations urge a "no change" policy, or at least a policy that would lead to no change in long-term interest rates. This is not because I am convinced that it is positively the right policy for the prospective domestic economic scene, but because I see unhappy consequences arising from alternative measures.

In reply to a question, Mr. Brill said the capacity utilization rate was estimated currently at about 89 per cent. During the steel inventory buildup the rate got close to 91 per cent, but then it began to slip.

Mr. Partee made the following statement concerning financial developments:

Interest rates have edged up in most sectors of the money and capital markets over the past two weeks, in an environment of continuing investor caution and hesitancy. The Treasury's cash refinancing offer, limited to an 18-month maturity as expected, failed to buoy long-term markets, and heavy seasonal System buying of bills in recent days met a similar lack of

response in the short-term area. Indeed, even the announcement that the Treasury would be borrowing somewhat less at the end of this month than had been anticipated earlier was greeted without a ripple in market quotations.

Many market participants evidently are holding firmly to the view that any near-term change in interest rates is almost bound to be upward. The economic justification for this view is basically the same as that which has propelled the stock market on to new highs in very heavy trading and with growing evidence of speculative exuberance. A continuation of vigorous economic expansion well into 1966, dominated by rising military expenditures and further substantial gains in business capital outlays, seems certain to be accompanied by a more than proportional increase in aggregate credit demands. But financial saving is likely to expand more gradually in line with rising incomes, it is argued, so that market forces will tend to bring upward pressures on interest rates.

For these market analysts, the principal uncertainty in the near-term outlook is what the response of the Federal Reserve to stronger demand pressures might be, since provision of sufficient reserves would tend to balance supplies and demands at higher aggregate levels. Even with this uncertainty, however, the range of possibilities seems to include only stable rates at the one extreme to a substantial upward adjustment at the other. Hence, these investors see little risk in betting on higher rates, at least for a time.

There is a good deal of evidence, it seems to me, to support this view. To be sure, newly available flow of funds data for the third quarter show a decline in total funds raised, from a first half average annual rate of $71 billion to about $59 billion. But this is misleading. Two-thirds of the decline came in Federal borrowing and reflected the absence of a third quarter cash financing. Partly as a result, there was an even sharper drop in the Treasury cash balance, and funds provided to the credit markets by the private sectors of the economy actually rose. Another result is the relatively heavy fourth quarter Treasury financing schedule, the first instalment of which contributed to a large bank credit increase in October.

The rest of the decline in net credit expansion last quarter was accounted for by a slowing in bank loan growth, mainly to nonfinancial business. The drop, however, was from a very high rate of expansion in the first half that had reflected a variety of temporary influences. Perhaps some further moderation in business loan growth can be anticipated in the current quarter, as the inventory shift in steel and related industries proceeds. But business loans in total

have continued to show considerable strength--though there was a more than seasonal decline in New York last week--and borrowing by the metals industries has held up surprisingly well.

More generally, it seems to me that business needs for external financing are much more likely to be rising than falling in the months ahead. Growing capital outlays, expanding working capital requirements, relatively thin liquidity positions, and a leveling in profits and hence in the flow of internal funds are all factors pointing to increased reliance on outside sources of funds. It is difficult to predict whether such financing is likely to fall more on the banks or on the capital markets, although current interest rate relationships the limited receptivity of the public market, and the presumption that market rates are cyclically high seem to me to favor the bank loan route. Even so, there is likely to be continuing supply pressure in the bond market. Corporate offerings were light in October, but the calendar has built up sharply in recent days, and a substantial increase is now indicated in November volume.

In view of the continuing weakness in housing starts, one might look for some slackening in mortgage lending volume. This is by far the largest taker of funds in financial markets, so that even a marginal reduction could free substantial credits for use by other sectors. But residential construction expenditures have been well maintained this year, reflecting higher values per housing unit, and mortgage debt has continued to expand at a steady rate. The three major types of institutional lenders for which data are available, moreover, have continued to report mortgage loan commitments running well above year-ago totals.

In other credit areas, too, there seems little prospect of significant reductions in the demand for funds. Consumer credit has been growing at an advanced rate this year, and so long as incomes are rising and sales of cars and household durables remain strong, there is little prospect for a slowing in credit use. New security issues of State and local governments have about equaled the 1964 volume, though with some month-to-month variations; given the intensity of demands for local services, there would seem to be more likelihood of increase than decrease in the months ahead.

Thus there appear to be no important areas in which credit demands are likely to wane, except for a temporary and probably mild slackening in inventory financing. An on top of these continuing demands, credit markets must accommodate the current increase in Treasury financing and prospective further expansion in capital-markets-type business financing. More of these credit demands probably could be met, either directly or indirectly, through sales to individual investors

rather than through financial intermediaries, but such a development usually is accompanied by rising interest rates. If the institutions are to finance a larger share of total credit expansion, on the other hand, there will have to be some acceleration in deposit growth. This would require the maintenance of a competitive interest rate structure--particularly in the case of CD's--and, for the banks, probably a more rapid growth in total and nonborrowed reserves.

Continuing strength in credit demand thus seems likely before long to present the Committee with the problem of reconsidering its interest rate, bank reserve, and credit growth objectives as relationships among these variables continue to shift. For the present, however, the Treasury cash refinancing would seem to dictate an even keel policy, aimed at maintaining current rate levels and extending at least to the mid-November payment date and perhaps for some time after, depending on market conditions and dealer progress in distributing the issue. Looking further ahead, the decision whether or not to make an overt change in policy will of course rest on broader economic considerations, but developing pressures in credit markets could well force the issue.

In reply to a question, Mr. Partee said he would expect a more rapid growth of total bank credit in the final months of 1965 than during the summer. On the other hand, nearly everyone expected a slower rate of growth than in October. In between there were shades of opinion. The consensus seemed to be that the growth rate of nonborrowed reserves might be about the same as the average since March. Personally, he leaned a little toward the high side, as his statement had indicated.

Mr. Mitchell referred to Mr. Partee's comment that flow of funds data for the third quarter showed a drop to $59 billion in total funds raised, from a first half annual rate of $71 billion. He asked for further explanation, and Mr. Partee cited as a reason the fact that the Treasury cash balance was much lower at the end of September than at the end of June. He went on to provide a more detailed analysis of the figures.

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

> Straws in the wind in the past three weeks have given us no clear indication of which way the balance-of-payments wind is blowing. One quick gust gave us trade figures for September that look quite satisfactory But another gust showed an adverse balance in September, on current and capital transactions combined, that was much larger than anyone thought possible who had seen the preliminary indicators.
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> For the third quarter as a whole, early trials at piecing together estimates for the various categories of current and capital transactions have foundered on trying to guess capital outflow for direct investment. We simply have no way of telling whether direct investment outflows were nearer a seasonally adjusted quarterly rate of a billion dollars, which was the average for the first half of 1965, or half a billion, as in the first three quarters of 1964. A drop to this lower level was hoped for, and seemed consistent with the known plans for overseas capital expenditure. But if American capital expenditures abroad are still growing, and especially if companies are worrying about the possibility of new controls or taxes on outflows, then it might not be very strange if the level of outflow in the third quarter were still rather high. It will be several more weeks before we have statistics to clear up this uncertainty.
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> The figures we do have show that the temporary causes of the payments surplus in the second quarter--large reflows of liquid funds and of bank credit, a low level of new foreign security issues, and a trade surplus swollen by strike-delayed shipments--either were no longer present in the third quarter or were much attenuated. Some other temporary factors need to be considered, connected chiefly with the sterling situation. I will mention these in connection with a longer-range comparison I would like to make between the quarter just ended and the first three quarters of 1964.
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> That base period is before the sterling crisis broke, and before the great wave of U.S. capital outflows of late 1964 and early 1965 got going. The wave of capital outflows included bank loans and also corporate financing of direct-investment subsidiaries abroad, and some parts of both were motivated by fears of coming governmental interference. The interference came, with the activation of the Gore Amendment and the voluntary programs, and it successfully halted the bank loan part of the wave. If we take the official settlements

measure of our deficit and apply certain adjustments for temporary factors, we will find that there has been an apparently significant net improvement over the past 15 months or so. But the U.S. balance of payments has not been brought into equilibrium, and the reserve gains of Continental Europe have not been halted.

In the third quarter of 1965 U.S. liquid liabilities to foreign reserve holders rose, U.S. reserves declined, and France prepaid debt obligations to us; the total financing by these official transactions was somewhat under $500 million. Seasonally adjusted (by nearly $600 million) that meant a small adjusted surplus, on the official settlements basis, of about $100 million. But because the statistics were affected by the liquefying of the United Kingdom's holdings of American corporate securities, we ought to adjust the figure again; this brings the adjusted surplus up to about $300 million.

This very considerable surplus was a highly temporary phenomenon. It was concentrated in July and August, and it was caused by an unusually rapid buildup in the balances held here by foreign commercial banks, including U.S. bank branches. That buildup, which amounted to nearly $700 million, reflected the weakness of sterling during the summer, and also, in some degree, the movement of Italian reserve funds through Italian commercial banks to the Euro-dollar market. In September the movements of Italian funds continued, but sterling's position changed very greatly, and it was undoubtedly for that reason that the inflow of foreign commercial bank funds to the United States fell off in September.

To get away from these fluctuating special influences and closer to measuring the underlying position of the U.S. balance of payments in the third quarter of 1965, the device I would use is to substitute for the actual inflow of foreign commercial bank funds an average amount that might reasonably be expected over the years, assuming a strong upward tilt in the trend of outstanding balances. I would put this quarterly growth expectation at about $200 million. The actual inflow in the July-to-September quarter was much more than this, half a billion more. Without the abnormal extra inflow, the adjusted payments balance would have been not a surplus of over a quarter of a billion, but a deficit of around $200 million.

A somewhat similar calculation applied to the first three quarters of 1964 gives an adjusted deficit at that time of about $350 million a quarter on the average. In the quarter just ended the adjusted deficit was appreciably less than that.

In appraising this change and trying to judge whether the improvement will be sustained, we should look at the components. The trade surplus, after dropping in the first half of 1965, is back up nearly to its earlier level; further improvement is likely, but may be slow for a while. There has been a great cut in the flows of bank credit and liquid funds; these will certainly remain far below the 1964 levels, but may increase somewhat. And there has been worsening in some other categories--among these, perhaps, though we can't be sure, direct investment outflows.

We emerge with a rather mixed picture, at a time when the United States ought to be approaching the coming international monetary reform talks with clear prospects of equilibrium ahead. Perhaps we should be asking ourselves again some basic questions. For example, is current monetary policy doing all it reasonably can, given the primary claims of the domestic economic situation, to help bring about the long-run realignment of cost levels that is needed if American companies are to be encouraged to export more from the United States instead of from more and more plants abroad?

There followed a discussion, at the request of Mr. Maisel, regarding the effect on the U.S. balance of payments of swap operations as compared with liquidation by the British of their portfolio of U.S. investments.

Chairman Martin then called for the go-around of comments and views on economic conditions and monetary policy[1]. Mr. Hayes, who began the go-around, made the following statement:

1/ In light of the discussion at the October 12 meeting, staff questions and comments relating to factors bearing on monetary and credit policy had not been distributed prior to this meeting. As a part of a transition to new procedures, however, the introductory section of the "green book" (Current Economic and Financial Conditions) had been expanded to include additional material of a type similar to that formerly included in the staff comments on the questions. There had also been distributed a "blue book" (Money Market and Reserve Relationships), which analyzed in an integrated way the material formerly distributed to the Committee in the staff comments on the sixth question and in the memorandum on member bank reserves--past and prespective. Copies of the "green book," the "blue book," and the supplement to the"green book" have been placed in the files of the Committee.

Today it is quite obvious that because we are in the midst of a Treasury refinancing program we have no alternative but to maintain policy unchanged and thereby facilitate the Treasury's operation. The next time we meet we shall have additional data at hand which may or may not provide support for some prompt change of posture. I would stress, however, that a policy change can rarely be justified on the strength of developments during only a few recent weeks. Usually the evidence of the latest weeks merely serves to confirm convictions that have been building up over a much longer period on the basis of what have seemed to be more lasting tendencies in the economy. Today offers a good opportunity to take a look at some of these more persistent factors bearing on policy determination.

I should like to start with the balance of payments and our general international problem, for it is in this area that we may see the most urgent need for action in the near future. Clearly, balance of payments developments have taken a turn for the worse since our last meeting. The current estimate of $465 million for the September deficit has dashed any hopes that the backslide in the third quarter would be held to a minimum. It looks now as if the third quarter regular deficit on a seasonally adjusted basis might be at the annual rate of $2.4 billion--although a substantial part of this reflects further liquidation of the British long-term security portfolio. The deficits for the four weeks ended October 27 aggregated about $400 million, with especially heavy payments in the third week to Canada and Venezuela. It looks now as if the regular deficit for the full year 1965 might easily approach $2 billion--perhaps $1.6 billion after special items such as debt prepayments. This result strikes me as anything but encouraging, especially in the light of the firm assurances by President Johnson and Secretary Fowler at the recent Bank-Fund meetings that our payments gap will be closed. Also, the U.S. is entering into a series of difficult negotiations on the future of the international financial system--negotiations in which a major premise is that our deficit will indeed soon be eliminated.

There has been a very sharp cut in foreign bank lending and a heavy reflux of liquid funds this year, yet we are a long way from equilibrium. There is no evidence as yet of underlying forces that would close the gap and permit ultimate relaxation of the special restraints that have been placed on capital exports. And I see no reason why we should assume that the economy is to be saddled permanently with such artificial restraints. In fact the country has been told

often that these are temporary measures. For the time being they must not only be retained but must in all probability be strengthened in view of the payments problem's urgency. I believe we should seek a firmer monetary policy both to give more support to the voluntary program and to reinforce the hope that it may eventually be abandoned. Over the longer run this might require a different mix of monetary and fiscal policy. This is not the occasion for a detailed analysis of the ways in which a firmer monetary policy could help our balance of payments. But there is no lack of evidence that this probably would be a fruitful approach. Certainly most of the other major industrial nations believe we have done too little along these lines, the latest comments in this vein having been presented at the recent OECD session in Paris.

Turning to the domestic economy, we find that it exhibits considerable underlying strength and that the business outlook remains excellent. The current rundown of the excess of steel inventories is depressing some monthly indicators, but expansionary forces elsewhere in the economy are strong, and total output keeps growing at a good pace. GNP grew more rapidly in the third quarter than in the average of the preceding three quarters, and the improvement is somewhat greater if final demand alone is considered. It is striking also that the latest survey of business capital spending plans shows considerably more strength for 1966 than did the comparable surveys for 1964 and 1965.

The labor market appears to be tightening further. The unemployment rate for married men has reached [illegible].2 per cent, which means that it is back down to the low range of the mid-1950's; and long-term unemployment has been lower than at any time since 1957. A further sign of labor tightness lies in the attainment of a new all-time high in the help-wanted advertising index. With plant capacity also showing a high rate of utilization, there is ample reason to fear emerging cost and price pressures. Admittedly the upward tilt of the major price indices does not show any recent acceleration--but the current state of business profits and business euphoria, as reflected, for example, in the stock market, is certainly conducive to price increases. Cost-price stability is always one of our major objectives. In the present international setting this objective becomes doubly important. Thus, not only does the economy look strong enough to absorb a tightening of monetary policy without adverse effects, but also such a policy change may even be required in the near future to help prevent an inflationary outburst.

The third major area to be considered is that of bank credit and liquidity. Bank credit appears to have expanded strongly at weekly reporting banks through the first three weeks of October, even after allowance for the effects of the October 11 tax anticipation bill financing. For the third quarter we find contrasting cross-currents, with bank credit growing less rapidly than in the first half while money supply and other liquidity indicators, including total nonbank liquid assets, rose more rapidly. Many of these intra-year gyrations in the relative expansion rates of bank credit, bank reserves, and liquidity can be traced to the first-half buildup and third-quarter decline of U.S. Government deposits. By and large, the growth of the financial indicators for the first nine months remains ahead of last year. For example, total bank credit rose at an annual rate of 9.4 per cent, money supply plus time deposits at 9.1 per cent. While growth in bank reserves was appreciably slower, this is amply accounted for by the sizable change in deposit mix. The overriding fact is that the rate of growth of the various intermediate financial variables this year has been excessive. On several occasions over the last few years the Committee has tried to damp down an 8 per cent rate of growth in bank credit. With the recent growth rate even higher, and the margin of safety of unused resources in the economy decidedly lower, a renewed effort along these lines appears fully warranted.

As I said at the outset, there is no problem in deciding on policy for the next three weeks. Open market operations should be conducted to maintain the existing condition of the money market, and the directive might well be adopted substantially as proposed by the staff, except that the apparent deterioration of the balance of payments should be recognized.

By the time of the next meeting, however, it is not unlikely that we may wish to give serious consideration to a possible discount rate increase. Three weeks ago I spoke of the possibility of a prompt increase of 1/4 per cent, this modest size of increase being suggested by the shortness of the period between Treasury financings, solicitude for the rather nervous state of the money and security markets, and the absence of adequate domestic statistical support for a stronger move. However, action at that time was not feasible. It now seems to me that we should probably be thinking in terms of a 1/2 per cent increase, especially because one of the prime reasons for a discount rate rise would be to obtain beneficial effects on our balance of payments and on psychological attitudes abroad on the dollar and our determination to defend it.

As we have recognized at earlier meetings, another factor that may suggest the need for early discount rate action is the untenable situation that seems to be developing with respect to the Regulation Q ceilings and the growing use of bank promissory notes. Our Bank addressed a letter to the Board of Governors on this matter last week, and copies were sent to the other Presidents. The key point I would like to make today is that action to raise the Regulation Q ceilings, in the present setting, might well set in motion market forces that would make a discount rate increase almost inevitable--yet such action on Regulation Q may soon be forced upon the Board by the logic of market developments. All of this tends to confirm my view that the time for decision on discount rate action may not be far distant.

Mr. Shuford observed that economic activity continued to advance strongly. Although some commonly used measures indicated a pause in recent months, most areas of the economy were still expanding. Evidences of pause reflected primarily cutbacks in steel, which incidentally were less than some analysts had feared and now appeared to have about run their course.

Because of interruptions and spurts of activity caused by strike threats and other factors, the course of activity might be clearer if a somewhat longer period was used for comparison. Viewed in that manner, activity had been rising markedly. Personal income had risen about 8 per cent since a year ago, compared with a 5.4 per cent average rate since 1960. Industrial production had increased 6.6 per cent as against a 5.0 per cent rate since 1960. Employment had risen 2.4 per cent since last September while the population of labor force age had grown less than 2 per cent. An indication of a strong demand at near-capacity levels was that wholesale prices,

which changed little from 1960 to 1964, had gone up 2.3 per cent in the last 12 months.

Eighth District activity had likewise shown strength over the past year, Mr. Shuford noted. In the District, steel production was of less importance than in some other regions, and the upswing in economic activity had continued during the late summer and early fall. Payroll employment had risen at a 4 per cent rate since June, with relatively sharp gains in manufacturing in the St. Louis and Little Rock areas. The unemployment rate had declined since June in each of the District's four largest labor markets. Manufacturing output in the District had been at a high level recently and rose moderately from August to September while production in the nation reflected the cutbacks in steel.

It appeared to Mr. Shuford that the upward trend in national economic activity would continue in the near future. In addition to the forward momentum and widespread optimism, both fiscal and monetary actions had been quite stimulative. The Government had increased social security payments, salaries and wages, and defense spending, and it had reduced excise taxes. As a result, the "full employment budget" surplus had declined from a rate of about $6.7 billion in the first half of 1965 to an estimated zero in the last half, the lowest level in many years. The money supply had expanded at a relatively rapid 4 per cent annual rate over the past year, and since summer the rate had been especially high.

As to policy, Mr. Shuford felt that additional monetary restraint was going to be needed to limit inflationary pressures. The economy was operating near capacity, and at this time the rate of increase in spending appeared to be faster than the growth in ability to produce.

Also, somewhat higher interest rates relative to those of other countries should be beneficial to the chronic U.S. balance of payments problem, which so far was not being solved but only avoided. The voluntary credit restraint program, as it applied to banks, had worked well, but it was only a stop-gap measure. Such restrictions on movements of funds were fundamentally undesirable, and other more fundamental adjustments must be made. Although many of the needed actions were in other areas, monetary policy must continue to contribute to the fullest possible extent The change toward a more expansive fiscal policy had placed upward pressure on interest rates and at the same time reduced the need for stimulative monetary actions

However, Mr. Shuford continued, it might be premature to take an overt tightening step at this time when the economy was adjusting to the runoff of steel inventories. Then, too, a Treasury financing was going on and, unless the need was urgent, the Committee should move slowly. For the next three weeks he favored maintaining money market conditions about as they were, but he thought the Committee should not be disturbed if there was some additional firming from market demands. Although the discount rate was low relative to other money market rates, he would not suggest increasing it at this time.

However, he agreed with Mr. Hayes that it would deserve careful consideration in the near future. The policy directive suggested by the staff appeared satisfactory.

Mr. Patterson said economic information that had become available for the Sixth District since the last meeting of the Committee showed no general change in previously established trends. Although District employment statistics for the latest month showed a slower rate of gain than characterized the preceding months, neither those nor other data suggested any new tendency toward "overheating," on the one hand, or a downturn on the other.

Turning to the national scene, Mr. Patterson commented that the people in the room, the President's economic advisers, the press, bankers, and others seemed to be unanimous about the desirability of not allowing the economy to become so overheated that it would eventually end up in a major downturn. There was unanimous agreement on the desirability of continuing an orderly rate of expansion. The trouble, as the Committee knew, lay in the great divergence of opinions about the policies to follow in order to continue the orderly expansion. Lack of unanimity about the proper posture suggested that even minor changes might have results that could turn out to be quite contrary to those desired or expected.

A discount rate increase to 4-1/4 per cent, with policy designed to keep the short-term rate structure just about where it was now and an upward revision of Regulation Q ceilings, would be

something that many persons might go along with, Mr. Patterson believed. This would recognize the tightening of the money market, including the part that was self-imposed, and might make policing of the discount window less difficult. Nevertheless, by making it easier for banks to compete for time deposits, such a package might restrict bank credit expansion very little. There could, of course, be a variation: raising the discount rate slightly but making no amendment to Regulation Q. Such a step, by limiting the banks' ability to compete for time deposits, would seem to be more effective in limiting bank credit expansion.

On the other hand, Mr. Patterson continued, an increase in the discount rate, whether to 4-1/4 or 4-1/2 per cent, accompanied by a shift in policy designed to push the short-term rate structure near the new discount rate, would be a move that to many persons would seem unwarranted by present economic and credit conditions. How effective it would be in limiting bank credit expansion might well depend on the action taken in respect to Regulation Q.

There were other possible combinations of those three factors--raising the discount rate, shifting policy actions in respect to short-term rates, and the treatment of Regulation Q, Mr. Patterson said. Nevertheless, it seemed evident that a change in the discount rate might or might not be restrictive, depending upon the accompanying actions. The basic decision whether to tighten or not remained with the Committee despite any action taken on the discount rate.

No new developments since the last meeting of the Committee seemed to Mr. Patterson to justify further tightening at this time. A continuation of the policy adopted at the last meeting therefore seemed appropriate.

Mr. Bopp noted that in recent weeks there had been another flurry of announcements and stories in the business press concerning price increases and various upward price pressures. As had been recognized in Committee meetings on many occasions, it was often the price hikes that made news, while little comment was recorded on the other side of the ledger. In the past week he had spoken with several businessmen in the Third District in an attempt to gain some further insight into the extent of any price pressures. What he found bore out in direction, but not in magnitude reports of recent price behavior.

Representatives of industries ranging from electrical equipment, chemicals, and instruments to metals, machinery, petroleum, and construction materials described industry conditions as characterized by noticeable, but not massive, elimination of price concessions and by a few increases in some base prices (offset to an extent by decreases in some others). Most companies were finding competition as stiff as ever. It was also interesting to note that several of those contacted felt that general price pressures might develop in 1966 which later would be reflected in their own firms and industries.

Mr. Bopp said he had also spoken with several of the large Philadelphia banks to find out more about recent reports of selective increases in interest rates. In general, the banks were finding credit demand strong and had been making a few selective increases in interest rates when possible. Typically, the rate increases ranged from 1/4 to 1/2 per cent. Criteria considered in the selective rate hikes were varied, but they included such factors as type of loan, permanence of a borrower's relationship with the bank, and credit rating. Most of the banks had raised their standards of eligibility for the prime rate. Fear of unfavorable customer reaction, however, was a deterrent to many selective rate increases. As one banker put it: "How do you explain to the borrower that he has been selected for a selectively higher rate?"

Turning to policy, Mr. Bopp commented that the Treasury financing of course precluded any action at this time. Beyond that, however, he continued to be impressed by the moderation existing at the present high level of economic activity. Though demand was strong, capacity to produce was keeping pace with output, and price increases were holding within narrow bounds. It was true that unit labor costs had risen since the steel settlement, but this seemed attributable to the decline in production as industries worked off excessive inventories. When that adjustment was completed, he would look for a return to the pattern of stability characteristic of the past few years.

On the international front, Mr. Bopp felt that the trend of direct corporate investment abroad would bear close watching in the

fourth quarter. The prognosis offered by the staff was uncertain. In any event, however, monetary policy was not the most promising method of dealing with outflows of direct investment.

In the current business expansion, Mr. Bopp said, monetary policy thus far had contributed to the goal of growth without inflation. The longer the present high level of economic activity was continued in relation to capacity, especially with some firming in prices, the more difficult it became to judge the appropriateness of current policy. For the present, however, he was inclined to recommend no change. The proposed directive was agreeable to him.

Mr. Hickman commented that the optimism that emerged at the time of the steel settlement in early September might now be moderating. Such a change in sentiment would be welcome and in itself would not endanger a continuation of the general business expansion.

Within that expansion some of the business news was, and would continue to be, unfavorable. Steel output dropped about 20 per cent in the past two months, and was expected to decline another 10 per cent or so between now and the year end. Cutbacks in steel were resulting in rising unemployment in major steel centers, particularly in the Fourth District. Auto output, although high, would add little to the production index in this quarter, and might be a cause for concern later on if inventories became excessive. In September, new orders for machinery and equipment declined for the second successive month. Residential construction remained sluggish, and corporate profits in the third quarter were unlikely to show much increase over the second quarter level.

On the price front, Mr. Hickman said, there still was no concrete evidence of general inflation, although actual transactions prices might be increasing more than the official indexes. Prices, along with business inventories, were areas where the Committee knew too little. A large part of the sharp boost in unit labor costs in September would probably prove to be temporary, as was the case last October when there was a similar drop in production caused by the auto strike. Even so, serious production or labor imbalances were always possible at current levels of activity, and either or both of those developments could put increasing pressure on prices and profits.

On the financial side, some of the recent apprehension in the bond market seemed to have subsided, but the market remained nervous and extremely responsive to bearish news of any kind. On the brighter side, it was encouraging that corporate demand for Treasury bills had reappeared as yields on the 91-day bills moved above 4 per cent. Stable, or perhaps even slightly lower, bill rates could result if loan demand at commercial banks were to moderate, making it unnecessary for bank to sell large amounts of Governments. While growth in bank credit had slowed progressively in each quarter of the year, the annual rate of gain thus far exceeded that for 1964 as a whole.

Mr. Hickman recommended no change in monetary policy at this time, especially in view of the Treasury financing program ahead. If the balance of payments deteriorated seriously, or if he thought that tighter money would remedy the present situation, he might support a

more restrictive policy. In the absence of such evidence, and with the likelihood that some of the domestic business news would get worse before it got better, he saw no grounds for changing policy now.

Accordingly, Mr. Hickman supported the draft directive. He recommended attempting to hold net borrowed reserves below $150 million, bank borrowings around $500 million, and the Treasury bill rate close to 4 per cent.

Mr. Maisel said that as he reviewed the minutes of the last meeting and listened to some of the presentations today, he detected three basic arguments for raising the discount rate. (1) The expansion of the economy had been too great or might become too great; therefore, a rise in interest rates and a slowing down of credit availability was necessary. (2) Because of pressure from the Administration, bank lending rates had gotten out of line. The banks were not willing to fight the Administration by themselves, but would like the Federal Reserve to take the lead for them. If rates tended up, banks could ration with a different technique. It would mean either that more credit would be available or that less credit would be available, depending upon which one felt was the better situation. (3) The balance of payments deficit required a shift in monetary policy.

Obviously, how one felt with respect to those arguments depended on one's own analysis of the current situation. Mr. Maisel believed progress had been good and should be maintained.

Mr. Maisel did not agree with the concept that there would be a recession because the economy was too prosperous. Such a concept

assumed either that demand would run out or that the type of demands would differ so that the economy would slip into a recession before they became effective. He felt the needs were too evident. In fact, he agreed with the opposite point of view that the most dangerous possibility was that demands could rise too high. He might like to agree with the idea that the economy was getting too much capacity, but he did not agree. Moreover, if the Committee was concerned that demand might be too great six months or a year from now, clearly it would be best to get as much investment and production as possible at present instead of attempting to curtail it through monetary action. The Committee should want the fullest possible use of resources and additions to supply rather than a waste of resources. He did not agree that one could argue that a discount rate increase was necessary both because of a redundancy in supply and because of shortages.

With respect to the balance of payments, Mr. Maisel believed that the current approach of depending on specific policies was proper, both for the short and long run. He felt that before monetary policy was used to deflate the economy for balance of payments reasons, the Administration had other and better ways of achieving equilibrium through military or aid expenditures or tax policies. Clearly, if the balance of payments effects of monetary policy adopted upon a careful consideration of domestic needs were favorable, that was all to the good.

Mr. Maisel was not impressed by the views of countries with a dismal record of handling their own currencies as to what would be

good for the U.S. and the world. He did believe, however, that the U.S. international posture required a major reorientation with respect to what the U.S. and other countries could and would do. The balance of payments problems were international. They were based on the greater willingness of the U.S. to give military support and aid, and on developing U.S. trade and investment policy to aid foreign countries, without an equivalent movement abroad. For those reasons, before raising the discount rate for balance of payments reasons in conflict with basic domestic goals, he would want a statement from the Administration that all other possible balance of payments policies had been considered and had been rejected in favor of a belief that tighter monetary policy was the best method of correcting the balance of payments problem.

Mr. Maisel felt that the posture of the Committee for the past three weeks had been satisfactory, judging that additional reserves had been furnished to help moderate the interest rate rise. He thought a further moderation would be still better and hoped the Committee could continue along present lines.

Mr. Daane noted that an even keel policy clearly was called for through the period until the Treasury financing was out of the way. Looking beyond that, he would simply reiterate that the question of timing was all important, and his personal views were twofold. First, the U.S. could find itself at the end of the year with a much worse balance of payments for 1965 than it had anticipated or others had been led to anticipate. This would weaken the U.S. position in the negotiations on international monetary reform now in process. Second, the

System might already have gone too far, in terms of accommodating a distorted flow of funds, in meeting those credit demands that, as Mr. Partee had indicated, were concentrated on the banking system. On both counts, he was worried that the Committee might find itself answering Mr. Hersey's question--whether it had done enough with monetary policy for balance of payments purposes--in the negative. On the domestic side of things, the Committee might find itself in the unhappy position of locking the barn door after the horse was stolen.

Mr. Daane did not think that a discount rate increase, whenever it became feasible, would result in deflating the domestic economy. He thought, rather, that it would permit a more balanced flow of funds and eliminate those market distortions that affected the economy adversely. A discount rate increase would not conflict, in his opinion, with basic domestic goals; in fact, it could very well prove to be in furtherance of those goals, particularly the sustainability of the current expansion.

For the present, Mr. Daane favored a policy of even keel, and he would accept the staff draft directive.

Mr. Mitchell noted that the Committee seemed to be precluded from considering any change in policy today because of the Treasury financing. Therefore, he would reserve his comments until the next meeting of the Committee. He did wish, however, to call the Committee members' attention to the summary report of the staff of the International Monetary Fund, presented following the recent annual

consultation of the IMF with the United States. (A copy of the report, which was distributed to the Committee for its information by Mr. Young on a confidential basis, has been placed in the files of the Committee.) He especially called attention to pages 10 to 16, dealing with U.S. balance of payments policy, which contained a statement of views different from those expressed by Messrs. Hayes and Daane.

Mr. Shepardson remarked that the general trend of the economy was still extremely strong. He thought the rate of recent expansion was unsustainable, and at some point steps must be taken to try to dampen it. The Committee, of course, should never be in the position of trying to push the economy down. The Committee, however, should try to curb the rate of expansion so to avoid excesses that were getting more and more to the point of explosion. While the Treasury financing admittedly precluded any action at this particular time, he would favor taking corrective action shortly.

On the balance of payments, Mr. Shepardson thought the situation was serious and was not showing the improvement that had been hoped for. There were many causes, and he agreed with Mr. Maisel that other areas should be attacked. Nevertheless, with money as fluid an item as it was, and in view of the abundance of credit that the Committee had been making available, the situation deserved attention, even without regard to the question of closing the interest rate gap vis-a-vis Europe. Part of the outward flow of funds was inevitable if excess funds were available to flow to Europe. If the excess was cut down somewhat, he

could not believe that people were going to sacrifice meeting the needs of their permanent, regular customers at home for whatever margin of higher return they might obtain abroad. If excess credit availability were cut down at this time, that was bound to have some effect on the movement of funds that was aggravating the balance of payments problem.

Mr. Shepardson said he would accept the proposed policy directive for this meeting. The Committee had been supplying reserves, apparently, at about the rate that the current market situation justified. He would let market pressures, as they developed, continue to reflect themselves in an interest rate crawl upward.

Mr. Robertson made the following statement:

> It seems to me that we have no basis for changing monetary policy at this meeting, either with regard to our own independent responsibilities or in terms of the consideration we owe others.
>
> For one thing, we are clearly in a period when the considerations of even keel should take precedence. And I would argue that the condition ought to prevail at least through the next meeting date of the Committee if not beyond, given the touchy nature of the current market and the fact that it will have to absorb another cash financing in bill form even before the current coupon issue cash refunding is likely to be fully digested.
>
> Furthermore, I would argue that--even keel aside--current economic and financial developments do not call for further credit tightening at this time. To sum up my views, I see no sign of cumulating price increases domestically and no worsening in those balance of payments accounts alleged to be interest-sensitive. At the same time, credit conditions have already tightened enough over the past three months to make me want to wait to judge the extent of that dampening influence on economic activity before considering any further steps in such a direction.

On this point of judging our influence to date, let me say something more. I sometimes detect a note of frustration in comments around this table. They point to the fact that "bank credit is still rising at an undiminished rate" and "business activity is still expanding rapidly," and seem to deduce that our monetary tightening to date has therefore had no effect and that still further turns of the screw are necessary to bring this expansion under control.

On the other hand, the larger bankers repeatedly tell us that their primary response now to a reserve squeeze is not sales of liquid assets, but more aggressive issuance of liquid liabilities--CD's, promissory notes, and the like. Thus, the first indicator of a progressive tightening of bank positions is not a slowing of bank credit and deposit growth--as it used to be--but a more frenetic effort to push out more bank liabilities, with consequent congestion of those market sectors and an accompanying upward escalation of money market rates. This makes monetary tightening less a quantitative restraint upon the bank credit side of the financial structure, and more a generalized pressure upon interest rates and terms throughout our financial markets. This kind of credit restraint has a more diffuse influence than before, and may be more effective and equitable than in days gone by when the effects of credit tightening were reflected more directly in the growth of bank credit. Some supervisory problems are being spawned by this change in banker reflexes, but we should not be fooled into thinking we have developed some slippage in our monetary brakes that requires us to compensate by jamming down the pedal still harder. If we keep trying to slow bank credit down by further and further tightening we may succeed in generating overall financial conditions so tight as to make the economy falter.

Our chances of misjudgment on this score are compounded when we allow for the likelihood that any consequent faltering will not develop until several months after we act. Monetary conditions influence real economic activity with considerable lags. Consequently, it is almost irrelevant to point out there has been no let-up yet visible in business investment as a result of the tighter credit conditions dating from last August. Practically speaking, most of the economic statistics we are reading now date back to within a month of the rapid interest rate rise in September, and several more months are likely to be needed before the available statistics can reasonably be expected to reveal any significant response in real business activity.

To be sure, sometimes the onrushing pressure of events denies us the chance to wait for confirming evidence of the influence, or lack of influence, of our actions. At such times, we have to substitute our guess as to likely responses, and move on with additional policy measures calculated to compound those responses. But this moment, in my judgment, is not one in which conditions are deteriorating so rapidly that we cannot wait to determine our further actions in the light of observed responses. I think we have the time to "wait and see," and that not to take it would be a mistake.

These views also lead me to regard the suggestions as to an early increase in the discount rate as being distinctly premature. To the extent that advocates of higher discount rate ideas are exercising their frustrations over our apparent lack of monetary control, I suggest they are looking for results in the wrong places and with the wrong timing in mind.

To the extent that a higher discount rate is felt necessary to reinforce the administrative restraint at the discount window, I suggest it is simply not needed at this juncture. We are indebted to one of Sylvia Porter's last letters for reminding us how often and how long our discount windows have functioned with discount rates below the three-month bill rate. She has counted 21 different occasions when that has happened since the end of 1955, with a combined duration of nearly three full years out of the past ten. Discount operations may not always have been ideal during this period, but they were generally effective. I would expect any discount officer today who is worth his salary to be able to deal with whatever additional borrowing demands are generated by the fact that three-month bills have now joined the already long list of many other bank assets and liabilities whose interest rates are higher than the discount rate.

Finally, to the extent that a higher discount rate is envisioned as simply realigning one or two technical rates with the rest of the market, I suggest the underlying market analysis is badly misconceived. With big banks as much in debt to the Reserve Banks as they already are, and with so large a volume and variety of other highly interest-sensitive bank liabilities outstanding, I think it is reasonable to expect the whole structure of day-to-day market interest rates to adjust upward almost _pari passu_ with the discount rate, with reverberations also extending throughout all debt maturity ranges. This kind of policy shock might be therapeutic for a speculative "run" on the dollar, or a wave of inflationary spending; but these emphatically are _not_ our problems now.

What we need to do now is to be very careful to adjust the force of application of our policy tools to the power of the excesses we want to curb. When those excesses are as few, as mild, and as conjectural as we face today, our policy should be equally gentle and tentative in application.

I think there is a good chance that the not-so-gentle change in credit conditions already effectuated this fall is about as strong a medicine as a prudent monetary doctor ought to order for a patient in the current rather delicate condition. Accordingly, I favor a policy of "no further change" between now and the next meeting of the Committee. By "no further change" I mean to emphasize that I would want the Manager actively to resist--through an easing of bank reserve positions--any tendency for either short-term or long-term rates to move further upward. With that in mind, I would go along with the draft directive as submitted by the staff.

Mr. Wayne reported that business in the Fifth District continued to improve and prospects for the near-term future remained quite favorable. The Richmond Bank's latest survey showed a further extension of business optimism, with more than half of the respondents expecting better-than-seasonal advances in the weeks ahead. Business loans at the weekly reporting banks had risen more than seasonally and, in recent weeks, at a considerably more rapid rate than for all U.S. weekly reporters. Rates of insured unemployment were at unusually low levels in all parts of the District, and evidences of tightening labor markets continued to be seen.

So far as the national economy was concerned, it seemed to Mr. Wayne that the Committee could be confident of a rising level of activity for the remainder of the year.

In the policy area, while both the domestic business picture and the U.S. balance of payments situation might provide some arguments for more restraint, the overriding considerations for the immediate

future were the new Treasury financing, which demanded even keel, and the unsettled situation in the capital markets. Mr. Wayne was still concerned about the possibility of bottlenecks and rising costs at home, and he was impressed by the recent purchasing agents' report that the list of goods in short supply was the largest in ten years. So far as he could see, the external accounts remained a problem, but he had doubts about the contribution that could be expected on that score from an extra degree or two of monetary firmness. For the present he was reluctant to take any action that might disturb what he considered to be a delicately poised situation in the capital markets, especially in view of the fact that even keel was obviously in order for the next three weeks.

Mr. Wayne added that he agreed with Mr. Patterson that in looking at any discount rate change, careful consideration should be given to other policy aspects. A whole constellation of rates was involved. The prime rate would surely move up, and the Treasury would find itself confronted with the effect on debt management imposed by the 4-1/4 per cent statutory limitation on coupon issues. A change in the discount rate would create additional problems for the Treasury.

Mr. Wayne concluded by saying that he favored maintaining about the same money market conditions as had been experienced over the past three weeks, with no change in the discount rate at this time.

Mr. Clay reported that the pattern of economic activity in the Tenth District continued essentially unchanged, with the agricultural performance better than nationally and the nonagricultural performance poorer than nationally. The fact that agricultural income was showing a larger increase than nationally was attributable in part to larger increases in crop output. In addition, the higher livestock prices over the past year had had a greater impact in the Tenth District because of the greater importance of the livestock industry in that region.

Despite the improved agricultural income situation, growth in nonagricultural activities compared unfavorably with the country as a whole. Nonfarm employment had increased slightly in recent months, but the increase was distinctly less than nationally. The employment gains that had been achieved were primarily in the Government sector and secondarily in manufacturing and services.

There had been no striking changes in the national economy, Mr. Clay noted. Developments were about in line with expectations. If there had been any significant deviation from that generalization, it was the same that had applied ever since last spring, namely, that activity had been somewhat greater than anticipated. That advance had been achieved in a relatively orderly fashion and without any marked break-through in prices. It must be recognized, however, that the sensitivity of price advances was greater under present circumstances than earlier.

In the period immediately ahead, Mr. Clay concluded, Treasury financing would appear to call for an even keel unless there were compelling reasons to the contrary. Such reasons were not apparent. Even apart from the Treasury financing, a continuation of essentially the current policy would seem to be in order at this time. The draft policy directive appeared satisfactory.

Mr. Scanlon said that economic conditions in the Seventh District continued to reflect overall expansion in output, employment, income, and credit. Order backlogs in major industries other than steel continued to increase. Labor markets in the District remained very tight.

In contrast with the United States over all, District centers had reported impressive gains in homebuilding permits in recent months. Builders and building material firms believed there had been an appreciable tightening in the availability of mortgage credit in recent weeks, with some credits that banks had been accommodating now going to savings and loan associations.

Price pressures, on balance, continued to be up and appeared to be strengthening. The outlook for the agricultural sector remained favorable. A sample of country banks reported farm land values had continued to rise and in October were up 7 per cent from a year earlier. Gains were particularly large in the corn belt, where income had risen because of large crops and high livestock prices. Most country bankers expected a continued heavy demand for loans to purchase feeder cattle and farm equipment.

The continued advance in business activity was reflected in the financial sectors, Mr. Scanlon noted. Both the money and capital markets remained firm. Short and long-term rates had continued to creep upward since the last meeting, while intermediate--term rates had risen relatively more and, in the Government sector, now exceeded yields on long-terms.

As to policy, Mr. Scanlon agreed that the Committee's position today, because of the Treasury financing, must be one of even keel. However, it seemed clear that seasonal forces would be exerting upward pressure on rates in the weeks ahead. He hoped the Committee would not feel it necessary to offset those pressures completely for it seemed to him that to follow a rate objective rigidly in a period of upward seasonal pressure would, in effect, amount to adopting a more expansionary policy. He found the draft directive acceptable, and he would not change the discount rate at this time.

Mr. Galusha reported that Ninth District economic news continued to make pleasant reading. Preliminary reports indicated a 3.8 per cent unemployment rate for September, which was low even by the standards of earlier this year. Industrial activity, whether measured by production worker manhours or use of electrical power, continued to increase.

District cash farm receipts for January through August, up 6 per cent from a year ago, were at a ten-year high. Crop receipts were the same as last year, but livestock receipts were up sharply.

Further, the likelihood was that cash receipts for all of 1965 would be up quite sharply from 1964. Prices--both for crops and for livestock--would probably hold near present levels. District livestock output was increasing, though, and crop output should exceed the 1964 output by a fair margin. Cattle traders in the Rocky Mountain area expected present price levels to hold for 12 to 15 months, with a gradual weakening as hog numbers built up.

Two other food price components were deserving of mention, Mr. Galusha added. The field run price of potatoes was $1.75, contrasted with the peak of $5 reached last spring. The cost of food packaging was the one area of price increase. Wheat sales to Russia and China by Canada had focused attention in the District on the archaic U.S. farm policy. While the political implications inherent in this and associated national attitudes bearing on international trade and the maritime industry were imposing--in fact almost in the area of the sacred and untouchable--the economic potentials, including balance of payments assistance, were impressive.

On the banking side, Mr. Galusha continued, there had been no instances in the District of which he had knowledge where allocation of credit had been made other than on the basis of normal criteria. Two instances had occurred where milling companies were forced off the prime rate by a national bank, both instances involving First National City Bank of New York. Twin City banks had been approached by national companies in increasing numbers to fill credit gaps left

by defecting coastal banks. Because the applicants were usually seeking a rate advantage, arguing the social prestige attached to their business, their blandishments had been resisted and the usual criteria had been generally applied.

As for monetary policy, it appeared to Mr. Galusha that in view of the Treasury financing an even keel was appropriate. He also commented favorably on the new look in the green book.

Mr. Swan said that the Twelfth District economy seemed to be progressing, with no marked recent changes. The District was lagging behind the country in residential construction, gains in retail sales were somewhat less than for the country as a whole, and the unemployment rate was higher, but these were all factors that had existed for some time.

The seasonally adjusted unemployment rate in the Pacific Coast States dropped in September from 5.8 to 5.6 per cent as a result of a small rise in employment and a small decline in the labor force. Employment in defense-related industries continued to expand, and the upward trend seemed likely to be maintained during the rest of the year. Orders for commercial aircraft were playing an important part in the rising employment in the aerospace industry, which, even though it produced commercial planes, was part of the whole defense industry complex. It was of interest to note that despite the District's high overall unemployment rate, one Southern California aircraft company reportedly was negotiating with the Labor Department for a movement of 1,500 unemployed

workers from the Long Island area, stating that the supply of skilled workers in Southern California had been exhausted. Local unions reportedly were contesting the company's position.

Mr. Swan reported that supplies of fruits and vegetables for District canners were smaller than in 1964. Canners had been quoting higher prices than a year ago for a number of items, including peaches, pears, tomatoes, and tomato products.

For the three weeks ended October 20, the increase in District bank credit resulted entirely from expansion of security holdings. Weekly reporting banks showed a decline in loans, the primary factor being a rather sharp decline in business loans. At the same time, although reserve positions were somewhat easier, purchases of Federal funds rose rather sharply after the middle of October.

Mr. Swan agreed that the Committee should maintain an even keel policy in the next three weeks, given the Treasury financing. He shared Mr. Partee's concern, however, that perhaps three weeks from now the Committee would be confronted with some difficult questions with respect to the relationships between net borrowed reserves, interest rates, and the rate at which total reserves were supplied. While the Committee had recently given some increased emphasis to interest rates, this seemed to have been accompanied by remarkably little change in total borrowing. He did not know what the extent of seasonal pressures would be for the rest of the year, but the Committee might have to take a rather long look at the situation in the next few weeks.

Mr. Irons reported that there had been relatively little change in Eleventh District conditions. The economy continued to expand, and for the most part showed reasonable stability and lack of imbalances.

The production pattern reflected increases in durables and nondurables, with relatively slight changes in other components such as mining. Employment continued strong and the unemployment rate was around 3.3 per cent, with increases in employment appearing in both the manufacturing and non-manufacturing areas. The labor market was tightening somewhat, according to random reports heard more and more frequently, especially in those areas in which skilled and mature workers were needed.

Construction was strong in the District. Although the month-to-month changes varied, the gain against a year ago was significant. The figures were rather difficult to appraise, but the greatest strength centered in the large cities. There were signs of contruction continuing strong for some time into the future, and there were beginning to be signs of significant Federal construction expenditures in the District. There were also large private ventures in prospect.

Retail trade was strong, and the agricultural picture was good. The western part of the District, where some concern was felt with respect to agriculture not long ago, now seemed very promising.

Banks in the Eleventh District continued to tighten a bit, Mr. Irons noted. As in the San Francisco District, bank loans were

down fractionally during the last month and securities investments were up somewhat. However, city banks and many country banks were running with loan-deposit rates around 60-75 per cent or higher. They were, therefore, scrambling for funds wherever obtainable. The most recent period showed substantial purchases of Federal funds, with relatively small sales.

As to the national situation, it seemed to Mr. Irons that there were few soft spots in the economy. Among the soft spots he could see were the inventory workdown, which was going along better than many had anticipated, private housing, which was lagging a bit, and the higher social security rate in 1966. The balance of payments apparently was not improving, and it remained one of the major problems. For the domestic economy, there might be further expansionary push from the fiscal side. Welfare expenditures and military expenditures for Vietnam probably would be expansive rather than merely supportive for the economy. The employment situation nationally was strong.

There had been a slight persistent tightening in the money market during the past three weeks, Mr. Irons observed, and he was inclined to feel that this would continue. The demand for funds was strong, and the banks were extending credit at a good pace. Obviously the Committee should not change position at this time with the Treasury in the market, and he did not think it worth while to speculate on what might happen over the next three weeks. He would take advantage of this period to observe developments until the Committee met again.

Meanwhile, he would maintain an even keel, keeping market conditions as steady as possible. He would accept the proposed directive, and would make no change in the discount rate at present.

Mr. Ellis said the New England economy showed continued steady expansion. Employment in both manufacturing and non-manufacturing activities kept breaking new ground, considering the season of the year. Hours of work, income payments, and consumer spending all reflected what one expected of high employment. Optimism was unusually strong. At the time of the Boston Reserve Bank's fall survey of capital spending plans, manufacturers usually had not set their sights for the coming year. This fall nine out of ten could indicate preliminary 1966 plans. For the first time in 8 fall surveys, New England manufacturers contemplated a spending gain.

In the financial field also, the trends continued as earlier reported, with the most notable activity arising in the real estate and commercial loan fields, each category having scored a 19 per cent year-to-year gain in the latest reports.

Because monetary policy changes were precluded at this meeting by the need to preserve an even keel during the current Treasury financing, Mr. Ellis commented instead concerning the new trial format of the green book. He thought the new format provided a framework that should prove helpful to focusing attention on issues that were central to the Committee's responsibility, and the experiment should be continued. But the Committee should be aware of a potential disability in that approach, by which he referred to the changed

objective of the introductory material. Heretofore the introductory material labeled "In Broad Review" had attempted a balanced and comprehensive summary of major and recent economic trends. It now attempted to present major and recent economic developments in an analytical framework that was designed to help in formulating answers to the perennial questions of monetary policy making. The potential drawback of such an approach was that either the analytic framework or the developments selected (or omitted) to support the analysis might excessively and inadvertently prejudice the Committee's conclusions. The Committee's staff was not monolithic in its viewpoints, and it seemed appropriate to expect there would be some opportunity for divergent views to be expressed in the staff summaries. The Committee, of course, could not expect the staff to catalogue everything every time, and he wished to reaffirm his opening comment that the experiment was worth a trial--in full recognition of its pitfalls.

Concerning the Committee's policy decision at this meeting, Mr. Ellis recognized the inappropriateness of any material shift in monetary policy in the midst of Treasury debt refinancing activities. However, he would urge that the Committee adopt a position of readiness to supply reserves adequate to meet both seasonal needs and a moderate rate of growth. Bank demands for reserves in excess of such provision should be allowed to reflect themselves in firmer markets in which fluctuating interest rates continued to serve a useful allocation function. He endorsed Mr. Mitchell's suggestion about reading the IMF staff report, but would call attention particularly to pages 8

and 9 thereof, wherein the System was given substantial credit for firming monetary conditions since last spring and maintenance of an alertness of monetary policy was suggested.

Mr. Ellis noted the comment in the blue book that net borrowed reserves in the $100-$150 million range might be associated with 3-month bill rates at 4.00 to 4.10 per cent under a "no change" policy. His own targets were the old-fashioned "no change" position the Committee held in September. He would prefer net borrowed reserves centered at $150 million, with no 4.10 per cent ceiling on 3-month bill rates in view of the 4.08 auction rate yesterday. He saw a 3-month bill rate fluctuating from 4.00 to 4.15 per cent as consistent with emerging trends in the market, with borrowings at $550 million plus. The draft directive, in his opinion, adequately reflected a "no change" policy.

Mr. Balderston observed that, as Mr. Brill had pointed out, one could easily be deceived by official price indexes. What went on under the surface must be taken into account. As to the searching question with which Mr. Hersey had ended his report, Mr. Balderston's answer was in the negative. Monetary policy had not done all that it should do, and could do, in connection with the international situation in which the country found itself. It was one thing, as Arthur Burns had observed, to keep economic advance orderly and steady when the economy was operating somewhat below a full employment level. It was quite another thing when the economy was operating close to full employment. If one did not believe Mr. Burns'

observation, he could take a look at the employment surge and the cost situation in Britain's manufacturing area.

Believing as he did that the ability of the U.S. Government to exert world leadership turned on curbing U.S. investing, lending, and spending abroad, including that of the Government itself, Mr. Balderston turned to where the responsibility of the Committee really centered. He suggested that it centered in helping American firms to expand their export competitiveness, because the ability of this country to discharge its responsibilities in the world at large would be dissipated if its gold stock dwindled and dollar claims against the U.S. built up. The voice of the U.S. in economic meetings would then become weakened. The ability of the U.S. to manage its affairs was affected by speculative ebullience at home as well as by waste of resources abroad, either by its own citizens or by foreigners; he referred here to the waste involved in grants and so-called loans. That there was ebullience at home seemed evident to him, if not to some of his colleagues. He called the Committee's attention to the volume of daily trading on the New York Stock Exchange in October, which averaged 7.8 million shares against 7.4 million in September. The latter figure was itself 40 per cent above the year-ago level.

As to policy, Mr. Balderston supported no change as of today in view of the Treasury financing.

Chairman Martin remarked that the points pertinent to today's meeting had been covered quite clearly and that he had little to add.

He did not think anyone ought to prejudge the future. It was clearly evident to him, however, that the time was coming when the System would have to move one way or the other. It would not be possible simply to stay put. The Treasure's financial problem, which he saw as the major problem ahead, would either be solved by a pause in business activity and a decline in the demand for business loans or else it would have to be solved, assuming the requirements were financed at current rates, by an aggressively easier policy on the part of the Federal Reserve. The situation was getting again to a point similar to that which existed at the time of the Treasury-Federal Reserve accord in 1951. There was not a complete analogy, of course, but the problem was not going to go away, assuming current trends continued. He hoped that everyone would be considering the matter carefully in the remaining time that was available. Personally, he would be glad if there was a little pause in economic and financial activity, for this would ease the problem, but forces seemed to be moving inexorably in a direction that made it unlikely that the System could avoid a decision one way or the other.

As to policy for the next three weeks, the Chairman noted that there appeared to be general agreement on a directive such as proposed by the staff.

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:

The economic and financial developments reviewed at this meeting indicate that over-all domestic economic activity has expanded further in a continuing climate of optimistic business sentiment and firmer financial conditions, and that our international payments have remained in deficit. In this situation, it remains the Federal Open Market Committee's current policy to strengthen the international position of the dollar, and to avoid the emergence of inflationary pressures, while accommodating moderate growth in the reserve base, bank credit, and the money supply.

To implement this policy, and taking into account the Treasury financing schedule, System open market operations until the next meeting of the Committee shall be conducted with a view to maintaining about the same conditions in the money market that have prevailed since the last meeting of the Committee.

Chairman Martin noted that a memorandum from Mr. Holmes dated November 1, 1965, had been distributed regarding the data proposed for submission in response to the request from Chairman Patman of the House Banking and Currency Committee, by letter dated September 21, 1965, for various records of the System Open Market Account. (This request had been considered previously at the Committee meeting on September 28, 1965.)

No objection was raised to the furnishing of the materials described in Mr. Holmes' memorandum. It was understood that Chairman Martin would write to Chairman Patman listing the materials to be submitted and advising of the approximate date contemplated for delivery thereof.

Secretary's Note: Quoted below is the text of the letter sent by Chairman Martin under date of November 8, 1965:

This is in further reference to your letter of September 21, 1965, in which you asked for certain information concerning the System Open Market Account.

At its November 2 meeting, the Federal Open Market Committee directed its staff to prepare and assemble the following data, records, and other information relating to the questions raised in your letter:

Dollar Value of Portfolio

1. System Account holdings as of the end of each month, December 31, 1963 through June 30, 1965 - broken down between Treasury bills, notes and bonds and showing par value, accrued interest, premium, discount and net book value.

2. Sample photostat copies of the actual System Account books for the above dates showing total par value, accrued interest, premium and discount with distributions among the twelve Federal Reserve Banks and by issues.

Trading since January 1, 1964

1. Summary transactions from 1964 and 1965 through June 30, 1965.

2. Copies of System Account books for the same period showing individual daily transactions by issue, amount (par value), and price but after deletion code number for the dealer with whom the transaction was carried out.

Income of System Open Market Account

1. Annual income and profit and loss for the year 1964 and 1965 through June 30, broken down between income from interest-bearing securities and Treasury bills.

2. Sample photostat copies of actual System Account books for the end of each month December 31, 1963 through June 30, 1965 showing daily net income accumulations distributed among the twelve Federal Reserve Banks.

Other Material

Memorandum describing procedures for handling income of Open Market Account and for participation of Reserve Banks in that income.

Preparation of the material should be completed in roughly two weeks; it will be delivered to you as soon as it is ready.

Chairman Martin also noted that a list of dates for prospective meetings of the Committee during the year 1966 had been distributed.

He asked whether there were any comments, or suggestions for changes in the schedule, and the comments heard were favorable.

It was agreed that the next meeting of the Committee would be held on Tuesday, November 23, 1965, at 9:30 a.m.

Thereupon the meeting adjourned.

Secretary